

TAX MANAGEMENT PORTFOLIOS™

FOREIGN INCOME

Business Operations in Finland

by

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TAX MANAGEMENT PORTFOLIOS™

FOREIGN INCOME

Business Operations in Finland

PORTFOLIO DESCRIPTION

Tax Management Portfolio, *Business Operations in Finland*, No. 7120-2nd, provides information on the country and its business climate, concentrating on Finland's corporate law and corporate tax rules, to enable U.S. and other foreign businesses to understand the commercial and legal framework likely to be of concern to them in their business dealings with Finland, and to aid their determination of the best method of conducting their operations in Finland from tax and other legal standpoints. By way of an introduction, there is an overview of the foreign investment, trade, and commerce regulations, and immigration and labor laws in force in Finland. The Finnish corporate law and the taxation of domestic entities are examined in more detail. The Portfolio explains the principal tax rules affecting foreign corporations, and the principles of international taxation, including the foreign tax credit provisions, avoidance of international double taxation, the tax treaties with the United States, and the few provisions relating to transfer pricing and tax haven operations. The income taxation of resident and nonresident individuals, the inheritance and gift taxes, local taxes, the value-added tax, and some other taxes that may be relevant to a foreign investor are also discussed. Although effort was made to provide information on all matters of relevance to a foreign investor intending to operate in Finland, for obvious reasons, such individuals should use this Portfolio in conjunction with appropriate professional counsel. Among the Worksheets are various tax forms. For a complete list, see the Table of Worksheets.

This Portfolio may be cited as Lehtimaja, 7120-2nd T.M., *Business Operations in Finland*.

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DETAILED ANALYSIS

I. Finland — General Background

A. Tax Systems Overview

1. General

Revenue authority	Verohallinto (Tax Administration) (Section IV.A.2.)
Type of tax system	- Residents: Worldwide system. (<u>Corporations</u>: Section V.B.1.; <u>Individuals</u>: Section X.A.) - Nonresidents: Certain Finnish-source income. (<u>Corporations</u>: Section VI.B.; <u>Individuals</u>: Section XI.A.)
Residence	<u>Corporations</u>: A company is tax resident in Finland if it is: - It is organized and registered under the laws of Finland; or - The place of its effective management is in Finland. (Section V.A.) <u>Individuals</u>: An individual is tax resident in Finland if: - He or she has a habitual abode and home in Finland; or - He or she resides in Finland continuously for more than six months. (Section X.B.)
Basic domestic nexus rule for foreign corporations	A nonresident company with a PE in Finland is subject to Finnish taxation on all income from Finnish and foreign sources attributable to the PE. A nonresident company without a Finnish PE is subject to taxation only on its Finnish-sourced income. (Section VI.B.)
Treaty network	Finland has tax treaties with more than 70 countries, including the United States, that largely follow the OECD Model Tax Convention. (Section XVI.C.) <u>MLI signatory</u>: Yes. (Section XVI.C.) For the texts and status of Finland's tax treaties, see International Tax Treaties.

2. Corporations

Corporate income tax rate	Flat rate of 20%. (Section V.B.8.)
Withholding tax rates on payments to non-resident companies	<u>Dividends</u>: 20% (Section VI.C.) <u>Interest</u>: 0%/20% (Section VI.D.) <u>Royalties</u>: 20% (Section VI.D.) For the rates of source country taxation applying under Finland's domestic law and tax treaties and the context for their application, see the Withholding Tax Chart.
Net operating losses carry back/forward	<u>Carryback</u>: N/a <u>Carryforward</u>: Generally, up to 10 years, but five years for losses from certain assets; loss must be set off against income of the same type. (Section V.B.6.)
Restrictions on deductibility of interest expenses	500,000 euros (related party)/3,000,000 (unrelated party) thresholds, otherwise 25% of taxable EBITDA. (Section V.B.4.d.)
Anti-hybrid mismatch rules	Yes. (Section XV.E.)
Incentives (major)	<u>R&D</u>: Yes, with an additional deduction for certain R&D costs. (Section V.B.4.q.) <u>Patent box</u>: N/a <u>Enhanced depreciation/capital allowance</u>: N/a <u>Environmental</u>: Yes. (Section V.B.7.b.) <u>Other</u>: N/a
Participation Exemption	Capital gains on sales of shares that are part of a company's fixed assets are tax-free under condition that the seller of the shares has owned 10% of the entity's share capital for at least one year. (Section V.B.3.c.)

Tax consolidation	N/a, however, a group contribution regime exists. (Sections V.B.13. and 14.)
M&A regime	• <u>Tax-free or tax-privileged transaction</u>: Yes, tax-neutral regimes based on either domestic law or the EU Merger Directive. (Section V.B.15.) • <u>Stamp duty/share transfer taxes</u>: 1.5% for share deals and 3% for asset deals involving real estate or buildings. (Section IV.K. and Section V.C.2.) • <u>Limitation on pre-deal NOL carry-forwards</u>: Generally, losses cannot be carried forward if more than 50% of the shares are acquired (directly or indirectly) in any deal, however, an exemption procedure exists. (Sections V.B.15.b. and e.)
OECD Pillar One and Two	Finland has implemented the EU Pillar 2 Directive 2022/2523. (Section XV.D.)
Controlled foreign company regime	Yes. (Section XV.C.)
Transfer pricing regime	Yes. (Section XIV.) <u>Country-by-country report</u> : Yes. (Section XIV.C.)
General anti-avoidance rule (GAAR)	Yes. (Sections V.B.3.b. and V.B.4.d.)
Mandatory disclosure regime	Yes. (Section XV.G.)
Foreign tax relief	Relief is primarily granted via tax treaties, based on the credit method, but certain tax treaties require use of the exemption method. Some tax treaties also offer a tax-sparing credit. Unilateral relief is also available. (Section V.B.7.a. and Sections XVI.A. and B.)

3. Individuals

Personal income tax rates	Progressive income tax rates apply ranging from 12.64% on income up to 22,200 euros to 11,053.55 euros on the first 52,100 euros and 37.50% on the excess, plus municipal (and church and social security) taxes. (Section X.E.)
Equity incentives	Yes. (Section V.B.3.f. and Section X.C.3.)
Foreign tax relief	Yes. (Section V.B.7.a. and Sections XVI.A. and B.)
Wealth tax/inheritance tax/gift tax	• No wealth tax. • Inheritance and gift taxes are imposed on the beneficial share of each heir or legatee. The tax rates are graduated and depend on the degree of kinship between the decedent and the beneficiary. (Sections XII.B. and C.)
Exit taxes	Yes, capital gains tax on certain shareholdings is payable immediately on departure. (Section X.C.1. and Section V.B.15.f.)

4. Other Taxes

VAT/GST/Sales tax	The standard rate is 25.5%, but a reduced rate of 13.5% is charged on certain supplies. (Section XIII.C.1.) <u>Registration threshold</u>: 20,000 euros annual turnover; optional registration below this amount. (Section XIII.B.) For further research on Finland's VAT system, see also the VAT Navigator.
Digital services tax	No.
Local taxes	Annual real estate tax and municipal income tax of individual taxpayers (Section V.C.4. and 6. and Section IV.B.)

5. Administrative

Standard tax return filing date	<u>Corporations</u> : by April 30 of the year following the taxable calendar year. (Section V.B.9.) <u>Individuals</u> : April 1, 14, 21 or 28 of the year following the taxable calendar year, depending on the print date of the pre-completed tax return. (Section X.F.)
Limitation period for assessment	Three years from the start of the calendar year following the assessment year with the possibility for a one-year extension; extended to six years for issues involving transfer pricing, international exchange of information, and corporate/financing structures. (Section V.B.11. and Section X.F.)
Advance tax rulings	Yes. (Section IV.A.2.)

B. Political/Governmental Organization

1. The Country

Finland is located in northern Europe and it shares borders with Sweden, Norway and Russia. Its area is comprised of the mainland and the autonomous province of Åland Islands.

Finland has two official languages, Finnish and Swedish, but English is also widely spoken. Finland has especially close ties with the other Nordic countries. In particular, Swedish law and administrative practice have influenced their Finnish counterparts. The Nordic countries share a free labor market and collaborate on many common economic, cultural, and scientific projects.

2. Political Structure

Finland has been an independent republic since December 6, 1917. The President is elected for a period of six years. The Government and the President hold the supreme executive power. The legislative power lies with the Parliament.

Finland is a parliamentary democracy based on a multi-party political system. According to the Constitution of Finland,¹ democracy is based on the separation of powers: The Parliament exercises legislative powers and decides on state finances. The President, and the Government exercise governmental powers and according to the Constitution, the Government must enjoy Parliament's confidence. Independent courts exercise judicial powers with the Supreme Court (*Korkein oikeus/Högsta domstolen*) and the Supreme Administrative Court (*Korkein hallinto-oikeus/Högsta förvaltningsdomstolen*) as the highest instances.

¹Constitution of Finland, *Suomen perustuslaki/Finlands grundlag*, 731/1999, as amended ("the Constitution").

The President directs foreign policy in conjunction with the Prime Minister and other governmental officials, whereas the Prime Minister is responsible for all other policy areas not reserved for the President. Moreover, the Prime Minister governs the work of the Government and chairs the plenary sessions of the Government. The Prime Minister is elected by the Parliament and appointed by the President.

The Parliament's most important task is enacting legislation. Moreover, it approves the national budget and the government program, ratifies international treaties, and oversees the Government in general. The Parliament is formed through an election held every four years unless the Parliament is dissolved by a presidential order earlier. There are 200 Members of Parliament who are elected through a direct, secret, and proportional election. All Members of Parliament belong to parliamentary groups.

The governmental structure in Finland can be categorized into two levels. The central government includes the ministries and the national agencies operating in their administrative branches. Further, the central government implements the laws enacted by Parliament and is responsible for the development of the administration. As for the second level, municipalities are at the center of the local government. Municipalities are subject to political decision-making with the municipal council as the highest body.

C. Sources of Law

The Finnish legal system is based on the civil law culture and traditionally sources of law are divided into strongly binding, weakly binding and admissible sources. Hence, in Finland written laws including decrees promulgated by the Parliament are the primary source of law and strongly binding. According to the Constitution, the exercise of all public powers must be based on parliamentary enacted legislation (an Act of Parliament) and in all public activity, the law must be strictly observed. The Constitution lays down the foundation for all national legislation and exercise of government power. The Constitution may only be amended through a more complicated process of constitutional amendment.

As Finland is a member country of the European Union (EU), it is thereby strongly bound to its founding agreements and statutes which denotes that all national statutes must be compliant with the EU regulations, directives, and decisions. In addition, the EU regulations are directly applicable in all member countries and take precedence over national law. Another major factor that impacts legislation in Finland are certain international treaties, such as the European Convention on Human Rights.

Weakly binding sources of law consist of preparatory legislative work and court decisions. Disregarding these sources does not result in a sanction for misconduct in office, but the likelihood of a decision being challenged in a higher court increases. For instance, judges should generally take the weakly binding sources into account when considering a decision. Admissible sources, such as legal literature, legal principles or guidelines provided by government ministries may also be utilized in decision-making.

D. Judicial System and Arbitration

1. Judiciary

In contrast to the Anglo-American countries, Finland is a civil law country. The Constitution guarantees the independence of the judiciary from the legislative and executive organs of government. Judges are removable only by judicial sentence. Only members of the Finnish Bar Association (*asianajaja/ad-vokat*), legal aid attorneys (*julkinen oikeusavustaja/offentligt rättsbiträde*) and licensed attorneys have the right to practice before the courts. Attorneys other than Members of the Finnish Bar and public legal aid attorneys need a license to act as attorneys in the general courts, i.e., in district courts (*käräjäoikeus/tingsrätt*), courts of appeal (*hovioikeus/hovrätt*) and the Supreme Court. Whether an attorney is licensed can be determined by checking the register of licensed attorneys under the attorney's name.

A license is not required if an attorney is in a contractual employment relationship or public service employment relationship with the party represented by the attorney. Nor is a license needed when an attorney employed by a labor market organization deals with matters related to employment relationships. In addition, undisputed debt matters may also be handled by persons other than lawyers. However, close relatives of the parties to an action may not act as attorneys in court unless they hold licenses.

Licenses to act as an attorney are granted by the Licensed Attorneys Board. In addition to a Master's degree in law, a licensed attorney must have passed the Advocate's Examination, completed court training or acquired other work experience in the judicial field for at least one year.

Licensed attorneys must observe similar ethical rules to those that have to be observed by advocates and public legal aid attorneys. Their activities are monitored by the Minister of Justice, as well as the Disciplinary Board of the Finnish Bar Association and the Licensed Attorneys Board.

The Finnish court system is divided into general courts, administrative courts and certain special courts.

The general courts administer justice in civil cases, criminal cases and petitionary matters. The Finnish general courts comprise three tiers: district courts as the courts of first instance, courts of appeal as the first instances of appeal and, as the final instance of appeal, the Supreme Court, provided that the Supreme Court grants leave to appeal. However, before a Court of Appeal can decide on an appeal, permission for further proceedings is usually required.

Each district court has general jurisdiction within a fixed geographical area. The district courts handle criminal cases, civil cases and petitionary matters.

Judges of the Finnish courts are legally trained. In addition, lay judges can be involved in certain types of civil and criminal matters in district courts. In these cases, the composition consists of one legally trained judge and two lay members. Lay members are selected by the municipal council for a period corresponding to its term of office and they must be absolutely impartial in all matters.

In administrative matters, such as taxation, land use, building, environmental protection, traffic connections, social and

health care, and immigration, the decision of an authority is usually first appealed to an adjustment board within the authority itself, and only then to a local administrative court (*hallinto-oikeus/förvaltningsdomstol*). The decision of an administrative court, subject to certain restrictions, may be appealed to the Supreme Administrative Court. The right to practice before administrative courts is generally unlimited in most matters. For example, in tax matters, taxpayers may be assisted by persons with no legal degree.

In addition, there are courts with special jurisdiction. These include: the Labor Court (*Työtuomioistuin/Arbetsdomstolen*), which adjudicates conflicts between employers and employees, where such conflicts relate to the collective agreements between employers and employees, and the Market Court (*Markkinatuomioistuin/Marknadsdomstolen*), which adjudicates questions relating to competition law, consumer protection law, public procurement, unfair business competition, industrial rights law and copyright law. The composition of the special courts differs from that of the general courts. In addition to legally trained judges, the special courts are comprised of experts in that field. For instance, in the Labor Court there are both employer and employee representatives at present. The decisions of the Labor Court may not be appealed. The Market Court rulings in market law cases may be appealed to the Supreme Court or to the Supreme Administrative Court if the latter grants leave to appeal.

In Finland, court procedures are generally public, including judgments and all written material submitted to the courts, unless otherwise ruled in accordance with the law. For example, tax procedures and rulings are not public, unless (anonymously) published by the courts.

The Chancellor of Justice (*oikeuskansleri/justitiekansler*) (or deputy) is present at the meetings of the Government and oversees their activities so that illegal decisions are not made by the ministers or the President. The Prosecutor General (*valtakunnansyyttäjä/riksåklagare*) is the head of the prosecutor institution, consisting of state prosecutors (*valtionsyyttäjä/stat-såklagare*) and local prosecutors (*kihlakunnansyyttäjä/härad-såklagare*). The Parliament appoints a solicitor general (*oikeusasiames/ombudsman*) (and deputy), who sees to it that public officials observe the laws and that citizens' constitutional and legal rights are not violated by the authorities.

2. Arbitration

The Arbitration Act² sets out the legislative regime for arbitration seated in Finland and is structured to provide a simple, flexible, and cost-efficient framework for arbitration. In addition, the Finnish courts have an arbitration-friendly and rather non-interventionist attitude towards arbitration that is manifested in legal praxis.

Finland has provided an institutional platform for commercial arbitration for well over a hundred years. In recent years, the Finland Arbitration Institute of the Finnish Chamber of Commerce (FAI) has actively developed its rules and practices, with the current rules that entered into force in January 2024. The Arbitration Act is based on the 1985 UNCITRAL Model

² Arbitration Act, *Laki väliliesmenettelystä/Lag om skiljeförfarande*, 967/1992, as amended.

Law on International Commercial Arbitration, but the Model Law was not implemented into Finnish law as such, and thus the Arbitration Act deviates from the Model Law in some respects.

The FAI has two sets of arbitration rules: the FAI Arbitration Rules and the FAI Expedited Arbitration Rules. The parties can switch between these rules prior to the confirmation of any arbitrator. Moreover, the FAI administers mediations under the Mediation Rules of the Finland Chamber of Commerce (the FAI Mediation Rules). Although the FAI statistics indicate that mediations are rarely administered by the FAI, the FAI Mediation Rules are commonly used as a framework for ad hoc mediations.

Flexibility is one of the main advantages of the Arbitration Act as party autonomy is one of its governing principles. The parties are free to organize the proceedings as they deem fit, being subject only to a few mandatory requirements of due process. The objective of the Arbitration Act is to provide the parties with a final arbitral award with the same legal effects as an ordinary court judgment. To promote the finality of an arbitral award, it may not be challenged based on its merits as long as the Finnish public policy is not violated but only on relatively grave procedural irregularities. By international comparison, one of the most distinctive features of the Arbitration Act is the possibility to challenge an arbitral award on two separate legal grounds: by arguing that it is null and void (Section 40) or by requesting it to be set aside (Section 41).

A valid arbitration clause prevents taking the dispute to court, and the Finnish courts respect the parties' freedom of contract by having a generally arbitration-friendly attitude, which has been indicated in the recent Supreme Court prece-

dents. However, the district courts may provide assistance before, during and after the proceedings upon request. The district courts may appoint arbitrators under certain circumstances and may also give orders for the production of evidence or hearing parties, witnesses or experts. Also, the district courts are capable of ordering interim measures upon the request of a party before or during the proceedings. Nevertheless, as the Arbitration Act remains silent on precautionary measures, the application is made in accordance with the provisions of the Code of Judicial Procedure.³

The courts also play a significant role if arbitral awards are challenged. It is not possible to challenge the award based on its merits or facts. In cases of procedural or other grave errors, however, the courts may set the award aside or declare it invalid.

As stated previously, court procedures as a whole are generally public, whereas the principle of publicity does not apply to arbitration. Since the enactment of the Arbitration Act, the general opinion has been that an award may not be published, unless all the parties agree otherwise or the award has become public through other means (e.g., because of arbitration-related court proceedings). As a general remark, the Arbitration Act does not explicitly require that the final award contains reasoning, unless the parties agree otherwise. Under the current FAI arbitration rules, however, the award must be reasoned, unless the parties have agreed that no reasons are to be given.

³Code of Judicial Procedure *Oikeudenkäymiskaari/Rättegångsbalk* 4/1734, as amended.

II. Operating a Business in Finland

A. Foreign Investment Regulations

1. Opportunities

Finnish law offers no special opportunities for foreign investors. Finland's official policy and the principles of the European Union (EU) concerning investments in Finland by foreigners is one of neutrality as between domestic and foreign investors. It should be noted, however, that interest and capital gains (unless derived through a permanent establishment (PE) in Finland or relating to Finnish immovable property) derived by nonresidents from Finnish sources are widely exempt from Finnish tax (see VI., VII., XI.D. and E., and XV.D.1., below).

2. Incentives

Finland and the EU provide numerous kinds of subsidies, particularly for regions where conditions are less favorable. The incentives include start-up subsidies, freight subsidies, cash grants, loans, tax benefits, subsidized premises, guarantees, location advice and guidance, and employee training.⁴ Support is granted for new investments in manufacturing, tourism and business services. Some of the incentives are available only during an initial period.

All these incentives are given to domestic and foreign enterprises on equal terms.

3. Restrictions

As a consequence of Finland's membership in the EU, there are hardly any restrictions concerning foreign investment in Finland from within the EU. Broadly speaking, there are no real legislative obstacles to foreign ownership in Finland, even for investors from non-EU Member States.

However, the following restrictions exist. An individual or corporation from a country other than a European Economic Area (EEA) Member State⁵ must obtain a permit from the Ministry of Employment and Economy to engage in business or establish a branch in Finland (see III.E.1., below). A few areas of business, such as domestic airline services and security, may not be conducted by persons other than citizens or residents of EEA Member States. Furthermore, foreign corporations, non-resident foreign individuals and Finnish corporations under foreign control must, under the Acquisition Monitoring Act,⁶ apply for approval from the Ministry of Economic Affairs and Employment to acquire more than one-tenth (or increase their ownership to more than one-tenth) of the voting power in, or to exercise similar control over, an existing Finnish defense industry or security sector enterprise. Approval must be applied in advance of a corporate acquisition in the case of defense industry and security sector enterprises, and the approval decision must be obtained before closing of the acquisition.

In the case of acquisitions regarding so-called other monitored undertakings, i.e., companies and businesses in Finland that may be considered critical in terms of providing and maintaining functions fundamental to society due to their field of business, business operations or commitments, prior notification to the Ministry of Economic Affairs and Employment is generally voluntary, but an application must be made if requested.

With respect to defense industry enterprises, a foreign owner is an organization, a foundation or a natural person which is domiciled outside Finland or is a legal entity domiciled in Finland but in which a party domiciled outside of Finland holds at least 10% of the aggregate number of votes conferred by all shares or a corresponding actual influence. Whereas regarding other monitored entities and security sector enterprises, a foreign owner is an organization, a foundation or a natural person which is domiciled outside the EU or the European Free Trade Association (EFTA), as well as a legal entity domiciled within the EU or EFTA but in which a party domiciled outside the EU or EFTA holds at least 10% of the aggregate number of votes conferred by all shares or a corresponding actual influence in the entity.

In practice, a positive attitude to foreign ownership is the guiding principle of the Acquisition Monitoring Act. The purpose is to monitor transactions and, only if key national interests so require, restrict transfer of influence to foreigners and to foreign organizations and foundations in certain undertakings and businesses.

No approval needs to be obtained for a corporate acquisition by a foreign owner if: (i) the foreign owner subscribes, in proportion to his or her existing shareholding in a monitored company, for shares in that monitored company in connection with an increase of its capital; (ii) the foreign owner obtains possession of the property through inheritance, a will or marital right; (iii) another foreign owner exerts a legally held influence over the target and the acquisition does not involve a transfer of shares (as referred to in Section 8 of the Acquisition Monitoring Act) in a monitored company (applicable only in the case of other monitored entities); or (iv) a monitored business undertaking is acquired from another foreign owner where the latter's ownership is based on a procedure under the Acquisition Monitoring Act or has otherwise come about legally (applicable only in the case of other monitored entities).⁷

An application for approval of an acquisition must include adequate information on the monitored entity, the foreign owner, and the transaction. If a foreign owner fails to apply for approval, the Ministry of Economic Affairs and Employment may require a specific time limit within which the application must be made. Should an application for approval still be neglected, the acquisition will be rejected.

If an acquisition is denied, the foreign owner must, within a period of time to be set forth by the Government in its decision, dispose of shares in the target to such a degree as to reduce the number of votes involved in the shareholding to less than one-tenth of the aggregate number of votes involved in all the shares of the company and the number of votes the foreign owner may use in the general shareholders meeting may not ex-

⁴ Act on State Aid for the Development of Businesses 2021–2028, *Laki valtionavustuksesta yritystoiminnan kehittämiseksi vuosina 2021–2028/Lag om statsunderstöd för utvecklande av företagsverksamhet 2021–2028*, 758/2021, as amended.

⁵ I.e., the EU Member States plus Iceland, Liechtenstein and Norway.

⁶ Act on Monitoring of Foreign Corporate Acquisitions in Finland, *Laki ulkomaalaisten yritysostojen seurannasta/Lag om tillsyn över utlänningars företagsköp*, 172/2012, as amended ("Acquisition Monitoring Act").

⁷ Acquisition Monitoring Act, Sec. 6.

ceed the maximum stated above. Upon the denial of an acquisition, any agreements thereto will be void as from the date stated by the Government in its decision. Should anyone that has been denied approval cease to be a foreign owner before the expiry of the period of time referred to in the Government's decision, all the consequences envisaged above will cease to apply.⁸

The Government may deny approval of an acquisition only if the denial is necessary for key national interests. In addition, as an alternative to prohibiting a transaction, necessary remedies for safeguarding key national interest may be imposed on the transaction. The term "key national interests" refers to the maintenance of national defense and the securing of the public order and public safety as referred to in the Treaty on the Functioning of the European Union (TFEU), Articles 52 and 65.⁹

B. Currency and Exchange Controls

Finland is a member of the European Economic and Monetary Union (EMU) and the euro (€) is the sole legal tender in Finland as well as in the other EMU member states. There are 100 cents (*senttiä/cent*) in 1 euro.

There are virtually no exchange restrictions. The Bank of Finland administers the existing few exchange controls, which apply to financial institutions and are designed to supervise their risks and guarantee proper operation of the financial markets. Inbound and outbound investments, borrowing and lending, the repatriation of capital, payments for imports and exports, payments of salaries, royalties and interest, and any other transfers may be freely made without any prior or subsequent authorization. However, for statistical purposes, cross-border transfers must be reported to the Bank of Finland, unless they are trivial in amount.

C. Trade and Commerce Regulations

1. Imports and Exports

a. Licenses and Quotas

As a member of the EU, Finland is subject to EU policy with regard to import and export regulations. In principle, goods may circulate freely within the EU.¹⁰ Consequently, the import/export terms described below apply only to trade between EU Member States and countries outside the EU.

The importation of iron and steel, textile products, and agricultural products is subject to control by Finnish (and other EU Member States) customs authorities in accordance with regulatory measures, including, for example, import quotas (not for agricultural products) or tariff quotas, established by the Government and, to a certain extent, by the European Commission. The European Commission also monitors the depletion of the quotas as the central body of the EU Member

States. Various licenses are required for imports from countries outside the World Trade Organization (WTO), such as China (PRC).

In total, the EU has about 40 preferential arrangements with third countries or groups of third countries, including Canada, Japan, Norway, South Korea, Switzerland, Turkey, and the United Kingdom (UK). The most recent free trade agreement with India (signed in January 2026) has not yet entered into force. On the other hand, trade between the EU and countries such as China is not subject to special preferential treatment. Regarding the United States, as a result of the 2025–2026 trade negotiations, the EU has in 2026 accepted to significantly lower tariffs on U.S. exports as reciprocal compensation for the United States' acceptance of a 15% tariff cap on most EU exports. For Finland, this means that many U.S. products, which previously were subject to EU tariffs, can be imported to Finland with no tariffs.

Domestic authorities may (for example, on grounds of public security, the protection of health, the protection of national treasures having artistic or historic value, or the protection of industrial or commercial property) limit the importation or exportation of goods, such as live animals and plants, or works of art, even from (to) other EU Member States.

There are virtually no export license requirements. However, the exportation of conventional arms and dual-use goods covered by the Wassenaar Arrangement¹¹ and the exportation of defense material require an export license.¹²

b. Customs Duties and Other Taxes

Finland applies the Common Customs Tariff of the European Community to goods entering the EU through Finland. A zero rate is currently applied to a large number of products as a result of preferential treatment based on international agreements or unilateral decisions, or because similar input products are not manufactured or are in short supply within the EU. Foodstuffs and agricultural products in general are subject to import duties at fixed, gradually decreasing rates.

Generally, the basis for the valuation of new products is the cost, insurance and freight (CIF) price. General international rules (General Agreement on Tariffs and Trade (GATT)/WTO) are followed. Finland applies the EU anti-dumping legislation,¹³ which is based on the WTO anti-dumping agreement.

Excise duties are not harmonized within the EU to the same extent as external customs duties (which, in fact, are uniform throughout the EU) or the VAT. Finland levies excise taxes on certain products, for example, tobacco products, alcoholic beverages, mineral fuels and soft drinks (excise taxes on the first three being generally harmonized in the EU, except as to rates). Some excise taxes are relatively high. Excise taxes (as well as the other indirect taxes) are levied even if the goods

⁸ Acquisition Monitoring Act, Sec. 8.

⁹ Acquisition Monitoring Act, Sec. 2.

¹⁰ However, the semi-autonomous province of Åland (a group of islands in southwestern Finland) is a special case (as with some of the 20 small territories in Europe and overseas): though it is within the EU customs area as part of Finland, it is outside the EU system of (harmonization of) indirect taxation, which requires a "tax border" (with respect to value added tax (VAT) and certain excise duties) to be maintained between Åland and the rest of the EU, including mainland Finland.

¹¹ Arms control arrangement with 42 participating states.

¹² Act on the Export of Defence Materiel, *Laki puolustustarvikkeiden viennistä/Lag om export av försvarsmateriel*, 282/2012, as amended. The Ministry for Foreign Affairs has issued a manual on export control for the guidance of authorities and foreign trade enterprises.

¹³ E.g., EU Directive (EU) 2016/1036 of the European Parliament and of the Council of June 8, 2016 on protection against dumped imports from countries not members of the EU, as amended.

originate from within the EU (including Finland itself). Various energy taxes are imposed. Passenger cars are subject to a car tax. Imports in general are subject to VAT at a rate of 25.5%.

A virtually uniform VAT system (albeit with differing rates) is applied in all the EU Member States. For details of the Finnish VAT system, see V.C.3., below.

c. Documentation

Both importers and exporters must file a customs declaration, accompanied by an import invoice. Other required documents may include import licenses, or origin declarations or certificates, depending on the particular case. For instance, a Generalised System of Preferences (GSP) origin certificate is required to prove that a product is from a developing country and thus qualifies for reduced customs duty. Importers and exporters often use local brokers to manage the formalities.

2. General Regulation of Business

a. Monopolies

Some government-owned institutions have a monopoly on specific goods or services, e.g., the retail sale of alcohol (other than mild alcoholic beverages).

A fundamental principle of Finnish law is that of freedom of contracts. However, this freedom is limited by the Finnish and EU competition laws. The Finnish laws on competition are largely equivalent to those of the EU.

The Finnish Competition and Consumer Authority (*Kilpailu- ja kuluttajavirasto/Konkurrens-och konsumentverket*) supervises compliance with the Competition Act¹⁴ and has the right to obtain information from an undertaking and to carry out inspections at an undertaking's premises without prior notice. The Finnish Competition and Consumer Authority will initiate the necessary proceedings to eliminate any restraints on competition or the harmful effects of competition if this is seen as necessary to safeguard effective competition in the market. The authority also controls concentrations where the turnover thresholds set in law are exceeded. The Competition Act prohibits restraints on competition between undertakings, and sets out a *non-exclusive* list of prohibited conducts. Following the Competition Act and the cases of Finnish and EU authorities and courts, prohibited conducts include, *inter alia*, agreements and concerted practices involving: vertical price-fixing; tender cartels; horizontal price-fixing; or limiting production or market sharing. Certain conducts can, however, be exempted. For instance, if the aim of the conduct is not anti-competitive, and it has a positive impact on efficiency of the market and consumer welfare, which exceed its potentially restrictive effects on competition, the conduct may possibly be exempted. The Competition Act also prohibits the abuse of a dominant position, which may entail, *inter alia*, imposing unfair prices or other trading conditions, refusing to deal, unwarranted discrimination in business dealings, using unjustifiable exclusivity agreements, and other similar practices.¹⁵

¹⁴ Competition Act, *Kilpailulaki/Konkurrenslag*, 948/2011, as amended (the "Competition Act"). State Department of Åland (*Ahvenanmaan valtionvirasto/Statens ämbetsverk på Åland*) has however certain tasks, for example, promoting competition in Åland.

¹⁵ Competition Act, Ch. 2.

The Competition Act does not apply to collective bargaining agreements concerning the labor market and also contains some limitations as to its applicability to certain arrangements in the context of the primary production of agricultural products. In general, the Competition Act applies only to cases that are linked to competition in the Finnish market or a market of which Finland forms a part.

Under the Competition Act, the Market Court may, upon a proposal from the Finnish Competition and Consumer Authority, prohibit or order a concentration to be dissolved, or attach conditions regarding the implementation of a concentration, if the concentration has the potential significantly to impede effective competition in the Finnish markets or a substantial part of those markets.

If the Finnish Competition and Consumer Authority identifies a breach of competition law, it may propose to the Market Court, *inter alia*, that it orders the undertaking concerned to cease its anti-competitive conduct and that it imposes a penalty payment on the undertaking. The penalty payment may amount to up to 10% of the annual turnover of the group of companies to which the undertaking involved belongs. The final authority in competition matters lies with the Supreme Administrative Court.

b. Mergers

Any agreement involving a merger or an acquisition of a company or a business that has turnover in Finland may be subject to merger control proceedings if the turnover thresholds are met (on mergers, generally, see III.B.3., below). As set out in the Competition Act, a concentration must be notified to the Finnish Competition and Consumer Authority if the parties' combined aggregate turnover generated in Finland exceeds €100 million and the turnover achieved in Finland by each of at least two parties exceeds €10 million.¹⁶

The filing of a notification is mandatory if the thresholds are met. The Finnish Competition and Consumer Authority may clear the concentration unconditionally or conditionally or ask the Market Court to prohibit the concentration as described above. The concentration may be prohibited if it, for instance, creates or strengthens a dominant position.

c. Restrictive Trade Practices

Under the Unfair Business Practices Act,¹⁷ trade may not be carried on using methods that conflict with generally accepted business custom or methods that are otherwise unacceptable from another trader's viewpoint. The Act lists a number of examples of prohibited trading methods. For instance, information that is incorrect, or that may mislead the consumer, may not be issued to increase demand for a product.

Trade practices that are deemed to be contrary to the Unfair Trading Act may, under penalty of a fine, be prohibited by the Market Court. Decisions of the Market Court may be appealed to the Supreme Court if the latter grants leave to appeal.

Restrictive trade practices based on special legislation are applied by the government in certain areas where public health

¹⁶ Competition Act, Ch. 4.

¹⁷ Unfair Business Practices Act, *Laki sopimattomasta menettelystä elinkeino toiminnassa/Lag om otillbörligt förfarande i näringsverksamhet*, 1061/1978, as amended.

is involved, such as the advertising of tobacco products, alcoholic beverages and drugs. In addition, special rules regarding unfair trade practices in business-to-business relationships engaged in the food supply chain¹⁸ are applied when buyer's turnover is more than 2 million euros and the supplier is smaller. However, if the supplier's annual turnover exceeds 350 million euros these rules are not applied.

d. Price Controls

Mostly there are no price controls imposed by the Finnish Government. However, specific regulations affecting pricing does exist, for example, the interest rate cap on consumer credit and the setting of maximum prices for medicines.

e. Securities Regulation

As foreign portfolio investors have virtually unlimited access to the Finnish securities market, many prominent Finnish firms are, in fact, mainly foreign-owned.

