

LEX MUNDI
PUBLICATION



TAX PRACTICE GROUP
Multi-Jurisdictional Survey

TAX DESK BOOK

CONTACT INFORMATION

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FINLAND

Introduction

- 1. Please give a brief overview of the types of taxes imposed in your jurisdiction (i.e., direct and indirect taxes and their components.)**

General

According to the Finnish constitution, the right of taxation lies with the State, the municipalities and the local communities of the Evangelical Lutheran and Orthodox Churches. The Finnish tax legislation is modeled along the lines of the tax legislation in the Nordic countries.

The Finnish tax system underwent a major reform concerning corporate taxation as of the beginning of 2005. The most fundamental changes of the reform included a tax exemption of capital gains on the disposal of certain shares by corporate entities and the abolishment of the imputation tax credit system.

The main part of taxation in Finland is derived from two categories, i.e. taxes on income, profits and capital gains on one hand, and taxes on goods and services, on the other. Further major sources of tax revenue are the municipal income tax and social

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security contributions paid by employers and payments to the pension funds of pension insurance companies.

Direct Taxes

The direct taxes imposed broadly consist of the following: State income taxes; Communal tax; Church tax; Corporate income tax; Tax withheld at source; and Social security contributions.

State income taxes are levied on the earned income and capital income of individuals and the estates of deceased persons. The tax on earned income is levied on a progressive scale determined annually.

The main corporate tax imposed on companies is the national corporate income tax. As of 1 January 2005, Finnish corporate income taxation is based on a modified classical double taxation system. All resident companies, cooperatives and resident branches of non-resident companies are subject to corporate income tax.

Certain entities, such as the Bank of Finland, the University of Helsinki, the Finnish Broadcasting company and the Nordic Investment Bank, are not taxable persons.

Indirect taxes

As of 1 June 1994, Finland adopted the value added tax, which replaced the partly cumulative turnover tax. VAT is levied at all stages of the production and distribution chain on the basis of the value added to the goods and services at each stage. The VAT system has been harmonised with the EC rules. Other indirect taxes are, for example, excise duties and transfer taxes.

Group taxation

In a group of companies, each company is taxed separately. The concept of consolidated income tax return is unknown in Finnish tax law, although a group of companies for company law purposes is required to prepare a consolidated balance sheet. The same result may, however, be achieved under the group contributions regime. In certain very strictly regulated situations, a Finnish group can under the Finnish Group Contribution Act reduce its total tax cost through having profit-receiving companies pay group contributions to loss-making companies. Group contributions, subject to these strict conditions, are deductible expenses for the paying company and part of the taxable income of the receiving company.

INCOME TAXES – AS APPLIED TO BUSINESS ENTITIES AND INDIVIDUALS

Calculation of Income/ Profit Taxes



2. How is the taxable base determined?

Individuals

The income is divided into earned income and capital income. Earned income is defined as any income other than capital income. In the tax computation the gross employment income less deductions constitute the taxable earned income. In the total tax levied on income from employment also municipal income tax, church tax and sickness insurance premium are included. Capital income (if taxable) is calculated separately, including capital gains, interest income, rental income and less capital losses and interest paid.

The Income Tax Act defines the following items of income, inter alia, as exempt income: certain pension schemes and welfare benefits; amounts received as maintenance for a child; major awards which are annually named on an application in advance; inheritances and gifts (taxed separately under the Inheritance and Gift Tax Act); certain scholarships; salary or wages derived by a resident individual from employment abroad lasting for a continuous period of at least six months; certain remunerations paid by international organizations; special subsidy paid to immigrants; customary and reasonable staff discounts on goods and services.

Business entities (companies)

The tax computation is based on the company's profit and loss account. The taxable income is the profit shown in the profit and loss account adjusted as accepted or required by the tax laws, i.e. the amount of net taxable income is calculated by deducting expenses and depreciations from gross income. Losses can be carried forward from the previous ten years.

A company can have taxable income from a maximum of three different sources. All business income is treated as a single source. In case a company makes investments in property which does not directly benefit its business, the income from these investments may be treated as "personal income". The profits and losses generated by such investments cannot be offset against business losses or income, but only against personal losses or income. The agricultural income source includes income from agriculture and forestry. The taxable income is determined separately for each income source, and the profit is taxed separately for each source at a flat rate of 26 per cent (in 2009).

3. What revenues are included?

Individuals

Taxable personal income of a resident employee includes, inter alia, wages and salaries, employee stock options, earned income dividends, pensions and annuities, certain insurance compensation, scholarships and awards and car benefits. Capital

income comprises dividends not taxed as earned income, interest, capital gains, rent and other return on capital.

Dividends

For individual shareholders 70 per cent of dividend from publicly listed companies is taxed as capital income at a rate of 28 per cent and 30 per cent is tax exempt. For non-quoted companies, dividends in an amount corresponding to a 9 per cent annual yield representing the shareholder's part on the net worth of the company is tax exempt. However, the maximum annual amount of such wholly tax exempt dividends (from all sources together) is EUR 90 000 per individual. If the amount of dividends exceeds the EUR 90 000 limit but not the 9 per cent limit, 70 per cent of the exceeding part is taxed as capital income (flat rate of 28 per cent) and 30 per cent is tax-exempt income. If the amount of dividends exceeds the 9 per cent limit, 70 per cent of the exceeding part of the dividends is taxed as earned income (progressive taxation), 30 per cent being tax exempt income. Dividends received from a non-resident company are, with certain exceptions, taxed in the same way as a domestic dividend.

