

# Tax handbook for startups and international investors

## Don't worry about tricky tax issues – Tax Finland will help you succeed!

- The Finnish Tax Administration has a dedicated start-up team that provides individual, real-time expert support in solving tax matters (read more [www.tax.fi/startups](http://www.tax.fi/startups))
- VAT, transfer pricing, incentives for employees, shareholder's issues, you name it
- As a first aid to prevent your emerging tax headache this handbook briefly explains taxation basics in Finland
- If you don't find the cure, please contact us: [startups@vero.fi](mailto:startups@vero.fi) or in WeChat:
- Yes, it's free of charge
- While managing your tax obligations there are some practicalities where a professional accountant can help a lot, so we recommend to use one



Finnish Tax  
Administration  
in WeChat

## Basic information

- Standards for accounting and financial statements: Finnish Accounting Standards (FAS), International Financial Reporting Standards (IFRS; mandatory for listed companies)
- Corporate forms: limited liability company (osakeyhtiö "Oy"), general partnership (avoin yhtiö "Ay"), limited partnership (kommandiittiyhtiö "Ky"), cooperative (osuuskunta), private trader (toiminimi), branch of foreign company
- Finland provides a super cool digital playground for companies, so does Tax Finland - in MyTax you can manage most of your tax matters online: read more [www.tax.fi/mytax](http://www.tax.fi/mytax)
- Information about taxation and the Tax Administration, including service numbers and chat: [www.tax.fi](http://www.tax.fi)
- Always check [www.tax.fi](http://www.tax.fi) or [startups@vero.fi](mailto:startups@vero.fi) to get the latest information about taxation

## Some other top-notch public services available free of charges

- Business Finland – accelerator for global growth, innovation funding, exports and invest-in: [www.businessfinland.fi](http://www.businessfinland.fi)
- See also Invest-In facts about Finland: [www.investinfinland.fi](http://www.investinfinland.fi)
- Set up a company and/or take care of your most valuable intangible assets: [www.prh.fi](http://www.prh.fi) (business registration and IPR protection)
- Your entry to working and settling in Helsinki area: [www.ihhelsinki.fi](http://www.ihhelsinki.fi)
- Soft landing services, access to financing, piloting platforms, matchmaking, business information etc. are available from many regions and cities in Finland (for instance in Helsinki: [www.helsinki.businesshub.fi](http://www.helsinki.businesshub.fi) and [newcohelsinki.fi](http://newcohelsinki.fi))

# Corporate taxation

## Income tax rate for limited liability companies and other corporate entities: 20 %

Whereas business income from partnerships and private traders (self-employed person) are divided to earned income and capital income (see Individual taxation).

## Tax liability

Finnish residents are taxed on their worldwide income. A company is resident if it is registered or established under Finnish Law.

## A foreign company's tax liability in Finland

As a main rule foreign companies are liable to pay income tax in Finland if they have a permanent establishment in Finland. For example, a branch or a place of management can form a permanent establishment in income taxation.

## Taxable income

Corporate tax is paid on the company's profit. When taxable income exceeds deductible expenses, the profit is subject for income tax. As a main rule you can deduct expenses that are incurred for business purposes, such as purchases, R&D expenses, depreciations, wages and financing expenses (the deductibility of intra-group interests is limited). If deductible expenses exceed taxable income, the loss will be carried forward in future years.

## Losses in taxation

Tax losses are carried forward and offset against taxable income within the next 10 tax years.

## Tax prepayments

Taxpayers are expected to make advance payments on their projected income (if there is any). It is recommended that taxpayers keep their tax prepayments up to date.

## Group contribution within group companies

Group companies may even out their taxable profits and losses under the preconditions set out by law ("group contribution").

## Dividends

Dividends received by a Finnish company are, with certain exceptions, exempt from tax when the company paying the dividend is a resident in Finland or in EU/EEA country. Shareholders of a limited liability company are not taxed until they start withdrawing income from the limited liability company in the form of wages or dividends, for example. Distribution of dividends does not cause tax consequences in the distributing company (withholding tax requirements may arise however).