The issuance of shares in a Finnish company, and the rights connected to shares, are regulated by the Companies Act.¹⁹ The shares of listed companies are issued in a central securities depository. While a shareholder register is maintained at the level of the central securities depository, foreign shareholders need not register their shareholdings in their own names where they hold their shares through nominees, other than for purposes of attending and voting at a general meeting. Shares issued in the Finnish central securities depository are issued in paperless book-entry form. The book-entry system is regulated by special legislation.²⁰ All companies listed on Nasdaq Helsinki have adopted the system.

The Securities Markets Act²¹ implements various EU Directives and contains detailed provisions on the marketing of securities, the obligation of listed companies to provide information, disclosures of major holdings, public takeovers and sanctions. Detailed provisions on the preparation of an offering or listing prospectus are contained in the EU Prospectus Regulation.²² The EU Market Abuse Regulation²³ prohibits insider trading and the abuse of inside information, as well as market manipulation. Finland has also implemented the recast EU Markets in Financial Instruments Directive,²⁴ which contains

¹⁸Food Market Act, *Elintarvikemarkkinalaki/Livsmedelsmarknadslag*, 1121/2018, as amended. See also Directive (EU) 2019/633 on unfair trading practices in business-to-business relationships in the agricultural and food supply chain.

¹⁹Limited Liability Companies Act, *Osakeyhtiölaki/Aktiebolagslag*, 624/2006, as amended (the "Companies Act").

²⁰Act on Book-Entry Accounts, *Laki arvo-osuustileistä/Lag om värdeandelskonton*, 827/1991, as amended and Companies Act.

²¹Securities Markets Act, *Arvopaperimarkkinalaki/Värdepappersmarknadslag*, 746/2012, as amended (the "Securities Markets Act").

²²Regulation (EU) 2017/1129 of the European Parliament and of the Council of 14 June 2017 on the prospectus to be published when securities are offered to the public or admitted to trading on a regulated market, and repealing Directive 2003/71/EC Text with EEA relevance.

²³Regulation (EU) 596/2014 of the European Parliament and of the Council of April 16, 2014 on market abuse (market abuse regulation) and repealing Directive 2003/6/EC of the European Parliament and of the Council and Commission Directives 2003/124/EC, 2003/125/EC and 2004/72/EC (the "EU Market Abuse Regulation").

²⁴Directive 2014/65/EU of the European Parliament and of the Council of May 15, 2014 on markets in financial instruments and amending Directive

provisions on investment services and activities, the operation of trading venues, and the authorization of investment firms.

The disclosure of major holdings is required when an investor's holding of shares or voting rights reaches, exceeds or falls below the thresholds set at 5, 10, 15, 20, 25, 30, 50 or 90%, or two-thirds, of the shares and/or voting rights in a listed company.²⁵ A shareholder whose voting power exceeds 30% or 50% of the voting power in a listed company is required to make a public takeover offer for all the shares in and equity securities of the listed company.²⁶ Listed companies are generally required to inform the public as soon as possible of inside information that directly concerns that issuer, being information that is both of a precise nature, which has not been made public, and, if made public, would be likely to have a significant effect on the prices of relevant financial instruments.²⁷ Insider dealing and unlawful disclosure of inside information as well as market manipulation are criminal offences.

3. Licensing and Franchising

Finland has implemented the EU legislation concerning intellectual property (IP) rights, i.e., copyrights and industrial property rights. All IP rights are regarded as intangible property and are thus transferable, either in whole (subject to some minor exceptions) or in part.²⁸

The laws governing IP rights contain only some basic principles regulating licensing activity. For example, in the case of trademarks and patents, the registration of a license granted is possible but not obligatory, and the re-transfer of a licensing right is in principle only possible if it has been agreed on with the original right holder. However, in the case of copyrights, there is no register in Finland in which copyrights or related licenses can be registered. In addition, the principles of general contract law apply, as well as those of insolvency law. The general EU competition law applies to IP rights, however, taking into account the block exemption provisions laid down in the Block Exemption Regulation concerning technology transfer agreements.²⁹

Since there is no specific legislation concerning franchising or franchising agreements in Finland, the general principles of general contract law apply in this context.

a. Inventions and Patents

Finland is a member of the Paris Convention on the Protection of Industrial Property.³⁰ Finland has also joined the European Patent Convention³¹ and is a member of the European

2002/92/EC and Directive 2011/61/EU (the "EU Markets in Financial Instruments Directive").

²⁵Securities Markets Act, Ch. 9, Sec. 5.

²⁶Securities Markets Act, Ch. 11, Sec. 19.

²⁷EU Market Abuse Regulation, Article 17(1).

²⁸With regard to copyrights, some restrictions exist concerning an author's moral rights, which in principle cannot be transferred.

²⁹European Commission Regulation (EU) No 316/2014 on the application of Article 101(3) of the TFEU to categories of technology transfer agreements, as amended.

³⁰Paris Convention for the Protection of Industrial Property, as amended on September 28, 1979.

³¹Convention on the Grant of European Patents, 17th edition, November 2020 (the "European Patent Convention").

Patent Organization (EPOrg).³² Finland also participates in the unitary patent system and has ratified the Agreement on a Unified Patent Court.³³ The European Patent Office, which acts as EPOrg's executive body, grants both classic European patents as well as unitary patents. The Unified Patent Court as well as its Finnish Local Division begun their activities in 2023 simultaneously with the unitary patent system. In Finland, it is also possible to file an international patent application which is based on the Patent Cooperation Treaty (PCT),³⁴ after which the applicant can apply for a patent at a national or regional patent office. This results in faster and more straightforward treatment of an international patent application.

The right to a domestic patent is granted by the Finnish Patent and Registration Office. An invention must meet certain standards with respect to morality, level of novelty and sufficient difference from existing inventions. In principle, it is the first applicant, as opposed to the first and true inventor, that will be granted the patent to an invention.

Patent fees include the patent application fee, the publication fee, and annual fees payable for the first time at the beginning of the third payment year. The validity of a patent is dependent on the payment of annual fees, and patents can stay in force for 20 years from the time the patent application is filed.³⁵ A nonresident applicant for a patent must appoint a representative residing in the EEA. The representative may be an individual or a corporate body and is entitled to represent the applicant in matters concerning the application.

Finland has legislation on right to inventions made in the course of employment.³⁶ This Employee Inventions Act provides that, depending on the situation and the circumstances of the invention, the employer may obtain a partial or full right, or a right of use, to the invention made by employee, or the employer may have a preferential right, by agreement with the employee, to obtain this right. When an employer acquires the right to an invention made by an employee, the employee is entitled, even if otherwise agreed before the invention was made, to receive reasonable compensation from the employer.³⁷

In the case of the licensing of a patent, the license generally may not be further transferred by the licensee, if this has not been agreed on with the proprietor of the patent.³⁸ If the licensee is a company and the whole company is sold, the right to the license will generally be transferred with the ownership of the company. The invalidity of a patent does not automatically cause the invalidity of a licensing agreement: the consequences of a patent being invalid depend on the content of the agreement. Generally, the license cannot last longer than the period of validity of the underlying patent. If the license extends beyond the period of validity of the patent, it may be possible for the licensee to file a claim under Section 36 of the Finnish Con-

tract Act (which may allow for the amendment of the terms of a contract found to be inequitable) seeking to cease having to pay royalties beyond the period of validity of the patent.³⁹

The holder of a patent that has sold the patented product in Finland may not prohibit the importation of the product by a buyer from an EEA Member State (the EEA regional exhaustion principle).

b. Trademarks

Under the Finnish Trade Marks Act,⁴⁰ any sign which is capable of distinguishing the goods or services of the proprietor of the trademark from those of other parties and which is capable of being represented on the trademark register in a manner which enables the authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor may be registered as a trademark. However, a trademark may be protected without registration if it is considered to have become established by being generally recognized in Finland by the relevant public as the sign of the proprietor.⁴¹ A trademark can be a word mark, which may include one or more words or it may be, or include, personal names, figures, letters, numerals, a combination of word(s) and figure(s), a combination of letters, the shape of goods or of their packaging, a sound or other mark, a form or token, as long as the sign can be represented on the trademark register in a manner which enables the authorities and the public to determine the clear and precise subject matter of the protection afforded to its proprietor. It should be noted that it is always safer to register a trademark than to rely on, for example, the established-in-use criterion.

A trademark is protected for 10 years from the date of application and protection is renewable for additional 10-year periods. Protection gives the proprietor the exclusive right to use the trademark as a sign to distinguish the proprietor's goods or services from those of others.

Collective and certification marks are trademarks that several parties can use at the same time. A collective mark is intended to be used in the course of trade that the trademark owner's members carry on, and can be registered or established. For example, collective bodies, such as unions formed by traders, may use collective marks. A certification mark on the other hand is intended to act as a guarantee that the goods or services marketed under the trademark meet certain quality requirements. Such a mark can be obtained only by registration and can be registered by an organization that controls, examines or gives orders concerning the control or examination of goods and services and that is not engaged in business that includes the supply of the verified goods or services.

Finland is a signatory to the 1989 Protocol relating to the Madrid Agreement Concerning the International Registration of Marks.⁴² Also, the provisions of the EU Trade Mark Direc-

³² Provisions concerning the European Patent were incorporated into the Patents Act, *Patenttilaki/Patentlag*, 550/1967, as amended ("Patents Act") Ch. 9a.

³³ Agreement on a Unified Patent Court (2013/C 175/01).

³⁴ Patent Cooperation Treaty of June 19, 1970, as amended ("PCT").

³⁵ Patents Act, Sec. 40.

³⁶ Act on the Right in Employee Inventions, *Laki oikeudesta työntekijän tekemiin keksintöihin/Lag om rätt till arbetstagares uppfinninga*, 656/1967, as amended ("Employee Inventions Act").

³⁷ Employee Inventions Act, Secs. 4 and 7.

³⁸ Patents Act, Sec. 43.

³⁹ Contract Act, *Laki varallisuusoikeudellisista oikeustoimista/Lag om rättshandlingar på förmögenhetsrättens område*, 228/1929, as amended.

⁴⁰ Trade Marks Act, *Tavaramerkkilaki/Varumärkelag*, 544/2019, as amended ("Trade Marks Act").

⁴¹ Trade Marks Act, Sec. 4.

⁴² Protocol Relating to the Madrid Agreement Concerning the International Registration of Marks (as amended on November 12, 2007).

tive⁴³ were implemented in Finland with the enactment of the new Trade Marks Act in 2019. An EU trademark covers all the EU Member States and is therefore also valid in Finland. Like national trademark registrations, EU trademarks are valid for 10 years from the date of application and may be renewed for a further 10-year period at a time.

c. Utility Models and Integrated Circuits

Technical solutions not covered by legislation on the registration of patents, may be, under certain conditions protected by the Utility Model Rights Act.⁴⁴ The Act is designed to protect “small patents” i.e., technical solutions and ideas that contain inventive features but do not reach the level of patentability. Registration reserves a utility model for the applicant’s exclusive use for four years from the date of application and may, on request, be renewed twice, first for a period of four years and then for a period of two years.

In Finland, there is also a special Act on the protection of the layout-designs of integrated circuits.⁴⁵

d. Copyrights

Copyrights are protected based on the Copyright Act. Finland is a signatory to the Berne Copyright Convention,⁴⁶ the Universal Copyright Convention,⁴⁷ the Rome Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations⁴⁸ as well as the Agreement on Trade-Related Aspects of Intellectual Property Rights⁴⁹ which all have had an effect to the Copyright Act. Finland has also ratified and implemented into the Copyright Act the World Intellectual Property Organization (WIPO) Conventions on copyright and neighboring rights⁵⁰ as well as multiple EU Directives on copyright and related rights.

In Finland, copyright always initially originates to the author and it cannot be registered. The Copyright Act protects the author of a literary or artistic work by giving the author the exclusive right to control the work by producing copies of it or otherwise making it available to the public. The author also has the right to be mentioned in connection with the work and the right to prohibit the use of the work in a way that infringes the author’s dignity.⁵¹ Copyright protection is granted for the author’s lifetime and for 70 years after the author’s death.⁵²

⁴³ EU Directive (EU) 2015/2436 of the European Parliament and of the Council of December 16, 2015 to approximate the laws of the Member States relating to trade marks, as amended.

⁴⁴ Utility Model Rights Act, *Laki hyödyllisyysmallioikeudesta/Lag om nyt-tighetsmodellrätt*, 800/1991, as amended.

⁴⁵ Act on the Exclusive Right to Layout-Design (Topographies) of Integrated Circuits, *Laki yksinoikeudesta integroidun piirin piirimallin/Lag om ensamrätt till kretsmönster för integrerade kretsar*, 32/1991, as amended.

⁴⁶ Berne Convention for the Protection of Literary and Artistic Works, as amended on September 28, 1979.

⁴⁷ Universal Copyright Convention of September 6, 1952.

⁴⁸ International Convention for the Protection of Performers, Producers of Phonograms and Broadcasting Organizations, 1961.

⁴⁹ Agreement on Trade-Related Aspects of Intellectual Property Rights, 1995.

⁵⁰ World Intellectual Property Organization (WIPO) Copyright Treaty, adopted in Geneva on December 20, 1996.

⁵¹ Copyright Act, *Tekijänoikeuslaki/Upphovsrättslag*, 404/1961, as amended (the “Copyright Act”), Ch. 1, Secs. 2 and 3.

⁵² Copyright Act, Ch. 4, Sec. 43.

The Copyright Act also covers the main related rights, protecting the rights of performing artists, broadcasting companies, phonogram producers, catalogue and database producers, film producers and press publishers.⁵³

The Copyright Act further provides for the transfer of copyrights as well as fair compensation for such. In Finland, the right to modify and further transfer the copyrighted material must be agreed upon in connection with the transfer. For works created in the course of an employment relationship, there are specific rules for computer programs and databases, where the rights arise for the author but are generally automatically transferred to the employer.⁵⁴ Under the Copyright Act, computer programs are protected in accordance with the rules concerning literary and artistic works.

The Copyright Act further includes norms concerning technological protection measures and electronic rights management information. It also provides for online content-sharing service providers’ responsibilities for the content uploaded to them.⁵⁵ Copyright infringements are sanctioned as crimes or violations and may also result in liability to pay compensation and/or remuneration.⁵⁶

4. Carbon Border Adjustment Mechanism

The Carbon Border Adjustment Mechanism (CBAM) is an EU carbon tariff aimed at preventing carbon leakage by ensuring that certain carbon-intensive imports into the EU face a carbon cost equivalent to that paid by EU producers under the EU Emissions Trading System (ETS). CBAM currently covers sectors such as iron and steel, aluminium, cement, fertilizers, hydrogen and electricity. Its legal basis is EU Regulation (EU) 2023/956,⁵⁷ which is directly applicable in Finland and therefore does not require national transposition. From a Finnish legal perspective, the main role of national legislation is to designate a competent authority and establish enforcement and penalty mechanisms. Finnish Customs (*Tulli/Tullen*) has been designated as the national competent authority responsible for CBAM supervision and enforcement.⁵⁸

The definitive implementation phase of CBAM began on January 1, 2026, which means that importers must hold authorized CBAM declarant status and purchase and surrender CBAM certificates corresponding to the emissions of their imported goods. The price of CBAM certificates is linked to the EU ETS allowance price.

Finnish Customs is responsible for authorizations, risk-based audits, inspections and the imposition of penalties for non-compliance. CBAM is integrated into Finnish customs procedures and applies to imports released for free circulation into the EU customs territory.

⁵³ Copyright Act, Ch. 5.

⁵⁴ Copyright Act, Ch. 3.

⁵⁵ Copyright Act, Chs. 5 a and 6 a.

⁵⁶ Copyright Act, Ch. 7.

⁵⁷ Regulation (EU) 2023/956 of the European Parliament and of the Council of 10 May 2023 establishing a carbon border adjustment mechanism.

⁵⁸ Act on the Implementation of the European Union Regulation on the Carbon Border Adjustment Mechanism, *Laki Euroopan unionin hiilirajamekanis-mia koskevan asetuksen toimeenpanosta/Lag om genomförande av Europeiska unionens förordning om inrättande av en mekanism för koldioxidjustering vid gränsen*, 1288/2023, as amended, Sec. 2.

D. Immigration Regulations

Citizens of countries other than Denmark, Iceland, Norway and Sweden (i.e., the other Nordic countries) must generally have a valid passport to enter Finland. Based on the Schengen Agreement, it is, in general, possible to travel within the Schengen states without undergoing any passport control (or other) formalities. When abroad, however, foreign individuals must carry a valid passport or an approved identity card at all times. Foreign individuals from outside the European Union or the EEA that have a uniform Schengen visa may move freely within the Schengen area for a maximum of 90 days during the 180-day period following their date of entry. Citizens of the United Kingdom need a visa to enter Finland if their stay exceeds 90 days within a 180-day period. Also, foreign individuals holding a valid residence permit in Finland may move freely for up to three months within the Schengen area if they fulfill certain conditions specified in the Schengen Agreement. Citizens of countries other than EU Member States, Norway, Iceland, Lichtenstein and Switzerland may need a visa or residence permit when entering Finland.

Individuals crossing the external borders of the Schengen area (for example, between Finland and the United Kingdom) continue to be subject to entry and departure checks. Visa, passport, travel and insurance documents, and any supporting documents may be checked during entry and departure checks. Citizens of countries other than the Nordic and Schengen states intending to stay in Finland for a period of more than three months must obtain a residence permit. In general, the residence permit must be obtained before entering Finland, but this depends on the type of residence permit.⁵⁹ Obtaining a residence permit normally presents no difficulties for individuals who are coming to work in Finland and already have an employer in Finland.

In general, an alien may not be employed in Finland without having a residence permit that allows the employee to work in Finland. A residence permit for an employed person, must be obtained before entering Finland. There are no restrictions on the number of foreign employees or requirements concerning the ratio of foreigners to Finnish residents employed.

E. Labor Relations

Labor relations in Finland are generally good, stable and functional. Finnish labor legislation emphasizes the stability of the employment relationship and the safety of the employee. Labor legislation is supplemented by collective bargaining agreements, which cover the most important working conditions. Membership in a labor union is not compulsory.

The principal labor law, the Employment Contracts Act,⁶⁰ provides that an employment contract may be terminated by the employer only on certain objective grounds, including serious misbehavior on the part of the employee and permanent redundancy. An employment relationship may not be terminated on the grounds of illness, pregnancy, participation in trade union activity, or political or religious opinions. The employer and

employee are free to agree on the length of the notice period provided that such period does not exceed six months and that the applicable collective bargaining agreement does not contain mandatory provisions on notice periods. If the notice period has not been agreed to, either in the employment contract or in the applicable collective bargaining agreement, the length of the notice period is determined by the Employment Contracts Act and ranges from 14 days to one month if the employee terminates the contract; if the employer terminates the contract, the notice period ranges from 14 days to six months, depending on the length of the employment relationship. The compensation for unlawful termination ranges from three to 24 months' salary. The managing director (CEO) is not protected by law, but they are usually covered by individual service contracts, which often include "golden handshake clauses."

Working hours are normally between 36 and 40 hours spread over five days per week. The annual vacation period is normally five weeks.⁶¹ Special vacation bonus is often paid in addition to full salary. Labor costs are comparable to the average for northern and northwestern Europe, being normally slightly lower than in, for example, Germany or Norway, but much higher than in the Baltic States and Russia.

The Co-operation Act⁶² provides obligations for cooperation between an enterprise with 50 employees or more and its employees with respect to, for example, certain matters relating to the employees' well-being and change negotiations due to lay-offs based on financial or production-related grounds. For employers with 20 to 49 employees, the Co-operation Act applies only in limited cases, most notably requiring change negotiations if lay-offs are contemplated to affect more than 20 employees within a 90-day period. The Co-Operation Act also requires that the employees of an enterprise with 150 employees or more be entitled to appoint their representative(s) to the enterprise's board or other administrative body.

F. Financing the Business

The largest Finnish and Nordic banks generally provide financing to enterprises on the Finnish market. Pension insurance companies also provide another source of financing to their clients. In addition, several international financial institutions frequently provide financing to large corporates. The Finnish corporate bond market is also another source of financing particularly for large corporates. A specialized financing company owned by the State of Finland, Finnvera, provides financing for the start, growth and internationalization of enterprises and guarantees against risks arising from exports. Business Finland, a government organization, offers funding for research, product development, and many kinds of business development needs, especially for small and medium-sized companies. The Nordic Investment Bank (*Pohjoismaiden Investointipankki/Nordiska Investeringsbanken* — NIB) finances investments and projects in the Nordic and Baltic countries. Financing also may be available from the European Investment Bank (EIB) or from various EU funds.

⁵⁹ Aliens Act, *Ulkomaalaislaki/Utänningslag*, 301/2004, as amended.

⁶⁰ Employment Contracts Act, *Työsopimuslaki/Lag om arbetsavtal*, 55/2001, as amended.

⁶¹ Working Hours Act, *Työaikalaki/Arbetsbetslag*, 872/2019, as amended, and Annual Holidays Act, *Vuosilomalaki/Semesterlag*, 162/2005, as amended.

⁶² Co-operation Act, *Yhteistoimintalaki/Samarbetslagen*, 1333/2021, as amended.

Incentives in the form of start-up subsidies, development subsidies, interest subsidies, transportation cost subsidies, loans, guarantees, equity capital, tax reliefs, research and development (R&D) incentives, export incentives, employee training and other support are available to Finnish and foreign enterprises, principally to small- and medium-size companies. Some of these incentives are available only to companies investing or expanding in certain parts of the country designated “development areas;” these include most parts of the country, with the exception of the southernmost regions (see also II.A.2., above). There are also government and EU economic funding and support programs for certain other purposes, such as environmental protection, the reduction of CO₂ emissions, the creation of digital solutions for defense and public security, and R&D.

G. Anti-Money Laundering

The Finnish Criminal Code,⁶³ states that money laundering happens when a person receives, uses, converts, conveys, transfers, transmits or possesses property acquired through an offence or the proceeds of crime to obtain a benefit or to conceal or obliterate the illegal origin of the property. The penalties for money laundering vary, depending on the seriousness of the offense, from a fine to up to six years imprisonment.

The main legislation in Finland regarding anti-money-laundering is the AML Act⁶⁴ (which is based on the 4th EU AML Directive).⁶⁵ The objectives of the AML Act are to prevent money laundering and terrorist financing, to promote the detection and investigation of such activities, and to reinforce the tracing and recovery of the proceeds of crime. The AML Act sets out requirements that certain persons (for example, banks, attorneys, real estate agencies and art dealers) need to meet for them to be able to establish a customer relationship, for example.

The AML Act has been supplemented with decrees, such as the Decree on the Know Your Customer (KYC) process.⁶⁶ This Decree elaborates on the Act by providing further rules on different levels of risk and when simplified or enhanced customer due diligence should be performed.

H. Beneficial Owner Regulation

The Finnish beneficial owner rules are included in the Trade Register Act⁶⁷ and the AML Act. Based on the rules, certain entities must maintain accurate, up-to-date information

about their beneficial owners, which they are required to submit to the Trade Register. In addition, an entity must designate as a beneficial owner in the Trade Register a natural person who directly or indirectly owns more than 25% of the shares in the entity, holds more than 25% of the voting rights in the entity or otherwise exercises *de facto* control within the undertaking.⁶⁸

In Finland, the duty to notify the Trade Register of beneficial owners applies to limited liability companies and cooperative associations. In the case of a partnership, the duty applies only if the beneficial owners are not partners of the partnership. These entities must submit the required information, including the beneficial owner’s name, personal identity code or date of birth, nationality, domicile and the grounds for and scope of the control or ownership interest in the entity. An entity that does not have, or is not aware of having, any beneficial owners, is still under an obligation to notify the Trade Register that it does not have beneficial owners within the meaning of the relevant legislation.

Listed companies, housing companies and mutual real estate companies⁶⁹ are exempt from the duty to notify. The members of the boards of directors or governing boards of such entities are considered their beneficial owners.

An entity subject to these obligations has a duty to keep the information about its beneficial owners held by the Trade Register up-to-date.⁷⁰

The Trade Register may disclose information about the beneficial ownership of an entity to a third parties if the person to whom the information is disclosed has been identified and that person has a reason under Chapter 1, Section 1 of the AML Act for handling the information or an authority requires the information to carry out its statutory duty.⁷¹

Penalties for failure to register the requisite information take different forms, ranging from the issuance of a public warning to the imposition of an administrative fine.

I. Sanctions

International sanctions relate to restrictions or suspensions of economic or commercial operations of a person or an entity. Sanctions are generally part of other foreign policy efforts intended to influence policies or activities of another State deemed to threaten international peace and security. The sanctions Finland must legally adhere to are the UN Security Council resolutions and EU sanctions. Both the implementation of UN sanctions and the imposition of autonomous EU sanctions are regulated by EU legislation through Council decisions and regulations. EU regulations are directly applicable in all Member States, but the enforcement of sanctions is the responsibility of the member states of the UN and the EU. In Finland, the Ministry for Foreign Affairs coordinates the national enforcement of sanctions and acts as the national licensing authority.

⁶³ Criminal Code, *Rikoslaki/Strafflag*, 39/1889, as amended (the “Criminal Code”).

⁶⁴ Act on Preventing Money Laundering and Terrorist Financing, *Laki rahanpesun ja terrorismin rahoittamisen estämisestä/Lag om förhindrande av penningtvätt och av finansiering av terrorism*, 444/2017, as amended (the “AML Act”).

⁶⁵ EU Directive 2015/849/EU of the European Parliament and of the Council of May 20, 2015 on the prevention of the use of the financial system for the purposes of money laundering or terrorist financing (“the 4th EU AML Directive”).

⁶⁶ Decree on Procedures for Knowing the Customer and Risk Factors in Preventing Money Laundering and Financing Terrorism, *Valtioneuvoston asetus menettelyistä asiakkaiden tuntemiseksi ja riskitekijöistä rahanpesun ja terrorismin rahoittamisen estämisessä/Statsrådets förordning om åtgärder för kundkontroll och om riskfaktorer vid förhindrande av penningtvätt och av finansiering av terrorism*, 929/2021.

⁶⁷ Trade Register Act, *Kaupparekisterilaki/Handelsregisterlag*, 564/2023, as amended (the “Trade Register Act”).

⁶⁸ AML Act, Ch. 1, Sec. 5, AML Act, Ch. 6, Sec. 2 and Trade Register Act, Ch. 1, Sec. 5.

⁶⁹ See III.B.2.1., below, for definitions of a housing company and a mutual real estate company.

⁷⁰ The obligation entered into force as of July 1, 2020.

⁷¹ Trade Register Act, Ch. 1, Sec. 2. Acceptable reasons for handling the information according to AML Act, Ch. 1, Sec. 1 are to prevent money laundering and terrorist financing, to promote their detection and investigation, and to reinforce the tracing and recovery of the proceeds of crime.

Although they are not directly legally applicable, many Finnish entities also respect sanctions set by the United States' Office of Foreign Assets Control (OFAC), as well as the government of the United Kingdom.

In addition to international sanctions, Finland has its domestic administrative process for freezing assets. The purpose of freezing assets is to prevent a person, group or entity that is the subject of a freezing decision from using its funds, for example, for terrorist acts or to attempt or prepare a crime. The National Bureau of Investigation (*Keskusrikospoliisi/Centralkriminalpolisen*) is empowered to make the decision to freeze assets in any given case. Such a decision is then published in the Official Journal.

According to the AML Act, entities subject to the obligations are responsible for complying with the sanction legislation and decisions to freeze funds. In the context of the customer due diligence measures laid down in the AML Act, entities subject to the obligations must have effective policies, procedures and internal controls to ensure they comply with the obligations imposed on them by the sanction legislation and decisions to freeze funds.⁷²

⁷² AML Act, Ch. 3, Sec. 16.

III. Forms of Doing Business in Finland

A. Principal Business Entities

The principal business entities are as follows:

- (i) Sole proprietorship (*Yksityinen elinkeinonharjoittaja/Enskild näringsidkare*);
- (ii) General partnership (*Avoin yhtiö/Öppet bolag*);
- (iii) Limited partnership (*Kommandiittiyhtiö/Kommanditbolag*);
- (iv) Limited liability company (*Osakeyhtiö/Aktiebolag*);
- (v) Cooperative association (*Osuuskunta/Andelslag*); and
- (vi) Branch (*Sivuliike/Filial*).

The most significant trade in Finland is carried on by limited liability companies. The partnership forms are also widely used for small businesses. In addition, limited partnerships are often used in fund structures.

In the case of foreigners, the most commonly encountered forms in practice are limited liability companies and branches.

1. Sole Proprietorship

Business in Finland in its simplest form is carried on through a sole proprietorship. A sole proprietorship is operated by an individual person (private entrepreneur). A sole proprietorship is not a legal entity separate from its owner, and the owner is personally liable with regard to commitments made and liabilities incurred in the business (i.e., by the sole proprietorship). The basic requirements to establish a sole proprietorship are that the owner is a natural person who is at least 18 years old, and has not been declared bankrupt or their legal capacity has not been restricted. Individuals over the age of 15 can also establish a sole proprietorship with the consent of their parents or legal guardian.⁷³

A private entrepreneur's business is established when the entrepreneur commences his or her activities. In general, a private entrepreneur acts on behalf of the business, represents the business and may use the business's name. If registered in the Trade Register,⁷⁴ an entrepreneur may grant a power of attorney to another person to act on their behalf. The holder of a power of attorney may be registered in the Trade Register. There are no statutory requirements concerning the citizenship or residence of the holder of a power of attorney. If the private entrepreneur is not a resident in the EEA, they must appoint a representative who has the right to receive summons and other notices on their behalf. The representative must be resident in Finland registered in the Trade Register. There is no mandatory minimum capital required to create a sole proprietorship or for purposes of dealing with the auditing of a private entrepreneur's accounts.

2. Limited Liability Company

In Finland, a corporation is known as a limited liability company (also referred to simply as a "company")⁷⁵ whose cap-

ital is divided into shares. Companies are classified as either private or public companies. Only the shares of a public company may (but need not) be traded on the market referenced in the Act on Trading in Financial Instruments.⁷⁶

All shares of a company entitle their holders to equal rights in the company, but there may be different classes of shares. For example, preference shares carrying only limited voting rights but having priority over other shares with respect to the distribution of the company's assets are permitted.

Under Finnish law, a company is created by way of registration with the Trade Register.⁷⁷ Prior to registration, a company may not acquire rights, make commitments, or be a party to any legal action before a court or other authority. Persons that have acted on behalf of a company "in formation" are jointly and severally liable for actions taken in the name of the company before registration. Obligations arising from measures taken after the signing of the memorandum of association, and from measures specified therein but taken no earlier than one year before the signing, are transferred to the company upon registration of the company.⁷⁸ The board of directors and the managing director may, without personal liability, represent the company in matters relating to the formation of the company and undertake measures to collect the payment for a share subscribed to.⁷⁹

The company is liable for its obligations and the shareholders do not have personal responsibility for the liabilities of the company. The company's liability is limited to its capital. However, lenders usually require personal guarantees from the shareholders, especially in relation to smaller companies.

The highest decision-making power in a company is the shareholders' meeting. However, the shareholders may not interfere with the day-to-day management of the company, as day-to-day management is one of the duties of the board of directors.

3. Partnerships

A partnership may be either a general partnership or a limited partnership. A partnership must be registered with the Trade Register before the start of operations.

A general partnership has at least two partners who jointly carry on a trade based on a contract (the partnership agreement). The partners of a general partnership are personally liable for the debts and other obligations of the partnership. The

⁷⁵For purposes of this Portfolio, Finnish limited liability companies are referred as "companies." Similar foreign vehicles are referred to as "corporations." The distinction is made because of the terminology used in the Finnish Income Tax Act, *Tuloverolaki/Inkomstskattelag*, 1535/1992, as amended (the "Income Tax Act"), where the word "corporations" (in Finnish: *yhteisöt*) covers a variety of legal entity forms, such as limited liability companies, cooperative associations, mutual insurance companies, mutual savings banks, foundations and charitable associations.

⁷⁶Any person violating the provision in Companies Act, Ch. 1, Sec. 1 on accepting the securities of a private company subject to a procedure corresponding to the trade referred to in the Act on Trading in Financial Instruments, *Laki kaupankäynnistä rahoitusvälineillä/Lag om handel med finansiella instrument*, 1070/2017, as amended (the "Act on Trading in Financial Instruments") may be punished by a fine or imprisonment under Companies Act, Ch. 25, Sec. 1 and the Act on Trading in Financial Instruments.

⁷⁷Companies Act, Ch. 2, Sec. 9 and Trade Register Act, Sec. 1.

⁷⁸Companies Act, Ch. 2, Secs. 9 and 10.

⁷⁹Companies Act, Ch. 2, Sec. 10.

⁷³Enterprise Act, *Elinkeinoimintalaki/Näringsverksamhetslag*, 565/2023, as amended (the "Enterprise Act"), Sec. 4.

⁷⁴A part of the Finnish Patent and Registration Office.

partners can be either natural persons or legal entities, such as companies.

A limited partnership is the same as a general partnership except that limited partnerships have two types of partners: general partners who are personally liable for the obligations of the partnership in the same way as in general partnerships; and limited partners whose liability is limited to the amount of their contributions agreed on in the partnership agreement. A limited partnership must have at least one general partner and at least one limited partner.

4. Branch of a Foreign Corporation

A branch office refers to a part of a foreign corporation that conducts continuous business or professional activities in Finland from a permanent place of business in Finland in the name and on behalf of the foreign corporation.

In Finland, the operations of a branch office are not regulated by any specific laws and therefore the general principles of civil law apply. Accordingly, a branch office is not considered to be an independent legal entity, but merely an extension of its foreign “parent” corporation. The parent corporation is, therefore, considered to be fully responsible for the liabilities of its branch office. A branch office is nevertheless legally entitled to act as a plaintiff and defendant before the Finnish courts.