Companies

In general, all income derived by companies is taxable on an accrual basis. Dividends and capital gains on certain shares are exempted under certain conditions (participation exemption).

Dividends

In general, dividends received by a Finnish resident corporate shareholder are tax-exempt income. However, if the shares on which the dividend is paid belong to the investment assets, 75 per cent of the dividend constitutes taxable income (there are exceptions). If the distributor is a quoted company and the recipient is a non-quoted company, 75 per cent of the dividend constitutes taxable income. As an exception, the dividend is tax exempt if the quoted distributor is resident in Finland or another EU Member State and the recipient is a non-quoted company, which owns at least 10 per cent of the share capital of the distributor. If the distributor is resident outside the EU the dividend is 100 per cent taxable income. However, if the distributor is resident in a tax treaty country, 75 per cent of the dividend generally constitutes taxable income.

4. What deductions are allowed?

Individuals

The taxpayer is allowed to deduct from earned income all expenses incurred in acquiring or maintaining such income ("natural deductions"). The following items, inter alia, are considered to be natural deductions: wages and salaries, pensions paid to former employees; membership fees paid to employers' organizations or trade unions; payments to unemployment funds; certain travelling expenses from the place of residence to the place of employment; expenses for professional literature and

research equipment; expenses incurred in scientific or artistic work; and municipal tax on real property relating to the taxpayer's acquisition of income.

A taxpayer is allowed to deduct from his capital income, inter alia, expenses incurred in earning or maintaining such income. Capital gains or losses are calculated by deducting the original purchase price of the asset as well as sales related expenses from the sales price. However, taxpayers may also elect to apply an acquisition cost presumption instead of the actual acquisition cost. The acquisition cost presumption is normally 20 per cent, but 40 per cent of the sales price in case the sold assets have been held for at least ten years. If the acquisition cost presumption is used, no other expenses can be deducted in addition.

Business entities (companies)

As a main rule, deductions are allowed for all costs and expenses incurred by the business during the tax year for the purpose of earning, securing, or maintaining the taxpayer's income. An exception is losses, including liquidation losses, relating to disposals of shares eligible for the participation exemption on capital gains.

To be tax deductible, an item must be included in the profit and loss account of the entity. Deductible items include: salaries and wages, interest expenses, royalty payments, donations within certain limits and 50 per cent of entertainment expenses.

Expenses incurred in acquiring fixed assets (excluding e.g. shares and land areas) are deducted by depreciation. In general, a company may depreciate, using the declining-balance method, up to 25 per cent of the total net book values of the company's entire stock of machinery and equipment. The maximum depreciation rates permitted for different types of building and other construction in a particular tax year are 4, 7 or 20 per cent, depending on the purpose for which it is used and the type of the building or the construction.

5. What are the major expenses that are not deductible?

Individuals

Generally all expenses, which cannot be regarded as expenses for acquiring and maintaining taxable income, are non-deductible. Such non-deductible expenses would be, inter alia, the costs of accommodation, food and clothing expenses and expenses for entertainment and leisure time.

Business entities (companies)

Non-deductible expenses include: expenses not necessary for earning income; income taxes; a loss arising in connection with a merger, fines and similar penalties, capital losses under certain circumstances and 50 per cent of entertainment expenses.

Payments to affiliates of amounts above normal cost may be disallowed.



6. What are the applicable federal rates?

Individuals

Income from capital is subject to the national income tax rate at a flat rate of 28 per cent.

Earned income is subject to the national income tax at progressive rates, according to the following rates (tax year 2009):

For taxable income of EUR 13,100-21,700 the tax on the lower amount amounts to EUR 8 and the tax rate on excess is 7 per cent. For income of EUR 21,700-35,300 the tax on the lower amount is EUR 610 and the tax rate on excess 18 per cent. For income of EUR 35,300-64,500 the tax on the lower amount is EUR 3,058 and the rate on excess 22 per cent. And, for income from EUR 64,500 and upwards the tax on the lower amount is EUR 9,482 and the tax rate on excess is 30,5 per cent.

Business entities (companies)

Business income is subject to the corporate income tax at a 26 per cent rate (tax year 2008). Income from capital is also subject to the corporate income tax rate at a 26 per cent rate (tax year 2008).

7. What are the applicable state and/ or other local rates?

Earned income is subject to the municipal income tax at proportional rates. The rates vary among municipalities from approximately 16 per cent to 21 per cent (tax year 2009).

The real estate tax rate that applies to buildings used for residential purposes varies between 0.22 per cent and 0.5 per cent. The rate applicable to other kinds of real estate property ranges between 0.5 per cent and 1 per cent. A special rate between 1 per cent and 3 per cent can be applied to certain unbuilt real estate property within city zoning areas. The tax rates are stated as they were at the beginning of 2009.

8. What are the applicable capital gains rates and base, if different and concessional tax treatment in case of business re-organization such as amalgamation, slump sale, demerger, etc?