## Participation exemption

Capital gains derived from the sale of shares are tax free if these shares that are sold belong to fixed assets and the seller company owns at least 10 % of the share capital of the entity and the shares have been held for at least one year. However this does not apply to real estate companies, housing companies or companies whose main function is to own real estates. If the capital gain from the sale of shares is tax free, correspondingly the capital loss from the sale is non-deductible. A fixed asset is an item that is not purchased with the intent of immediate resale, but rather for productive use within the entity.

## Income from abroad

Foreign-sourced income may be taxable in the source country as well as in Finland, which may lead to double taxation situation. The Finnish Tax Administration, when assessing Finnish corporate income tax, eliminates double taxation by using mainly a credit method.

## Corporate taxation

In this case foreign-sourced income is taxed in Finland, but tax paid abroad is deducted – i.e. credit is being granted for it. The Finnish tax laws determine the maximum available credit. Taxes that exceed the maximum credit can be used later during the five following years for any taxes payable on foreign income of the same type or source within the limits of maximum available credit.

### Tax treaties

Finland has a comprehensive network of tax treaties. At present Finland has signed income tax treaties with more than 70 countries. You can check Finland's current situation regarding tax treaties on [tax.fi](http://tax.fi), in the [Tax treaties](#) guidance.

### Transfer pricing

Transfer pricing is based on the arm's length principle, i.e. that intra-group transactions must be based on the same terms as those used for transactions between unrelated companies. For instance, the sale of goods, provision of services, compensation paid for the use of immaterial rights and financing are intra-group transactions. The Finnish Tax Administration applies the OECD Guidelines in transfer pricing issues.

### Tax returns and payment of taxes (limited liability companies)

A limited liability company needs to file a tax return within 4 months from the end of the last calendar month of its accounting period. The tax return is recommended to be filed electronically, which is easy to do in the MyTax online service.

### Tax year

The financial year of a company. If two or more financial years end during the same calendar year, the years are combined for tax purposes.

## Value-added taxation

VAT is paid on sales of goods and services. The VAT basis is the price received from selling goods or services. The standard VAT rate is 24%. Finland has two reduced VAT rates, 14% and 10%. There are also zero-rated sales, plus certain goods and services are separately exempted from VAT.

VAT rate	Goods and services covered by the VAT rates (examples)
24 %	Standard
14 %	Food, restaurant and catering services
10 %	Passenger transport, books, certain services related to sporting, accommodation
0 %	Sales of goods and services to other EU Member States and exports of goods

Exempt from VAT: Social, healthcare and medical services, public education and similar services, financial and insurance services

### Registration for VAT

All companies with VAT liable operations whose turnover subject to VAT exceeds €10,000 per accounting period needs to register for VAT. Companies usually enter into the VAT register when they file their start-up notification, but it can also be done later. Notification forms are available at [www.ytj.fi](http://www.ytj.fi).

### Filing and paying VAT

Companies that are registered for VAT purposes must regularly file VAT returns. Returns can be filed by using MyTax e-services. VAT is calculated, filed and paid on a monthly basis by using MyTax e-services at companies' own initiative. The tax period is usually one calendar month. The general due date is the 12th day of the second month following the return period. If the company's turnover is no more than €100,000 per calendar year, VAT can be filed and paid in quarterly periods. If turnover is no more than €30,000, VAT can be filed and paid by calendar year.