A foreign company wishing to establish a branch office in Finland must adopt a resolution concerning such establishment. A branch must be registered with the Trade Register before commencing its operations.

5. Other Entities

A cooperative association is an entity the number of members and amount of capital of which are not determined in advance, and that is established to carry on business to further the economic interests of its members.

A cooperative association is a legal entity separate from its members. The members are not personally liable for the debts of the cooperative association. However, there is a (normally moderate) membership fee and the by-laws of the association may provide for an additional contribution to be payable by each member in certain cases.

A cooperative association has separate management powers vested in a board of directors. At least one of the members of the board of directors must be resident in the EEA, unless the Trade Register grants the association an exemption from this requirement.

In practice, cooperative associations have not been established by foreign investors.

Other corporate forms, such as the European Company (SE) and the European Cooperative Association (SCE) are available, but in practice seldom used.

B. Limited Liability Company

1. Formation

a. Field of Operation

The field of operation of a company refers to the area or areas of business in which the company intends to operate. This may not be against the law. The field of operation defines the

area of business conceived for and linked to the company and should, therefore, be clearly formulated. Since the field of operation also defines the authority and competence of the board of directors, its terms should not be too broad or vague. It is possible to define a company’s field of operation to encompass all lawful business but, as indicated, this affects the authority and competence of the board of directors.

b. Corporate Name

The business name of a company must include the word “*osakeyhtiö*” or “*aktiebolag*” (Swedish), or the acronym “Oy” or “Ab.” The business name of a public company (whether or not listed) must include the words “*julkinen osakeyhtiö*” or “*publikt aktiebolag*” (Swedish), or the abbreviation “Oyj” or “Abp.”⁸⁰

c. Incorporators

A company is formed by one or more founders. These shareholders may be individuals or corporate entities, and residents or nonresidents. However, an unregistered company may not be a founder shareholder.

Thus, foreigners may form a Finnish company. Alternatively, an existing dormant company may be acquired and its articles of association amended to suit foreign investors’ specific requirements. A foreigner does not need any permission from the Finnish authorities to subscribe for shares.

d. Memorandum of Incorporation

The founder shareholder(s) draw up and sign the memorandum of incorporation and by doing so decide the details concerning the formation of a company. The memorandum of incorporation must always state: (i) the date of the memorandum of incorporation; (ii) all the founder shareholders; (iii) the shares subscribed for by each founder shareholder; (iv) the amount payable to the company for each share; (v) the time by which the shares must be paid-up; and (vi) the members of the board of directors of the company. The financial year of the company must be stated in the memorandum of incorporation or in the articles of association. If the first financial period deviates from the normal financial period of the company — which is very common — it is recommended that this first financial period be stated in the memorandum of incorporation. If applicable, the memorandum of incorporation must also include the managing director and the auditors of the company. The chairman of the board of directors and the chairman of the supervisory board may be designated in the memorandum of incorporation.⁸¹

The articles of association, which need to be included or attached to the memorandum of incorporation, must always specify the business name, place of business and field of operation of the company.⁸² If the company intends to use its trade name in two or more languages, each of these trade names must be mentioned in the articles of association.⁸³ The articles of association may also include other provisions.

⁸⁰ Trade Names Act, *Toiminimilaki/Firmalag*, 128/1979, as amended (the “Trade Names Act”), Sec. 7.

⁸¹ Companies Act, Ch. 2, Sec. 2.

⁸² Companies Act, Ch. 2, Sec. 3.

⁸³ Companies Act, Ch. 2, Sec. 3.

The Companies Act contains presumption provisions on a large number of matters, for example, the composition of the board of directors, the place of the general shareholders' meeting and the matters to be decided at the general shareholders' meeting. The contents of the articles of association can be very comprehensive and include provisions that, for example, differ from the presumption provisions of the Companies Act or increase the role of the articles of association as an information source.

e. Share Capital

Under the Companies Act, the main rule is that shares do not have par value. Such shares can be issued and nullified without increasing or decreasing the share capital. The share capital of a company whose shares have a par value must amount to at least the total par value of the shares.

A private company (Oy) does not have a minimum share capital (unless otherwise provided in its articles of association), whereas the minimum share capital of a public company (Oyj) is 80,000 euros.⁸⁴ Before a company is registered, its entire share capital (if any) must have been paid into the company's bank account in Finland or abroad.⁸⁵

There must be at least one share. All the shares may be held by a single shareholder or by a number of shareholders. See f., below, for details on the subscription and payment of shares.

Although the general rule is that all shares carry equal rights, the articles of association of a company may provide that different kinds of shares may be issued and classified as either common or preferred shares. The different classes may, for example, carry different rights to profits or voting rights. A company may issue shares with voting rights and/or with no voting rights, and/or with no voting rights in certain matters dealt with at the meeting of shareholders. This may concern only part of the shares in the company to ensure that at no time may there be a situation where none of the shares in the company have voting power in general or in a certain matter.⁸⁶ Voting rights and ownership rights may not be separated, although the use of a proxy is allowed.⁸⁷

A company may issue convertible promissory notes, stock options, stock option loans and other special rights for shares. Convertible promissory notes are bonds, debentures or other promissory notes entitling their holders to convert the notes into shares in the company. Holders of stock options and/or special rights are entitled to subscribe for new shares in the company against pecuniary consideration.⁸⁸

The board of directors may issue share certificates for the company's shares if the shares have not been entered in the book-entry system. However, share certificates must not be issued before the company and the shares have been registered. A share certificate may be issued only to a shareholder entered into the share register.⁸⁹ A share certificate may be issued only in the name of a specific person; bearer shares may not be is-

sued.⁹⁰ The information to be included on the share certificate is detailed in Chapter 3, Section 10 of the Companies Act and the specific situations requiring the marking of the share certificate are specified in Chapter 3, Section 11 of the Companies Act.

If a company's shares are not entered in the book-entry system, the board of directors must keep a shareholder register. The register must contain a list of the shares or share certificates, their dates of issue, the names and addresses of the shareholders and the quantity of shares held by each shareholder, broken down by share class. If no share certificate has been issued for a share, any pledges and other encumbrances on the share that have been notified to the company must also be entered into the shareholder register.⁹¹

The shareholder register must be created without delay after a company has been incorporated. The register must be maintained in a reliable manner.⁹² A share acquisition notified by the acquirer to the company and other changes to the information in the shareholder register notified to the company must be entered in the shareholder register without delay. Before an entry is made, reliable evidence of the acquisition and the payment of the transfer tax (if applicable) must be provided. The entry must be dated. If the share is subject to a redemption right (as referred to in Chapter 3, Section 7 of the Companies Act) or if consent is required for the acquisition of the share (as referred to in Chapter 3, Section 8 of the Companies Act), the entry may not be made until it is clear that the redemption right will not be exercised or until consent has been given.⁹³

If the last transfer of a share is marked on the share certificate as an anonymous transfer, the name of the new shareholder must be written on the share certificate before the acquisition can be entered into the register. A statement to the effect that the acquisition has been entered into the share register and the date of the entry must be written on a share certificate presented to the company.⁹⁴

If the company has only one shareholder, the share ownership must be notified for an entry to be made in the shareholder register without delay and in any event no later than two months after the acquisition.⁹⁵ The shareholder register must be kept accessible to everyone at the head office of the company. Everyone has the right to receive copies of the shareholder register against compensation for the expenses this entails for the company.⁹⁶

Shares are, in principle, freely transferable, but transferability may be restricted by provisions in the articles of association. The most common restrictions are those giving the other shareholders or, in certain cases, the company itself, various redemption rights.⁹⁷

In principle, shares in a Finnish company may be acquired by foreigners without restriction. However, the Ministry of Economic Affairs and Employment of Finland monitors and approves corporate acquisitions in certain fields of business

⁸⁴ Companies Act, Ch. 1, Sec. 3.

⁸⁵ Companies Act, Ch. 2, Sec. 5.

⁸⁶ Companies Act, Ch. 3, Sec. 3.

⁸⁷ Companies Act, Ch. 5, Sec. 8.

⁸⁸ Companies Act, Ch. 10, Sec. 1.

⁸⁹ Companies Act, Ch. 3, Sec. 9.

⁹⁰ Companies Act, Ch. 3, Sec. 10.

⁹¹ Companies Act, Ch. 3, Sec. 15.

⁹² Companies Act, Ch. 3, Sec. 15.

⁹³ Companies Act, Ch. 3, Sec. 16.

⁹⁴ Companies Act, Ch. 3, Sec. 16.

⁹⁵ Companies Act, Ch. 3, Sec. 16.

⁹⁶ Companies Act, Ch. 3, Sec. 17.

⁹⁷ Companies Act, Ch. 1, Sec. 4 and Ch. 3, Secs. 6, 7, and 8.

that relate to national defense or security, security of supply or other functions fundamental to society.⁹⁸

The articles of association may provide that a shareholder, the company or another person has the right to redeem shares due to shares being transferred to a third party by a shareholder other than the company. The redemption provision must indicate who has the right of redemption and, where there are several persons who have the right of redemption, how their precedence is determined.⁹⁹

Unless it is otherwise provided in the articles of association, the following provisions apply to a share redemption: (i) the right of redemption must apply to all types of acquisition; (ii) the redemption must cover all the shares subject to the same acquisition; (iii) the redemption price must be equal to the fair price of the shares; in the absence of other evidence, the fair price of a share acquired for consideration must be the price agreed for the share; (iv) the board of directors must notify the transfer of shares to the person who has the right of redemption, in writing or in the manner provided for the delivery of notices of the general meeting of shareholders, within one month of notice of the transfer of the shares being given to the board of directors; (v) the demand for redemption must be presented to the company or, where the company is exercising the right of redemption, to the acquirer of the shares within two months of notice of the transfer of the shares being given to the board of directors; and (vi) the redemption price must be paid within one month of the expiry of the period referred to in (v) or, if the redemption price has not been fixed, within one month of the fixing of the redemption price.¹⁰⁰ The set periods referred to in (iv), (v) and (vi) may not be extended by the articles of association.¹⁰¹

Before it is determined whether the right of redemption is to be exercised, the acquirer of the shares has no shareholder rights in the company except for the right to payment in the event that assets are distributed and the preemptive right in a share issue. The rights and obligations in a share issue will devolve on the person that exercises the right of redemption.¹⁰²

The company may redeem shares only with unrestricted equity.¹⁰³

The articles of association may provide that the acquisition of a share by way of transfer requires the consent of the company. However, such a provision does not apply to a share that has been acquired at a bailiff's auction or from a bankruptcy estate,¹⁰⁴ or to a share that has been acquired through inheritance or by legacy.

The board of directors must decide on giving consent, unless it is otherwise provided in the articles of association. Provision may be made in the articles of association on the criteria for giving consent. If the acquisition concerns a number of shares, the issue of consent must be decided in the same way

for each share, unless it is provided otherwise in the articles of association.¹⁰⁵

If the applicant has not been notified in writing of the decision on consent within two months of the delivery of the application to the company, or within the shorter period provided for in the articles of association, consent will be deemed to have been given.¹⁰⁶

Before consent has been given, the acquirer of the share has no shareholder rights in the company except the right to payment in the event that assets are distributed and the preemptive right in a share issue. Generally, a share acquired based on such a preemptive right will not carry any more shareholder rights than this.¹⁰⁷

f. Incorporation Procedure

A company is incorporated by creating a written memorandum of incorporation, which is signed by all shareholders. By signing the memorandum of incorporation, a shareholder subscribes for a number of shares, as indicated in the memorandum of incorporation. The term and duties of the management and the auditors begin as of the signing of the memorandum of incorporation. With respect to the content of the memorandum of incorporation, see d., above.

The subscription price of a share, if any, must be credited to the share capital, unless the memorandum of incorporation or articles of association provide for part of it to be credited to the reserve for invested unrestricted equity.¹⁰⁸

A subscription price paid in cash, if any, must be paid into an account of the company in a Finnish deposit bank, or in a branch of a foreign credit institution licensed to accept deposits in Finland or comparable foreign account.¹⁰⁹ If the company has no share capital, no bank account need be opened during the incorporation phase.

If the subscription price is paid in full or in part in other property (i.e., a contribution in kind), the property must have a financial value at least equal to the share price at the time of conveyance. An undertaking to perform work or services may not be used as a contribution in kind.¹¹⁰

Provisions allowing the payment of the subscription price in exchange for assets other than money must be included in the memorandum of incorporation. In addition, the memorandum of incorporation must provide for an account specifying the contribution of property and the value assigned to it as well as the circumstances and methods of valuation. If these obligations have not been complied with, the subscriber must prove that the contribution had a financial value to the company equal to the subscription price. Any shortfall must be paid to the company in cash.¹¹¹ If the subscription price is paid in cash on condition that the company is to acquire assets against consideration, the above obligations apply correspondingly to the acquisition.¹¹²

⁹⁸ Act on Monitoring of Foreign Corporate Acquisitions in Finland. See II.A.3., above.

⁹⁹ Companies Act, Ch. 3, Sec. 7.

¹⁰⁰ Companies Act, Ch. 3, Sec. 7.

¹⁰¹ Companies Act, Ch. 3, Sec. 7.

¹⁰² Companies Act, Ch. 3, Sec. 7.

¹⁰³ Companies Act, Ch. 3, Sec. 7.

¹⁰⁴ Companies Act, Ch. 3, Sec. 8.

¹⁰⁵ Companies Act, Ch. 3, Sec. 8.

¹⁰⁶ Companies Act, Ch. 3, Sec. 8.

¹⁰⁷ Companies Act, Ch. 3, Sec. 8.

¹⁰⁸ Companies Act, Ch. 2, Sec. 4.

¹⁰⁹ Companies Act, Ch. 2, Sec. 5.

¹¹⁰ Companies Act, Ch. 2, Sec. 6.

¹¹¹ Companies Act, Ch. 2, Sec. 6.

¹¹² Companies Act, Ch. 2, Sec. 6.

The board of directors may declare the right to a share forfeited if the subscription price and interest, if any, are overdue and the board of directors has not granted an extension. In this event, the board of directors may award the subscription right to a third party.¹¹³ A person whose right to a share has been declared forfeited is liable to pay one-tenth of the subscription price of the share to the company, in addition to any possible collection fees.¹¹⁴ After registration, a shareholder cannot withdraw from a subscription by asserting that a condition relating to the incorporation has not been fulfilled.¹¹⁵

The incorporation of a company must be registered with the Trade Register. The registration of a company has a constituting effect, and only after registration may a company effectively acquire rights and undertake obligations. The incorporation of a company is deemed to be abandoned if a request for registration (the registration notice) to the Trade Register is not filed within three months after the signing of the memorandum of incorporation.¹¹⁶ Only the shares that are fully paid up are notified for registration.¹¹⁷ The registration notice must be accompanied, *inter alia*, by: (i) the original memorandum of incorporation; (ii) a copy of the articles of association; (iii) confirmation by the members of the board of directors and the managing director, if any, to the effect that the provisions of the Companies Act have been complied with in the incorporation of the company; (iv) a certificate of the auditors to the effect that the Companies Act requirements concerning the payment of shares have been met;¹¹⁸ and (v) a receipt for the payment of the handling fee.¹¹⁹

If needed, the registration notice must also be accompanied by a certified copy of the minutes of the board meeting (the election of the chairman of the board of directors, the managing director, holders of a procuration, persons authorized to sign for the company, etc.). In addition, the following enclosures may be required: (i) an account of the election of the members of the board of directors (for example, when the supervisory board or some other external group elects the members of the board of directors); (ii) if a share is paid as a contribution in kind, a statement by an auditor on the board of director's account regarding the contribution in kind and on whether the assets had a financial value to the company at least equal to the subscription price of the share;¹²⁰ and (iii) if a person without a Finnish personal identity code is reported for registration, a certified copy of the person's passport.

After the Trade Register has registered the incorporation of the company, the Trade Register sends the company its business identity code, an extract from the Trade Register and a

copy of the registered articles of association as proof of registration.

The business identity code as well as the official business name, place of business, and address of a company must be printed on its letterhead and other forms. If the company is in liquidation, this must be referred to on the forms. The business identity code must also be quoted on the companies' own website, if it has one.¹²¹

Prior to registration, a company may not acquire rights, make commitments, or be a party to any legal action before a court or other authority.¹²² Persons that have acted on behalf of the company "in formation" are jointly and severally liable for actions taken in the name of the company before registration.¹²³ The obligations arising from measures taken after the signing of the memorandum of incorporation, and from measures specified in the articles of incorporation and taken no earlier than one year before the signing, are transferred to the company upon registration.¹²⁴

If a party contracting with a company knew that the company had not been registered, that party may, unless it has been otherwise agreed, withdraw from the contract if the registration notification has not been submitted within three months after the signing of the memorandum of incorporation or if registration is refused. If the contracting party did not know that the company had not been registered, that party may withdraw from the contract until the registration of the company.¹²⁵

g. Costs of Incorporation

There is a registration fee of 400 euros for registering a company in the Trade Register.

2. Operation

a. License

Once the registration requirement is met, a Finnish company does not need a license to carry on trade or do business, except in certain restricted or regulated areas of business.

b. Amendment of the Articles of Association

A resolution to amend the articles of association must be registered with the Trade Register without delay; registration has a consecutive effect, i.e., the amendment becomes effective after registration. If an amendment to the articles of association requires any implementation measures to be registered with the Trade Register, the amendment must be notified for registration and registered with the Trade Register at the same time as the implementation measures.¹²⁶

Amendment of the articles of association requires a resolution passed at a shareholders' meeting, supported by at least two-thirds of the votes cast and of the shares represented at the meeting, unless the articles of association provide for a higher

¹¹³ Companies Act, Ch. 2, Sec. 7.

¹¹⁴ Companies Act, Ch. 2, Sec. 7.

¹¹⁵ Companies Act, Ch. 2, Sec. 9.

¹¹⁶ Companies Act, Ch. 2, Sec. 8.

¹¹⁷ Companies Act, Ch. 2, Sec. 8.

¹¹⁸ Companies Act, Ch. 2, Sec. 8. If the company has more than one auditor, each auditor must submit a certificate. However, deputy auditors, if any, do not have to submit a certificate. If the company is not required to appoint an auditor, a clearance of the payment of the shares is required.

¹¹⁹ Companies Act, Ch. 2, Sec. 9, and Trade Register Decree, *Kaupparekisteriasetus/Handelsregisterförordning*, 208/1979, Sec. 12.

¹²⁰ Companies Act, Ch. 2, Sec. 2. Any person violating the provision of Companies Act, Ch. 2, Sec. 14 on the preparation of the report of an authorized auditor may be punished by a fine or imprisonment under Companies Act, Ch. 25, Sec. 1.

¹²¹ Business Information Act, *Yritys- ja yhteisötietolaki/Företags- och organisationsdatalag*, 244/2001, as amended, Sec. 15 and Trade Names Act, Sec. 31.

¹²² Companies Act, Ch. 2, Sec. 10.

¹²³ Companies Act, Ch. 2, Sec. 10.

¹²⁴ Companies Act, Ch. 2, Secs. 9 and 10.

¹²⁵ Companies Act, Ch. 2, Sec. 11.

¹²⁶ Companies Act, Ch. 5, Sec. 30.

qualified majority.¹²⁷ However, if the company concerned has different classes of shares and: (i) the classes of shares would be consolidated; or (ii) the rights of a whole class of shares otherwise would be reduced, amendment of the articles of association requires additionally that the resolution be supported by at least two-thirds of the shares of each category that are represented at the meeting and that the consent be obtained of the majority of the shareholders holding shares of different classes whose rights are reduced by the amendment.¹²⁸

An amendment to the articles of association requires the consent of the shareholders concerned in the following cases: (i) the shareholders' right to the profit or net assets of the company is reduced by the addition of a provision in the articles of association; (ii) the shareholders' liability to make payments to the company is increased; (iii) the right to acquire the shareholders' shares is restricted by a redemption clause or by a consent of the company clause; (iv) a preemptive right to shares linked to the shareholders' shares is restricted by the addition of a provision in the articles of association; (v) a right to minority profit is restricted; (vi) a redemption condition is linked to the shareholders' shares; (vii) the right of the company to compensation for damages is restricted; or (viii) the mutual relationship of rights attached to shares of the same class is amended and the shareholders' shares are affected by the amendment.¹²⁹

In addition, the consent of the shareholders concerned is required in certain cases of directed redemption of shares or transformation of the corporate form.¹³⁰ Also, the articles of association may provide that certain creditors of the company have the right, in accordance with a particular procedure, to object to the amendment of a given term in the articles of association or a derogation from such a term.¹³¹

A shareholders' meeting may not make a decision against the principle of equal treatment of the shareholders without the consent of the shareholders at whose expense an unjustified benefit is given.¹³²

c. Alteration of Share Capital

(1) Increase of Share Capital

An increase in a company's share capital is allowed at any time after the company has been registered. The share capital may be increased either: (i) by subscription of new shares (share issue); (ii) by entering into the share capital the total amount (or part thereof) paid for stock option subscriptions or other special rights; (iii) by issuing new par value shares for no consideration; (iv) by increasing the par value of already issued shares; (v) by transferring funds from unrestricted equity to share capital (fund raise); (vi) by a transfer from an old reserve fund and/or premium fund to share capital; or (vii) in some way other than specified in (i) and (ii), above, by entering funds in the share capital of the company on the condition that they be entered in share capital.¹³³

¹²⁷ Companies Act, Ch. 5, Secs. 27 and 30. However, the articles of association may not provide for a smaller qualified majority.

¹²⁸ Companies Act, Ch. 5, Secs. 28 and 27.

¹²⁹ Companies Act, Ch. 5, Sec. 29.

¹³⁰ Companies Act, Ch. 5, Sec. 29.

¹³¹ Companies Act, Ch. 13, Sec. 7.

¹³² Companies Act, Ch. 5, Sec. 29.

The articles of association may provide for share capital to be increased without the articles of association having to be amended. If the articles of association provide that the share capital is stated as a minimum and maximum amount, the shareholders' meeting may, unless the articles of association provide otherwise, raise the share capital within these limits by a simple majority of the votes cast.¹³⁴ The shareholders' meeting also may authorize the board of directors to increase the share capital with funds raised up to the maximum allowed by the articles of association.¹³⁵

If the articles of association provide for a fixed share capital, or if the maximum amount of share capital allowed by the articles of association would be exceeded, an increase in share capital requires the amendment of the articles of association, which in turn requires a two-thirds majority of the votes cast and of the shares represented at the shareholders' meeting, unless the articles of association provide otherwise.¹³⁶

Chapter 9, Section 14 of the Companies Act contains provisions on the notification of a share capital increase for registration in the event that the share capital is being increased by the subscription price of new shares.¹³⁷ The share capital is deemed increased when the increase is registered with the Trade Register. After registration, the payer of the increase may not withdraw from the transaction by asserting that a condition relating to the transaction has not been fulfilled.¹³⁸

(2) Reduction of Share Capital

A reduction of the share capital may be effected for the following purposes:

- (i) Distribution;
- (ii) Transfer to the statutory unrestricted equity reserve; or
- (iii) The immediate coverage of losses shown on the balance sheet, for which the unrestricted equity is not sufficient.¹³⁹

A company may not reduce its share capital by way of a transfer to any restricted equity reserve.¹⁴⁰ A company that reduces its share capital to cover losses shown on its balance sheet may distribute dividends during the subsequent three years following the registration only by following the creditors' protection procedure discussed below.

Any creditor whose credit dates from before the date on which the Trade Register issues a notice to all creditors of the company has the right to object to a reduction of the share capital. The company must, within one month from the decision of the shareholders' meeting, give notice of the reduction of the share capital for registration with the Trade Register and ask the Trade Register to issue a notice to all creditors of the company;

¹³³ Companies Act, Ch. 11, Sec. 1 and Ch. 3, Sec. 5 and Act on the Implementation of Companies Act, *Laki osakeyhtiölain voimaannpanosta/Lag om införande av aktiebolagslagen*, 625/2006, as amended (the "Act on Implementation of Companies Act"), Sec. 13.

¹³⁴ Companies Act, Ch. 5, Secs. 26 and 27.

¹³⁵ Companies Act, Ch. 11, Sec. 2.

¹³⁶ Companies Act, Ch. 5, Sec. 27.

¹³⁷ Companies Act, Ch. 11, Sec. 4.

¹³⁸ Companies Act, Ch. 11, Sec. 4.

¹³⁹ Companies Act, Ch. 14, Sec. 1.

¹⁴⁰ Companies Act, Ch. 8, Sec. 1 and Act on Implementation of Companies Act, Sec. 13.

otherwise, the decision will lapse. The Trade Register issues a notice to all creditors of the company stating that the creditors have the right to object to the reduction of the share capital by notifying the Trade Register of their objection in writing prior to a date fixed in the notice. The Trade Register registers the notice *ex officio* and publishes the notice in the Official Gazette. The company must, no later than one month before the date fixed, send a written notification of the notice to all its known creditors. A declaration by a member of the board of directors or the managing director on the sending of the notifications must be delivered to the Trade Register by the due date.

If a creditor objects to a reduction of the share capital, the Trade Register informs the company of the objection without delay after the end of the period reserved for objections. The Trade Register registers the reduction of the share capital if no creditor of the company objects to it or if the creditors have, in accordance with a final judgment of a court, received payment or safeguarding collateral for their receivables. If a creditor has objected to a reduction of the share capital, the decision of the shareholders' meeting to reduce the share capital lapses after one month from the fixed date. However, the Trade Register will postpone the handling of the matter if the company, within one month from the fixed date, proves that it has initiated court proceedings to have it confirmed that the creditor has obtained payment or safeguarding collateral for its claim, or if the creditor and the company jointly request, by that date, that the handling of the matter be postponed. The share capital is deemed reduced when the reduction is registered.¹⁴¹

A public company may not decide to reduce its share capital if the share capital would, after the reduction, be less than 80,000 euros.¹⁴²

d. Acquisition of Own Shares

A company may acquire, redeem or accept as collateral its own shares subject to the conditions set out in Chapter 15 of the Companies Act. In the case of the acquisition of its own shares, a company acquires its own shares from its shareholders on a voluntary basis. In the case of the redemption of its own shares, the shareholders are required to convey their shares to the company (either free of charge or for consideration).

The provisions of Chapter 15 do not apply when a company: (i) by acquiring a business enterprise in connection with a merger or demerger or other business transfer or as a transferee company by transfer of its residence, obtains ownership or accepts as collateral shares of the company belonging to the enterprise; (ii) purchases at auction its own shares distrained based on a claim of the company; or (iii) obtains its own shares gratuitously. Shares that have been acquired or redeemed or that have otherwise come into the possession of a company may be retained as treasury shares, cancelled or further transferred.¹⁴³

Furthermore, a public company may acquire its own shares¹⁴⁴ only to the extent of 10% of all of its shares; a private company may acquire more than 10%, but not all of its shares.

Ownership of its own shares does not give a company the right to vote in the shareholders' meeting or the right to a dividend.¹⁴⁵ A public company generally acquires its own shares so that they can be used as potential consideration in an acquisition or in connection with stock option plans.

A company may acquire its own shares in proportion to the existing holdings of the shareholders or otherwise than in proportion to the existing holdings (directed acquisition). However, a directed acquisition requires the company to have a significant financial reason for the acquisition. In assessing the acceptability of a directed acquisition, special attention must be paid to the relationship between the offered price of the shares and their market price.¹⁴⁶

Own shares may be redeemed in a proportion other than that of the shares held by the shareholders (directed redemption) only with the consent of all the shareholders.¹⁴⁷ However, a public company may decide by a qualified majority that shares are to be reverse split (see below). In addition, the articles of association may contain a redemption clause.

The acquisition or redemption of a company's own shares requires a resolution passed at a shareholders' meeting. In the case of a private company, the resolution must be supported by a simple majority of the votes cast, unless the articles of association provide otherwise. In the case of a public company, the resolution must be supported by at least two-thirds of the votes cast and of the shares represented at the meeting unless the articles of association provide otherwise.¹⁴⁸ In the case of a directed acquisition, the resolution of the company must be supported by at least two-thirds of the votes cast and of the shares represented at the meeting unless the articles of association provide otherwise. In the case of a directed redemption, the resolution of the company must be supported by the consent of all shareholders. The shareholders' meeting also may authorize the board of directors to acquire or redeem the company's own shares. The authorization is valid for no more than 18 months. Own shares may be acquired based on an authorization only with unrestricted equity.¹⁴⁹

A public company may decide by qualified majority (as referred to in Chapter 5, Section 27 of the Companies Act) to redeem a given proportion of the shares of all shareholders ("reverse share split") if the occurrence of share fractions is prevented in the redemption decision, as follows: (i) the quantity of shares to be redeemed in each share class is an integer; (ii) the quantity of shares to be redeemed from each shareholder, for each share class, is rounded up to the nearest integer, if necessary; (iii) without delay, the company sells the surplus shares accruing to it because of the rounding up in public trading (as referred to in the Act on the Trading of Financial Instruments or in an open auction on behalf of the shareholders); and (iv) the funds derived from the sale of the shares are paid out to the shareholders in proportion to the difference obtained

¹⁴⁴ Including any shares held by its subsidiaries. A public company may (and normally does) acquire its own shares through the Stock Exchange, subject to certain formalities under the Securities Markets Act.

¹⁴⁵ Companies Act, Ch. 15, Sec. 11 and Ch. 3, Sec. 2.

¹⁴⁶ Companies Act, Ch. 15, Sec. 6.

¹⁴⁷ Companies Act, Ch. 15, Sec. 6.

¹⁴⁸ Companies Act, Ch. 15, Sec. 1 and Ch. 5, Sec. 27.

¹⁴⁹ Companies Act, Ch. 15, Sec. 6.

¹⁴¹ Companies Act, Ch. 14, Secs. 2, 3, 4, and 5.

¹⁴² Companies Act, Ch. 14, Sec. 1 and Ch. 1, Sec. 3.

¹⁴³ Companies Act, Ch. 15, Sec. 4.

by subtracting the quantity of shares that would be redeemed from each shareholder in the absence of rounding up from the quantity of shares actually redeemed from each shareholder.¹⁵⁰ A weighty financial reason is required for a reverse share split. The decision on a reverse share split must not be made if the redemption according to the shareholder register would result in the redemption of the entire shareholding from more than 1/100 shareholders.¹⁵¹

A company may not grant a monetary loan or give assets or collateral to be used by an outsider to acquire its shares or shares of its parent.¹⁵²

A company may accept its own shares as security. In the case of a public company, the decision to accept its own shares as a pledge must be made in accordance with the same rules as in the case of the acquisition of its own shares. The sale of a company's own shares held as a pledge is governed by the provisions in Chapter 9 of the Companies Act on the transfer of treasury shares.¹⁵³

A company or its subsidiary may not subscribe for shares in the company against consideration. If the company has subscribed for its shares in the context of incorporation, the signatures of the memorandum of incorporation are deemed to have subscribed for the shares. If the company has subscribed for its shares in a share issue against consideration, the members of the board of directors and the managing director are deemed to have subscribed for the shares. If a subsidiary has subscribed for shares in its parent company, the members of the board of directors and the managing director of the parent company and the persons in corresponding positions in the subsidiary are deemed to have subscribed for the shares. The subscribers are jointly and severally liable for the payment of the subscription price. A company may, however, issue shares to itself for no payment.¹⁵⁴

e. Share Issuance

A company may issue new shares or transfer treasury shares.¹⁵⁵ The shares may be issued for subscription either free of charge (shares issued without payment) or for consideration (shares issued against payment).

In principle, a company's general meeting of shareholders resolves on the issuance of shares but it may also authorize the company's board of directors to issue shares. The decision to issue shares must state the maximum number of shares to be issued pursuant to the authorization and the relevant share class. Additional conditions may apply, but are not required to be attached.

The decision to issue new shares in a rights issue is made as a majority decision (more than 50% of votes cast). However, if shares are issued in deviation from the preemption rights of the shareholders or if the decision requires changing the company's articles of association, the decision must be supported by at least two-thirds of the votes cast and shares represented in the relevant shareholders' meeting.¹⁵⁶

Under the Companies Act, a company's shareholders have a preemptive right to the shares to be issued in proportion to their current shareholdings in the company.¹⁵⁷ If the company has a number of classes of shares, the preemptive rights of shareholders will be realized by issuing shares in all share classes in proportion to those classes and by offering shares in each share class to the shareholders in proportion to their shareholdings in the respective share class.

The Companies Act allows derogation from the shareholders' preemptive rights in certain situations. A company may conduct a direct share issue in derogation from the shareholders' preemptive right to the shares, if there is a weighty financial reason for doing so. Furthermore, a directed share issuance may only be conducted free of charge if there is a particularly weighty financial reason for the company and all the shareholders benefit. When assessing the acceptability of a directed share issuance, particular attention must be paid to the relation between the shares' subscription price and their fair value. The equality principle, which provides that no shareholder may receive an unjustified benefit, and the requirements set out in the law must always be taken into consideration in the case of a directed share issuance.

f. Squeeze-out of Minority Shareholders

According to the Companies Act,¹⁵⁸ a shareholder with shares representing more than 90% of all shares and voting rights attached to all shares in a company has the right to redeem the company's remaining shares for fair value (redemption right). Any minority shareholder that possesses shares that, under the Companies Act, may be redeemed by a majority shareholder is entitled to require the majority shareholder to redeem its shares (redemption obligation).

Detailed rules apply for the calculation of the above described proportions of shares and votes. For example, voting constraints based on legislation or the company's articles of association are not taken into account when calculating the number of shares or votes. Further, shares that are held by the company in treasury or its subsidiary are not taken into account in calculating the company's total number of shares or votes.

The provisions of the Companies Act regarding the squeeze-out of minority shareholders are mandatory insofar as they aim at protecting minority shareholders. Thus, a company's articles of association may not provide for a higher shareholding and voting majority requirement for the redemption obligation than what is provided for by law nor can it lower the shareholding and voting majority requirement concerning the redemption right.

g. Corporate Officers

The management structures of companies vary depending on the size and needs of the company concerned. However, the board of directors, together with the managing director if one is appointed, is always the body responsible for the proper continuous administration and management of the company. Corpo-

¹⁵⁰ Companies Act, Ch. 15, Sec. 9.

¹⁵¹ Companies Act, Ch. 15, Sec. 9.