Individuals

In general, there are no tax consequences to shareholders of companies involved in a merger or demerger, as long as the merger or demerger qualifies for tax-free treatment under the Finnish Business Income Tax Act. An exchange of shares in a merger or demerger for shares of the acquiring company or companies is not regarded

as a disposal for capital gains tax purposes. Capital gains taxation is deferred until the shares acquired in the exchange are alienated.

Business entities (companies)

Capital gains are subject to the corporate income tax rate at a rate of 26 per cent.

Capital gains received by a resident company on the sale of shares in a company (other than a real estate company or a venture capital company) are exempt if the following conditions are met:

- the shares belong to the vendor company's fixed assets;
- the vendor company has owned at least 10 per cent of the share capital in the company directly and continuously for at least one year during a period that ended no more than one year prior to the sale; and
- the company whose shares are sold is resident in Finland or another EU Member State, or in a country with which Finland has a tax treaty.

The EC merger Directive has been implemented in Finland. Mergers, demergers, transfer of assets and exchange of shares qualify for special tax treatment under the Finnish Business Income Tax Act.

In a qualifying merger, the assets and liabilities of the merged company are treated for tax purposes in the same manner by the acquiring company. Taxation is deferred until the assets are sold or assigned by the acquiring company.

The current law provides for two kinds of tax-neutral demergers, i.e. the complete demerger and the partial demerger. The tax treatment and the tax deferral for demergers are the same as for mergers.

Qualifying transfers of assets and exchanges of shares have no direct income tax consequences.

9. How are operating losses handled?

Individuals

Losses in earned income: Income is divided into three sources of income: business income, agricultural income and other source of income (salaries, wages, pensions etc.). If any of these sources shows a loss, this loss is carried forward for ten years and set off against income from the same source. Losses are deducted in the order in which they are incurred. However, losses from business profits or agricultural income sources can be deducted from capital income of the same tax year if the taxpayer or, in the case of spouses, both spouses so demand.

Losses in capital income: In case of losses in capital income, generally 28 per cent of the loss can be deducted from tax levied on earned income. The maximum deduction



is EUR 1,400 for an individual with no children, EUR 1,800 for an individual with one child and EUR 2,200 for an individual with two or more children.

Business entities (companies)

If the combined business operations of a company yield a net loss, this loss may be carried forward for tax purposes and set off against future business profits. The loss can be carried forward for up to ten tax years. The set-offs must follow the order in which the losses occurred. Losses from one income sources cannot be set off against income from another.

If more than 50 per cent of the shares in a company are sold in a loss year or thereafter, the right to carry forward the loss is lost. The tax office may, however, permit such carry-forward if it is deemed necessary for the continuation of the company's activities. Indirect ownership changes may also have an impact on loss carry-forwards. If more than 50 per cent of the shares of a company that owns at least 20 per cent of the loss-making company change ownership, all the shares of the loss-making company owned by the other company are deemed, for the purpose of loss carry-forward, to have changed ownership. For mergers, the acquiring company is entitled to deduct from its taxable income losses carried forward by the merged company, provided that the combined holdings of the acquiring company and its shareholders have, since the beginning of the loss year, exceeded 50 per cent of the shares in the merged company. There are no provisions for the carry-back of losses. Consequently, when a company is liquidated, unabsorbed losses are lost.

10. How are capital losses handled?

Individuals

Capital losses may be set off against taxable capital gains arising in the same year and the following three years.

Business entities (companies)

Losses suffered on the disposal of business assets are considered to be part of ordinary lo

Territorial Rules

11. What are the residence rules?

According to domestic law, Finland covers the mainland and the province of Åland. For national income tax purposes, the province of Åland is part of Finland, but it has the right to levy its own provincial and municipal taxes. Double tax treaties may restrict the authority of the Finnish state to tax foreign source income of an individual

or a corporate entity deemed as a resident of Finland pursuant to Finnish domestic tax law.

Individuals

Generally, an individual is deemed to be a resident of Finland if the individual resides constantly in Finland for more than six consecutive months or if the permanent home and dwelling of the individual are in Finland. In addition, citizens of Finland who have moved abroad are regarded as residents for Finnish tax purposes until three years has passed after the end of the year of the emigration, even though the individual does not reside in Finland over six months or the permanent home and dwelling are not located in Finland, if such individuals are not able to show that they do not have any substantial ties to Finland during the tax year in question.

Business entities (companies)

There are no specific rules in Finnish legislation on the residence of companies for tax purposes. In practice, companies are considered to be resident in Finland if they are established under Finnish law and registered in the Finnish trade register. Generally, foreign companies are not deemed to be resident in Finland even if they are effectively managed from Finland, unless they are regarded as having a permanent establishment in Finland.

12. Is worldwide income taxed?

The worldwide income of a Finnish resident individual or company is subject to taxation in Finland. Non-residents are taxed only on Finnish source income.

CFC legislation

According to the Finnish CFC Act, a Finnish resident individual or company who is a shareholder of a non-resident corporate entity which is controlled by Finnish residents, is taxed on the income of the non-resident entity regardless of whether such income is distributed by the CFC to its shareholder if:

- the shareholder owns at least 25 per cent of the capital of the non-resident entity or is entitled to at least 25 per cent of the yield of the entity's assets; and
- the effective rate of tax in the entity's state of residence is less than three fifths of the Finnish corporate income tax rate, i.e. 15.6 per cent ($3/5 \times 26$ per cent).