## Value-added taxation

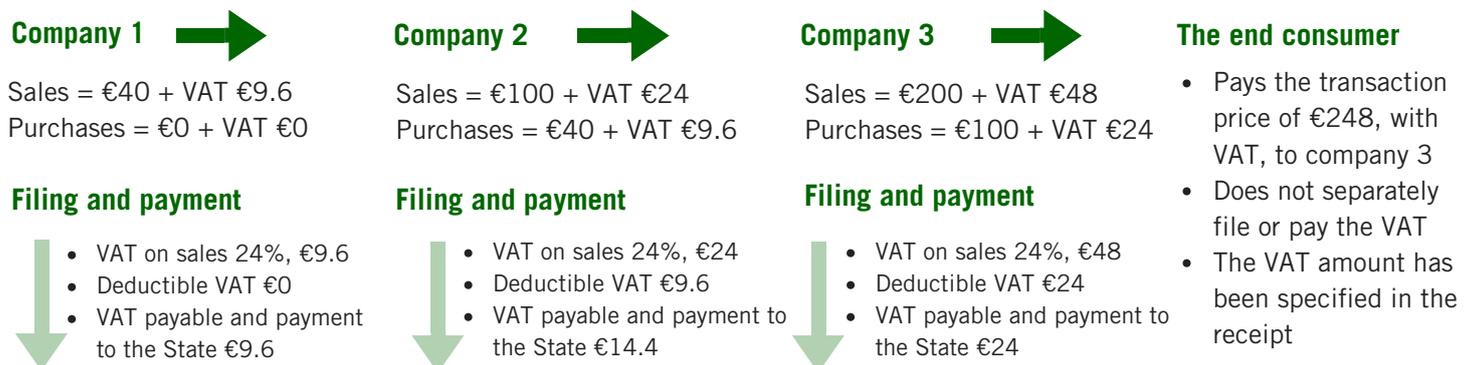
### Filing and paying VAT

Tax period	Turnover threshold	Tax period example	Due date for tax return and payment
Calendar month	No turnover threshold	1/2019	12 March 2019
Calendar quarter	Max. €100,000	1-3/2019	13 May 2019*
Calendar year	Max. €30,000	2018	28 February 2019*

\*Because 12 May 2019 is a Sunday, the return and the payment must arrive at the account of Tax Administration on the next business day

### Principles of VAT

As a rule, VAT is paid by the end consumer. Companies act as the collectors and remitters of VAT by paying the VAT on their sales and by deducting VAT from their purchases relating to VAT liable operations. The chart below demonstrates a simple VAT taxable chain of sales reflecting the logic when filing/payment is allocated between different companies.



#### Tax Administration / State receives

The VAT accrued by the State is in total €9.6 + €14.4 + €24 = €48. This is the same amount of VAT that the consumer pays when buying the product.

In certain situations, for instance when a company exports products from Finland to third countries, deductible VAT may exceed payable VAT. In those circumstances the company receives deductible VAT on Tax Account. Example: a company purchases products in Finland from Finnish producer and the deductible VAT is 100 €. All products are then exported to third countries. Because export is 0 % rated, there will be only the deductible VAT on the company's VAT account which means the company receives refund.

# Being an employer

- Regular employers need to register into the Tax Administration's register of employers
- A company acting as an employer is obligated to withhold tax and health insurance contribution from the employee's wage and salary, remitting them to the Tax Administration
- In addition, an employer needs to arrange mandatory insurance contracts for the employees including a pension insurance contract as defined by law. Pension and insurance contributions are paid to insurance companies selected by the employer.
- The withholding is based on the tax card or tax-at-source card that the employee has provided to her/his employer
- From the beginning of 2019 employers must report the details of earned income paid after 1 January 2019 to the Incomes Register within five days of payment. Read more on [www.tax.fi](http://www.tax.fi)
- Employers can pay tax-exempt travel expense allowances if certain conditions are met
- Other than cash benefits (including phones, cars, etc.) are considered taxable earned income
- When a Finnish employee works abroad, the domestic employer still has obligations in Finland
- When a foreign employee arrives in Finland, her/his taxpayer status (e.g. residency) must be taken into consideration for the taxation

# Individual taxation

## Tax residents

Briefly said a private person is a tax resident in Finland if her/his place to live and home is in Finland. Also, a person who stays in Finland for longer than 6 months is a resident for tax purposes. A tax resident pays income tax to Finland from the income received globally. This may be limited by a tax treaty if the person is a tax resident also in the other country.

Earned income (e.g. salaries and wages) is subject to progressive state income tax, municipal income tax and health insurance contribution.

Employer withholds these from the salary according your tax percentage on your tax card. Tax percentage calculator ([tax.fi/taxcalculator](http://tax.fi/taxcalculator)) can be used to estimate the amount of taxes on certain income. In addition, employer withholds pension and unemployment insurance premiums (approximately 8,25 %) from the salary.