¹⁵² Companies Act, Ch. 13, Sec. 10.

¹⁵³ Companies Act, Ch. 15, Sec. 13.

¹⁵⁴ Companies Act, Ch. 9, Sec. 20.

¹⁵⁵ Companies Act, Ch. 9, Sec. 1.1.

¹⁵⁶ Companies Act, Ch. 5, Secs. 26 and 27.

¹⁵⁷ Companies Act, Ch. 9, Sec. 3.

¹⁵⁸ Companies Act, Ch. 18, Sec. 1.

rate officers and directors are charged with due care to promote the company's benefit.¹⁵⁹

(1) Board of Directors

A company must have a board of directors. The board of directors is responsible for the management and the proper arrangement of the operations of the company. The board of directors is responsible for organizing a proper supervision of the book-keeping and the financial management of the company.¹⁶⁰

The board of directors or a member of the board of directors may not implement a decision of the general shareholders' meeting, the supervisory board or the board of directors that is void due to breaching the Companies Act or the articles of association.¹⁶¹

The Companies Act does not make a distinction among listed, private, public or large and small companies regarding the members of the board of directors or their number. The same rules apply to all companies regardless of the amount of their share capital. However, certain listed companies¹⁶² are subject to certain gender balance rules concerning the composition of their boards of directors.¹⁶³

Unless the articles of association provide otherwise, the board of directors comprises at least one member and at most five members. If the number of members of the board of directors is less than three, there must be at least one deputy member. With respect to smaller companies it is not uncommon to have only one ordinary and one deputy board member. The articles of association may provide for either a fixed number, or a minimum and maximum number of board members.¹⁶⁴

A member of the board must be legally competent; for example, not a person who is under age, whose capacity to act is limited, who is subject to a prohibition on engaging in business, or who is in bankruptcy. A corporate entity may not be a member of the board. At least one of the members of the board of directors, and one deputy member if such are appointed, must be resident in the EEA unless the Trade Register grants an exemption from this requirement to the company.¹⁶⁵ If none of the registered board members, the managing director, persons authorized to sign for the company, or a holder of procuration is resident in EEA, the company must, under the Enterprise Act,¹⁶⁶ have a representative who is resident in Finland. The representative must be registered in the Trade Register.

The board of directors is elected by the shareholders' meeting unless the articles of association provide that the supervisory board is to elect the board of directors. The articles of association may stipulate that fewer than half of the board members will be elected in another manner. If a member is not elected in another manner, the shareholders' meeting may elect the member unless the articles of association provide oth-

erwise.¹⁶⁷ No one may be elected member of the board of directors without their consent.¹⁶⁸

In the case of a private company, the term of the members of the board continues until further notice. In the case of a public company, the term of the members of the board lasts until the next ordinary general shareholders' meeting. The term of a board member may be otherwise fixed in the articles of association. The term of a board member ends and the term of the new board member starts at the close of the general shareholders' meeting that elects the new board member unless the articles of association provide otherwise or the general shareholders' meeting decided otherwise when it elected the new board member.¹⁶⁹

A member of the board of directors may resign before the end of their term. The resignation becomes effective, at the earliest, when the board of directors is notified of the resignation. If the member was elected to the board other than by a vote of the shareholders' meeting, the resignation must also be notified to the organ that appointed the member. If, upon resignation, the member of the board of directors has reason to assume that the company no longer has other active board members, their duty is to see to it that the shareholders' meeting is convened to elect a new board of directors.¹⁷⁰

A member of the board of directors may normally be dismissed by the body or organ that elected the member. The term of the dismissed member of the board of directors ends normally at the close of the shareholders' meeting where the member of the board of directors was dismissed. If the member of the board of directors was dismissed by an organ other than the shareholders' meeting, the term normally ends immediately.¹⁷¹

If a position of a member of the board of directors becomes vacant during or if a board member becomes incompetent, a deputy member of the board of directors must substitute for the vacancy. If there is no deputy member, the duty of the other board members is to see to it that a new board member is elected for the remainder of the term. If the election is to be carried out by the shareholders' meeting and the board of directors with its remaining members and deputy members still has a quorum, the election may be postponed to the following shareholders' meeting.¹⁷²

A board consisting of at least two ordinary members must have a chairman, elected ordinarily by the board itself, unless it is decided otherwise at the election of the board of directors or the articles of association provide otherwise.¹⁷³ Any board member, regardless of his or her nationality or residence, may be elected chairman.

Under the Companies Act, the board of directors represent the company. However, the articles of association may, and often do, provide that the board of directors may give the right to represent the company to a board member and/or to the managing director and/or to another specified person. For instance,

¹⁵⁹ Companies Act, Ch. 6, Sec. 1 and Ch. 1, Sec. 8.

¹⁶⁰ Companies Act, Ch. 6, Secs. 1 and 2.

¹⁶¹ Companies Act, Ch. 6, Sec. 2.

¹⁶² Companies Act, Ch. 1, Sec. 10. A listed company is a company whose shares are admitted to trade on a market listed in the Act on the Trading of Financial Instruments.

¹⁶³ Companies Act, Ch. 6, Sec. 9a.

¹⁶⁴ Companies Act, Ch. 6, Sec. 8.

¹⁶⁵ Companies Act, Ch. 6, Sec. 10.

¹⁶⁶ Enterprise Act, Sec. 6.

¹⁶⁷ Companies Act, Ch. 6, Sec. 9.

¹⁶⁸ Supreme Court ruling No. 1936 I 4 (a shareholder may not be elected member of the board of directors against his or her will).

¹⁶⁹ Companies Act, Ch. 6, Sec. 11.

¹⁷⁰ Companies Act, Ch. 6, Sec. 12.

¹⁷¹ Companies Act, Ch. 6, Sec. 13.

¹⁷² Companies Act, Ch. 6, Sec. 14.

¹⁷³ Companies Act, Ch. 6, Sec. 8.

the articles of association may provide that two board members together, or the chairman of the board alone, have or has the right to represent the company. The board of directors may revoke the right to represent the company at any time.¹⁷⁴ The right to represent the company may be restricted so that only two or more persons together have the right to represent the company. No other restriction may be entered in the Trade Register.¹⁷⁵

An act undertaken by a representative of a company on behalf of the company will not bind the company if: (i) the representative has acted against a restriction of competence laid down or referred to in the Companies Act; or (ii) the representative has exceeded his or her authority and the other party knew or should have known that the authority was being exceeded. In the latter case, the fact that the restrictions on authority have been registered cannot, by itself, be deemed sufficient proof of the fact that the other party knew or should have known that the authority was being exceeded.¹⁷⁶

The Companies Act does not restrict the rights of shareholders, members of the board of directors or members of the supervisory board to borrow from the company. However, such borrowing must benefit the company, have a sound business reason and be in accordance with the company's purpose.

(2) Managing Director

A company may have a managing director.¹⁷⁷ The managing director is appointed by the board of directors. A managing director may resign, the resignation becoming effective at the earliest when the board of directors is notified of it. The board of directors may dismiss the managing director from their position. The dismissal becomes effective immediately unless the board of directors decides on a later date.¹⁷⁸

The managing director must be legally competent; for example, the managing director may not be a person who is under age, whose capacity to act is limited, who is subject to a prohibition on engaging in business or who is in bankruptcy. A corporate entity may not be a managing director. The managing director must be resident in the EEA, unless the Trade Register grants the company an exemption from this requirement.¹⁷⁹

The managing director's duty is to manage the daily operations¹⁸⁰ of the company in accordance with instructions and orders from the board of directors. The managing director is responsible for the book-keeping of the company, for purposes of complying with the law and ensuring that the financial management is being handled in a reliable manner. The managing director provides the board of directors and its members with all the information they may need to fulfill their duties.¹⁸¹

In general, the managing director has the major responsibility for, and thus extensive powers in, the ordinary management of the company but, depending on the scope, purpose, and nature of the company's operations, matters that are unusual or

of great importance will usually require the managing director to consult with and obtain the consent of the board of directors. If the matter is unusual or of great importance, the managing director may take action only when authorized by the board of directors or when the act cannot, without causing essential damage to the operations of the company, be postponed until a decision of the board of directors is obtained. In the latter case, the board of directors must be notified of the act as soon as possible.¹⁸²

Comment: A managing director may be appointed as a member of the board but this is not advisable as it is not in line with good governance practice.

The managing director may not comply with a decision of the shareholders' meeting, supervisory board or board of directors that is void because it breaches the Companies Act or the articles of association.¹⁸³

The managing director has the right to be present and to be heard at meetings of the board of directors unless otherwise decided by the board of directors.¹⁸⁴

A managing director may not participate in the handling of a contract or act between oneself and the company, nor participate in the handling of a contract or act between the company and a third party if thereby they may receive a material benefit that may be contrary to the interest of the company. These rules also apply to other transactions and court proceedings.¹⁸⁵

The provisions of the Companies Act relating to a managing director apply also to a managing director's deputy.¹⁸⁶

(3) Supervisory Board

The articles of association of a company may provide that the company is to have a supervisory board of at least three members.¹⁸⁷ The supervisory board is elected by the shareholders' meeting. Neither a member of the board of directors nor the managing director may be a member of the supervisory board. A chairman must be elected to the supervisory board: the chairman is elected by the supervisory board itself unless it is decided otherwise at the election of the supervisory board or unless provided otherwise by the articles of association.¹⁸⁸

The function of the supervisory board is to supervise the board of directors and the managing director in their management of the company. The supervisory board may also instruct them in their management of the company. The supervisory board may elect the board of directors, if so provided by the articles of association. It may also convene a shareholders' meeting, if so provided by the articles of association. Apart from this, under the articles of association, the supervisory board may only be assigned duties that are within the general judicial power of the board of directors or duties that are not assigned to any other body. It is not possible to give the right to represent the company to the supervisory board.¹⁸⁹

¹⁷⁴ Companies Act, Ch. 6, Secs. 25 and 26.

¹⁷⁵ Companies Act, Ch. 6, Sec. 27.

¹⁷⁶ Companies Act, Ch. 6, Sec. 28.

¹⁷⁷ Companies Act, Ch. 6, Sec. 1.

¹⁷⁸ Companies Act, Ch. 6, Sec. 20.

¹⁷⁹ Companies Act, Ch. 6, Secs. 19 and 10.

¹⁸⁰ Supreme Court ruling No. 2001:87 (holding that managing the daily operations of the company includes the payment of charges and taxes).

¹⁸¹ Companies Act, Ch. 6, Sec. 17.

¹⁸² Companies Act, Ch. 6, Sec. 17.

¹⁸³ Companies Act, Ch. 6, Secs. 19 and 2.

¹⁸⁴ Companies Act, Ch. 6, Sec. 18.

¹⁸⁵ Companies Act, Ch. 6, Secs. 19 and 4.

¹⁸⁶ Companies Act, Ch. 6, Sec. 19.

¹⁸⁷ Companies Act, Ch. 6, Sec. 23.

¹⁸⁸ Companies Act, Ch. 6, Sec. 23.

¹⁸⁹ Companies Act, Ch. 6, Sec. 21 and Ch. 5, Sec. 17.

The board of directors, a board member and the managing director must provide the supervisory board and its members with all the information they may need to fulfill their duties.¹⁹⁰

The provisions of the Companies Act on invalid decisions (Chapter 6, Section 2.2), on decision-making, disqualification, meeting and minutes (Chapter 6, Sections 3–6) and on elections, competence, term of office, resignation and dismissal (Chapter 6, Sections 9 to 13) apply also to the supervisory board and to its members.¹⁹¹

Comment: A supervisory board is common only in state-owned companies.

(4) Employee Representation

The employees of a Finnish company with at least 150 employees in Finland are entitled to appoint a representative to the management of the company.¹⁹² If appointed, such representatives, along with personal deputies, are nominated to one or more administrative bodies, selected by the company from among the supervisory board, the board of directors, and certain specified management groups or similar bodies. Employees must be represented in an administrative body where matters relevant with respect to business operations, finances and employee matters are handled.¹⁹³

Employee representatives are nominated in addition to the members elected by the company to such administrative bodies. The number of employee representatives may not exceed one quarter of the total number of members of the administrative body concerned; however, there must be at least one employee representative and, regardless of the number of members of the body, the number of employee representatives may in no case be more than four. Employee representatives normally have the same term of office as the other members of an administrative body. If no maximum duration has been set or agreed to, the term will be three years.¹⁹⁴

The employee representatives and the members of the administrative body elected by the company generally have the same rights and duties. The employee representatives and their deputies have the right to examine the materials on any issue at hand to the same extent as other members of the administrative body. The employee representatives do not have the right to participate in the handling of matters that concern the election, dismissal and contractual terms of the management of the company, the employee's terms of employment or industrial actions. The voting rights of the employee representatives may be restricted by an agreement. An employee representative is entitled to attend training where relevant for the representative to carry out their duties in the administrative body. If only one employee representative is nominated to the company's board of directors, their deputy is also entitled to participate in meetings and express their opinions.¹⁹⁵

In practice, such representatives are not commonly appointed.

In addition, an enterprise with at least 50 employees is required to cooperate with the employees in matters concerning their work and workplaces.¹⁹⁶ For employers with 20 to 49 employees, the Co-operation Act applies only in limited cases, most notably requiring change negotiations if lay-offs are contemplated to affect more than 20 employees within a 90-day period.¹⁹⁷

(5) Procuration

A company's board of directors has the right to grant the right to sign for the company to a specified person by way of procuration. A procuration is usually registered in the Trade Register. Under the Procuration Act, the holder of a procuration has the right to act and sign on behalf of the company in matters that pertain to the company's business activities. The holder of a procuration may not transfer immovable property or tenancy rights or apply for a mortgage without separate authorization. If the procuration is in writing (for example, if the procuration is an extract from the minutes of a meeting of the board of directors or is entered in the Trade Register), its holder may also represent the company in court and before other authorities. The procuration may be restricted so as to require that two or more holders act jointly or that the holder sign together with someone who otherwise has the right to sign for the company. No other restriction may be entered in the Trade Register. The board of directors may revoke the procuration at any time. No specific permission is required from the Finnish authorities for a foreigner to be a holder of a procuration.¹⁹⁸

h. Shareholders' Meeting

The rights of a shareholder, whether an individual or a company, are exercised at shareholders' meetings. The shareholders' meeting is the highest governing body of a company.

At least one shareholders' meeting (i.e., the ordinary general meeting) must be held annually. In addition, the board of directors or, if so provided by the articles of association, the supervisory board, may call an extraordinary shareholders' meeting at any time. Shareholders representing at least 10% — or a lesser percentage, if so provided by the articles of association — of outstanding shares, or the auditor, may also call an extraordinary shareholders' meeting at any time to deal with a particular prescribed matter. An extraordinary shareholders' meeting must also be held when the articles of association so provide. In the case of a private company, the notice convening a shareholders' meeting must be issued within two weeks, and in the case of a public company, within one month, after the presentation of the request.¹⁹⁹

All shareholders of a company may, without holding a shareholders' meeting, unanimously decide on a matter that rests with the shareholders' meeting. The decision must be entered in the books, dated, numbered and signed. If the company has more than one shareholder, at least two shareholders must sign the decision.²⁰⁰

¹⁹⁰ Companies Act, Ch. 6, Sec. 22.

¹⁹¹ Companies Act, Ch. 6, Sec. 24.

¹⁹² Co-operation Act, Sec. 2.

¹⁹³ Co-operation Act, Sec. 31.

¹⁹⁴ Co-operation Act, Sec. 31.

¹⁹⁵ Co-operation Act, Sec. 34.

¹⁹⁶ Co-operation Act, Ch. 1, Secs. 1 and 2.

¹⁹⁷ Co-operation Act, Secs. 2 and 16a.

¹⁹⁸ Procuration Act, *Prokuralaki/Prokuralag*, 130/1979, as amended, Secs. 1, 2, and 8.

¹⁹⁹ Companies Act, Ch. 5, Secs. 3, 4, and 17.

²⁰⁰ Companies Act, Ch. 5, Sec. 1.

Normally, shareholders' meetings must be held at the place where the registered office of the company is located. However, the articles of association may provide for another place. If there are very sound reasons for doing so, a shareholders' meeting may be held elsewhere than prescribed.²⁰¹ The board of directors may decide that a shareholder may attend the shareholders' meeting by mail, by telecommunication or by other means using a technical device, unless the articles of association provide otherwise. The board of directors may also decide that a shareholders' meeting shall be held without a meeting venue, provided that according to articles of association the meeting shall or may be arranged so. The precondition for a meeting where the shareholder may participate remotely is in all situations that the shareholders may fully exercise their shareholder rights, including also their decision-making power and right to ask questions and make counterproposals, in real time by telecommunication and a technical device.

The additional condition for using this procedure is that the right to attendance and the accuracy of the vote counting can be verified using a comparable procedure to that used in a normal shareholders' meeting. Only the shareholders who have exercised their right to vote before the shareholders' meeting or who may exercise their right to vote during the meeting are considered to be present at the meeting.

Shareholders may also use their voting rights in advance (preliminary voting) if such procedure is decided by the board of directors and set out in the notice of the meeting. Any proposal for a resolution which may be subject to a preliminary vote shall be deemed to have been presented unchanged at the shareholders' meeting.

The notice of the shareholders' meeting shall mention the possibility of attendance remotely and the conditions for its exercise, as well as the technical implementation of attendance.

A shareholders' meeting is convened by the board of directors. However, if the company has a supervisory board, the articles of association may provide for the shareholders' meeting to be convened by the supervisory board. The supervisory board entitled to convene the shareholders' meeting shall also decide on the means of attendance in the shareholders' meeting referred to in Chapter 5, Section 16 of the Companies Act, unless the articles of association provide otherwise. If a shareholders' meeting is not convened or is not properly convened although required by the law, the articles of association or a decision of the shareholders' meeting, the Finnish Supervisory Agency (*Lupa- ja valvontavirasto/Tillstånds- och tillsynsverket*) may, on application from a member of the board of directors or the supervisory board, the managing director, the auditor or a shareholder, authorize the applicant to convene a shareholders' meeting at the company's cost.²⁰²

The notice to convene a shareholders' meeting must state the name of the company, the time and place of the meeting, and the matters to be dealt with at the meeting. If an amendment to the articles of association is to be dealt with at the meeting, the main contents of the amendment must be stated in the notice.²⁰³ Specific rules concerning notices apply in the case of

listed companies, or when shareholders' meetings are attended by mail or using technical devices.²⁰⁴

The notice convening a shareholders' meeting must normally be issued no earlier than two months and no later than one week prior to the meeting. If the articles of association require that, to be valid, a decision of the shareholders' meetings must be adopted at two shareholders' meetings, a notice convening the latter shareholders' meeting may not be issued before the first shareholders' meeting is held, and the notice convening that meeting must include the decision adopted at the first meeting.²⁰⁵

A written notice convening a shareholders' meeting must be sent to every shareholder whose address is known to the company unless the articles of association provide otherwise. Regardless of what is provided in the articles of association, a written notice must be sent to every shareholder whose address is known to the company if the meeting is to deal with certain matters of great importance, such as certain types of amendments to the articles of association (as referred to in Chapter 5, Section 29 of the Companies Act), a merger, a demerger, the transfer of residence or placing in liquidation, or the continuing of a liquidation.²⁰⁶

The proposals, and if the meeting is to deal with the annual accounts, the annual accounts, the annual report and the audit report must be: (i) made available to the shareholders at the head office of the company or at the company's website for at least one week prior to the meeting; (ii) made available at the shareholders' meeting; and (iii) sent without delay to a shareholder at their request if the documents are not available for downloading and printing on the company's website. If the decision to be made at the meeting concerns a share issue, the granting of stock options or other special rights, an increase of the share capital from reserves, the distribution of dividends, the distribution of funds out of unrestricted equity, a reduction of the share capital, the acquisition or redemption of the company's own shares, or placing the company in liquidation and the annual accounts are not dealt with at the meeting, the rules referred to above also apply to the last annual accounts, the annual report and the audit report, any decision on a distribution of profits after the end of the last financial period, interim reports drafted after the end of the last financial period, and the account of the board of directors of events that have occurred after the drafting of the annual accounts or the interim reports and having a material effect on the position of the company. Special provisions in Chapter 16, Section 11, Chapter 17, Section 11 and Chapter 17 a, Section 16 of the Companies Act apply in the case of a merger, demerger or transfer or residence. There are specific, stricter requirements concerning listed companies.

A shareholder has the right to have a matter dealt with at a shareholders' meeting if a written request is presented to the

²⁰³ Companies Act, Ch. 5, Sec. 18. There are specific provisions on the content of the notice in Ch. 16, Sec. 10, Ch. 17, Sec. 10. and Ch. 17 a, Sec. 15 of the Companies Act.

²⁰⁴ Companies Act, Ch. 5, Secs. 7, 16 and 18.

²⁰⁵ Companies Act, Ch. 5, Sec. 19. Note that there are specific provisions on the period of notice in Ch. 17, Sec. 10 and Ch. 17 a, Sec. 15 of the Companies Act.

²⁰⁶ Companies Act, Ch. 5, Sec. 20.

²⁰¹ Companies Act, Ch. 5, Sec. 16.

²⁰² Companies Act, Ch. 5, Sec. 17. State Department of Åland has the same authority for companies located in Åland.

board of directors early enough for the matter to be included in the notice convening the meeting.²⁰⁷

Every shareholder has the right to attend and speak at a shareholders' meeting. To attend a shareholders' meeting, the shareholder must be entered in the share register or must have notified the company of their acquisition of shares and given reliable evidence of such acquisition.²⁰⁸

The articles of association may provide that, to attend the shareholders' meeting, a shareholder must inform the company of their intention to attend the meeting (advance notice of attendance) on, at the latest, a date to be specified in the notice convening the meeting. The date may not be earlier than 10 days prior to the meeting. A shareholder may attend the shareholders' meeting only by means of telecommunication and a technical device as referred to in Chapter 5, Section 16 of the Companies Act, provided that notice of one's intention to attend in this manner is given and the notice states that the manner of attendance to be notified to the company is binding.²⁰⁹

Every shareholder may be present either personally or through a representative.²¹⁰ A representative must present a dated proxy²¹¹ or prove by another reliable manner their right to represent the shareholder. A shareholder and a representative may have an assistant at the shareholders' meeting. In the case of a listed company, a shareholder may have several representatives, who represent the shareholder with shares from different securities accounts. A representative may represent several shareholders at the same time. This right may not be restricted.²¹² If several persons own a share jointly, they may be represented at a shareholders' meeting only by means of a common representative.²¹³

An (own) share held by a company or its subsidiary does not entitle the holder to attend a shareholders' meeting. Such a share will not be taken into account in cases where a valid decision or the exercise of a certain right requires the consent of all shareholders or of shareholders holding a specified portion of the shares of the company.²¹⁴

Members of the board of directors and of the supervisory board and the managing director have the right to be present at a shareholders' meeting unless the shareholders' meeting decides otherwise in a particular case. It is the duty of the board and of the managing director to see to it that the shareholders may exercise their right to ask questions at the shareholders' meeting. Also, the auditor and the sustainability auditor (if appointed) of the company has the right to be present at a shareholders' meeting, as provided in the Auditing Act.²¹⁵ A shareholders' meeting may also allow other persons to be present at the meeting.²¹⁶

²⁰⁷ Companies Act, Ch. 5, Sec. 5.

²⁰⁸ Companies Act, Ch. 5, Sec. 6.

²⁰⁹ Companies Act, Ch. 5, Sec. 7.

²¹⁰ Absence from the shareholders' meeting does not imply acceptance of the decision that is the subject of the meeting. Supreme Court ruling No. 2005:65.

²¹¹ A general proxy is a valid proxy to represent someone at a shareholders' meeting. Supreme Court ruling No. 1985 II 124.

²¹² Companies Act, Ch. 5, Sec. 8.

²¹³ Companies Act, Ch. 3, Sec. 2.

²¹⁴ Companies Act, Ch. 5, Sec. 9.

²¹⁵ Auditing Act, *Tilintarkastuslaki/Revisionslag*, 1141/2015, as amended (the "Auditing Act").

A matter may be decided on by the shareholders' meeting if it is referred to in the notice convening the meeting or if it is required by the articles of association to be dealt with at a shareholders' meeting. Furthermore, at the general shareholders' meeting, the shareholders must always decide on certain matters (as referred to in Chapter 5, Section 3 of the Companies Act), and may decide on the election of an authorized auditor and deal with a proposition on a special audit. Nevertheless, the shareholders' meeting may decide that a new shareholders' meeting should be convened to deal with a matter or that a matter should be postponed to a subsequent meeting. If the shareholders' meeting is held in accordance with in Chapter 5, Section 16 of the Companies Act (i.e., where the shareholder may participate remotely via technical device), malfunction of the company's telecommunication connection referred to in Chapter 5, Section 16 of the Companies Act or other technical device used for the organization on the shareholders' meeting may affect the validity of the decisions of the meeting and there is reason to assume that the repair of the malfunction will substantially delay the meeting, the chairman of the shareholders' meeting may decide to suspend and continue the meeting within four weeks from the time of the start of the meeting according to the notice of the meeting. The condition for this is that the suspension and the date of any continuation and any new technical arrangements required for attendance are brought to the attention of the shareholders entitled to attend the shareholders' meeting at the time of the suspension in good time before the meeting is resumed.²¹⁷

If a shareholder exercises his or her right to ask questions on the basis of Chapter 5, Section 16 of the Companies Act other than orally during the shareholders' meeting, the board of directors may answer the question after the meeting in the manner provided for in Chapter 5, Section 25 of the Companies Act, unless otherwise stated in the notice of the shareholders' meeting or provided otherwise in the articles of association. However, the shareholders' meeting may decide that a question shall be answered at the shareholders meeting as provided for in Chapter 5, Section 25 of the Companies Act.²¹⁸

Notwithstanding Chapter 5, Sections 6 and 25 of the Companies Act, if a shareholder exercises his or her right to speak pursuant to Section 16 other than orally during the shareholders' meeting, such questions and other speeches may be combined and adapted at the shareholders' meeting before being made available to the attendees in the shareholders' meeting for viewing or hearing. The condition for the procedure is that the procedure is necessary to limit the duration of the shareholders' meeting in a reasonable manner, facilitates the observance of the meeting, is likely to ensure the orderly conduct of the meeting and does not materially alter the content of the speeches. The principles of the procedure shall be decided at the beginning of the shareholders' meeting. The original oral contributions made otherwise than at the shareholders' meeting shall be kept for at least one year after the meeting.²¹⁹

All persons have the right to exercise all the voting rights attached to the shares they represent at a shareholders' meeting,

²¹⁶ Companies Act, Ch. 5, Sec. 10.

²¹⁷ Companies Act, Ch. 5, Secs. 11 and 24.

²¹⁸ Companies Act, Ch. 5, Sec. 25a.

²¹⁹ Companies Act, Ch. 5, Sec. 25a.

unless otherwise provided by the articles of association. In the case of a listed company, a shareholder may vote with different shares in different ways, unless the articles of association provide otherwise.²²⁰

The general shareholders' meeting must be held within six months after the close of each financial period.²²¹ The annual accounts, the annual report and the audit report must be presented at the meeting.²²²

Resolutions concerning the following are passed at the general shareholders' meeting:

- (i) The adoption of the annual accounts (i.e., the profit and loss account and the balance sheet) or, if the company is a parent company, the consolidated annual accounts;
- (ii) The disposition of the profit;
- (iii) The discharge from responsibility of members of the board of directors and the supervisory board, if any, and of the managing director;
- (iv) The election of the members of the board of directors and the supervisory board, if any, and of the auditor, unless the Companies Act or the articles of association provide(s) otherwise with respect to their term of office or their election; and
- (v) Any other matters that may be required by the articles of association to be dealt with at the general shareholders' meeting.²²³

In no case may a shareholders' meeting pass a resolution that is likely to bring a shareholder or a third person unjustified benefit at the expense of the company or of another shareholder.²²⁴

The shareholders' meeting is opened by the person who is appointed by the convener. The chairman of the shareholders' meeting is elected by the shareholders' meeting, unless otherwise provided by the articles of association. If the articles of association provide for the chairman of the shareholders' meeting, this person also opens the meeting. It is the duty of the chairman of the meeting to ensure that a list is drawn up of the shareholders, representatives and assistants present and that the number of shares and votes of each of the shareholders is entered in the list (a voting list). The following information from the company's shareholder register must be available at the shareholders' meeting: (i) the names and domiciles of the shareholders, (ii) the number of shares by class and (iii) any other differences in the rights and obligations conferred by the shares.²²⁵

It is also the duty of the chairman to ensure that minutes are kept of the meeting. The minutes must record the decisions adopted at the meeting and, if a matter has been voted upon,

the result of the vote. The minutes must be signed by the chairman and at least one examiner of the minutes elected for that purpose at the meeting. The register of votes must be included in or appended to the minutes. The minutes must be numbered consecutively and stored in a reliable manner. At the latest two weeks after the meeting, the minutes must be made available to the shareholders at the company's head office or website and sent to any shareholder on request. After reimbursing the company for the costs incurred by it, a shareholder has the right to receive a copy of all the appendices to the minutes. In the case of a listed company, if a full vote counting has been done, the minutes must also record the quantity of shares and their proportion of the shares that vote, the distribution of votes cast in favor or against each resolution, and the quantity of shares represented at the meeting that did not vote. This information must be made available at the company's website at the latest two weeks after the shareholders' meeting and at least three months after the meeting.²²⁶

A shareholder may not cast a vote at a shareholders' meeting in a matter that concerns their own liability for damages or other obligations owed the company. Nor may a shareholder vote in a matter that concerns an action against another person or that person's discharge from liability if the matter entails a material benefit for the shareholder that may be contrary to the interest of the company. Obviously, this does not apply if all the shareholders of the company would be so disqualified.²²⁷

A decision of a shareholders' meeting must be supported by a simple majority of the votes cast, unless the Companies Act provides otherwise. In the case of an election, the person receiving the highest number of votes is deemed elected. However, prior to an election, the shareholders' meeting may decide that, to be elected, a person must receive more than half of the votes cast. In the case of a tie, an election is resolved by lot. In the case of a vote other than an election, the vote of the chairman of the shareholders' meeting is decisive, unless provided otherwise by the articles of association. In the case of an election only, the articles of association may contain a provision providing for a smaller majority than that required by the Companies Act.²²⁸

If a qualified majority is required, the decision of the shareholders' meeting must be supported by at least two-thirds of the votes cast and of the shares represented at the meeting, unless the articles of association provide otherwise.²²⁹ A qualified majority is required, unless the Companies Act or the articles of association provide otherwise, when the shareholders' meeting adopts a decision on: (i) an amendment to the articles of association; (ii) a directed share issue; (iii) the granting of stock options or other special rights; (iv) the acquisition or redemption of a company's own shares in the case of a public company; (v) the directed acquisition of a company's own shares; (vi) a merger; (vii) a demerger; (viii) transfer of resi-

²²⁰ Companies Act, Ch. 5, Secs. 12 and 8. A person who acts on behalf of another person to circumvent a provision of the Companies Act or the articles of association regarding voting rights may be punished by a fine or imprisonment under Companies Act, Ch. 25, Sec. 1.

²²¹ Companies Act, Ch. 5, Sec. 3. Supreme Court (ruling No. 13.10.1959, No. 2159). The general shareholders' meeting may validly be held later than six months after the close of each financial period in certain circumstances.

²²² Companies Act, Ch. 5, Sec. 21.

²²³ Companies Act, Ch. 5, Sec. 3.

²²⁴ Companies Act, Ch. 5, Sec. 13 and Ch. 1, Sec. 7.

²²⁵ Companies Act, Ch. 5, Sec. 23.1–2.

²²⁶ Companies Act, Ch. 5, Sec. 23. Anyone violating the provision on keeping the minutes of shareholders' meetings available (as referred to in Companies Act, Ch. 5, Sec. 23) may be punished with a fine under Companies Act, Ch. 25, Sec. 2.

²²⁷ Companies Act, Ch. 5, Sec. 14.

²²⁸ Companies Act, Ch. 5, Sec. 26.

²²⁹ Companies Act, Ch. 5, Secs. 30 and 27.

dence; (ix) placing the company in liquidation; or (x) terminating the liquidation of the company.²³⁰

However, if the company has shares of different classes, a resolution on a merger of the merging company, on a demerger of the demerging company, on a transfer of residence of the transferring company, on placing the company in liquidation, on terminating the liquidation of the company and, in the case of a public company, on the directed acquisition of the company's own shares must also be supported by at least two-thirds of each category of shares represented at the meeting.²³¹

The articles of association may not contain a provision providing for a smaller qualified majority.²³²

However, an amendment to the articles of association according to which the shareholders must be offered the opportunity to exercise his or her rights at the shareholders' meeting, as referred to in Chapter 5, Section 16 of the Companies Act, may be made by simple majority decision.²³³

A decision in a matter with regard to which the procedural provisions of the Companies Act or of the articles of association have not been complied with may only be made if the shareholders affected by the non-compliance give their consent.²³⁴

A shareholder may object to a decision of a shareholders' meeting²³⁵ by bringing an action against the company where: (i) the procedural provisions of the Companies Act or the articles of association have been breached and the breach may have had an effect on the contents of the decision or otherwise on the rights of a shareholder; or (ii) the decision is otherwise contrary to the Companies Act or the articles of association.²³⁶ The action of objection must be brought within three months of the decision. If no action is brought within this time period, the decision is deemed valid.²³⁷

A decision made by a shareholders' meeting is void where: (i) no notice has been delivered of the shareholders' meeting or the provisions on the notice have been materially breached; (ii) the decision requires the consent of a shareholder and such consent has not been obtained; (iii) the decision is clearly contrary to the principle of equal treatment and the consent of the shareholder has not been obtained; or (iv) according to the law, the decision could not have been made even with the consent of all shareholders. A void decision is not subject to the provision (as referred to in Chapter 21, Section 1.2 of the Companies Act) requiring the bringing of an action of objection within a time limit. However, an action relating to a merger, demerger or transfer or residence decision may not be brought after six months have elapsed from the date of registration of the merger, demerger or transfer or residence.²³⁸

If a decision in a matter within the competence of the shareholders' meeting is adopted by the board of directors on authorization, the provisions on a corresponding decision by the shareholders' meeting will apply to the decision.²³⁹

The judgment on an action of objection may render the decision invalid or amend the decision, as requested by the plaintiff. At the request of the plaintiff, the company may at the same time be enjoined against implementing the invalid decision. The decision may be amended only if it can be ascertained what the correct contents of the decision should have been.²⁴⁰

A judgment rendering the decision of the shareholders' meeting invalid or amending the decision also has effect in relation to shareholders that have not joined in the action.²⁴¹

i. Meetings of the Board of Directors

The board of directors must hold meetings when necessary and it is then the duty of the chairman to convene the board of directors. The chairman convenes the board of directors if asked to do so by a member of the board of directors or by the managing director. If the chairman does not convene the board of directors even though a request has been made, a member of the board of directors, subject to certain conditions, or the managing director may convene the board of directors.²⁴²

A quorum at a directors' meeting exists when more than half of the members of the board, or a higher percentage if so provided by the articles of association, is present at the meeting; only elected board members are counted. A decision may not be made, however, unless all the members of the board of directors have, to the extent possible, been given a chance to take part in dealing with the matter. If a member of the board is unable to do so, their deputy must be given a similar chance.²⁴³ A decision made without the directors meeting must be entered in the register, signed, numbered and stored like the minutes of a directors' meeting.²⁴⁴

Resolutions of the directors' meeting are adopted by a simple majority of the votes cast, unless the articles of association require a qualified majority. In the case of a tied vote, the chairman has the casting vote. In the case of a tied vote regarding the election of the chairman, the election is normally decided by drawing lots.²⁴⁵

Minutes must be kept of meetings of the board of directors and signed by the chairman of the meetings and, if the board of directors consists of more than one member, by at least one other board member. A member of the board of directors and the managing director, if any, must have the right to have their dissenting opinions recorded in the minutes. The minutes must be numbered consecutively and stored in a reliable manner.²⁴⁶

Members of the board of directors may not participate in the handling of a contract or act between themselves and the

²³⁰ Companies Act, Ch. 5, Sec. 27.