A non-resident entity is deemed to be controlled by Finnish residents if one or more residents directly or indirectly own, at least 50 per cent of the entity's capital or its total voting power, or are entitled to at least 50 per cent of the yield of the entity's assets.

In computing the income based on which it is determined whether the effective rate of tax is less than three fifths of the Finnish tax rate, dividends received by the CFC from another CFC are not taken into account, provided the dividends are distributed

from profits that, during the five previous years, have been included in the tax base in determining the effective rate of tax for the purpose of the Finnish CFC Act.

As an exception, CFC rules are not applicable to income that originates mainly from e.g. industrial production or shipping activities carried out by the CFC in the relevant jurisdiction.

Also, the CFC rules are not applicable to a company resident in a country with which Finland has a tax treaty, provided the tax treaty is applicable to the income; the company resident in that state is subject to tax not substantially lower than Finnish corporate tax (tax rate not lower than 75 per cent of the Finnish tax rate according to legislative history); and the company resident in that state is not entitled to specific tax benefits (benefits not available under the general tax rules, such as the participation exemption) in its country of residence. Further, there are some specific provisions related to entities resident in the European Economic Area.

13. Tax credits - Are there tax credits relating to legal dispositions other than provisions in Double Taxation Treaties, on the possibility of deducting taxes paid abroad, or any others?

For resident taxpayers, relief from double taxation is available under the Act on Elimination of International Double Taxation. The principles of this act also apply where international double taxation is relieved through the application of a tax treaty, unless otherwise stipulated in the treaty.

Foreign source income is included in the company's income, and tax is computed normally on the income. Double taxation is eliminated by crediting the tax paid on the foreign income in the source country. Only taxes paid to a foreign state (e.g. federal taxes in the US) can be credited, unless otherwise provided by an applicable tax treaty. The allowable credit is determined separately for each country and each source of income. In the case of an individual, the allowable credit is computed per income type (earned income or capital income).

The credit is limited to the amount of tax payable in Finland on the foreign-source income. Unused credit may be utilized and credited in the following tax year from income derived from the same country and source (or, for individuals, income type). The deduction is allowed only to the extent that the maximum allowable credit during this following year exceeds the amount of foreign taxes which are deductible in this same year.

The foreign tax credit must be requested before the final tax assessment is carried out. The taxpayer has to show the amount of foreign tax and that it has been paid. If, on the date of the final tax assessment, the resident taxpayer has not yet paid the foreign tax, a correction of the final assessment can be applied for. In case the taxpayer

cannot present all necessary information but has in other respects shown that the conditions for granting a tax credit exists, the credit can be granted up to a reasonable amount.

Withholding Taxes

14. What are the rates on dividends for withholding taxes?

Dividends paid by a resident company to a non-resident shareholder are subject to a withholding tax of 28 per cent (or, if certain criteria are fulfilled 19,5 per cent), unless an applicable tax treaty provides for a lower rate or an exemption. If dividends are paid by a resident company to a non-resident shareholder having a permanent establishment in Finland from shares that are attributable to the permanent establishment, they are included in the taxable profits of the permanent establishment.

Dividends may also be exempt from withholding tax on the basis of the EC Parent-Subsidiary Directive. Under the domestic law implementing the Directive, outbound dividends are exempt from withholding tax if the recipient is a qualifying company under the Directive and owns directly at least 10 per cent of the capital of the paying company or such a company's permanent establishment situated in another Member State.

15. What are the rates on royalties for withholding taxes?

Royalties derived directly by a non-resident from Finnish sources are subject to withholding of 28 per cent, unless an applicable tax treaty provides for a lower rate or an exemption. If royalties are derived through a Finnish permanent establishment of a non-resident company they are included in the taxable profits of the permanent establishment.

Under the domestic law implementing the EC Interest and Royalties Directive, royalty payments are exempt from withholding tax, provided that the recipient is an associated company of the paying company and is resident in another Member State or such a company's permanent establishment situated in another Member State. The companies in question must have a legal form listed in the Annex to the Directive and be subject to corporate income tax.

16. What are the rates on interest for withholding taxes?

Interest income derived directly by a non-resident from Finnish sources is exempt from tax under domestic law if the interest is paid in respect of: bonds, debentures



and other such debts; deposits on bank accounts; accounts originating from international trade; or debt which is not regarded as comparable to equity. In all other cases, the rate is 28 per cent, unless otherwise stipulated by a tax treaty. In practice, debt is very seldom regarded as comparable to equity.

If interest is derived through a Finnish permanent establishment of a non-resident company it is included in the taxable profits of the permanent establishment.

17. What are the rates of withholding tax on profits realized by a foreign corporation?

Profits of a permanent establishment of a non-resident company are taxed at the standard corporate income tax rate of 26 per cent (in 2009). In general, a non-resident corporation is liable to pay income tax only on income attributable to Finland. The tax treatment of a permanent establishment is, in principle, the same as that of a Finnish limited liability company. There are no specific rules in Finnish tax law governing the computation of the profits of a permanent establishment. In general, all income derived from Finnish activities and all costs are allocated to the Finnish branch of the non-resident company. All income which belongs to the Finnish permanent establishment, whether derived from or outside Finland, must be allocated to the Finnish branch.