## An example when a person lives in Helsinki (2018)

Yearly salary	Tax rate	Pension & unemployment insurance premiums
€ 30.000	13,5 %	8,25 %
€ 50.000	22,5 %	8,25 %
€ 100.000	32,5 %	8,25 %

Capital income (e.g. capital gains, dividends, dividends and rental income) are subject to 30 % tax, and 34 % of that part which goes over EUR 30,000.

Key employees arriving from abroad can apply for a flat rate taxation of 35 % instead of progressive income tax. This requires amongst other things that regular cash salary is at least EUR 5,800 per month.

## Non-tax residents

A private person is a non-tax resident in Finland if this person lives abroad and stays in Finland for 6 months or less. A non-tax resident pays income tax in Finland only from the income received from Finland. Finland's right to tax may be limited by a tax treaty nevertheless.

Earned income (e.g. salaries and wages) of non-tax residents are subject to tax at source (35%). However, if a person's country of residence is an EU country, Norway, Iceland or Liechtenstein or a country which has a tax treaty with Finland, person can ask to be taxed progressively.

Capital income (e.g. dividends) are basically subject to tax at source (30%) but tax treaties normally limit this to 0 - 15 %.

## Other taxes

- Transfer tax: As a main rule the recipient pays transfer tax of 1.6% (or 2%) from disposal of shares or 4% in a case of real estate's disposal
- Wealth tax: Not in use in Finland
- Real estate tax: General rate of real estate tax max. 2%
- Inheritance and gift tax: Progressive tax scale

## Is the investment worth it?

### Feeling and being well

- Finland is the happiest country in the world ([United Nations, World Happiness Report 2018](#))
- Finland is the best country in the world in a comparison of human wellbeing ([Sustainable Society Index, Main results 2016](#))
- Finnish primary education is the world's best ([The Global Competitiveness Report 2017-2018: Primary Education](#))
- Finland is the most stable country in the world ([The Fund for Peace, Fragile States Index 2018](#))
- Finland is the safest country in the world ([The Travel & Tourism Competitiveness Report 2017](#))
- The air in Finland is the cleanest in the world ([Finnish Meteorological Institute, Finland tops WHO air quality statistics](#))
- Finland has the best digital public services in the EU ([European Commission, The Digital Economy and Society Index \(DESI\) 2018: Finland](#))
- Finns use most mobile data per subscription ([OECD, Digital Economy Outlook 2017](#))
- Finland is the third most prosperous country in the world ([Legatum Institute, The Legatum Prosperity Index 2017: Finland](#))
- Where Expat Families feel at Home? Finland is one of the best places on earth to raise kids ([Expatriate Insider 2017](#))
- Finns' trust in other people is the highest in Europe ([European Commission, Fairness, inequality and intergenerational mobility: Social Capital: Trust in people](#))
- In 65 cities comparison, Helsinki is the third best city to live in ([Metropolis, The Best Cities to Live in \(2016\)](#))

## With tax money Finland pays for

- Free health and medical care
- Free schools
- Children's daycare
- Higher education
- Facilities for sports, arts and hobbies
- National defence

### Business environment

- Which country boasts the most highly skilled workforce - Finland took the top spot ([The Global Competitiveness Report 2018](#))
- The quality of Finnish higher education is third best in the world ([The Global Competitiveness Report 2017–2018: Higher education and training / Quality of education](#))
- Helsinki is the world's second most attractive city for startups ([Startup Cities Index \(2018\)](#))
- Finland has the strongest digital knowledge capital in Europe ([The Digital Economy and Society Index \(DESI\) 2018: Finland](#))
- Availability of official information in Finland is top of the EU ([The State of data innovation in the EU: Freedom of information](#))
- Finland has the best protection of intellectual property rights in the World ([The Global Competitiveness Report 2018](#))
- Finland has the best protection of property rights in the world ([The Global Competitiveness Report 2018](#))
- Finland has the best governance in the world ([The Legatum Prosperity Index 2017: Finland](#))
- Finland has the world's most independent judicial system ([The Global Competitiveness Report 2017–2018: Judicial independence](#))
- Finland has the third least corruption globally ([Corruption Perceptions Index 2017](#))
- Finland is the best performer in efficiency of legal framework in challenging regulations ([The Global Competitiveness Report 2018](#))