²³¹ Companies Act, Ch. 5, Sec. 27.

²³² Companies Act, Ch. 5, Sec. 27.

²³³ Companies Act, Ch. 5, Sec. 27.

²³⁴ Companies Act, Ch. 5, Sec. 15.

²³⁵ Supreme Court ruling No. 2007:26. A shareholder that has voted for a decision at a shareholders' meeting has no right to bring an action on that decision against the company unless otherwise provided.

²³⁶ Companies Act, Ch. 21, Sec. 1.

²³⁷ Companies Act, Ch. 21, Sec. 1.

²³⁸ Companies Act, Ch. 21, Sec. 2.

²³⁹ Companies Act, Ch. 21, Sec. 3.

²⁴⁰ Companies Act, Ch. 21, Sec. 4.

²⁴¹ Companies Act, Ch. 21, Sec. 4.

²⁴² Companies Act, Ch. 6, Sec. 5.

²⁴³ Supreme Court ruling No. 2000:69 (holding a decision invalid when all members of the board of directors were not given a chance to take part in dealing with the matter).

²⁴⁴ Companies Act, Ch. 6, Sec. 3.

²⁴⁵ Companies Act, Ch. 6, Sec. 3.

²⁴⁶ Companies Act, Ch. 6, Sec. 6.

company, nor participate in the handling of a contract or act between the company and a third party if thereby they may receive a material benefit that may be contrary to the interests of the company. The same rules apply with respect to other transactions and court proceedings.²⁴⁷

In an individual case or as provided by the articles of association, the board of directors may also take a decision on a matter concerning the general judicial power of the managing director even if the company has a managing director. The board of directors may submit a decision of general judicial power of the board of directors or of the managing director to be decided by the general shareholders' meeting. The board of directors of a listed company must submit a decision to issue shares or of general judicial power of the board of directors to the general shareholders' meeting if the conditions referred to in Chapter 11, Section 14 of the Securities Market Act are fulfilled.²⁴⁸

If the company becomes a parent company, the board of directors of the company must inform the board of directors of the subsidiary accordingly without delay. The board of directors of the subsidiary or a corresponding body must submit to the board of directors of the parent company all the information necessary to evaluate the status of the group and calculate the result of its operations.²⁴⁹

Agreements and commitments between the company and its only shareholder that are not part of the ordinary business of the company must be recorded in or appended to the minutes of a meeting of the board of directors.²⁵⁰

j. Auditor and Sustainability Auditor

Unless otherwise provided in the Companies Act, a company must appoint an auditor if more than one of the following conditions were fulfilled in both the last completed financial year and the financial year immediately preceding it: (i) the balance sheet total exceeded 100,000 euros during the year; (ii) net sales or comparable revenue exceeded 200,000 euros; or (iii) the average number of employees exceeded three.²⁵¹ If the appointed auditor is not an audit firm, at least one deputy auditor must also be appointed.²⁵² The auditor must be authorized by the Finnish Patent and Registration Office. Certain large entities, listed companies and certain regulated entities are required to appoint an auditor who meets certain additional requirements.

The auditor is appointed by the shareholders' meeting and the appointment must be registered with the Trade Register.

Moreover, companies that are obliged to prepare a sustainability report under the Accounting Act (i.e., large companies, stock exchange listed small companies and stock exchange listed medium-sized companies, in each case as defined in the Accounting Act) must also appoint a sustainability auditor.²⁵³ The

sustainability auditor must be a sustainability auditor or sustainability audit firm as defined in the Auditing Act. The auditor of the company may also be appointed as the sustainability auditor, provided that the auditor has acquired special qualifications to act as a sustainability auditor. If the appointed sustainability auditor is not a sustainability audit firm, at least one deputy sustainability auditor must also be appointed. Similarly to the auditor, the sustainability auditor is appointed by the shareholders' meeting.²⁵⁴

The term of an auditor and a possible sustainability auditor is indefinite in the case of private companies. In public companies, the term of the auditor and a possible sustainability auditor continues until the end of the next annual general meeting following the election. However, other provisions on the auditor's or sustainability auditor's term may be included in the articles of association.²⁵⁵

k. Books and Records

A company must keep minutes of shareholders' meetings and meetings of its board of directors. The minutes must be duly verified and signed, and maintained in numerical order. Like all enterprises carrying on business, a company must also keep a journal in which daily transactions are entered and numbered.

l. Financial Statements and Annual Report

A company's financial period begins on the date chosen by the company and is 12 months long. However, when business activities commence, or when the financial period is changed, the financial period may be shorter or longer than 12 months, but may not exceed 18 months.²⁵⁶ Notice of the financial period must be given to the Trade Register.²⁵⁷

The financial statements and the annual report must be drawn up in accordance with the provisions of the Accounting Act and the provisions in Chapter 8 of the Companies Act.²⁵⁸

Upon incorporation, the financial period of the company must be laid down in the memorandum of incorporation or the articles of association. In the event that the financial period has not been laid down in the articles of association, the shareholders' meeting must make the decision to change the financial period if needed. The change takes effect upon registration.²⁵⁹

The annual report must always contain the information required by the Companies Act. However, corresponding information may be supplied in the notes to the financial statements instead of an annual report, insofar as not otherwise provided in the Accounting Act.²⁶⁰

The annual report must contain a proposal from the board of directors for the use of the profits of the company, as well as a proposal, where appropriate, for the distribution of other unrestricted equity.²⁶¹

²⁴⁷ Companies Act, Ch. 6, Sec. 4. Supreme Court ruling No. 16.6.1983, No. 1331 (holding a pledge to be invalid where a member of the board of directors gave himself, as security, certain property of the company).

²⁴⁸ Companies Act, Ch. 6, Sec. 7.

²⁴⁹ Companies Act, Ch. 6, Sec. 15.

²⁵⁰ Companies Act, Ch. 6, Sec. 16.

²⁵¹ Companies Act, Ch. 7, Sec. 2, Auditing Act, Ch. 2, Sec. 2.

²⁵² Auditing Act, Ch. 2, Sec. 3.

²⁵³ Accounting Act, *Kirjanpitolaki/Bokföringslag*, 1336/1997, as amended (the "Accounting Act"), Ch. 1, Secs. 4a, 4b, 4c and 9 and Ch. 7.

²⁵⁴ Companies Act, Ch. 7, Sec. 6a.

²⁵⁵ Companies Act, Ch. 7, Secs. 4 and 6a.

²⁵⁶ Accounting Act, Ch. 1, Sec. 4. The most common financial period is the calendar year.

²⁵⁷ Trade Register Act, Sec. 9.

²⁵⁸ Companies Act, Ch. 8, Sec. 3.

²⁵⁹ Companies Act, Ch. 8, Sec. 4.

²⁶⁰ Companies Act, Ch. 8, Sec. 5.

²⁶¹ Companies Act, Ch. 8, Sec. 5.

The annual report must contain the following information: (i) the number of outstanding shares, broken down by share class, as well as the main provisions of the articles of association relating to each of the share classes; and (ii) for a capital loan, the main terms of the loan and the interest accruing on the loan and not entered into the accounts as a cost.²⁶²

The foreign branches of a company must be identified in the company's annual report.²⁶³ The annual report must contain separate information on loans to, liabilities owed to and commitments to related parties if these exceed certain terms specified in the applicable provision.²⁶⁴ In a listed company, related parties are determined in accordance with international financial reporting standards. Non-listed companies may also apply this definition of related parties, which must be stated in the notes to the financial statements.²⁶⁵ If no such decision is made in the company, related parties of a company include:

(i) The parent company or another person or entity holding more than 50% of the votes carried by all the shares of the company or has otherwise control over the company pursuant to Chapter 1, Section 5 of the Accounting Act;

(ii) A member of the board of directors and the supervisory board and the managing director (and their deputies);

(iii) The spouse, co-habiting partner and specified lineal family members of the persons referred to in (i) and (ii), above;

(iv) Any legal entity in which a person referred to in (i) to (iii), above, serves as a member or deputy member of the board of directors or the supervisory board, the managing director or deputy managing director or in an equivalent position;

(v) Any legal entity in which a board member of the company or another person referred to in (i) to (iii), above, alone or together with others referred to above, holds more than 50% of the votes carried by all the shares of the company or has otherwise control over the company pursuant to Chapter 1, Section 5 of the Accounting Act; and

(vi) Any legal entity in which the company's parent company or other controlling person in the company holds 20% to 50% of the voting rights or otherwise exercises significant influence.

If the company has no shareholder who exercises control as described above, a shareholder who holds at least 20% of the total voting rights, or otherwise exercising significant influence over the company's financial and business decision-making, is also considered to be a related party.²⁶⁶

The annual report must also contain appropriate information on certain group restructuring forms and financing arrangements specified in the applicable provision.²⁶⁷

In addition, the annual report must contain information on the following, broken down by share class: (i) the total quan-

tity of shares in the company and its parent company held by, or pledged to, the company or its subsidiaries, as well as the proportions of all shares and the voting rights carried by the shares; and (ii) the shares in the company and its parent company acquired or accepted as pledges during the financial period, as well as the transfer and cancellation of such shares. Also, the annual report must contain the following information on shares in the company or its parent company acquired, accepted as pledges, transferred or cancelled during the financial period: (i) how the shares were acquired by the company or how they were transferred to it; (ii) the quantity of shares and their proportion of all shares; and (iii) the consideration paid for the shares.²⁶⁸

The shares held by the company and pledged to it must be listed separately. If shares have been acquired from a related party or if they have been transferred to a related party, that party must be indicated by name.²⁶⁹

Large companies, listed small and medium-sized companies, as defined in the Accounting Act, shall also present the following in the annual report: (i) information on the key intangible resources and a description of the value-adding characteristics thereof and how the business of the company is based thereon; and (ii) the information required in sustainability reporting as a dedicated and coherent section (the sustainability report) in accordance with the provisions of the Accounting Act.²⁷⁰

A parent company must always draw up consolidated financial statements if it distributes assets to its shareholders or if it is a public company. However, consolidated annual accounts need not to be drawn up if a company is exempt from the duty to do so under Chapter 6, Section 1.4 of the Accounting Act.²⁷¹

Annual accounts must be prepared within four months after the end of a company's financial period.²⁷² Annual accounts are presented to the auditors, who give their auditors' report to the shareholders' meeting. The annual accounts must be adopted at the general shareholders' meeting within six months after the end of the company's financial period.

Companies, other than housing companies²⁷³ or mutual real estate companies,²⁷⁴ must give notice of the financial statements and the annual report for registration within two months of the adoption of the financial statements. The notice must include a copy of the auditor's report and the auditor's report on the consolidated financial statements (as well as the sustainability auditor's report, if the company is required to appoint a

²⁶⁸ Companies Act, Ch. 8, Sec. 8.

²⁶⁹ Companies Act, Ch. 8, Sec. 8.

²⁷⁰ Accounting Act, Ch. 3, Sec. 1a and Ch. 7.

²⁷¹ Companies Act, Ch. 8, Sec. 9. In addition to the provisions elsewhere in the law, the provisions in Chapter 8 of the Companies Act apply to the drawing up of the consolidated financial statements.

²⁷² Accounting Act, Ch. 3, Sec. 6.

²⁷³ A housing company is a limited liability company that owns one or several buildings in an area the majority of which is zoned for housing purposes where certain shares of the company entitle the shareholders to possession of certain areas in the building(s).

²⁷⁴ A mutual real estate company is a limited liability company that owns one or more buildings where certain shares of the company entitle the shareholders to possession of certain areas in the building(s). Based on Supreme Administrative Court ruling No. 2020:15, the same tax treatment also applies if the company holds only a land plot and the shares entitle to possession of the plot.

²⁶² Companies Act, Ch. 8, Sec. 5.

²⁶³ Companies Act, Ch. 8, Sec. 5.

²⁶⁴ Companies Act, Ch. 8, Sec. 6.

²⁶⁵ Companies Act, Ch. 1, Sec. 12.

²⁶⁶ Companies Act, Ch. 1, Sec. 11.

²⁶⁷ Companies Act, Ch. 8, Sec. 7.

sustainability auditor, and if not included in the auditor's report), as well as written certification by a member of the board of directors or the managing director on the date when the financial statements were adopted, as well as on the decision of the shareholders' meeting relating to the use of the company's profits.²⁷⁵ Financial statements are filed in connection with the annual tax return and no separate notice to the Trade Register is required, unless the financial statements are approved after the filing of the tax return (see V.B.9., below).

If the obligation is not complied with, the Trade Register may compel the managing director or the members of the board of directors to comply with it before a set deadline under the threat of a fine. Under Chapter 20, Section 4 of the Companies Act, a company may be ordered into liquidation or deregistered as a result of failure to comply with the obligation.²⁷⁶

The accounts and reports are available for public inspection at the Trade Register. Even a small company must make its accounts and reports available for public inspection at the Trade Register.²⁷⁷ The annual accounts include a profit and loss account and a balance sheet. Detailed rules on accounting principles, the valuation of assets and liabilities, and the manner in which the annual accounts are to be presented are contained in the Accounting Act, the Accounting Decree²⁷⁸ and the Companies Act.

m. Dividends and Other Distributions of Assets

Assets of a company may be distributed to the company's shareholders only in accordance with the provisions of the Companies Act on: (i) the distribution of profit (dividends) and the distribution of assets out of the unrestricted equity reserve; (ii) the reduction of share capital (as referred to in Chapter 14 of the Companies Act); (iii) the acquisition or redemption of a company's own shares (as referred to in Chapters 3 and 15 of the Companies Act); and (iv) the liquidation of a company or its removal from the register (as referred to in Chapter 20 of the Companies Act). Assets may not be distributed before the registration of the company.²⁷⁹

A company may have a purpose other than producing profit for its shareholders if so provided by the articles of association. If this is the case, the articles of association must also contain a provision on the use of the profit and the use of own capital.²⁸⁰

Any other business transaction decreasing the assets of a company or increasing its debts without commercial cause is deemed an illegal distribution of assets.²⁸¹

The distribution of assets must be based on the latest adopted annual (or interim) accounts. The adopted accounts must be audited if the company is required to have an auditor. However, on the distribution of assets, material changes in the position of the company after the drafting of the accounts must be taken into consideration.²⁸²

The assets of a company may not be distributed if it is known or should be known at the time the decision to distribute assets is made that the company is insolvent or that the distribution of assets will lead to the company's insolvency. Subject to these solvency requirements, a company may distribute its accumulated profits and funds from its invested unrestricted equity reserve, less any amounts that may not be distributed according to the articles of association.²⁸³

The distribution of assets, including the payment of dividends, is decided at a shareholders' meeting. The shareholders' meeting may decide to distribute an amount greater than that proposed or approved by the board of directors only where it is under an obligation to do so under the minority dividends rule (see below) or the articles of association.²⁸⁴

The shareholders' meeting may also authorize the board of directors to decide on the distribution of dividends or of assets out of the invested unrestricted equity reserve if the shareholders' meeting has at the same time decided on the maximum amount of such a distribution.²⁸⁵

The decision on the distribution of assets must specify the amount of the distribution and what assets are to be distributed.²⁸⁶

With the consent of all the shareholders, the unrestricted equity may be distributed free of the restrictions discussed above unless the articles of association provide otherwise.²⁸⁷

Shareholders representing at least one-tenth of all the shares may, at the general shareholders' meeting, require that at least half of the profits of the financial period — less any amounts that may not be distributed according to the articles of association — be distributed as dividends (known as "minority dividends"). In such a case, the distribution may not exceed 8% of the company's equity without the consent of the creditors of the company (as specified in Chapter 13 of the Companies Act). Any dividends distributed for the same financial period before the general shareholders' meeting are deducted from the amount to be distributed.²⁸⁸

However, with respect to minority dividends, the articles of association may provide otherwise than described above. Amending the articles of association in a way that restricts the right to minority dividends requires the consent of all shareholders.²⁸⁹

The shareholders' meeting may decide to give a donation for a charitable or corresponding purpose if the amount of the donation can be deemed reasonable with regard to the purpose for which it will be used and the position of the company and other circumstances. The board of directors may decide to give for such purposes funds that, with regard to the position of the company, are of minor significance.²⁹⁰

²⁷⁵ Companies Act, Ch. 8, Sec. 10.

²⁷⁶ Companies Act, Ch. 8, Sec. 10.

²⁷⁷ Companies Act, Ch. 8, Sec. 10.

²⁷⁸ Accounting Decree, Kirjanpitoasetus/Bokföringsförrordning, 1339/1997, as amended.

²⁷⁹ Companies Act, Ch. 13, Sec. 1.

²⁸⁰ Companies Act, Ch. 13, Secs. 9 and 1.

²⁸¹ Companies Act, Ch. 13, Sec. 1.

²⁸² Companies Act, Ch. 13, Sec. 3.

²⁸³ Companies Act, Ch. 13, Secs. 2 and 5.

²⁸⁴ Companies Act, Ch. 13, Sec. 6. The minority dividends rule is contained in Companies Act, Ch. 13, Sec. 7.

²⁸⁵ Companies Act, Ch. 13, Sec. 6.

²⁸⁶ Companies Act, Ch. 13, Sec. 6.

²⁸⁷ Companies Act, Ch. 13, Sec. 6.

²⁸⁸ Companies Act, Ch. 13, Sec. 7.

²⁸⁹ Companies Act, Ch. 13, Sec. 7.

²⁹⁰ Companies Act, Ch. 13, Sec. 8.

In general, a company may grant a loan to a shareholder, a member of the board of directors or the supervisory board, the managing director, or a close relative of such a person as long as granting the loan has a sound business reason and it is in the company's best interest. However, subject to minor exceptions in favor of the company's employees, a company may not grant a loan or give assets or a security to enable the acquisition of shares in the company or its parent company.²⁹¹

Any assets obtained from a company in contravention of the Companies Act or the articles of association must be returned, together with the appropriate annual interest,²⁹² if the recipient knew or should have known that the distribution of the assets was contrary to the Companies Act or the articles of association.²⁹³

n. Reserves

A company's equity (own capital) is divided into restricted equity and unrestricted equity. Restricted equity consists of share capital, the revaluation reserve in accordance with the Accounting Act, the market value reserve and the reassessment reserve. Other reserves, such as the invested unrestricted equity reserve, and the profit of the current financial period and that carried forward from previous financial periods are unrestricted equity.²⁹⁴

The following must be transferred to the invested unrestricted equity reserve: (i) the part of the amount paid for a subscription price of shares that, according to the memorandum of incorporation or the decision on the share issue, is not allocated to the share capital and that is not, under the Accounting Act, allocated to current liabilities; (ii) any other equity investment that is not allocated to another reserve; and (iii) the amount by which the share capital is reduced that is not used to cover a loss or the distribution of assets.²⁹⁵ Also, the part of the amount paid for a subscription price of stock options or other special rights with respect to shares that is not allocated to the share capital,²⁹⁶ forfeited merger consideration, forfeited demerger consideration, and the conversion of a capital loan into unrestricted equity with the consent of the creditor must be allocated to the invested unrestricted equity reserve.²⁹⁷

3. Statutory Reorganizations

a. Mergers

The Companies Act includes specific provisions regarding changes in a company's structure. These include mergers, demergers, squeeze-outs of minority shareholders, changes of business form, transfers or residence and liquidations. The discussion below addresses mergers and also, briefly, demergers.

Merger is a form of corporate restructuring in which a company (the merging company) merges into another company

(the recipient company) so that the assets and liabilities of the merging company are transferred to the recipient company and the shareholders of the merging company receive shares of the recipient company as consideration. The consideration may also be cash or other assets or commitments. In an absorption merger, the shareholders of the merging company may, with their consent, waive their right to receive merger consideration. Instead of the recipient company, the consideration may be provided by a third party.²⁹⁸

A merger can take either of the following forms: (i) one or a number of merging companies merge into the recipient company (absorption merger); or (ii) at least two merging companies merge by way of incorporating a recipient company together (combination merger). A subsidiary merger is a form of an absorption merger in which the companies involved in the merger own all of the shares of the merging companies, and, where appropriate, all stock option rights and other special rights granting entitlement to shares. A subsidiary merger entails, in some instances, certain exceptions to the rules concerning a merger. In contrast to a subsidiary merger, a sister merger is a merger by absorption without consideration, where a natural or legal person owns, directly or indirectly, all shares of the companies involved in the merger, as well as any stock options and other special rights entitled to the shares. A merger can also be executed as a triangular merger, which means an absorption merger where a party other than the recipient provides the merger consideration.²⁹⁹

Only a company/public company can merge with or into another company. A partnership that intends to merge with or into a company/public company must first be transformed into a company in accordance with the special legislation for that purpose.³⁰⁰

To begin a merger process, the boards of directors of the companies involved in the merger must draw up a written merger plan, which must be dated and signed. In a triangular merger, the provider of the merger consideration must also sign the merger plan.

The boards of directors of the companies involved in the merger must designate one or a number of auditors to issue a statement on the merger plan to each of the companies involved in the merger. The statement must contain an analysis of whether a true and fair view has been provided in the merger plan of the grounds for setting the exchange ratio of shares and other merger consideration, as well as on the distribution of the consideration. The statement to be issued to the recipient company must also indicate whether the merger has the potential to compromise the repayment of the recipient company's debts. If all the shareholders of the companies involved in the merger consent to it, or if the merger is a subsidiary merger or a sister merger, only a statement as to whether the merger has the potential to compromise the repayment of the recipient company's debts is needed.³⁰¹

²⁹¹ Companies Act, Ch. 13, Sec. 10.

²⁹² In accordance with the Interest Act, *Korkolaki/Räntelag*, 633/1982, as amended.

²⁹³ Companies Act, Ch. 13, Sec. 4. Any person who distributes assets of the company in contravention of the provisions of the Companies Act may be punished by a fine or imprisonment under Companies Act, Ch. 25, Sec. 1.

²⁹⁴ Companies Act, Ch. 8, Sec. 1.

²⁹⁵ Companies Act, Ch. 8, Sec. 2.

²⁹⁶ Companies Act, Ch. 10, Sec. 3.

²⁹⁷ Companies Act, Ch. 12, Sec. 1.

²⁹⁸ Companies Act, Ch. 16, Secs. 1 and 2. This is the case in a triangular merger, which is a variation on an absorption merger.

²⁹⁹ Companies Act, Ch. 16, Sec. 2.

³⁰⁰ Partnerships Act, *Laki avoimesta yhtiöstä ja kommandiittiyhtiöstä/Lag om öppet bolag och kommanditbolag*, 389/1988, as amended (the "Partnerships Act"), Ch. 8, Sec. 3.

³⁰¹ Companies Act, Ch. 16, Sec. 4.

The merger plan must be notified for registration within one month from the signing of the merger plan. The auditor's statement must be attached to the notification. The notification must be made jointly by the companies involved in the merger. In the case of a subsidiary merger, the notification must be made by the parent company. The merger will lapse if the notification is not made in time or if registration is refused.³⁰²

Any creditor of the merging company holding debt that arose before the registration of the merger plan has the right to object to the merger.³⁰³ On application from the merging company, the Trade Register must issue a notice to all creditors of the merging company stating that the creditors have the right to object to the merger by notifying the Trade Register of their objection in writing prior to a date stated in the notice (the due date for creditors' objections). In a subsidiary or sister merger, the application may also be submitted by the recipient company. The Trade Register registers the notice *ex officio* and publishes it in the Official Gazette no later than three months before the due date for creditors' objections stated in the notice.³⁰⁴ On application from the recipient company, a public notice must likewise be issued to the creditors of the recipient company, if the merger has — according to the statement of an auditor — the potential to compromise the repayment of the debts of the recipient company.³⁰⁵

No later than one month before the set due date for creditors' objections, the company must send a written notification of the notice to all its known creditors whose claims arose before the registration of the merger plan. Generally, the notification must be sent only after the general meeting deciding on the merger has been held.³⁰⁶ If a creditor objects to the merger, the Trade Register must inform the company accordingly without delay after the end of the period reserved for objections.

From the perspective of the merging company, the decision to merge must be made by the general meeting of shareholders. However, in the case of a subsidiary merger or a sister merger, the decision must be taken by the board of directors of the merging company. Generally, from the perspective of the recipient company, the board of directors must make the decision on a merger.³⁰⁷ The general meeting that is to decide on the merger must be held, or the board of directors' decision to merge must be made, within four months of the date of registration of the merger plan or otherwise the merger will lapse. In any event, generally, the general meeting must be held or the decision of the board of directors made no later than one month before the due date for creditors' objections referred to above.³⁰⁸ The merger decision of the general meeting must be made by a qualified majority.³⁰⁹

The notice of the general meeting that is to decide on the merger must not be delivered before the merger plan has been registered, and the rules concerning the delivery and content

of the notice are exhaustive.³¹⁰ Also, the Companies Act prescribes that specific information must be available for at least one month before the general meeting that is to decide on the merger.³¹¹

If the merger is not approved unchanged in accordance with the merger plan by each of the companies involved in the merger, the merger will lapse. The decision not to approve the merger or the lapse of the merger must be notified for registration without delay.³¹²

A shareholder of the merging company may demand, at the general meeting that is to decide on the merger, that his or her shares be redeemed. A shareholder who demands redemption must vote against the merger decision. Also, holders of stock option rights or other special rights granting entitlement to shares have a right to demand redemption of their rights. The merging company shall provide an electronic address for the electronic receipt of a redemption claim for shares, stock options or other special rights entitling shares. If no agreement is reached with the recipient company on the redemption of shares, stock option rights or other special rights granting entitlement to shares or on the terms of the redemption, the matter must be submitted to arbitration.³¹³

The companies involved in the merger must notify the Trade Register of the implementation of the merger within six months of the merger decision. If they fail to do so, the merger will lapse. The following information must be attached to the notification: (i) a declaration from the members of the board of directors and the managing directors of each company involved in the merger to the effect that the provisions of the Companies Act have been complied with in the merger; (ii) a certificate from an auditor to the effect that the recipient company will receive full consideration for the amount credited to its equity, as well as a statement regarding the account in the merger plan; (iii) a certificate from a member of the board of directors or the managing director on the sending of creditor notifications; and (iv) information on the merger plan and the merger decisions made on the basis of the merger plan by the companies involved in the merger. In the case of a subsidiary merger, the parent company is responsible for the notification and the documentation requirements are, to some extent, lighter.³¹⁴

The Trade Register must register the implementation of the merger if no creditor has objected to the merger or if it is affirmed by a court judgment that an objecting creditor has received payment or full security for its receivable. If a creditor has objected to the merger, the decision to merge lapses after one month from the set due date for creditors' objections. However, the Trade Register will postpone the handling of the matter in certain circumstances.³¹⁵

Once the implementation of the merger has been registered, the assets and liabilities of the merging company will be transferred to the recipient company without liquidation. At the

³⁰² Companies Act, Ch. 16, Sec. 5.

³⁰³ Companies Act, Ch. 16, Sec. 6.

³⁰⁴ Companies Act, Ch. 16, Sec. 6.

³⁰⁵ Companies Act, Ch. 16, Sec. 6.

³⁰⁶ Companies Act, Ch. 16, Sec. 7.

³⁰⁷ Companies Act, Ch. 16, Sec. 9.

³⁰⁸ Companies Act, Ch. 16, Sec. 9.

³⁰⁹ Companies Act, Ch. 16, Sec. 9. If the merging company has more than one class of shares, the decision to merge has to be supported by a qualified majority within each of the share classes represented at the meeting.

³¹⁰ Companies Act, Ch. 16, Sec. 10.

³¹¹ Companies Act, Ch. 16, Sec. 11.

³¹² Companies Act, Ch. 16, Sec. 12.

³¹³ Companies Act, Ch. 16, Sec. 13.

³¹⁴ Companies Act, Ch. 16, Sec. 14.

³¹⁵ Companies Act, Ch. 16, Sec. 15.

same time, the merging company will dissolve and, in a combination merger, the recipient company will be established.³¹⁶

At the moment of registration of the implementation of the merger, the shareholders of the merging company and the holders of stock option rights and other special rights granting entitlement to shares will become entitled to the merger consideration in accordance with the merger plan. The new shares to be issued as merger consideration will carry shareholder rights as of the moment of registration unless a later point in time is determined in the merger plan.³¹⁷

The board of directors and managing director of the merging company must, as soon as possible after the implementation of the merger, draw up the financial statements and annual report for the period not yet covered by financial statements submitted to the general meeting (the final accounts). If, based on the law or the articles of association, an auditor must be appointed for the company, the final accounts must be given to the auditors, who must issue their report on the final accounts within one month. After that, the shareholders' meeting must approve the final accounts and the final accounts must be notified for registration with the Trade Register.³¹⁸

b. Demergers

The rules concerning a demerger are in many ways similar to the rules concerning a merger.³¹⁹ A demerger is a form of restructuring in which a company (the demerging company) demerges so that the assets and liabilities of the demerging company are transferred in full or in part to one or more companies (the recipient company) and the demerging company or the shareholders of the demerging company receive shares in the recipient company as demerger consideration. The demerger consideration may also consist of cash, other assets or undertakings. The shareholders of the demerging company may, with their consent, waive their right to receive the demerger consideration.³²⁰

A demerger may be executed so that: (i) all of the assets and liabilities of the demerging company are transferred to two or more recipient companies and the demerging company dissolves (total demerger); (ii) some of the assets and liabilities of the demerging company are transferred to one or more acquiring companies (partial demerger); or (iii) some of the assets and liabilities of the demerging company are transferred to one or more acquiring companies and where the shares of the acquiring company (or companies) are given as a consideration to demerging company (demerger by means of incorporation).³²¹

A demerger into an existing company is defined as a demerger where the recipient company was incorporated before the implementation of the demerger and a demerger into a company to be incorporated is defined as a demerger where the recipient company is incorporated in the context of the demerger. A total demerger or partial demerger may proceed into an existing company and into a company to be incorporated at the same time. A demerger by means of incorporation may only

take place into the company (or companies) to be incorporated.³²²

4. Transfer of Residence

Both private and public limited liability companies (as transferring companies) may transfer their residence to another state within the EEA and change their corporate form to a legal form permitted in that state, and which also equates to a limited liability company in the transferring company's state of origin (transferred company).³²³ By the transfer of residence, all assets and liabilities of the transferring company becomes assets and liabilities of the transferred company. The transferring company will not be dissolved, and the company will retain its legal personality. In addition, the shareholders of the transferring company become shareholders of the transferred company.³²⁴

The Companies Act defines certain operating responsibilities for the transferring company and its board of directors prior to the transfer of residence. The transferring company must prepare a written transfer plan, which must be dated and signed.³²⁵ In addition to the transfer plan, the transferring company shall prepare a notification to all shareholders, creditors and employees (or their representatives) that they may submit observations in writing to the company regarding the transfer plan. The notification must be made available on the website of the transferring company or by means of a telecommunication link or other technical aids at least one month before the shareholders' meeting deciding on the transfer of residence. The notification shall also indicate the date by which the observations must be submitted to the company, which shall not be later than five working days before the deciding shareholders' meeting.³²⁶

In addition to the above obligations, the board of directors of the transferring company must prepare a statement for shareholders and employees (or their representatives) explaining and justifying the legal and economic aspects of the transfer of residence, including the effects on future business and the assessed consequences for shareholders and employees.³²⁷ The board of directors of the transferring company shall appoint one or more auditors to issue an opinion on the transfer plan as well as on the board's statement.³²⁸ Under threat of lapse of the transfer of residence, the transferring company must submit: (i) the transfer plan; (ii) the notification to shareholders, creditors and employees; and (iii) the statement from the board for registration within one month of signing the transfer plan.³²⁹

On application by the transferring company, the registering authority shall issue a notice to all creditors of the transferring company, whose claim has arisen before the registration of the transfer plan. The notice must state the creditor's right to object to the transfer of residence by notifying the registering

³¹⁶ Companies Act, Ch. 16, Sec. 16.

³¹⁷ Companies Act, Ch. 16, Sec. 16.

³¹⁸ Companies Act, Ch. 16, Sec. 17.

³¹⁹ Please see Ch. 17 of the Companies Act.

³²⁰ Companies Act, Ch. 17, Sec. 1.

³²¹ Companies Act, Ch. 17, Sec. 2.

³²² Companies Act, Ch. 17, Sec. 2.

³²³ See Ch. 17 a of the Companies Act.

³²⁴ Companies Act, Ch. 17 a, Secs. 1, 2 and 3.