Finland applies a definition of permanent establishment similar to the definition in the OECD Model Convention in most of its tax treaties. In Finnish tax practice, enterprises have been deemed to have a permanent establishment in some cases where the enterprises have not had business premises at their disposal in Finland, but have had personnel working for them in Finland.

18. Please list any other rates on withholding taxes that we should be aware of.

The tax treaty classification of an investment fund distribution is somewhat unclear. The income should normally be treated under the "other income" article of the tax treaties.

A non-resident individual (e.g. one who is occasionally working in Finland), is taxed on Finnish source income only. Non-residents are taxed at flat tax rates in accordance with the Non-resident's Tax Act according to which e.g. salaries paid to non-residents are subject to a withholding tax of 35 per cent, unless a lower rate is provided by an applicable tax treaty.

Finnish customers, clients or service recipients may under certain circumstances have an obligation to withhold tax (13 per cent or 35 per cent) at source on the payment of the foreign enterprise's invoice, if the work has been carried out in Finland. This

obligation concerns mainly situations where foreign companies pursue their main business activities outside Finland, while only performing small-scale, periodic and short assignments in Finland.

Tax Returns and Compliance

19. What is the taxable reporting period?

Individuals

The reporting period for individuals is the calendar year.

Business entities (companies)

Companies file their tax return on an accounting period basis. Accounting periods ending during the same calendar year comprise a single tax year, however.

20. What are the due dates for the filing of tax returns?

Individuals

Individuals must file their pre-completed form by 8 or 15 May in the year following the year the income was received (i.e. the tax year), the tax year for individuals being the calendar year. An extension can be granted by the local tax office. If the taxpayer for some reason has not received a pre-completed form, the due date is 15 May. Special rules apply for private entrepreneurs.

Business entities (companies)

Companies must file their tax returns within 4 months from the end of their accounting period. An extension can be applied for from the local tax office.

21. What are the key compliance requirements?

Individuals

If the individual has nothing to add to or correct in the pre-completed form, he/she does not have to file anything with the tax authorities. The assessment is completed by the end of October of the year following the year in which the income was generated.

Individual taxpayers can make supplementary advance payments during the first 9 months of the year following the year when the income was received, in order to avoid paying unnecessary interest.

Business entities (companies)

Most company taxes are collected during the tax year through advance payments. The pre-assessment of taxes on business income is carried out by the tax office. If no advance taxes have been applied for or imposed by the tax authorities, the taxes for the financial year should be paid within four months from the end of the accounting period in which case no interest will be charged. Also, if the company has paid advance taxes but based on e.g. its tax calculation the actual tax will exceed the advance taxes, the company may pay a supplementary advance tax by the same date without any interest.

Withholding taxes from wages, salaries etc. are paid monthly to the tax office on a self-assessment basis.

22. Are there any other requirements that we should be aware of regarding tax returns and compliance?

Individuals

Individuals must file an annual tax return reporting their worldwide income and net wealth. Spouses file separate tax returns. Non-residents generally do not file a tax return. However, a tax return must be filed if income received by a non-resident is other than salary, pension, dividend, interest or royalty.

Business entities (companies)

A company is obligated to maintain accounting records in Finland for at least 6 years after the end of the calendar year in which the accounting year ended. This time period corresponds to the maximum period for additional assessments levied by the tax authorities.

Whenever payments are made to non-residents, an annual information return should be submitted to the tax authorities. Examples of such payments are wages, pensions, dividend, interest royalties and a yield share in an investment fund. The annual information return is submitted by the end of January following the year during which the tax at source was withheld.

INDIRECT TAXES

23. Are there any indirect taxes in your jurisdiction?

With effect from 1 June 1994, Finland adopted the value added tax, replacing the partly cumulative turnover tax.

Since Finland became a member of the European Union as of 1 January 1995, the VAT system has been harmonised with the EC rules. Finland is subject to the EU

regulations and policy concerning importation of goods from outside the European Union. The level of various customs duties is determined by the European Union.

Excise duties are levied in Finland on various commodities, such as tobacco, alcohol, beer, soft drinks, electricity and fuels.

Among other indirect taxes the insurance premiums can be mentioned. These are, in general, subject to an insurance premium tax of 22 per cent of the premium if the property is located in Finland. Automobiles - other than trucks, buses and certain other types of commercial vehicles - and motorcycles are subject to a car tax.

24. How does it operate? Is it a VAT or a sales tax?

The Finnish VAT is a general multi-stage, non-cumulative tax on consumption. VAT is levied at all stages of the production and distribution chain on the basis of the value added to the goods and services. The supplier of goods and services is required to account for tax on all supplies made by him to his customers (output tax). However, the supplier can deduct the tax charged on the supplies made by his suppliers (input tax) from the tax to be paid. VAT is thus paid on the value added at each stage. It is the ultimate consumer who bears the total tax.

The VAT is a general tax imposed on the sale of goods and services, on imports, on intra-Community acquisitions of goods and on removals of goods from warehouses. Any individual and legal person who sells goods or services in the course of their business is liable to tax. A company carrying on such business in Finland is subject to Finnish VAT. Liability to VAT does not arise if the yearly turnover of the company does not exceed EUR 8,500. However, also in this case the entrepreneur can voluntarily register for VAT purposes. A company which is VAT registered and carries on taxable business activities is generally entitled to input VAT deductions.

The normal tax period for VAT is one calendar month. The tax payable is the difference between output taxes on supplies and input tax deductions attributed to each tax period. The VAT liable person submits a monthly tax return to the Regional Tax Office. The VAT liable person pays the tax, without prompting, no later than on the 15th of the second month following the month in which the taxable transaction took place. A monthly tax return must be submitted even if there is no tax payable concerning the tax period.

25. How is the taxable base determined?

VAT is levied on the sales price of taxable goods and services, excluding the amount of VAT itself. The taxable amount includes all surcharges. The entrepreneur may deduct, for example, bad debts and discounts.

For imported goods, VAT is levied on the value of goods for customs duty purposes, including customs duty and any other national tax or charge other than VAT, including transport costs, regardless of whether the importer is a registered entrepreneur and whether the goods are intended for resale or merely intended for private use. Consequently, the taxable amount includes, for example, packing, freight, loading and insurance expenses, regardless of whether these costs are included in the total price or are charged separately. The taxable amount of a standard computer program includes both the value of the program and the hard copy.

The taxable amount of goods which have been outside the European Union for repairs, completion or processing, is the value added abroad, including transport costs.

For goods taken from the entrepreneur's taxable business for private use or which are taken to be used for purposes that do not allow VAT deduction ("own consumption"), the taxable amount is the lower of the purchase price and the market value. In the case of self-manufactured goods, however, the tax will be accounted for on the direct and indirect manufacturing costs. Similar principles apply to the self-supply of services.

26. What are the applicable rates?

The standard VAT rate is 22 per cent.

A reduced rate of 8 per cent applies e.g. to the supply of: passenger transport services; hotel services, presentation of motion pictures; entrance fees to music and dance performances, sports events, amusement parks and art exhibitions; television license fees received by the National Broadcasting Company; services relating to physical exercise; medicines and some qualifying pharmaceutical products; and books.

As a temporary measure, the 8 per cent will also apply from 1 January 2007 until 31 December 2010 to services of hairdressers and small repair shops.

A reduced rate of 17 per cent applies to the supply and import of foodstuff and animal feed, while food served in restaurants is subject to the 22 per cent standard rate.

27. Are there any exemptions?

There are a large number of exemptions from VAT of which only some are discussed below.

There are two main categories of VAT exemption: those which preclude the deduction of input VAT by the entrepreneur carrying out the exempt transaction and those which do not result in the right to deduct the input VAT.

Output VAT is not charged on transactions involving goods and services that are exempt from VAT, and input VAT related to such supplies cannot be claimed. Inter alia, the following goods and services are, in general, exempt without input tax deduction: the grant and transfer of the right to use immovable property or a dwelling; health care and medical treatment; social welfare services; educational services; financial and banking services; insurance services; cultural, sports and entertainment events, if organized by non-profit organizations; author's honoraria and fees for an artist's or sportsman's public performances, as well as copyrights; and investment gold.

The supply of the following, inter alia, is exempt with input tax deduction: subscriptions to newspapers and periodicals for at least a month; printing work of membership publications (newsletters) published by nonprofit organizations, if at least four issues are published annually; vessels (excluding those used for sport and pleasure) over 10 m in length and goods installed in these vessels, as well as the chartering of such vessels; and exportation of goods and services.

28. Are there any other taxes such as debit or financial transactions taxes enforced in your jurisdiction?

Capital duty

There are no capital duties in Finland

Transfer taxes

Subject to certain exceptions, a property transfer tax is payable by the transferee (purchaser) on the deeds for the transfer of real estate property. If movable property is transferred together with real estate property, a transfer tax is imposed on the total purchase price, unless the transfer document indicates the part of the purchase price which relates to the movable property. The rate of this tax is 4 per cent of the transfer price.

The transfer of shares and other securities is subject to a transfer tax of 1.6 per cent of the sales price, however transfers of Finnish shares quoted in a qualifying stock exchange against fixed cash consideration are exempted from transfer tax provided that a qualifying securities broker is brokering in the transaction. Even though the parties may have agreed which party pays the tax to the tax office, the tax may be collected from the purchaser. Only if the purchaser is a non-resident is the seller responsible for collecting the transfer tax from the purchaser and for paying it to the tax office. No transfer tax is normally due if shares of a foreign company are sold or if both the seller and the purchaser are non-residents. Transfer tax is, however, always

payable on transfers between non-residents if the transferred shares are shares in a Finnish housing or real estate company.

PARAFISCAL CONTRIBUTIONS

29. Are there any parafiscal contributions (i.e. social security, science and/or technology)?

Social security contributions

There are certain mandatory social security contributions, such as the mandatory health insurance premium, the pension insurance premium and the unemployment insurance premium.

Church tax

Individuals who are members of either the Evangelical Lutheran Church or the Orthodox Church pay church tax.