³²⁵ Companies Act, Ch. 17 a, Sec. 4. There are specific requirements for the minimum content of the transfer plan in Sec. 4.

³²⁶ Companies Act, Ch. 17 a, Sec. 5. Also note the detailed requirements for the disclosure of the notice to the shareholders as well as for the related due dates as provided in the same provision.

³²⁷ Companies Act, Ch. 17 a, Sec. 6. Also note the exceptions to the obligation to prepare the report provided for in Companies Act, Ch. 17 a, Sec. 7.

³²⁸ Companies Act, Ch. 17 a, Sec. 9.

³²⁹ Companies Act, Ch. 17 a, Sec. 10.

authority in writing by the due date specified in the notice.³³⁰ In addition to the notice sent by the registration authority, the transferring company is also required, one month before the due date, to send a written notification of the registration authority's notice to all creditors known to the company, whose claim has arisen before the registration of the transfer plan.³³¹

In a transferring company, the transfer of residence is decided by qualified majority by the shareholders' meeting. The shareholders' meeting deciding on the transfer must be held within four months of the registration of the transfer plan, or the transfer lapses. The transfer resolution replaces certain acts of the transferring company's shareholders and different actors mentioned in Section 17. The transfer plan also replaces articles of association of the transferred company.³³² A shareholder of the transferring company may, at the shareholders' meeting deciding on the transfer of residence, demand the redemption of the shareholder's shares and must be given the opportunity to do so before the transfer of residence is decided at the shareholders' meeting.³³³

Creditors whose claims arose before the registration of the transfer plan may initiate proceedings against the transferred company also in the country of origin within two years of the entry into force of the transfer of residence. The decision of the shareholders' meeting on the transfer of residence cannot be objected or claimed void on the sole ground that the redemption price used for the transfer of the registered office was not properly determined in the transfer plan or that the information regarding the plan provided did not meet the prescribed requirements. Even if the transfer has been registered, it will be annulled if a final court decision declares the transfer to be invalid. The transferring company and the transferee company are jointly and severally liable for any obligation of the transferee company arising after the transfer of residence has been registered but before the judgement has been registered. A transfer of residence may not be modified or declared invalid after it has properly entered into force in accordance with the law.³³⁴

5. Dissolution

A Finnish company is dissolved by way of liquidation or bankruptcy. However, a company also may also be dissolved as a result of a merger or a demerger.

6. Liquidation

A company must be dissolved in accordance with the provisions of Chapter 20 of the Companies Act on liquidation. The purpose of the liquidation procedure is to ascertain the financial position of the liquidating company, convert the requisite amount of assets into cash, repay the company's debts, and return the surplus to the shareholders or others, as provided in the articles of association.

The liquidation of a company may be based on a voluntary decision of the shareholders' meeting or on a provision in the articles of association requiring the company, in certain circumstances, to go into liquidation. In addition, the Companies Act³³⁵ provides that a company must be liquidated or removed from the register by the Trade Register in certain circumstances, as discussed below.

The shareholders' meeting decides that a company must go into liquidation and the resolution must be supported by at least two-thirds of the votes cast and of the shares represented at the meeting. Also, if the company has different classes of shares, the resolution must be supported by at least two-thirds of each class of shares represented at the meeting.³³⁶

Generally, the notice of the shareholders' meeting that is to decide on liquidation must be sent no earlier than two months and, unless a longer period has been provided in the articles of association, no later than one month before the shareholders' meeting. In addition to what is provided for in the articles of association, the notice must be sent in writing to all shareholders whose addresses are known to the company.³³⁷

If the assets of a company in liquidation do not suffice to cover the costs of the liquidation procedure or the amount of assets of the company cannot be ascertained and no person (for example, a shareholder or a creditor) undertakes to cover the costs of the liquidation procedure, the Trade Register must remove the company from the register (deregistration) instead of placing the company into liquidation.³³⁸

The Trade Register must issue an order of liquidation or de-registration of a company if:

- (i) The company does not have a qualified board of directors registered in the Trade Register;
- (ii) The company does not have a representative registered in the Trade Register;³³⁹
- (iii) The documents relating to the annual accounts of the company have not, in spite of a request from the Trade Register, been submitted for registration³⁴⁰ within one year from the end of the financial period; or
- (iv) The company has been placed in bankruptcy, which has lapsed for lack of assets.

The order will be issued unless it is proven before it is issued that these grounds for the order no longer exist.³⁴¹

The liquidation or de-registration issued by the Trade Register discussed above may be initiated by the board of directors, a member of the board of directors, the managing director, an auditor, a shareholder, a creditor or any other person whose rights may depend on appropriate registration or the placing of the company into liquidation. The Trade Register also may take the matter up on its own motion.³⁴²

³³⁰ Companies Act, Ch. 17 a, Sec. 11.

³³¹ Companies Act, Ch. 17 a, Sec. 12. Also note Sec. 13 concerning the replacement of the notice referred to in Sec. 12 by a reorganization procedure (in the case of company restructuring).

³³² Companies Act, Ch. 17 a, Secs. 14–17.

³³³ Companies Act, Ch. 17 a, Secs. 18 and 19.

³³⁴ Companies Act, Ch. 17 a, Secs. 29–32.

³³⁵ Companies Act, Ch. 20, Sec. 4.

³³⁶ Companies Act, Ch. 20, Sec. 3.

³³⁷ Companies Act, Ch. 20, Sec. 3. The provisions in Companies Act, Ch. 5, Secs. 18–22 apply to the notice of the shareholders' meeting, and the meeting documents and their availability and delivery.

³³⁸ Companies Act, Ch. 20, Sec. 2.

³³⁹ Enterprise Act, Sec. 6.

³⁴⁰ As required by Companies Act, Ch. 8, Sec. 10.

³⁴¹ Companies Act, Ch. 20, Sec. 4.

³⁴² Companies Act, Ch. 20, Sec. 6.

In the situations referred to above in (i)–(iii), before ordering the liquidation or de-registration of the company, the Trade Register must take appropriate measures to urge the company to correct the shortcomings in its register information. These appropriate measures include sending an admonition in writing to the company stating that the company will be placed in liquidation or de-registered unless the shortcomings are corrected by the deadline set in the admonition and publishing the exhortation in the Official Gazette no later than three months before the deadline.³⁴³

When the shareholders' meeting or the Trade Register decides that the company must go into liquidation, one or more liquidators are appointed to manage the company's affairs during the liquidation process. At the same time, one or more liquidators also replace the board of directors and, where appropriate, the managing director and the supervisory board. Liquidation begins when the decision to this effect is made, unless the shareholders' meeting designates a later date for the beginning of the liquidation.³⁴⁴

The liquidation and the liquidators must be registered. Once the shareholders' meeting has decided on the liquidation and chosen the liquidators, the liquidators must without delay notify the decision for registration.³⁴⁵

The liquidators manage the affairs of the company during the liquidation. They must, as soon as possible, convert the assets of the company into cash to the extent required, so that the liquidation can proceed, as well as paying the debts of the company. The business operations of the company may be continued only to a degree called for by an appropriate liquidation process. The term of the liquidators is indefinite.³⁴⁶

The shareholders' meeting may decide to terminate the liquidation and continue the operations of the company, as well as making other decisions that are necessary in this respect. If the assets of a company in liquidation are not adequate to enable the repayment of the company's debts, the liquidator must apply for the bankruptcy of the company.³⁴⁷

The liquidators must draw up financial statements and annual reports for each financial period during the liquidation. Also, if necessary, the liquidators must draw up financial statements for the period preceding liquidation for which no financial statements have yet been submitted to the shareholders' meeting. The members of the board of directors and the managing director must contribute to the drawing up of the financial statements.³⁴⁸ The financial statements must be submitted to the shareholders' meeting for approval and generally the shareholders' meeting is subject to the provisions of the Companies Act.³⁴⁹ If the financial statements have to be audited, the auditor's report must contain a statement as to whether the liquidation has been unduly protracted and as to whether the liquidators have otherwise proceeded in an appropriate manner.³⁵⁰

The liquidators must ask the Trade Register to summon the creditors of the company to inform the Trade Register about the company's debt.³⁵¹ Once the due date of the public summons to the creditors of the company has passed and all of the known debts of the company have been paid, the liquidators must distribute the assets of the company. If a debt is disputed, not yet due or otherwise not payable, the necessary funds must be set aside and the remainder distributed among the shareholders. A shareholder has the right to a share in the distribution of the net assets of the company in proportion to his or her shareholding, unless the articles of association provide otherwise. A shareholder and any other person entitled to a share in the distribution may be paid an advance against the posting of full security.³⁵²

If a shareholder wishes to object to the distribution, the action against the company must be brought within three months of the final settlement being presented to the shareholders' meeting.³⁵³ If a shareholder or any other person entitled to a share in the distribution has not claimed its share within five years of the final settlement being presented to the shareholders' meeting, the share in the distribution will be forfeited.³⁵⁴

After having completed their tasks, the liquidators must, without undue delay, present a final settlement of their administration by drawing up a report of the entirety of the liquidation process. The report must contain an account of the distribution of the assets of the company. The financial statements, annual reports and auditor's reports from the liquidation period must be attached to the report. If, based on the law or the articles of association, an auditor must be appointed for the company, the report and its attachments must be given to the auditor, who must issue an auditor's report on the final settlement and the administration during the liquidation within one month.³⁵⁵

Upon completion of the necessary measures, the liquidators must without delay call the shareholders to a shareholders' meeting to inspect the final settlement.³⁵⁶ The final settlement must be notified for registration.³⁵⁷

A company is considered dissolved when the liquidators have presented its final accounts at the shareholders' meeting. The liquidators must without delay notify the dissolution for registration.³⁵⁸ Once dissolved, the company may no longer obtain rights or obligations. Measures taken on behalf of a company that has dissolved are the joint responsibility of those who decided on the measures and those who carried them out. A party contracting with a company that has dissolved may with-

³⁵¹ Companies Act, Ch. 20, Sec. 14. In other respects, the provisions on the Act on Public Summonses, *Laki julkisesta haasteesta/Lag om offentlig stämning*, 729/2003, as amended, apply to the summons.

³⁵² Companies Act, Ch. 20, Sec. 15.

³⁵³ Companies Act, Ch. 20, Sec. 15.

³⁵⁴ Companies Act, Ch. 20, Sec. 15. Companies Act, Ch. 20, Sec. 18 contains provisions on the procedure to be followed in the event that funds are discovered after the company has dissolved.

³⁵⁵ Companies Act, Ch. 20, Sec. 16.

³⁵⁶ Companies Act, Ch. 20, Sec. 16. The provisions in Companies Act, Ch. 5, Secs. 18–22 apply to the notice of the meeting, and the meeting documents and their availability and delivery, except that the final settlement is governed by the provisions on financial statements.

³⁵⁷ Companies Act, Ch. 20, Sec. 16.

³⁵⁸ Companies Act, Ch. 20, Sec. 17.

³⁴³ Companies Act, Ch. 20, Sec. 5.

³⁴⁴ Companies Act, Ch. 20, Sec. 8.

³⁴⁵ Companies Act, Ch. 20, Sec. 10.

³⁴⁶ Companies Act, Ch. 20, Sec. 9.

³⁴⁷ Companies Act, Ch. 20, Sec. 7.

³⁴⁸ Companies Act, Ch. 20, Sec. 11.

³⁴⁹ Companies Act, Ch. 20, Sec. 13.

³⁵⁰ Companies Act, Ch. 20, Sec. 13.

draw from the contract if that party did not know of the company's dissolution.³⁵⁹

The liquidation must be continued if new assets are discovered after the dissolution of the company, an action is brought against the company or liquidation measures are otherwise necessary. The liquidators must without delay notify the continuation of the liquidation for registration. However, if the continuation of the liquidation is not deemed necessary, the liquidators may otherwise take the measures needed under the circumstances.

A company is deregistered once the decision to this effect has been entered into the register.³⁶⁰

7. Insolvency Proceedings

A company in debt may be subject to statutory insolvency proceedings, which include restructuring proceedings³⁶¹ and bankruptcy.³⁶² An insolvent company may qualify for restructuring proceedings if the court considers the company to be viable and that its insolvency may be remedied. Moreover, a company that is at risk of becoming insolvent may qualify for early restructuring proceedings, which can only be initiated by the company.³⁶³ If the conditions for restructuring³⁶⁴ or early restructuring³⁶⁵ are fulfilled, the court may order the company to commence restructuring proceedings and appoint an administrator for the company.³⁶⁶ The board of directors may decide on the filing of an application for the commencement of restructuring proceedings. The board of directors may also refer the matter to the shareholders' meeting for a decision or it may be decided unanimously by the shareholders.³⁶⁷

The main objective of restructuring proceedings is to avoid bankruptcy by structuring the debts of a distressed company and rehabilitating its business. In the restructuring, the company's financial situation is assessed and, after that, a restructuring plan is prepared. The aim of the restructuring plan must always be for the creditors to have a better financial outcome than the bankruptcy of the company. Generally, and depending on the type of the debt, the execution of the restructuring plan can include changing the debt repayment schedule, providing that payments are to be considered first a repayment of principal first and only secondly a repayment of interest and other costs, reducing the principal, interest and or costs of the debt, and either fully or partially refinancing the debt.³⁶⁸ In the so-called conversion restructuring, creditors' of the company could be granted the right to subscribe to shares, stock options or other special rights against their claims in the restructuring plan.³⁶⁹

If a company is unable to pay its liabilities as they fall due and this inability is not merely temporary, the court may place the company in bankruptcy.³⁷⁰ The company or a creditor that does not have sufficient security for its claim may file an application for bankruptcy.³⁷¹ From the perspective of the company, the decision to file for bankruptcy must be made by the board of directors — the shareholders' meeting may not make the decision. However, if the company is in liquidation, the liquidator may make the decision.³⁷²

If the application is approved, the court will appoint one or more administrators to take control of the assets of the bankruptcy estate.³⁷³ The purpose of the bankruptcy is to liquidate the assets of the company and to disburse the proceeds to settle the claims of the creditors. Bankruptcy encompasses all the debts and liabilities of the company.³⁷⁴ The bankruptcy estate administrator has a duty to act for the common benefit of all the creditors and must comply with the decisions and guidelines of the creditor collective in such matters as the creditors have the authority to decide.³⁷⁵

If, at the conclusion of the bankruptcy, no assets remain, the company is deemed to be dissolved once the final settlement of accounts in the bankruptcy has been approved.³⁷⁶ However, if assets remain, the board of directors must, without delay, convene a shareholders' meeting to decide whether to continue the operations of the company or to place it into liquidation. If the shareholders' meeting decides that the operations of the company should be continued, the board of directors must without delay notify this for registration.³⁷⁷

Finnish law does not, *per se*, provide for informal reorganization proceedings. However, a company may initiate voluntary corporate recovery procedures, though there are no established procedures for this purpose. Voluntary corporate recovery procedures can include, for example, privately arranged restructurings via contractual arrangements.

C. Other Corporate Entities

1. Cooperative Association

A cooperative association is an entity the number of whose members and the amount of whose capital are not determined in advance, and that is established to carry on business to further the economic interests of its members.

A cooperative association is a legal entity separate from its members. While its members are not personally liable for the debts of a cooperative association, there is a (normally moderate) membership fee and the by-laws of the association may provide for an additional contribution to be payable by each member in certain cases.

A cooperative association has separate management powers vested in a board of directors. At least one of the members

³⁵⁹ Companies Act, Ch. 20, Sec. 17.

³⁶⁰ Companies Act, Ch. 20, Sec. 20.

³⁶¹ As referred to in the Restructuring of Enterprises Act, *Laki yrityksen saneerausesta/Lag om företagsanering*, 47/1993, as amended (the "Restructuring of Enterprises Act").

³⁶² As referred to in the Bankruptcy Act, *Konkurssilaki/Konkurslag*, 120/2004, as amended (the "Bankruptcy Act").

³⁶³ Restructuring of Enterprises Act, Ch. 1a.

³⁶⁴ Restructuring of Enterprises Act, Secs. 6 and 7.

³⁶⁵ Restructuring of Enterprises Act, Secs. 4b and 4c.

³⁶⁶ Restructuring of Enterprises Act, Secs. 8, 82a and 82b.

³⁶⁷ Companies Act, Ch. 20, Sec. 24.

³⁶⁸ Restructuring of Enterprises Act, Secs. 44 and 45.

³⁶⁹ Restructuring of Enterprises Act, Sec. 42a.

³⁷⁰ Bankruptcy Act, Ch. 2, Sec. 1.

³⁷¹ Bankruptcy Act, Ch. 2, Secs. 2 and 4.

³⁷² Companies Act, Ch. 20, Sec. 25.

³⁷³ Bankruptcy Act, Ch. 8, Sec. 1 and Ch. 14, Sec. 5.

³⁷⁴ Bankruptcy Act, Ch. 1, Sec. 1.

³⁷⁵ Bankruptcy Act Ch. 14, Secs. 2 and 3.

³⁷⁶ Companies Act, Ch. 20, Sec. 25.

³⁷⁷ Companies Act, Ch. 20, Sec. 25.

of the board must be resident in the EEA, unless the Trade Register grants an exemption from this requirement.³⁷⁸

In practice, cooperative associations have not been established by foreign investors.

2. European Company

An SE takes the form of a public company with a minimum share capital of 120,000 euros. An SE acquires legal personality on the date of its registration in the Trade Register. There are four ways of forming an SE: (i) a merger of public companies; (ii) the formation of a holding company; (iii) the formation of a subsidiary; and (iv) the transformation of a Finnish public company. The domicile of an SE is deemed to be at the place of its head office, which is deemed to be the place of its registered office. The management structure of an SE can be one-tiered (board of directors) or two-tiered (board of directors and supervisory board).³⁷⁹

3. European Cooperative Association

An SCE takes the form of a cooperative association. It acquires legal personality on the date of its registration in the Trade Register. There are two ways of forming an SCE: (i) a merger of cooperative associations; and (ii) the transformation of a Finnish cooperative association. The domicile of an SCE is deemed to be at the place of its head office, which is deemed to be the place of its registered office. The management structure of an SCE can be one-tiered (board of directors) or two-tiered (board of directors and supervisory board).³⁸⁰ One major advantage of an SCE is its ability to migrate within the EEA without losing its legal personality.

D. Partnerships

1. Formation

A partnership is the simplest form available to two or more persons wishing to carry on a trade together. The provisions regulating partnerships are found in the Partnerships Act.

The partnership agreement between the partners forms the basis of a partnership.³⁸¹ The partnership agreement must be signed by all partners and the agreement must contain at least: (i) the name of the partnership; (ii) the place of registered office; (iii) the line of business; and (iv) the names of the partners.³⁸² Both individual and legal persons may be partners. A partnership carrying on a trade must register with the Trade Register. A partnership comes into existence at the moment the Trade Register registers it.³⁸³

No monetary contribution is required from the partners in a general partnership. Work contribution is sufficient. In the

case of a limited partnership, a monetary contribution is required from the limited partner, while work contribution is sufficient for the general partners.

2. Administration

Every partner is jointly and severally liable for the commitments of a general partnership.³⁸⁴ Every partner is also liable for the debts of the partnership from when they became a partner and for any obligations incurred after their resignation from the partnership, unless the creditor concerned knew that the partner had resigned prior to the commencement of the obligation. However, once the resignation has been entered in the Trade Register and published, a partner is no longer liable for obligations that commence after their resignation.³⁸⁵

A limited partnership has two kinds of partners. At least one of the partners, the limited partner, is responsible for the liabilities of the partnership only to the extent of their contribution to the partnership's capital;³⁸⁶ and at least one of the other partners, the general partner, has unlimited responsibility in the same way as the partners in a general partnership. Only general partners have the authority to decide on partnership matters, manage the partnership and represent it. Limited partners do not have such powers, unless expressly authorized by the general partners.³⁸⁷

In the case of a general partnership, each partner is entitled to represent the partnership and sign for the partnership in matters relating to the partnership's line of business. This right may, however, be restricted through an agreement between the partners removing the right of one or more partners to represent the partnership or stipulating that only two or more partners together have the right to represent the partnership. Such a restriction must be submitted for registration in the Trade Register and the restriction is valid as from the date of registration, regardless of whether a third party knew of it.³⁸⁸

The partners in a general partnership or the general partners in a limited partnership may together authorize a designated person to act on their behalf in all matters related to the business of the partnership by issuing a procuration right.³⁸⁹ A procuration right may only be issued by all the general partners acting together. The procuration right may stipulate that its holder will only have the right to sign for the partnership jointly with one or more other partners. Unless agreed otherwise, a procuration right may be cancelled by any partner or general partner who, alone or together with another partner or general partner, is entitled to act for the partnership.³⁹⁰ There are no statutory requirements concerning the citizenship or residence of the holder of a procuration right. The granting of a procuration right may be entered in the Trade Register.

A partnership must appoint a representative who is domiciled in Finland unless it has a partner, general partner, managing director or holder of a power of attorney who is registered

³⁷⁸ Co-operatives Act, *Osuuskuntalaki/Andelslagslag*, 421/201, as amended (the "Co-operatives Act").

³⁷⁹ Act on European Companies, *Eurooppayhtiölaki/Lag om europabolag*, 742/2004, as amended, and Council Regulation (EC) No. 2157/2001 of October 8, 2001 on the Statute for a European Company (SE), as amended.

³⁸⁰ Act on European Cooperative Association (*Eurooppaosuuskuntalaki/Lag om europaandelslag*), 906/2006, as amended, and Council Regulation (EC) No. 1435/2003 of July 22, 2003 on the Statute for a European Cooperative Society (SCE).

³⁸¹ Partnerships Act, Ch. 1, Sec. 2.

³⁸² Partnerships Act, Ch. 1, Sec. 4.

³⁸³ Partnerships Act, Ch. 1, Sec. 2.

³⁸⁴ Partnerships Act, Ch. 1, Sec. 1.

³⁸⁵ Partnerships Act, Ch. 4, Sec. 1.

³⁸⁶ Partnerships Act, Ch. 7, Sec. 6. and Ch. 1, Sec. 1.

³⁸⁷ Partnerships Act, Ch. 7, Secs. 3 and 5 and Ch. 3, Sec. 3.

³⁸⁸ Partnerships Act, Ch. 3, Sec. 1.

³⁸⁹ Partnerships Act, Ch. 3, Sec. 3.

³⁹⁰ Partnerships Act, Ch. 3, Sec. 3.

in the Trade Register and who is resident in the EEA. The representative, if any, must be registered in the Trade Register.

Unless agreed otherwise, all partners other than limited partners have an equal share in the management of the partnership and each is entitled to act alone — within the limits set by the purpose and area of business of the partnership — in matters concerning the partnership.³⁹¹ However, the partners may freely agree to arrange their mutual relations as they deem appropriate, but such an agreement is binding only between the partners.³⁹²

A partnership does not have any statutory organs. It may have a managing director, a board of directors and a meeting of partners, if these have been agreed on. The managing director of a partnership is entitled to represent the partnership in matters relating to its day-to-day management.³⁹³ The board of directors and the meeting of partners are not entered in the Trade Register.

A partnership must appoint an auditor in certain circumstances.³⁹⁴ Furthermore, a Finnish partnership that is required to keep accounting records, whose principal activity consists in the ownership and holding of securities in another entity and that exercises significant influence over the operating and financial policies of that other entity, must always appoint an auditor.³⁹⁵

Usually, partnerships have at least one auditor. The partnership agreement may provide for one or more auditors. The partners may also elect one or more deputy auditors.³⁹⁶ The partners or general partners elect the auditor(s) by unanimous decision, unless agreed otherwise.³⁹⁷ The auditor must be elected separately for each accounting period or for any term of office stipulated in the partnership agreement. The auditor's term of office ends after the delivery of an auditor's report for the last accounting period during their term of office. If an auditor has been appointed until further notice, the auditor's term of office ends when a new auditor is appointed.³⁹⁸ Relevant information concerning the appointed auditor(s) must be registered with the Trade Register.

In the case of a general partnership, profits are distributed among the general partners in accordance with the partnership agreement.³⁹⁹ In the case of a limited partnership, a limited partner is first paid on his or her contribution to the partnership's capital as at the beginning of the accounting period, in accordance with the partnership agreement. The balance of the profit is distributed among the general partners in accordance with the partnership agreement. In general, limited partners do not contribute to the coverage of losses of the partnership.⁴⁰⁰ In the case of the bankruptcy of a limited partnership, however, the limited

partners do contribute to the losses, but only to the extent of their contributions to the partnership's capital.

At least one of the partners in a general partnership, or one of the general partners in a limited partnership, must be a resident in the EEA, or in the case of companies, have the registered office in the EEA. Otherwise, a permit from the Trade Register is required. These requirements do not apply to limited partners. This applies whether the partnership is new or already in existence.⁴⁰¹

3. Dissolution

A partnership is dissolved when the partners so decide, or when the partnership agreement so provides. At the end of the period provided for in the partnership agreement, the partnership is dissolved unless the partners decide to renew their agreement. In certain circumstances, a partner may request that the partnership be dissolved. The death or bankruptcy of a partner may also lead to the dissolution of the partnership.⁴⁰²

A partnership is deemed to be dissolved if the number of partners falls to one and is not increased to at least two within a year.⁴⁰³

In general, the partners carry out the liquidation of a partnership. Once the debts of the partnership are paid and the limited partners have been refunded the amounts they have invested, the remainder is divided among the general partners.⁴⁰⁴

Under special legislation, both general and limited partnerships can be converted into limited liability companies without tax consequences.⁴⁰⁵

E. Branch of a Foreign Corporation

1. Registration

A foreign corporation that is resident in another Member State of the EEA may freely carry on any legal and proper business through a branch in Finland. For purposes of the Enterprise Act, a branch (other than a branch of an insurance, credit or financial institution, branches of which are defined in the respective special legislation) to be a part of a foreign corporation or foundation that engages in professional business activities in Finland from a place of business in Finland on behalf and in the name of a foreign corporation or foundation.⁴⁰⁶ The branch must be registered in the Trade Register. A corporation is deemed to be resident in the EEA if it is established under the laws of an EEA Member State and if its registered office, central administration, or principal place of business is in an EEA Member State.

A foreign corporation that is not resident in the EEA that intends to carry on business by establishing a branch in Finland must, prior to granting the registration for its branch office, obtain a trade permit from the Trade Register. Ordinarily, such a permit will be granted.⁴⁰⁷

³⁹¹ Partnerships Act, Ch. 2, Sec. 2.

³⁹² Partnerships Act, Ch. 2, Sec. 1.

³⁹³ Partnerships Act, Ch. 2, Sec. 4.

³⁹⁴ Partnerships Act, Ch. 10, Sec. 1.1 and Auditing Act, Ch. 2, Sec. 2.

³⁹⁵ Partnerships Act, Ch. 10, Sec. 1 and Auditing Act, Ch. 2, Sec. 2. See the conditions noted in III.B.2.j. in connection with a company's obligation to appoint an auditor.

³⁹⁶ Partnerships Act, Ch. 10, Sec. 1 and Auditing Act, Ch. 2, Sec. 3.

³⁹⁷ Partnerships Act, Ch. 10, Sec. 3.

³⁹⁸ Partnerships Act, Ch. 10, Sec. 3.

³⁹⁹ Partnerships Act, Ch. 2, Sec. 9.

⁴⁰⁰ Partnerships Act, Ch. 7, Sec. 4.

⁴⁰¹ Enterprise Act, Sec. 3.

⁴⁰² Partnerships Act, Ch. 5, Sec. 1.

⁴⁰³ Partnerships Act, Ch. 5, Sec. 9.

⁴⁰⁴ Partnerships Act, Ch. 6, Secs. 1 and 2.

⁴⁰⁵ Partnerships Act, Ch. 8, Sec. 3 and Income Tax Act, Sec. 24.

⁴⁰⁶ Enterprise Act, Sec. 1.

⁴⁰⁷ Enterprise Act, Sec. 3. This requirement can normally be considered a mere formality. However, specific requirements have been imposed on trade in

Before commencing business, a foreign corporation, whether or not it is resident in a Member State of the EEA, must submit to the Trade Register a registration application form containing information on, among other things, the company name of the branch, the branch's postal address, the line of business, the foreign corporation's company name, the type of activity to be carried on by the branch, personal details of the representative(s), and certain detailed information and documentation concerning the foreign corporation.⁴⁰⁸

The foreign corporation must appoint a representative who will represent the foreign corporation and answer for the activities of the branch in Finland. Such an individual must be legally competent and resident in Finland. Such an individual may also be resident in another Member State of the EEA, if the foreign corporation is established under the laws of an EEA Member State and if its registered office, central administration, or principal place of business is in an EEA Member State.⁴⁰⁹

2. Liability

Because a Finnish branch of a foreign corporation is considered merely an unincorporated extension of the foreign corporation in Finland and the branch is not an independent legal entity, any debts or other liabilities incurred by the branch are deemed to accrue to the foreign corporation.

The representative appointed by a foreign corporation to be in charge of a branch must answer in legal matters relating to the branch. The representative is also jointly and severally

liable with the corporation located outside of the EEA for the payment of taxes imposed on the branch in Finland, but not with respect to the period before the representative was appointed and registered as such in the Trade Register.⁴¹⁰

3. Books and Records

The annual accounts of a foreign corporation that has established a branch in Finland must be filed with the Finnish Trade Register within six months of the end of the financial year, in the format in which they have been prepared, audited and published in accordance with the legislation of the country applicable to the foreign corporation. Where the foreign corporation is subject to the laws of an EEA Member State, any longer filing deadline provided for under those laws shall apply.

However, if the annual accounts of the foreign corporation have not been prepared, audited and published in accordance with the statutes of the EU or in an equivalent manner, the branch must file separate annual accounts as well as an auditor's report prepared in accordance with the Accounting Act and audited in accordance with the Auditing Act.⁴¹¹

F. Other Business Entities

No other business entities are available to foreign investors in Finland.

certain areas involving safety, health or financial risks. A license from the authorities is required, in addition to the trade permit, for most of these regulated forms of trade.

⁴⁰⁸ Trade Register Act, Sec. 4.

⁴⁰⁹ Enterprise Act, Sec. 6.

⁴¹⁰ Tax Assessment Act, *Laki verotusmenettelystä/Lagen om beskattningsförfarande*, 1558/1995, as amended (the "Tax Assessment Act"), Sec. 52.

⁴¹¹ Trade Register Act, Sec. 11.

IV. Principal Taxes

A. Sources of Authority in Tax

1. Legislative

The Constitution requires taxes to be based on laws.⁴¹² Finnish procedural and substantive tax laws are governed by a number of different tax acts, rather than just one tax code. The tax laws are enacted by Parliament by a simple majority vote. It is customary for tax laws to give either the power to issue decrees to the Government or the power to issue guidance on the specifics needed to assess a tax to the Tax Administration (*Verohallinto/Skatteförvaltningen*). The same applies to municipalities and church congregations, which can independently decide on the local income, real property or church tax rate. In interpreting the tax laws, the texts of the governmental proposal or the report of the finance committee of parliament during the enactment process are generally given relevance.

The Government submits the legislative proposals to Parliament. The proposals are drafted by the tax department of the Ministry of Finance. A proposal is heard by the finance committee of Parliament, which issues a report, either recommending the approval of the proposal to the plenary session or suggesting amendments to the proposal. As the Government usually consists of ministers representing political parties holding majority seats in Parliament and the committees also reflect the political balance in Parliament, the financial committee seldom recommends the refusal of a legislative proposal. However, in some cases, the Government has withdrawn tax-related proposals from Parliament.⁴¹³ Finally, the plenary session either approves or rejects the legislative proposals (as potentially recommended to be amended by the financial committee). The President confirms the tax laws after receiving the approval of Parliament. If the President does not confirm a law, the law is returned to Parliament for further consideration. If Parliament approves the law without material alteration, the law will enter into force without confirmation.

Finland has no separate constitutional court that can challenge the constitutionality of a tax law. During the legislative process, Parliament may submit a tax law proposal to the constitutional law committee, which gives its report on whether the proposal would be in conflict with the Constitution. The constitutionality of a tax law may be challenged later in court proceedings, with the ultimate decision on the matter being handed down by the Supreme Administrative Court.

2. Administrative

As with government decrees discussed above, with respect to some issues, the tax laws give the Tax Administration the power to issue decisions on the specifics needed to assess a

tax (for example, the maximum amount of tax free travel allowances). In addition, the Tax Administration issues guidance on how it intends to interpret certain tax laws. This published guidance does not, however, bind administrative courts in their rulings on tax matters. Court rulings conflicting with Tax Administration guidance have thus sometimes resulted in the Tax Administration being required to change its guidance post ruling in accordance with the new case law.

In most cases taxpayers may apply for an advance ruling relating to taxes either from the Tax Administration or from the Central Tax Board (*Keskusverolautakunta/Centralskattenämnden*). Applying for advance rulings is an important part of tax planning. Advance rulings are subject to a charge and issued with regard to a fixed term. An advance ruling of the Tax Administration is binding, if the taxpayer so requests, and possibly subject to change if the circumstances on which the advance ruling is based change.

The Central Tax Board, which is a body appointed by the Government consisting of representatives from the Tax Administration, tax recipients and taxpayers, may issue a binding advance ruling on a question that is considered to be of sufficient importance that a precedent needs to be set or a question of significant value to the taxpayer concerned.

Neither the Tax Administration nor the Central Tax Board issues rulings on issues that have previously been resolved by either of these entities. In some cases, the Tax Administration may decline to issue an advance ruling if a precedent set by the Central Tax Board might be of use with respect to the particular subject matter.

An advance ruling of the Tax Administration may be appealed to the administrative courts. An appeal against an advance ruling of the Central Tax Board may be made to the Supreme Administrative Court. An appeal may not be made against a decision of the Tax Administration or the Central Tax Board not to issue an advance ruling.

The Central Tax Board may publish its rulings; published rulings are deemed to carry precedential value. This also applies to published Supreme Administrative Court rulings on appeals relating to advance ruling matters.

Comment: Since obtaining an advance ruling may take some time, in practice, time constraints may mean that resorting to an advance ruling is not always possible — for example, where merger and acquisition (M&A) activities are being carried out.

As an alternative to an advance ruling, a pre-emptive discussion with the Tax Administration is also possible. In a pre-emptive discussion, companies can discuss potential tax consequences of planned actions, e.g., mergers and acquisitions, with Tax Administration officials. Where established taxation practice or case-law exists on the issues raised in the discussion, the company may receive written guidance from the Tax Administration as a result of the discussion.