30. How do they operate?

Social security contributions

The premiums are, in general, mandatory and is payable by all individuals. The health insurance premiums are included in the individual's advance payroll withholding tax rates. The health insurance premium is divided into two parts: a medical treatment charge and the daily allowance payment. The pension insurance premium and the unemployment insurance premium is withheld from the gross salary of all employees by the employer and paid to private insurance companies.

Church tax

Local communities levy the church tax on the earned income of individuals. Church tax is imposed at flat rates, which are set annually in advance for the following year in each community.

31. How is the taxable base determined?

Social security contributions

The medical treatment charge is based on earned income for municipal taxation purposes. The daily allowance payments are based on salaries and wages. The pension and unemployment insurance premiums are based on salaries. The daily allowance payments and the pension and unemployment premiums are deductible from the individual's earned income.

Church tax

The church tax is levied on the same taxable income as determined for communal tax purposes.

32. What are the applicable rates?

Social security contributions

The medical treatment is charged at a rate of 1.28 per cent (in 2009) and the daily allowance pay-ment at a rate of 0.70 per cent (in 2009).

The pension insurance premium for persons under the age of 53 is 4.3 per cent and for persons at the age of 53 or above 5.4 per cent (in 2009).

The rate of the unemployment insurance premium is 0.20 per cent (in 2009).

Church tax

The church tax rate is set locally, and varies between 1-2 per cent (in 2008).

33. Are there any exemptions?

Certain persons are not covered by the pension insurance premiums, such as independent entrepreneurs and sailors. There are also certain exceptions for pension insurance premiums in connection with the termination of employment contracts, as well as employment abroad.

For unemployment insurance premiums there are some exceptions related to partners in limited and unlimited partnerships.

INHERITANCE AND GIFT TAXES

34. Are there inheritance taxes, gift taxes or any other taxes like Wealth Tax, etc.?

Yes

35. If you answered yes to the question above, please describe what triggers the requirement for the tax, what the rate of tax is, and what is included in the taxable base.

Inheritance and gift tax

The rate and the amount of inheritance tax payable depend on the relationship between the beneficiary (correspondingly the donee) and the deceased



(correspondingly the donor). Tax category I rates cover spouse, child including the child of a surviving spouse, adopted child, father, mother, adoptive parents and a direct heir of a child or an adopted child or in some cases the fiancé(e). The tax category II rates apply to other relatives and all non related persons.

Inheritance tax

In general, inheritance tax is levied on the following property received as an inheritance or a bequest:

- any property, if the deceased or the person who receives the property as an inheritance or a bequest was resident in Finland at the time of death;
- real property situated in Finland and shares or other rights in a corporate body where more than 50 per cent of the total gross assets of that corporate body consist of real property situated in Finland.

The beneficiaries in the first category are taxed according to the following. For taxable shares of EUR 20,000-40,000 the tax on the lower amount amounts to EUR 100 and the tax rate on excess is 7 per cent. For taxable shares of EUR 40,000-60,000 the tax on the lower amount is EUR 1,500 and the tax rate on excess 10 per cent. And, for taxable shares from EUR 60,000 and up-wards the tax on the lower amount is EUR 3,500 and the tax rate on excess is 13 per cent.

The beneficiaries in the second category are taxed according to the following. For taxable shares of EUR 20,000-40,000 the tax on the lower amount amounts to EUR 100 and the tax rate on excess is 20 per cent. For taxable shares of EUR 40,000-60,000 the tax on the lower amount is EUR 4,100 and the tax rate on excess 26 per cent. And, for taxable shares from EUR 60,000 and upwards the tax on the lower amount is EUR 9,300 and the tax rate on excess is 32 per cent.

Gift tax

In general, gift tax is levied on the following property received as a gift:

- any property, if the donor or the beneficiary was resident in Finland at the time when the gift was made;
- real property situated in Finland and shares or other rights in a corporate body where more than 50 per cent of the total gross assets of that corporate body consist of real property situated in Finland.

The donees in the first category are taxed according to the following. For gifts of EUR 4,000-17,000 the tax on the lower amount amounts to EUR 100 and the tax rate on excess is 7 per cent. For gifts of EUR 17,000-50,000 the tax on the lower amount is EUR 1,010 and the tax rate on excess 10 per cent. And, for gifts from EUR 50,000 and upwards the tax on the lower amount is EUR 4,310 and the tax rate on excess is 13 per cent.

The donees in the second category are taxed according to the following. For gifts of EUR 4,000-17,000 the tax on the lower amount amounts to EUR 100 and the tax rate on excess is 20 per cent. For gifts of EUR 17,000-50,000 the tax on the 1

OTHER MATTERS

36. Are there any tax incentives granted for various matters such as research and development, investment in certain industries/ areas, etc.?

Yes

37. If so, please indicate if there are any of the following: anti-deferral regimes; transfer pricing provisions; tax avoidance measures like legislated General Anti-Avoidance Rules, etc.; controlled foreign companies regulations; thin capitalization rules

Tax incentives

In certain areas in Finland, classified as developing areas, small and medium-sized enterprises are entitled to accelerated depreciations taken at maximum statutory rates increased by 50 per cent for the tax year during which the investment was made and during the following 2 tax years. The incentive is available for investments and extensions made from 1998 through 2008 and is applied to, inter alia, production and tourism but not to e.g. building and repairing ships, refining of agricultural products and manufacture of car parts and steel.