⁴¹²The Constitution, Sec. 81.

⁴¹³This happened, for example, in 2015 when the Government tried to have the Parliament enact a law regarding a temporary tax amnesty but, given the resulting public and political debate, the proposal was withdrawn.

3. Courts

A resident (or nonresident) taxpayer has a right to appeal a tax assessment decision to the Adjustment Board (*verotuksen oikaisulautakunta/skatterättelsenämnden*), which is the first actual instance of appeal. The members of the Adjustment Board are nominated by the Tax Administration based on proposals of the Tax Administration, municipalities and taxpayers' lobbying organizations. An appeal must be made by the later of: (i) before the end of the third year following the assessment year; or (ii) within 60 days after the taxpayer received notification of the tax decision.

As noted in 2., above, an appeal against an advance ruling issued by the Tax Administration is to be made directly to the administrative court. Such an appeal must be made within 30 days from receipt of the decision of the Tax Administration.

A taxpayer may file an appeal against a decision of the Adjustment Board with the administrative court of the court district in which the taxpayer is resident. If the taxpayer is not a resident of Finland or if the matter concerns VAT, the appeals described above are made to the Administrative Court of Helsinki. The appeal must be made within 60 days from receipt of the decision of the Adjustment Board. It is possible to appeal a decision of the Adjustment Board directly to the Supreme Administrative Court if the parties agree to it, the Supreme Administrative Court grants permission and there is a need to have precedent.

An appeal against a decision of an administrative court may be made to the Supreme Administrative Court within 60 days⁴¹⁴ of the notification of the decision of the administrative court if the Supreme Administrative Court grants leave to appeal. Such leave is granted only if there is a need to have precedent, there has been an apparent failure at the administrative court level or there are substantial financial reasons for the appeal. The Supreme Administrative Court does not have to give any reasons for rejecting a petition for leave to appeal. In practice, leave to appeal is rarely granted. It should be noted that advance ruling decisions of the Central Tax Board can be directly appealed to the Supreme Administrative Court.

Published rulings of the Supreme Administrative Court are deemed to carry precedential value.

A taxpayer carries generally its own tax litigation costs. However, in rare cases, where it is deemed that the Tax Recipients' Legal Unit (an administrative body that represents the public side in tax litigation proceedings, *Veronsaajien oikeudenvalvontayksikkö/Enheten för bevakning av skattetagarnas rätt*) has carried on the tax litigation trying to uphold the Tax Administration's tax decision without sufficient merits or overthrow a positive tax decision by the Tax Administration, the Tax Administration or the relevant tax recipient (state and/or municipality), respectively, may be ordered to compensate the taxpayer's litigation costs.⁴¹⁵

⁴¹⁴ In case of appeal of a decision relating to an advance ruling given by the Tax Administration, the time to appeal is limited to 30 days.

⁴¹⁵ Supreme Administrative Court ruling No. 2019:95.

B. Income Tax

Resident individuals are subject to national income tax at progressive rates and municipal income tax at flat rates on their net worldwide earned income. Resident individuals are subject to national income tax at a flat rate on their net worldwide "capital income." The determination of whether certain income is capital income or earned income is of crucial importance.⁴¹⁶

Nonresident individuals are subject to national income tax at flat rates on their gross or net income from Finnish sources, depending on the circumstances.

In general resident companies are subject to national tax at a flat rate of 20% on their net worldwide income. Nonresident corporations are subject to national tax at a flat rate of 20% on their net income from Finnish sources.⁴¹⁷

Certain governmental or public entities (the Bank of Finland, the Finnish Broadcasting Company, the Nordic Investment Bank, the National Social Insurance Institution, etc.) are exempt from income taxation.⁴¹⁸ The state and its institutions, the municipalities and non-profit (educational, scientific, cultural, etc.) associations are in general liable to tax only on business profits and income from real property used for other than public purposes, and liable only to municipal and church taxes.

For tax purposes, an SE⁴¹⁹ and an SCE (see III.C., above) are treated like a company and a cooperative society, respectively. A partnership is a mere pass-through entity, the income of a partnership being allocated to its partners and taxed according to the principles set out above.

The principal legislative framework consists of: the Income Tax Act; the Business Income Tax Act;⁴²⁰ and, with respect to nonresidents, the Finnish Nonresident's Income Tax Act⁴²¹ and Finland's double taxation agreements with other countries.

Income taxes are, together with VAT, the main source of government revenue. The tax rates applied to earned income are relatively high. On the other hand, the social security charges payable by employees (which, strictly speaking, are not taxes and which are generally levied together with local taxes) are relatively low. In 2026, the combined rate of income taxes and social security charges in Finland on the salary/wages

⁴¹⁶ The progressive tax rates applicable to earned income are relatively high (marginal rates up to about 51%), whereas the flat rate applicable to capital income (30%, and 34% when income exceeds 30,000 euros) is moderate.

⁴¹⁷ See III.A.2., above, regarding the use of the terms "company" and "corporation."

⁴¹⁸ Public universities are exempt to the extent they do not have any business income or have income from real property that is not used for other than public purposes. See also Supreme Administrative Court ruling No. 2025:22, in which a non-EEA central bank was considered objectively comparable to the Bank of Finland and was therefore exempt from Finnish withholding tax on dividends under the free movement of capital pursuant to Article 63 TFEU.

⁴¹⁹ Regulations relating to SEs are not discussed in detail in this Portfolio because interest in setting up an SE has diminished with the implementation of EU Directive 2005/56/EC of the European Parliament and of the Council of October 26, 2005, on cross-border mergers of limited companies.

⁴²⁰ Business Income Tax Act, *Laki elinkeinotulon verottamisesta/Lag om beskattning av inkomst av näringsverksamhet*, 630/1968, as amended (the "Business Income Tax Act").

⁴²¹ Nonresident's Income Tax Act, *Laki rajoitetusti verovelvollisen tulon verottamisesta/Lag om beskattning av begränsat skattskyldig för inkomst*, 627/1978, as amended (the "Nonresident's Income Tax Act").

of an employee earning 80,000 euros per year is approximately 37.6%.⁴²²

Altogether the proportion of total taxes in relation to GDP in Finland was about 42.2% in 2024. It is about three percentage units higher than the average in the EU and little over eight percentage units higher than the OECD average.

C. Estate and Gift Tax

Unlike the U.S. federal estate and gift tax, which assesses tax on the estate or the donor, Finnish law taxes the heir, legatee or donee based on the value of the inheritance or gift received. The legislative framework is the Inheritance and Gift Tax Act.⁴²³ In the case of close relatives, the rates are moderate; otherwise the rates are quite high.

D. Value Added Tax

Finland levies a VAT on the sale of goods and services, and insurance tax on the sale of certain insurance services. The current VAT Act⁴²⁴ conforms with the EU VAT Directives.⁴²⁵ In terms of government revenue, VAT is the most important tax. For a detailed discussion on VAT, see XIII., below.

Excise taxes are levied at varying rates on alcohol, tobacco, fuel, electricity and certain other commodities. The rates on alcohol are significantly higher than in most EU Member States. Furthermore, automobiles, other than commercial vehicles in general, are, in addition to VAT, subject to a relatively high car tax.

E. Capital Investment Tax

Contributions of capital to the equity of companies are, as such, not subject to any tax in Finland.

F. Payroll Tax

While there is no tax on payroll as such, many statutory social security insurance charges (such as health, pension, unemployment, accident and life insurance contributions) are levied only on employers, and are in effect similar to payroll taxes. The combined rate of these taxes is on average approximately 20–21% on top of the salary of an employee.

1. Health Insurance Contributions

Employers must pay health insurance contributions in accordance with the Health Insurance Act.⁴²⁶ The amount is based

⁴²²The applicable rate varies depending on the domicile municipality, church member status and age of the employee.

⁴²³Inheritance and Gift Tax Act, *Perintö- ja lahjaverolaki/Lag om skatt på arv och gåva*, 378/1940, as amended (the “Inheritance and Gift Tax Act”).

⁴²⁴Value Added Tax Act, *Arvonlisäverolaki/Mervärdeskattelag*, 1501/1993, as amended (the “VAT Act”).

⁴²⁵E.g., EU Council Directive 2006/112/EC of November 28, 2006, on the common system of value added tax, as amended and EU Council Directive 2010/45/EU of July 7, 2010, amending EU Directive 2006/112/EU on the common system of value added tax as regards the rules on invoicing, as amended (the “EU VAT Directives”).

⁴²⁶Health Insurance Act, *Sairausvakuutuslaki/Sjukförsäkringslag*, 1224/2004, as amended.

on the salaries paid (including fringe benefits). Employees are also required to pay health insurance contributions. The employee’s part of the contribution is included in his or her withholding rate. The following rates are applicable in 2026:

Payments to Tax Administration	Rate
Employer Health Insurance Contribution	1.91%
Employee Health Insurance Contribution	
• Health care contribution on wage income and annual earnings	1.10%
• Daily allowance contribution	0.88%
	0% for income of less than 17,255 euros

2. Pension Insurance Contributions

In accordance with the Employee’s Pension Act, an employer must provide an earnings-related pension insurance for its employees.⁴²⁷ The employer must also charge the employee’s share of the contribution in connection with payroll payments. Both the employer and the employee’s contributions must be transferred to the relevant pension insurance company. The following rates are applicable in 2026:

Payments to Insurers	Rates
Employees Ages 17 to 68	7.30%
Employers (average rate)	17.10%

3. Unemployment Insurance Contributions

In accordance with the Unemployment Benefit Financing Act, both the employer and the employee must pay unemployment insurance contributions based on the amount of the combined amount of wages and fringe benefits. The obligation to take out unemployment insurance also applies to possible co-owners of a company.⁴²⁸ The following rates are applicable in 2026:

⁴²⁷Employee’s Pension Act, *Työntekijän eläkelaki/Lag om pension för arbetstagare*, 395/2006, as amended.

⁴²⁸Unemployment Benefit Financing Act, *Laki työttömyysetuuksien rahoituksesta/Lag om finansiering av arbetslöshetsförmåner*, 555/1998, as amended.

Payments to Employment Fund	Rates
Employers	0.31%, if paid wages are no more than 2,509,500 euros annually 1.23%, if paid wages exceed 2,509,500 euros annually 0.31% for co-owners of a company
Employees	0.89%
Shareholder-Employees	0.39%

4. Occupational Insurance Contributions

In accordance with the Occupational Accident and Disease Act, employees must be insured against occupational accidents and diseases. The insurance must be valid from the moment the employee starts working for the employer onwards. The amount of accident insurance contribution varies by industry and company.⁴²⁹ The average accident insurance contribution in 2025 was approximately 0.54% of payroll.

Entrepreneurs can take out voluntary entrepreneurs' accident insurance.

5. Group Life Insurance Contributions

Some collective labor agreements require employers to take out group life insurance for employees. The relevant insurance company collects the group insurance contributions together with the accident insurance contributions by sending a separate invoice. The amount of the contribution varies by line of business and by company. The average group life insurance contribution in 2025 was approximately 0.06% of payroll.

⁴²⁹ Occupational Accident and Disease Act, *Työtapaturma- ja ammattitautilaki/Lag om olycksfall i arbetet och om yrkessjukdomar*, 459/2015, as amended.

G. Trade Tax

Apart from income tax, Finland has no tax on a trade or business.

H. Net Wealth Tax

Finland has no net wealth tax.

I. Local Taxes

Resident individuals are subject to local income taxes (i.e., municipal and, generally, church taxes) on earned income at flat rates (on average 7.57% and 1.38%, respectively, in 2026). The rates are fixed annually and vary among the municipalities and congregations. These municipal tax rates are applicable in mainland Finland, but not in the autonomous province of Åland where the allocation of the tax burden between the state and municipalities is different. Companies are not subject to local income taxes. However, a significant percentage (22.90% in 2026) of the yield from the "national" corporate tax is distributed to the municipalities (see V.B.1., below). Together with the real property tax, the municipal income tax accounts for most of the revenue of the municipalities.

J. Real Property Tax

Real property tax is a municipal tax levied annually on the assessed value of real property in Finland, subject to certain exceptions, on both resident and nonresident owners. The rates allowed by law vary depending on the type of property. The general tax rate applicable to buildings and structures varies between 0.93% and 2%, while the general tax rate applicable to land area varies between 1.3% and 2%. For power stations and certain construction sites on which no buildings have been erected, the rate may be higher.⁴³⁰

K. Transfer Tax

A transfer tax is payable, subject to certain exceptions, on transactions involving real property and securities, in accordance with the Transfer Tax Act.⁴³¹

⁴³⁰ Real Property Tax Act, *Kiinteistöverolaki/Fastighetsskattelagen*, 654/1992, as amended (the "Real Property Tax Act", Secs. 11, 12a, 12b and 14.

⁴³¹ Transfer Tax Act, *Varainsiirtoverolaki/Lag om överlåtelseskatt*, 391/1996, as amended (the "Transfer Tax Act").

V. Taxation of Resident Corporations

A. What Is a Resident Corporation?

A company is deemed to be resident if it is incorporated in accordance with the Finnish Companies Act and is registered with the Finnish Trade Register.⁴³² A foreign company is regarded as resident if its place of effective management is in Finland. The place of effective management is the place where the most important decisions concerning the company's daily management are made. Companies are considered resident taxpayers in Finland from the date a company was founded or registered or from the date when Finland became the country of its place of effective management.⁴³³ A European Company (SE)s and a European Cooperative Society (SCE)s that is registered in Finland is deemed to be a resident of Finland.

B. Corporate Income Tax

1. Scope of Taxation

Corporate profits are subject to a national corporate income tax (CIT) at the flat rate of 20%. The CIT is allocated between the state and the municipalities. During 2026, it is allocated in the following proportions: 77.10% to the state (up from 76.35% in 2025); and 22.90% to the municipalities (down from 23.65% in 2025).

A Finnish resident company is subject to CIT on its domestic source income and foreign income. In the absence of an applicable tax treaty, a credit against Finnish CIT is provided for foreign national (not local) level income taxes paid on foreign-source income (for further, see 7.a., below, and XV.A., below). Under Finland's tax treaties, income derived from a treaty partner country, depending on the type of income and the treaty, may be either exempt from foreign⁴³⁴ or may attract a credit against Finnish CIT for foreign tax paid.

Certain non-profit entities are liable to tax only on their business profits and income from real property used for purposes other than non-profit purposes. A resident shipping company that is effectively managed from Finland and is engaged in the international transportation of goods or passengers, as well as a permanent establishment (PE) in Finland of an international shipping corporation resident in another EU Member State, may elect to be subject to a tonnage tax system based on the net tonnage of its ships, instead of the normal corporate income taxation based on actual profits (see further at V.B.3.a., below).

2. Accounting

a. In General

Under the Accounting Act and other provisions regulating bookkeeping and the preparation of annual accounts, a Finnish

company must establish and keep its books in accordance with generally accepted accounting principles and on the basis of sound business practice. Books kept in this way provide the basis for the determination of the company's profit or loss for tax purposes.

The annual accounts must be retained in Finland for 10 years and the journals and ledgers for six years after the financial year.⁴³⁵

The principles for preparing annual accounts can be summarized as follows:

- (i) The accounts must give a true and fair view of a corporation's results and financial status;
- (ii) The principles must be consistent from year-to-year;
- (iii) Only realized profits may be taken into account, and profits and expenses relating to a company's activities should match to the extent possible; and
- (iv) A company must be treated as a going concern.

Specific provisions apply to corporate groups: subject to certain conditions, a parent company must disclose prescribed information and prepare consolidated accounts concerning the entire group.⁴³⁶ Similarly, the requirements for large and small companies and micro undertakings may vary slightly. For example, small companies do not need to prepare cash flow statements, annual reports or statements of non-financial information. In addition, small groups do not need to prepare consolidated financial statements.⁴³⁷

The annual accounts constitute the basis for taxation and deductions are generally allowed for tax purposes only if corresponding entries have been made in the books. However, certain adjustments are allowable for tax purposes only. Such adjustments may have the nature of tax incentives and, therefore, a company's net income and profitability is best reflected by the net income, for book purposes, before appropriations.

b. Accounting Periods

In general, the financial period of a company is the calendar year, but a company may choose any 12-month period. When a company's business commences or ceases, or when its financial period is changed, the financial period may be shorter or longer than 12 months, but it may not exceed 18 months⁴³⁸ (see also 9., below).

c. Accounting Methods

Finnish companies keep their books using the accrual method. However, the law also allows the cash method to be used.⁴³⁹

⁴³² There is no statutory definition of residence with respect to companies in Finnish law.

⁴³³ Income Tax Act, Sec. 9.

⁴³⁴ For example, the Convention between the Government of the United States of America and the Government of the Republic of Finland for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and on Capital, 2/1991 (the "Finland-U.S. tax treaty"), Art. 2, covers, with respect to U.S. taxes, only U.S. federal taxes, so that credit for U.S. state taxes is not allowed.

⁴³⁵ Accounting Act, Ch. 2, Sec. 10.

⁴³⁶ Profits and expenses should match each other; e.g., a parent company may not deduct health insurance (previously social security) charges it has paid on behalf of the employees of its subsidiary unless it has charged them to the subsidiary.

⁴³⁷ Accounting Act, Ch. 3, Sec. 1; Ch. 3a., Sec. 1.; and Ch. 6., Sec. 1.

⁴³⁸ Accounting Act, Ch. 1, Sec. 4.

⁴³⁹ Accounting Act, Ch. 2, Sec. 3.

d. Inventories

Inventory is defined as merchandise, raw material, fuel, semi-manufactured goods, and other commodities that are intended for resale or for use as raw materials or otherwise in the production of goods to be sold.

Inventory is valued at the lowest of the acquisition cost on a first-in-first-out (FIFO) basis, replacement cost or net sales value at the end of the financial period. An allowance corresponding to the deterioration of the inventory to the lower of probable replacement cost or market value is required.⁴⁴⁰ A proportional amount of essential overhead expenses may be added to the acquisition cost of inventory assets.⁴⁴¹

e. Reserves

Companies are to deduct future expenditures and loss in their financial statements using statutory reserves, where the amount and date of the expenditure or loss is uncertain and: (i) such expenditure or loss is attributable to the current or previous financial year; (ii) such expenditure or loss is either certain or likely to be incurred; (iii) such expenditure or loss is based on law or a binding commitment towards a third party; and (iv) revenue generated by the expenditure or losses is not certain or likely.⁴⁴² Statutory reserves include, for example, residual taxes potentially resulting from litigation or tax audits or major and recurring maintenance costs over a number of years, and expenditure on major repairs.

The statutory reserves must be recorded in the profit and loss account and the balance sheet at their probable value. It should also be noted that reserves may not be set up for purposes of adjusting the value of assets.

In addition to the statutory reserves, companies may also make tax-based reserves in their financial accounts. Such reserves are required to be made for accounting purposes if the corresponding reserves are to be deducted for corporate income tax purposes. Such reserves include, for example, an investment, operating or other such tax-based reserve.⁴⁴³ For more information on the tax treatment of reserves, see 4.k., below.

f. Accounting Standards

A Finnish limited company that is acting as a parent company of a group may prepare consolidated accounts in accordance with International Financial Reporting Standards (IFRS) for the entire group of which it is a member. It is mandatory for a listed company (i.e., a company whose shares are publicly traded on a stock exchange) to prepare consolidated accounts and follow IFRS when preparing the accounts if the listed company acts as a parent company. Small groups may choose not to prepare consolidated accounts. A group is considered to be small in this connection if only one of the following conditions is breached during the financial year in question and the previous financial year: (i) the groups' balance does not exceed 6 million euros; (ii) the groups' turnover does not exceed 12 million euros; and (iii) the consolidated company employs on average 50 or fewer persons during the financial year.⁴⁴⁴ A company

other than a parent company may choose to prepare its annual accounts in accordance with IFRS, but has no obligation to do so.

Comment: It should be noted that although the corporate income tax system has been partially amended to comply with International Accounting Standards (IAS)/IFRS, there are still major differences between taxation and IAS/IFRS, for example, with respect to depreciation and tax issues relating to groups of companies.⁴⁴⁵

3. Calculation of Gross Income

a. In General

The gross income of a resident Finnish company comprises all income, including capital gains, derived in money or money's worth from economic activity worldwide.⁴⁴⁶ Profits not yet accrued are usually not regarded as taxable income.⁴⁴⁷ As a general rule, all profits of a Finnish company, whether or not distributed, are subject to tax at the fixed rate of 20%. Dividends received by a Finnish company may be tax-exempt if certain conditions are fulfilled (see c., below).⁴⁴⁸ In principle, all costs incurred in acquiring or retaining income subject to tax are deductible for purposes of company taxation.⁴⁴⁹

Income from each category of income is determined separately. The categories of income for companies are as follows:

- (i) Income from business activities, including income from real property, income from capital and capital gains and passive investment activity;⁴⁵⁰
- (ii) Income from agriculture; and
- (iii) "Other income," including income from real property and capital, and capital gains, if such income is earned by a housing company or by a mutual real estate company⁴⁵¹ and is not related to the business activity of these companies.

Taxable income is the net income (or loss) from each category in each tax year. Net income from a category is the aggregate gross income from all activities of the taxpayer during the tax year in that category, less deductible costs in that category. Losses from one category of income may generally not be

⁴⁴⁴ Accounting Act, Ch. 6, Secs. 1 and 2. However, annual accounts for separate companies can be prepared without adhering to International Financial Reporting Standards (IFRS), but not consolidated accounts for the whole group. Example: A Finnish company A Ltd whose shares are publicly traded has a wholly owned subsidiary, B Ltd, in Sweden. A Ltd does not have to prepare its annual accounts in accordance with IFRS, but the consolidated accounts for the group consisting of A Ltd and B Ltd must be prepared in accordance with IFRS.

⁴⁴⁵ Under Supreme Administrative Court's decision No. 2019 T 5595, when depreciation under IFRS does not impact the profit of the company, the depreciation is not approved for tax purposes.

⁴⁴⁶ Income Tax Act, Sec. 9.

⁴⁴⁷ Unrealized index and foreign exchange profits are taxable income to the extent they are booked as income in the profit and loss statement. Business Income Tax Act, Secs. 5 and 26.

⁴⁴⁸ Under Business Income Tax Act, Sec. 6a or the respective tax treaty in case the dividend is distributed by a foreign corporation. See V.B.3.d.

⁴⁴⁹ Business Income Tax Act, Sec. 7.

⁴⁵⁰ For purposes of this discussion, it is assumed that a company only has business income, unless otherwise stated.

⁴⁵¹ For a definition of a housing company and a mutual real estate company, see III.B.2.1.

⁴⁴⁰ Accounting Act, Ch. 5, Sec. 6.

⁴⁴¹ Accounting Act, Ch. 4, Sec. 5.

⁴⁴² Accounting Act, Sec. 5:14.

⁴⁴³ Accounting Act, Section 5:15.

offset against income from another category (see 4.i., below). As a general rule, profits are allocated for tax purposes to the year in which the respective goods are delivered or the respective services rendered. However, minor receipts may be allocated to the year in which they are received. In the case of long-term manufacturing, construction or other projects that are unfinished at the end of the tax year, the taxpayer may treat that part of the anticipated future proceeds that corresponds to the completed part of the project as taxable income in that year (expenses must then be treated in the same manner), provided this is also done for accounting purposes.⁴⁵²

Income in the business category is governed by the Business Income Tax Act, agricultural income is governed by its own Agricultural Income Tax Act⁴⁵³ and other income is computed in accordance with the general Income Tax Act. The principles under these three laws are not identical. It should also be noted that, under the Group Contribution Act,⁴⁵⁴ a deductible group contribution is available only in the business income category, because one of the conditions for a group contribution being allowable is that both the payer and the recipient of the contribution should carry on business (see V.B.14., below).

A resident shipping company that is effectively managed from Finland and is engaged in the international transportation of goods or passengers may elect to be subject to a tonnage tax system based on the net tonnage of its ships, instead of the normal corporate income taxation based on actual profits.⁴⁵⁵ In addition to applying to resident companies, the system applies to PEs in Finland of international shipping companies resident in other EU Member States.⁴⁵⁶ Certain conditions apply concerning the composition of a company's fleet of ships aimed at preventing a company that is not genuinely operating in or from Finland being granted the benefits of the system.

Once it has made an election, a company commits itself to the tonnage tax system for a period of 10 years.⁴⁵⁷ The election applies to the entire consolidated company and the group companies that meet the conditions must apply to the tonnage tax system at the same time.⁴⁵⁸

If a shipping company makes the election to apply the tonnage tax system, the tonnage tax applies only to income pertaining to the international transportation of goods and passengers, and activities directly relating thereto. Any other income of the company is subject to ordinary corporate taxation.⁴⁵⁹ Income pertaining to international transport remains exempt from ordinary taxation until distributed and any distribution of dividends made by the shipping company is taxable income in the hands of the recipient.

⁴⁵² Business Income Tax Act, Sec. 19.

⁴⁵³ Agricultural Income Tax Act, *Maatilatalouden tuloverolaki/Inkomstskattelag för gårdsbruk*, 543/1967, as amended (the "Agricultural Income Tax Act").

⁴⁵⁴ Group Contribution Act, *Laki konserniavustuksesta verotuksessa/Lag om koncernbidrag vid beskattningen*, 825/1986, as amended (the "Group Contribution Act").

⁴⁵⁵ Tonnage Tax Act, *Tonnistoverolaki/Tonnageskattelag*, 476/2002, as amended (the "Tonnage Tax Act").

⁴⁵⁶ Tonnage Tax Act, Sec. 1.

⁴⁵⁷ Tonnage Tax Act, Sec. 5.

⁴⁵⁸ Tonnage Tax Act, Sec. 3–4.

⁴⁵⁹ Tonnage Tax Act, Sec. 6–7.

The tonnage tax system constitutes a form of state aid, approved by the European Commission.

b. Anti-avoidance

It is difficult to define in advance the precise boundary between acceptable tax planning and tax avoidance. A taxpayer may pursue tax-minimizing measures that also aim at obtaining tax benefits that are contrary to the purpose of the law and carry out such measures primarily to avoid tax consequences entirely or partly. To prevent tax benefits that are contrary to purpose of the law, the Tax Assessment Act contains a general anti-avoidance rule (GAAR).

Based on the GAAR, to the extent a measure or transaction has been given a legal form that does not correspond to its actual character or purpose, the Tax Administration may ignore it for tax purposes and make an assessment as if the correct form had been used. Furthermore, if it is obvious that a sale price or other consideration or any other terms have been agreed on to avoid tax, the Tax Administration may estimate the taxable income to the relevant extent.⁴⁶⁰

Furthermore, so-called 'series of transactions' may also be examined under the anti-avoidance provision, meaning that individual legal acts may be assessed as part of an overall arrangement together with other implemented legal acts.

The significance of this provision has been clarified and continues to be clarified through case law as the content of the general clause is broad.

c. Capital Gains

Finland has no special capital gains tax in the sense of the U.S. federal capital gains tax. Capital gains are taxed in the same way as any other business income for purposes of computing companies' income from business activities.⁴⁶¹ The taxable capital gain on the sale of an asset is the difference between the sale price and the seller's cost basis, i.e., the asset's acquisition cost, less any depreciation on the asset. However, in the case of a fixed asset (such as machinery and equipment), a capital gain will be taxed only indirectly in subsequent years, as it decreases the base for annual depreciation allowances (see V.B.4.f., below)

The asset's acquisition cost includes the purchase price, transaction costs, and paid transfer tax. Based on case law, the cost of a warranty and indemnity policy taken out on the acquisition of share capital is also regarded as a capital cost and as such is included in the acquisition costs, as opposed to being a tax deductible annual expense.⁴⁶²

With regard to crypto assets, including cryptocurrencies, any use of such assets (be it a sale against fiat-currency, exchange for other crypto asset or use as a means of payment) is treated as a taxable sale for fair market value for tax purposes.⁴⁶³

Capital gains from the sale of shares that are part of a company's fixed business assets are tax-exempt (the "capital gains participation exemption") provided:

⁴⁶⁰ Tax Assessment Act, Sec. 28.

⁴⁶¹ It is generally assumed in this text that a company only has income from business activities.

⁴⁶² Supreme Administrative Court ruling No. 2020:152.

⁴⁶³ Tax Administration guidance (No. VH/3057/00.01.00/2025), Taxation of crypto-assets, Chs. 2.2, 2.3 and 2.4.

(i) The company selling the shares has owned at least 10% of the share capital of the company whose shares are being sold for at least one year during a period of time that ends not more than one year before the sale and the shares that are sold are among the shares owned as described;⁴⁶⁴

(ii) The shares sold do not include shares of a housing company or a real estate company, or shares in companies whose main business is the ownership and possession of real property (including mutual real estate companies);⁴⁶⁵ and

(iii) The company whose shares are sold is a Finnish company, a corporation referred to in Article 2 of the EU Parent-Subsidiary Directive⁴⁶⁶ or a corporation resident in a jurisdiction with which Finland has concluded a tax treaty applicable to dividends distributed by the corporation concerned.⁴⁶⁷

The above three conditions regulating the availability of the capital gains participation exemption are quite clear, but the determination of whether shares that are sold belong to the fixed business assets of the seller has been the subject of extensive case law over the years. Pre-2024 case law of the Supreme Administrative Court emphasized the “business connection” between the seller and its subsidiary, but recent case law, while no longer giving any emphasis to the business connection, states instead that to constitute a fixed asset, the shares sold must have “served the business of the seller through the share’s value in the seller’s use.” This new interpretation was illustrated in Supreme Administrative Court rulings No. 2024:41 (seller’s main business was to sell services to target company: shares were fixed assets), 2024:42 (seller’s main business was investment activity: shares were not fixed assets) and 2024:43 (seller group’s main business was manufacturing goods to be sold to target company: shares were fixed assets). In the Supreme Administrative Court’s more recent unpublished ruling of December 5, 2025 (No. 2850), it further clarified the distinction between fixed assets and inventory in the context of renewable energy project development. The taxpayer was a joint venture engaged in developing wind and solar power projects, which it held through separate subsidiaries and

provided with development and financing services. The Court held that the shares in these project companies constituted inventory rather than fixed assets, as they were not intended for long-term use in the taxpayer’s business but were part of development activity intended for eventual sale. Consequently, the gains from the sale of shares did not qualify for the participation exemption and were taxable.

It should be noted that the capital gains participation exemption does not apply to the sale of shares if the selling company is a company that makes private equity or venture capital investments, a mutual insurance company, or if the shares sold do not belong to the fixed business assets of the selling company (i.e., the shares belong to inventory, financial or investment or “other asset” class of the selling company).⁴⁶⁸

If the capital gains participation exemption does not apply, capital gains are taxed in much the same manner (same tax rate), no matter what asset class the shares sold belong to.

Comment: From a tax planning point of view, it is important to confirm, before selling shares, whether the transaction concerned will be considered a tax-exempt sale of shares.⁴⁶⁹

The sale of own shares is tax-exempt regardless of how the selling company acquired them.⁴⁷⁰ Losses on the sale of own shares are consequently non-deductible.

d. Dividend Income

As a general rule, dividends received are taxable income, subject to many exceptions, as discussed below.

Dividends received from Finnish resident non-listed companies and Finnish companies or foreign corporations covered by the EU Parent-Subsidiary Directive (i.e., at least 10%-owned Finnish companies or other EU Member State resident taxable corporations) are fully tax exempt (the “dividend participation exemption”).⁴⁷¹ Dividends received from a listed company by another listed company, as well as dividends received from an unlisted Finnish company by a listed or unlisted company, are also fully exempted. Finally, dividends received from another (foreign) EEA resident corporation are fully tax-exempt, provided: (i) the corporation distributing the dividends was subject to tax at a rate of at least 10%, (the tax being compulsory and no exemption being available) on the income out of which the dividends are paid; and (ii) the corporation is a resident of the EEA Member State concerned according to that State’s law and is not a resident in a third country outside the EEA under the terms of a tax treaty.

Some of Finland’s tax treaties may require Finland to exempt dividends received from the treaty partner country, if cer-

⁴⁶⁴ Business Income Tax Act, Secs. 6 and 6b. In the case of mergers and demergers carried out in accordance with Business Income Tax Act, Sec. 52, the one-year period is calculated from the time of acquisition prior to the merger or demerger (Central Tax Board decision No. 2005/50). See 15.b. and 15.c., respectively. If a company receives newly issued shares in proportion to its previous ownership in a transfer of assets carried out in accordance with Business Income Tax Act, Sec. 52d, the one-year period is deemed to be met for the new shares, if the shares based on which the new shares have been acquired, have been held for a period of at least one year (Supreme Administrative Court ruling No. 2021:93).

⁴⁶⁵ For a definition of housing company and mutual real estate company, see III.B.2.1., above. See also Central Tax Board decision No. 2023:18, where a non-mutual real estate company, primarily holding transferable structures, with only 20% of its assets consisting of land, was not deemed a company whose main business is the ownership and possession of real property. Pursuant to Supreme Administrative Court ruling No. 1692 of June 6, 2024, the same applied also to a company which owned and operated a golf course.

⁴⁶⁶ EU Council Directive 2011/96/EU of November 2011 on the common system of taxation applicable in the case of parent companies and subsidiaries of different Member States, as amended (the “EU Parent-Subsidiary Directive”).

⁴⁶⁷ Business Income Tax Act, Sec. 6b.

⁴⁶⁸ Business Income Tax Act, Sec. 6b and 6. Based on Supreme Administrative Court ruling No. 2021:135, the exclusion from the scope of the participation exemption applies also to companies incorporated by a venture capital investment company to serve as its acquisition vehicle.

⁴⁶⁹ In Supreme Administrative Court ruling No. 2005:74, a Finnish company (A) was owned mainly (80%) by two venture capital funds that owned, directly or indirectly, a number of other companies carrying on similar activities. A did not have any personnel or carry on any other activities. The sale of shares by A was considered to be part of its venture capital activities and, therefore, taxable.

⁴⁷⁰ Business Income Tax Act, Sec. 6.