Expenses explicitly listed as deductible include research and development expenses.

General anti-avoidance rules

The principle of substance over form is applied in Finland. If a transaction is given a legal form which does not correspond to its actual character or there is no business reason for the transaction, the transaction may be considered void for tax purposes and taxed as if the real form was used. For other legal purposes, the transaction in its original form may still be valid.

If a company has paid to its shareholder more than the amount that would have been reasonable when paid to third parties, tax is assessed on the amount which is deemed to be in excess of the reasonable amount. The income is called a veiled dividend and is taxed heavily. Also distributions of funds by acquiring or redeeming own shares or by decreasing the reserve or the premium fund may constitute a veiled dividend.

Transfer Pricing provisions

An adjustment is possible under the Tax Procedure Act if the taxpayer has not complied with the arm's length principle. Profits of a Finnish company can be adjusted in relation to both cross-border and domestic transactions.

New provisions requiring transfer pricing documentation between resident and non-resident companies were introduced for tax years starting on or after 1 January 2007. Transactions between Finnish entities need not be documented, but these transactions may still be subject to transfer pricing adjustments. The law generally applies to foreign-owned subsidiaries and branches in Finland and Finnish groups that have 250 employees or more and a turnover exceeding EUR 50 million, or total assets greater than EUR 43 million. Small and medium sized enterprises are generally exempt from the documentation requirements if they fulfill the independence criteria set by the European Commission (2003/361/EC).

The documentation includes:

1) a description of the business activities; 2) a description of associated enterprises; 3) information on controlled transactions; 4) a functional analysis; 5) a comparability analysis; 6) a description of the selected transfer pricing method. The information in items 1) to 3) is not required if the total amount of the transactions between the taxpayer and the other party does not exceed EUR 500,000.

38. List the countries in which there are tax treaties. This could impact the withholding taxes on various distributions and to the extent possible, please itemize them below. Please include the impact upon withholding on compensation, interest, dividends or other distributions for each country listed.

PLEASE NOTE: THERE ARE NUMEROUS EXCEPTIONS TO THE RATES STATED BELOW. THE IMPACT OF THE EC PARENT-SUBSIDIARY DIRECTIVE AND THE EC INTEREST AND ROYALTIES DIRECTIVE IS NOT TAKEN INTO ACCOUNT. INTER-EST IS IN GENERAL EXEMPT FROM WITHHOLDING TAX UNDER DOMESTIC LAW.

RATES (PORTFOLIO DIVIDENDS/DIRECT INVESTMENT DIVIDENDS - INVESTMENT FUND PROFIT SHARE - ROYALTIES):

Arab Emirates (28/28-28-28)
Argentina (15/10-28-15)
Armenia (15/5-0-10)
Australia (15/5-28-5)
Austria (10/0-0-5)
Azerbaijan (10/5-28-5)
Barbados (15/5-28-5)
Belgium (15/0-0-5)



Bosnia Herzegovina (15/5-0-10)
Brazil (28/28-28-28)
Bulgaria (10/0-0-5)
Canada (15/5-28-10)
China (10/10-28-10)
Croatia (15/5-0-10)
Czech (15/0-0-10)
Denmark; See Nordic Countries
Egypt (10/10-28-25)
Estonia (15/0-28-10)
France (0/0-0-0)
Georgia (10/5 or 0-0-0)
Germany (15/0-See dividend article-5)
Greece (13/0-0-10)
Hungary (15/0-0-5)
Iceland; See Nordic Countries
India (15/15-28-20)
Indonesia (15/10-28-15)
Ireland (0/0-0-0)
Israel (15/5-0-10)
Isle of Man
Italy (15/0-0-5)
Japan (15/10-0-10)
Kirgistan (15/5-0-5)
Korea (15/10-0-10)
Latvia (15/0-28-10)
Lithuania (15/0-28-10)
Luxembourg (15/0-0-5)
Macedonia (15/0-0-0)
Malaysia (15/5-28-5)
Malta (15/0-0-0)
Mexico (0/0-28-10)
Morocco (15/15-0-10)
Netherlands (15/0-0-0)
New Zealand (15/15-28-10)
Nordic Countries (15/0-0-0)
Norway; See Nordic Countries
Pakistan (20/12-28-10)
Philippines (28/15-28-25)
Poland (15/0-0-10)
Portugal (15/0-0-10)
Romania (5/0-0-5)
Russia (12/5-0-0)
Serbia and Montenegro (15/5-0-10)
Singapore (10/5-28-5)

Slovakia (15/0-0-10)
Slovenia (15/0-0-5)
South Africa (15/5-0-0)
Spain (15/0-0-5)
Sri Lanka (15/15-0-10)
Sweden; See Nordic Countries
Switzerland (10/0-0-0)
Tanzania (20/20-0-20)
Thailand (28/20-28-15)
Turkey (20/15-28-10)
Ukraine (15/5-0-10)
United Kingdom (0/0-0-0)
United States (15/5-0-0)
Uzbekistan (15/5-0-10)
Vietnam (15/10 or 5-28-10)
Zambia (15/5-28-15)