⁴⁷¹ Directive 2011/96/EU, Art. 2 a, as amended by Directive 2013/13/EU.

tain conditions (for example, a specified ownership stake) are fulfilled.⁴⁷²

An amount of 75% of dividends distributed by a corporation resident in an EEA Member State is taxable, the remaining 25% being tax-exempt if the shares in the distributing corporation form part of the recipient company's investment assets.⁴⁷³ However, if the distributing corporation is a foreign (i.e., non-Finnish) resident corporation referred to in Article 2 of the EU Parent-Subsidiary Directive and the recipient owns at least 10% of the share capital of that corporation at the time of the dividend distribution, the dividend participation exemption applies and the dividends are fully exempted. Disguised dividends (hidden profit distributions) are 100% taxable.⁴⁷⁴

Notwithstanding the foregoing, a dividend is taxable income to the extent it is tax-deductible for the corporation distributing the dividend or is received as part of an arrangement, or a series of arrangements, that aims to achieve a tax benefit as one of its main purposes and is not in line with the intention of the law, and is not a real dividend, taking into consideration all the facts and circumstances relating to it.⁴⁷⁵

Generally, the repatriation of funds out of the invested unrestricted equity reserve is taxed in the same way as dividend income.⁴⁷⁶ By way of exception, where a company distributes funds out of the invested unrestricted equity reserve that were originally invested by the taxpayer as a capital contribution, the capital contribution took place at the most 10 years prior to the repatriation, and the company distributing the funds is not a listed company, the repatriation is taxed as capital gains (unless the capital gains from the sale of the shares would be exempt under the capital gains participation exemption).⁴⁷⁷ In computing the amount of the capital gains, the amount of the remaining acquisition cost (tax book value) of the shares in the distributing company is deducted from the amount of the distributed funds. The maximum acquisition cost amount deducted is the distributed amount. The deducted amount decreases the acquisition cost of the shares for further tax purposes (except in the case of shares that are subject to the capital gains participation exemption).⁴⁷⁸

e. Foreign Source Income

The tax treaties of Finland provide for a credit for foreign taxes paid on income taxable in Finland, or an exemption for income from foreign sources. In cases where there is no applicable treaty, the Act on the Elimination of International Double Taxation⁴⁷⁹ provides for a credit for foreign national taxes paid against Finnish corporate tax (see 7.a. and XV.A., below). Al-

so, the tax exemption method may be used if Finland, under an international treaty, has given up its right to tax certain income received from abroad.⁴⁸⁰ Otherwise, no distinction is made for Finnish corporate tax purposes between income from domestic sources and income from foreign sources, and the general rule is that income is taxable in a similar manner whether derived from Finland or abroad (although see XV.D.1., below).

There are certain exceptions to the general rule set out above. For example, dividend income distributed by a domestic Finnish company (or an EU/EEA entity if certain criteria are satisfied) to a company is tax exempt in Finland. However, dividend income received from a non-tax treaty country outside the EU/EEA is considered taxable income of the recipient entity in Finland.⁴⁸¹

Where the credit method is used to eliminate double taxation, losses incurred by a branch or PE abroad of a Finnish company are deductible from the company's taxable income in Finland. However, if an applicable tax treaty prescribes the use of the exemption method, foreign losses incurred in the treaty partner country are not deductible in Finland.⁴⁸²

f. Stock Options and Other Financial Instruments

When a Finnish company exercises a stock option by subscribing for or acquiring shares based on terms granted under the option, any gain received when exercising the stock option is taxable income and the market value of the shares must be stated as an asset of the company on the date on which the option is exercised. If a company were to sell an unexercised stock option, the profit received from selling the option would be taxable income in the hands of the company at the time of the sale. Any gain from the sale of shares obtained by exercising a stock option is taxable income at the time of the sale. The capital gain from the sale of the shares may also be tax-exempt under the capital gains participation exemption.

As a general rule, a premium received from granting a stock option is taxable in the hands of the granting company when the stock option is granted. If the granted stock option is publicly traded on a regulated market, as defined in the Act on Trading in Financial Instruments, or on another regulated market supervised by the authorities, the premium received is taxable in the hands of the granting company when the stock option is closed or exercised, or when it expires. However, such stock option may not be longer than 18 months if it is to qualify under this regime.⁴⁸³

For the stock option holder that paid the premium to the granting entity, the premium paid is a deductible cost of the tax year during which the stock option is closed, is exercised or expires. The acquisition cost of the asset acquired based on a call option is the agreed option price plus the premium paid. If the grantor of a put option purchases the underlying asset, the ac-

⁴⁷² For example, the Finland-U.S. tax treaty (Art. 23) requires that Finland exempt dividends from a U.S. corporation from tax if the Finnish recipient company holds at least 10% of the votes in the U.S. corporation.

⁴⁷³ Only banks, insurance companies and pension companies can have this kind of investment assets for tax purposes. Business Income Tax Act, Sec. 11.

⁴⁷⁴ Business Income Tax Act, Sec. 6a.

⁴⁷⁵ Business Income Tax Act, Sec. 6a subsecs. 9–10.

⁴⁷⁶ Business Income Tax Act, Sec. 6a subsec. 8.

⁴⁷⁷ Business Income Tax Act, Sec. 6b.

⁴⁷⁸ Business Income Tax Act, Sec. 6c.

⁴⁷⁹ Act on the Elimination of International Double Taxation, *Laki kansainvälisen kaksinkertaisen verotuksen poistamisesta/Lag om undanröjande av internationell dubbelbeskattning*, 1552/1995, as amended (the "Act on the Elimination of International Double Taxation").

⁴⁸⁰ Act on the Elimination of International Double Taxation.

⁴⁸¹ Business Income Tax Act, Sec. 6a and Supreme Administrative Court ruling No. 2017:65, with respect to the Business Income Tax Act, Sec. 6a, see 3.d.

⁴⁸² This is due to the fact that, under the exemption method, a profit would not be taxable in Finland. Act on the Elimination of International Double Taxation, Sec. 7.

⁴⁸³ Business Income Tax Act, Sec. 27d. Based on Central Tax Board's decision No. 2026:1, a premium paid on a synthetic stock option was taxable income to the recipient company.

quisition price of that asset is the agreed option price less the premium.⁴⁸⁴

For tax purposes, the annulment of a stock option is treated as a capital loss.

Carried interest is taxed either as earned income or capital income (i.e., capital gains) depending on the circumstances of the taxpayer concerned and the income received. For this reason, the Tax Administration urges the taxpayers expecting to receive such income to contact the Tax Administration to enable it to assess the taxability of the income in advance.

In decision No. 2016/51, the Central Tax Board ruled that carried interest income is taxable in accordance with its legal form. In the case in question, the Central Tax Board ruled that the carried interest was to be taxed as income of a limited company C and/or B in accordance with its legal form rather than as the personal income of an individual whose holding company C would own shares in company B, which would establish a fund in the form of a limited partnership together with a number of limited partners.

Similarly, in an unpublished decision of December 20, 2019, the Administrative Court of Helsinki confirmed that carried interest paid by a general partner of a private equity fund to a “team company” of the management as a dividend was not to be taxed as earned income of the management team members in the year when the team company distributed the respective funds to the personal holding companies of the team members, but was to be treated based on normal dividend taxation rules at the level of the team company, the personal holding companies and the individual team members.⁴⁸⁵

g. Other Inclusions in Gross Income

As noted in a., above, gross income of a resident Finnish company comprises generally all its worldwide income. Thus, in addition to the items discussed in b. to e., above, generally all sales, rental, interest, royalty, etc. income, income from debt settlement agreements (unless the debt is considered worthless to the creditor), as well as income received from mining or staking activity relating to crypto assets, is included in a resident company’s taxable gross income. Further, group contributions (see 14., below) received from group companies are included as taxable gross income. In addition, certain revaluation items of financial, insurance and pension institutions and financial instruments are included.⁴⁸⁶ Finally, income calculated based on the Act on the Taxation of Shareholders of Controlled Foreign Corporations⁴⁸⁷ is included in the taxable gross income of a resident company (see XIV.C., below).

h. Exclusions from Gross Income

Capital gains and dividends are excluded from taxable gross income under the capital gains and dividend participation exemptions, respectively, as discussed in b. and c., above.

Specifically, dividends received by a resident company from either a resident company or a nonresident corporation are exempt subject to the conditions discussed in c., above. Under the terms of some of Finland’s tax treaties, foreign-source income may be exempt, as discussed in d., above. Otherwise, the number of items of income that may be excluded from taxation under Finnish law is very limited. Such items include capital contributions from shareholders;⁴⁸⁸ unrealized profits resulting from the revaluation of assets; refunds of income taxes; merger profits in general (see 15.b., below) and remissions of a debt provided that the debt has been deemed of no value to the creditor due to, for example, the debtor’s insolvency.⁴⁸⁹

4. Business Expenses

a. In General

Expenses and forfeitures incurred to obtain or maintain income are deductible.⁴⁹⁰ However, expenses incurred to obtain or maintain tax-exempt income are deductible only to the extent they exceed the corresponding tax-exempt income.⁴⁹¹ Fines and similar administrative payments (including late payment interest for taxes), bribes and penalties for illegal parking are not deductible,⁴⁹² nor is a merger loss (see 15.b., below). Only 50% of entertainment expenses are deductible (see c., below).

As a general rule, expenses are considered to be expenses of the tax year during which the performance or remittance liability is established. Minor, recurrent expenses such as telephone and mailing costs may be deducted on an accrual basis or on a payment basis. Once the selection between these two methods has been made, the method cannot be changed without a valid reason. A forfeiture is considered to be an expense of the tax year during which the forfeiture is discovered.⁴⁹³

For the taxpayer to be able to deduct expenses for tax purposes, the taxpayer must charge the same expenses for accounting purposes. It should be noted, however, that there are certain differences between the accounting treatment and the taxation treatment regarding the allocation of expenses.

Certain expenses and costs cannot be deducted in full in the tax year during which they were incurred; instead, such expenses and costs must be capitalized and consequently allocated to multiple tax years. For example, long-term expenses that are expected to generate income over three to 10 years must be depreciated in equal portions in each year during which the ex-

⁴⁸⁸ In a decision of the Supreme Administrative Court (No. 2007:43), a limited company intending to get listed on the London Stock Exchange decided to issue new shares to itself without payment and, after the share issue, to sell such shares to foreign investors. The corporation’s income from the sale of the shares was held to be a nontaxable capital contribution because there was no intention to generate tax-free income under special circumstances.

⁴⁸⁹ See Supreme Administrative Court rulings No. 2010 T 20, 2001 T 2610 and 1998:47.

⁴⁹⁰ Business Income Tax Act, Sec. 7. The Tax Administration may deny the deductibility of any expense that can be deemed not necessary for obtaining or maintaining income. However, what a corporation has truly deemed necessary for its business would normally not be challenged by the Tax Administration.

⁴⁹¹ Business Income Tax Act, Sec. 16. Minor exceptions may exist. For instance, although dividend income from a foreign subsidiary is generally tax exempt (see V.B.3.d.), interest paid on a loan used to acquire the foreign subsidiary is deductible.

⁴⁹² Business Income Tax Act, Sec. 16.

⁴⁹³ Business Income Tax Act, Sec. 22.

⁴⁸⁴ Business Income Tax Act, Sec. 27d.

⁴⁸⁵ Administrative court of Helsinki’s ruling of December 20, 2019, (No. 05954/18/8101).

⁴⁸⁶ Business income Tax Act, Sec. 5.

⁴⁸⁷ Act on the Taxation of Shareholders of Foreign Controlled Corporations, *Laki ulkomaisten väliyhteisöjen osakkaiden verotuksesta/Lag om beskattning av delägare i utländska bassamfund*, 1217/1994, as amended (the “CFC Act”).

penses are deemed to generate income. If the period over which long-term expenses are expected to generate income is more than 10 years, the expenses must be depreciated in equal portions over 10 years.⁴⁹⁴

b. Startup Costs

Expenses incurred in connection with the establishment or reorganization of a Finnish company that carries on a business are deductible in computing the company's profits for tax purposes.⁴⁹⁵ However, expenses incurred in connection with acquiring a going concern are not regarded as startup or reorganization expenses, and are not deductible.⁴⁹⁶ Such expenses may be partly depreciated over three to 10 years under the rules concerning the depreciation of long-term expenses, depending on the length of the period during which they are deemed to produce or maintain income (see V.B.4.f., below).⁴⁹⁷ Acquisition-related expenses, such as advisory costs relating to financing an acquisition, may exceptionally be deductible if they are not directly related to the acquisition concerned. Otherwise, such expenses (including transfer tax) are included in the acquisition cost of the acquired shares or other assets.⁴⁹⁸

c. Travel and Entertainment

Travel expenses incurred in connection with business travel are deductible without limitation.

One half of entertainment expenses, including expenses relating to alcoholic beverages, are tax deductible.⁴⁹⁹ It is important to distinguish the concept of entertainment expenses from that of marketing expenses, as marketing expenses are wholly deductible. In general terms, the concept of entertainment expenses (and the limitation on their deductibility) can be said to be broad. To be deductible at all, the expenses must be reasonable, for example, in relation to the turnover of the company. In a Supreme Administrative Court decision, entertainment expenses were deemed, for tax purposes, to be expenses of the domestic company that had paid them in the first place, although they were subsequently entirely reimbursed by the foreign principal of the taxpayer and the entertainment event(s) concerned had been arranged for the benefit of the principal corporation.⁵⁰⁰ In another ruling, substantial expenses that a Finnish wholesale company promoting, marketing and selling medicines manufactured by its parent company had booked as marketing expenses were deemed to be entertainment expenses with the result that 50% of the expenses were added back to taxable income. The expenses consisted of refreshments offered in connection with demonstrations of medicines and the reimbursement of traveling and accommodation expenses of doctors participating in seminars and congresses.⁵⁰¹

d. Interest

(1) In General

Except where it is payable on related-party debt, interest expense is broadly deductible from business income, including when the amount of the interest is dependent on the economic results of the business.⁵⁰² Also, interest paid relating to debt that pertains to acquiring or maintaining tax-exempt income is deductible as the interest is not considered a cost in the context of the Business Income Tax Act.⁵⁰³

It should be noted that interest paid may, in some cases, be deemed non-deductible based on the application of the general anti-tax avoidance provision⁵⁰⁴ (for example, if the relevant loan is never paid off and is thus of a permanent (perpetual) nature). When considering such situations, all the terms and economic features of the instrument concerned (the interest period, subordination, etc.) must be taken into account. Another example of the application of the general anti-tax avoidance provision is furnished by the debt push-downs cases, where a deduction for interest payments allocated to a branch (PE) of a nonresident corporation were denied.⁵⁰⁵ It should be noted that the applicability of the anti-tax avoidance rules must always be determined on a case-by-case basis.

For interest to be deductible, the arm's-length principle must also be observed. The rate of interest paid between related parties must be reasonable, i.e., in accordance with (or at least close to) the market rate. If the rate is deemed to be excessive and the creditor is a shareholder of the debtor, there is a risk that the excessive portion of the interest will be deemed to be a hidden profit distribution and, thus, not deductible for the payer (see C.1.b., below). In other related party situations, excessive interest payments will be subject to transfer pricing adjustments and, thus, treated as non-deductible to the extent the rate concerned is deemed to exceed the market rate.⁵⁰⁶

If the amount of the interest is dependent on the passing of time, the interest is to be allocated to and deducted during the tax year for which the interest is paid. Interest paid for the financing of a new power plant, mine or other industrial plant and during the construction period can be deducted annually at a maximum depreciation rate of 10%.⁵⁰⁷

(2) Limitations

There are no specific "thin capitalization" rules governing the maximum debt-to-equity ratio for tax purposes. The general anti-tax avoidance provision could be applied so that interest paid by a company with inadequate equity could be deemed

⁴⁹⁴ Business Income Tax Act, Sec. 24.

⁴⁹⁵ Business Income Tax Act, Sec. 8.

⁴⁹⁶ Business Income Tax Act, Sec. 6b.

⁴⁹⁷ Business Income Tax Act, Sec. 24.

⁴⁹⁸ According to the Supreme Administrative Court ruling No. 2020:152, warranty and indemnity (W&I) insurance premiums are to be included in the acquisition cost of the shares of the company that was acquired, when the insurance policy was used in the transaction to cover the seller's representations.

⁴⁹⁹ Business Income Tax Act, Sec. 8.

⁵⁰⁰ Supreme Administrative Court ruling No. 1995 B 503.

⁵⁰¹ Supreme Administrative Court ruling No. 1.8.2001/1722.

⁵⁰² Business Income Act, Sec. 18.

⁵⁰³ According to Sec. 16 of the Business Income Tax Act, the costs and expenses relating to acquiring and maintaining of tax-exempt income are considered as deductible only for the portion of the costs and expenses that exceed the amount of the tax-exempt income. As the interest is not considered as a cost as such, Sec. 16 does not limit the deductibility of interest.

⁵⁰⁴ Tax Assessment Act, Sec. 28.

⁵⁰⁵ See Supreme Administrative Court ruling No. 2016:71, where tax deduction was denied merely based on low substance of the branch and ruling No. 2016:72, where the tax deduction was denied based on application of the general tax avoidance clause.

⁵⁰⁶ See XIII., below, for a detailed discussion on transfer pricing.

⁵⁰⁷ Business Income Tax Act, Sec. 23.

non-deductible, but no published tax practice exists providing that a specific amount of debt would be excessive.⁵⁰⁸

There are currently no specific tax rules that limit the tax deductibility of interest expense paid to a nonresident corporation or individual as compared with interest expense paid to domestic recipients. However, it should be noted that the EU Anti-Tax Avoidance Directives I⁵⁰⁹ and II (ATAD I and II)⁵¹⁰ have an effect on the Finnish domestic tax legislation relating to “hybrid mismatches.” These Directives have been implemented in Finland by the Anti-Hybrid Act. According to the Anti-Hybrid Act, if, as a result of a hybrid mismatch, interest is deducted twice, as would be the case if, for example, it were considered non-taxable in the country of the recipient and deductible in the hands of the Finnish payer, in certain situations, Finland must deny a deduction for the interest expense.⁵¹¹

The interest deduction limitation rules are in compliance with the ATAD Directives. These rules are applicable generally to all corporations and partnerships. The limitation is also applicable to both Finnish entities and foreign entities with PEs in Finland or that otherwise have taxable income in Finland. Only financial, insurance and pension institutions, certain infrastructure projects and independent entities are deemed to be outside the scope of the limitation. For these purposes, an “independent entity” is defined as follows:

- (i) The entity is not a part of a bookkeeping group;
- (ii) The entity does not have a PE abroad;
- (iii) The entity does not have (either directly or indirectly) a 25% share of another entity’s voting rights or equity, and is not entitled to 25% of another entity’s profits;
- (iv) No other entity or individual has (directly or indirectly) a 25% share of the entity’s voting rights or equity, or is entitled to a 25% share of the entity’s profits; and
- (v) The entity is not connected to another entity via an entity or an individual that has a 25% share (directly or indirectly) in the entity and the other entity.⁵¹²

For purposes of the interest deduction limitation rule, interest and other payments that are compensation for (external) capital or related to the acquisition of financing are regarded as interest expenses.⁵¹³ The Central Tax Board has ruled that leas-

ing payments under a sale and leaseback arrangement were not covered under the old interest deduction limitation rules, which did not include a definition of interest.⁵¹⁴ The ruling still seems to apply also under the new interest deduction limitation rules.

First, interest expenses exceeding interest income (“Net Interest Expenses”) are deductible provided the amount of the Net Interest Expenses does not exceed 500,000 euros (the “General Ceiling”). When calculating the amount of the Net Interest Expenses, all interest payments, whether paid to related parties or third parties, are taken into account. If the Net Interest Expenses exceed the General Ceiling, the interest limitation will be applied.

Second, when applying the interest deduction limitation rules, Net Interest Expenses are still deductible up to an amount corresponding to 25% of the adjusted taxable net business profit (“Tax-EBITDA”), i.e., the profit with the addition of interest expenses, depreciation and group contributions received, but after deducting group contributions granted. Losses on, and changes in the value of, financial assets do not reduce Tax-EBITDA. Third-party interest expenses are deducted before related-party interest expenses. Net Interest Expenses exceeding the 25% of Tax-EBITDA threshold (which may be lower than the General Ceiling of 500,000 euros) are treated as non-deductible.

Third, interest expenses paid to third parties are deductible up to 3 million euros even if the amount of third-party interest expenses exceed the 25% of Tax-EBITDA threshold: in other words, 3 million euros is a safe harbor for third-party interest expenses.

For purposes of the interest deduction limitation rules, a third-party loan is deemed to be a related-party loan if a related party has granted a back-to-back loan or pledged its receivable to the third-party creditor. Third-party interest expenses may be deductible even where they exceed the 3 million euros safe harbor threshold if they were: incurred with respect to a third party loan taken out before June 17, 2016, and the terms and conditions of the loan agreement have not been changed after that date; treated as part of the acquisition cost of a commodity acquired before January 1, 2019; or capitalized before January 1, 2019 in accordance with specific legislation.⁵¹⁵

⁵⁰⁸ Supreme Administrative Court ruling No. 1999:19, where a debt-equity ratio of 15:1 between a Dutch parent and Finnish subsidiary was approved based on, among other things, the non-discrimination clause of the applicable tax treaty.

⁵⁰⁹ EU Council Directive (EU) 2016/1164 of July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market, as amended (the “EU Anti-Tax Avoidance Directive I” or, together with the EU Anti-Tax Avoidance Directive II, the “ATAD Directives”).

⁵¹⁰ EU Council Directive (EU) 2017/952 of May 29, 2017, amending EU Directive (EU) 2016/1164 as regards hybrid mismatches with third countries, as amended the “EU Anti-Tax Avoidance Directive II” or, together with the Anti-Tax Avoidance Directive I (the “ATAD Directives”).

⁵¹¹ Anti-Hybrid Act, *Laki eräiden rajat ylittävien hybridijärjestelyjen verotuksesta/Lag om beskattning av vissa gränsöverskridande hybridarrangemang*, 1567/2019, as amended (the “Anti-Hybrid Act”). See further under XIV.E.

⁵¹² Business Income Tax Act, Sec. 18b.

⁵¹³ Business Income Tax Act, Sec. 18a. In ruling No. 2021:123, the Supreme Administrative Court held that a payment based on an interest rate swap fell within the definition of interest expenses under EU Anti-Tax Avoidance Directive I and was to be treated as an interest payment under the Finnish

interest deduction limitation rule. Based on Supreme Administrative Court ruling No. 2024:103, realized foreign exchange gains and losses arising from the interest portion of a loan denominated in foreign currency were deemed interest income or expenses under Business Income Tax Act, Sec. 18a. However, realized foreign exchange gains and losses arising from the principal amount of the loan were not considered interest income or expenses and thus fell outside the scope of the interest deduction limitation rules. See also Supreme Administrative Court ruling No. 2024:58, according to which an arrangement fee paid to lead managers in connection with the issuance of a listed bond was not deemed to be interest within the meaning of Business Income Tax Act, Sec. 18a. See also Central Tax Board decision No. 2022/23, where fees charged by a factoring financing provider from its customers were deemed to be interest income for purposes of the interest deduction limitation rules.

⁵¹⁴ Central Tax Board decision No. 2013/25.

⁵¹⁵ Business Income Tax Act, Sec. 18a. According to the Central Tax Board decision No. 2022/4, the change of the debtor for a third-party loan taken out before June 17, 2016, did not affect the treatment of the interest deduction. The Central Tax Board held that, since the terms and conditions of the loan agreement regarding the loan amount and loan period did not change in connection with the change of debtor, and when taking into account the circumstances described in the application, the net interest expenses accruing from the loan were not subject to the interest deduction limitation rules.

Fourth, the interest deduction limitation rules do not apply if the taxpayer company can prove that the proportion of its debt and the amount of assets in its own balance sheet is equal to or greater than the equivalent ratio in the group balance sheet adopted by its ultimate parent company.⁵¹⁶ If the taxpayer's balance sheet and the group balance sheet were prepared in accordance with different accounting standards, either of the balance sheets must be converted to accord with the accounting standard used to prepare the other balance sheet so that the comparison is made using the same accounting standards. The balance sheets used for this comparison need to be audited. According to Supreme Administrative Court ruling No. 2021:124, the group balance sheet cannot be prepared only for the purposes of the balance sheet test, but it needs to be included in the confirmed consolidated financial statements. When calculating the debt-to-total assets ratio, any debt in the group balance sheet is regarded as equity if the debtor or a related entity or the two together own directly or indirectly at least 10% of the capital or voting rights in the company or is entitled to 10% of the company's profits. The balance sheet test does not apply in cases where at least 20% of the total interests on the group balance sheet have been paid to a related entity or entities that alone or together with other group companies own directly or indirectly at least 10% of the capital or voting rights in the company or are entitled to 10% of the company's profits.⁵¹⁷

(3) Carryforward Rule

Interest expenses that are considered non-deductible under the interest deduction limitation rules may be carried forward indefinitely, and deducted in a subsequent year in which the limitation thresholds are not exceeded.⁵¹⁸ The choice of the applicable threshold method is determined solely based on the amount of net interest expenses accrued during the tax year in question i.e., non-deductible interests carried over from previous tax years are not taken into account when assessing which threshold (i.e., the euro- or percentage-based) should be applied.⁵¹⁹

Example (1): Company A has interest expenses of 1 million euros and no interest income. Net Interest Expenses of A exceed the amount of the General Ceiling of 500,000 euros. A has received a loan from related company B and that has accrued 400,000 euros of interest expense. The remaining interest expenses have accrued to two bank loans received by A. Company C, which is a related party of A, has pledged its bank deposits as collateral for one of the bank loans that A has received. This bank loan has accrued an interest expense of 300,000 euros. A's business profits are 2 million euros. The maximum deductible Net Interest Expense for A is therefore 500,000 euros (2 million euros $\times$ 25%). A's Net Interest Expenses exceed the General Ceiling of 500,000 euros (1 million euros – 500,000 eu-

ros). Interest expenses accrued to related-party loans (the bank loan is deemed to be a related-party loan because of the related party collateral) amount to 700,000 euros (400,000 euros + 300,000 euros) and interest expenses accrued to third-party loans amount to 300,000 euros. Thus, A may deduct only 500,000 euros of its interest expenses. Interest expenses that are considered non-deductible (500,000 euros) may be carried forward.

Example (2): Company A has interest expenses of 4.2 million euros and interest income of 300,000 euros. Since A's Net Interest Expenses are 3.9 million euros (4.2 million euros – 300,000 euros), they exceed the amount of the General Ceiling of 500,000 euros. A has received a loan from related company B that has accrued 700,000 euros of interest expense. Company A also has a bank loan that has accrued 3.5 million euros of interest expense. Since A's business profits are 2 million euros, maximum deductible Net Interest Expenses are 500,000 euros (2 million euros $\times$ 25%) according to the 25% of Tax-EBITDA threshold. However, A may deduct 3 million euros of the interest expenses accrued on the bank loan as the bank loan is considered a third-party loan. The related-party interest expenses in excess of the interest income received (700,000 euros – 300,000 euros = 400,000 euros) and the remaining amount of the bank loan interest expenses (500,000 euros) are considered non-deductible, but it can be carried forward.

Comment: A common way of implementing an acquisition in Finland is for a foreign acquirer to set up a Finnish holding company to act as an acquisition vehicle and have that company borrow senior debt from a bank. The acquirer also finances the holding company with a mixture of equity (usually not share capital but investment into the invested unrestricted equity reserve) and junior debt. The Finnish holding company acquires the Finnish target company by paying the purchase price with the financing obtained from the acquirer and the bank. After the acquisition, interest expenses paid by the Finnish holding company are widely accepted as deductible even when they are paid to a low tax jurisdiction, to the extent the interest deduction limitation rules are met. No withholding taxes are usually imposed in such circumstances. The acquired target company may grant a group contribution to the Finnish holding company. A group contribution is tax-deductible for the subsidiary and taxable income in the hands of the parent company. The target company may also be merged into the holding company after which the holding company may use the cashflow from the business of the target company to service its loan payments.

e. Royalties

Royalties paid are deductible without limitation, provided the terms of the relevant licensing agreement are on an arm's-length basis and the royalties paid are related to acquiring or maintaining income.

f. Taxes

Taxes are deductible only if the liability to pay them is incurred to obtain or maintain taxable income. Since income tax-

⁵¹⁶ In private equity holding structures, it may be difficult to establish at which level the group balance sheet should be prepared. See Supreme Administrative Court decision No. 2018:2. The group balance sheet must be prepared in an EU/EEA member state or in a tax treaty partner country.

⁵¹⁷ Business Income Tax Act, Sec. 18b.

⁵¹⁸ Business Income Tax Act, Sec. 18b.

⁵¹⁹ Supreme Administrative Court ruling No. 2022:96.

es are not deemed to satisfy this criterion but are instead regarded as representing the government's share of a company's profit, they are not deductible.

According to a Supreme Administrative Court ruling, U.S. State and city taxes paid by a U.S. branch of a Finnish public company are not deductible in Finland. While admitting that these taxes have certain characteristics that would favor their deductibility, the Court held that they are not deductible business expenses for Finnish tax purposes because they are classified as income taxes in the United States.⁵²⁰

Under a special provision of the Business Income Tax Act,⁵²¹ real property tax is deductible if it is paid with respect to real property that is necessary for and used in a company's business.

Transfer tax relating to the acquisition, for example, of shares or real property is considered to be part of the purchase price. Hence the deductibility of the transfer tax depends on whether the cost of asset concerned is depreciable or deductible. Shares and land are never depreciable. Buildings are depreciable and asset transfer tax relating to the acquisition of a building will be depreciated as part of the acquisition cost of the building. The acquisition cost of shares will be deducted when the shares are sold unless the capital gains participation exemption applies.

Tax penalties, interest and other charges payable as a result of the delayed payment of income tax are not deductible. On the other hand, YLE tax — which is a tax — paid by a company is a deductible expense.⁵²²

g. Depreciation and Amortization

Depreciation for tax purposes⁵²³ requires that a corresponding depreciation charge must have been made for accounting purposes. The corresponding accounting depreciation charge may have already been made in a year prior to that in which tax depreciation is taken, but must be made at the latest in the financial year in which tax depreciation is taken. Where assets are depreciated for accounting but not for tax purposes, or where the accounting depreciation exceeds the tax depreciation, the difference is recorded by the Tax Administration as "shelf depreciation," which may be used for tax purposes in subsequent tax years. When using shelf depreciation, the maximum tax depreciation rate per year cannot be exceeded. A taxpayer that wishes the depreciation for tax purposes (within the limits of the tax laws) to exceed the planned accounting depreciation (for example, where the straight line method is used for accounting purposes), the taxpayer may record an accounting "depreciation difference" by entering an additional deduction in the profit and loss account in excess of the amount of the planned depreciation, giving rise to an item in the balance sheet

that will be unwound subsequently when the accounting depreciation exceeds the depreciation taken for tax purposes.

When the declining-balance method is used, the maximum depreciation rate applies for each financial period (except when two financial periods end during the same calendar year, in which case they are merged into one tax year for tax purposes); when the straight-line method is used, depreciation is taken per annum, i.e., the maximum rate applies on a 12-month basis.

Exceptionally, additional depreciation of a fixed asset may be allowed if it is proven that the market value of the asset is lower than its net value for tax purposes, whether as a result of loss or damage or for any other reason.⁵²⁴

The acquisition cost that constitutes the depreciable base for each asset includes transfer tax (if any) and other levies, installation costs, and similar costs related directly to the purchase of the asset. It also includes expenses relating to the extension, alteration, renewal and any similar basic improvement of the asset. The acquisition cost is not depreciable to the extent that it is covered by funds from the replacement reserve or a similar reserve.

The depreciable base of a self-produced asset is the direct cost of producing the asset.⁵²⁵

(1) Machinery and Equipment

In the case of machinery and equipment, depreciation is allowed on a pooling basis, i.e., on the aggregate net book value for taxation purposes of all such assets at the end of the previous tax year, increased by the acquisition cost of assets acquired during the current tax year and decreased by the sales proceeds of assets disposed of (or insurance compensation or the like received in the case of assets that are damaged or lost) during the current tax year. The depreciation rate applicable to the aggregate net value of machinery and equipment at the end of the tax year varies, at the taxpayer's discretion, from 0% to 25% annually.⁵²⁶ If the aggregate net value does not exceed 1,200 euros, the entire amount can be depreciated entirely.⁵²⁷

The acquisition cost of elevators, central heating and ventilation equipment, ovens, refrigerators, and other similar assets is depreciated using the method for machinery and equipment, even though such assets constitute part of a building.

Special rules apply to short-life assets, small assets, automobiles, and pleasure boats.⁵²⁸ The acquisition cost of short-life assets (i.e., items of machinery and equipment with an estimated useful life of not more than three years) may be entirely written off in the year during which the short-life asset was put into use (regardless of the asset's purchase price).

Similarly, a small asset with a purchase price not exceeding 1,200 euros (regardless of its estimated useful life) may be written off in the year during which the small asset was put in-

⁵²⁰ Supreme Administrative Court ruling No. 2004:12. The Supreme Administrative Court held that New York State and city taxes are not creditable in Finland under Finnish domestic law (Act on the Elimination of International Double Taxation, see XV.A., below) because they are not paid to a foreign (sovereign) state. Nor are these taxes creditable under the Finland-U.S. tax treaty (see XV.F.1., below) as the treaty covers only U.S. federal taxes.

⁵²¹ Business Income Tax Act, Sec. 8.

⁵²² Business Income Tax Act, Sec. 8.

⁵²³ Tax Administration has issued guidance (No. VH/315/00.01.00/2024) on the interpretation of the Business income Tax Act provisions concerning the depreciation of assets.

⁵²⁴ Business Income Tax Act, Secs. 32 and 40. The additional allowable depreciation in such a case is limited to the difference between the book value and the market value.

⁵²⁵ Business Income Tax Act, Sec. 14.

⁵²⁶ Business Income Tax Act, Sec. 30. If the maximum depreciation rate is not applied in a particular year (for instance, because an increase in the tax rate is anticipated), the right is not cumulated: the statutory rate (e.g., 25% for machinery) provides the allowable maximum in the following year (but, of course, the basis for depreciation or the aggregate net book value would be greater).

⁵²⁷ Business Income Tax Act, Sec. 30.

⁵²⁸ Business Income Tax Act, Secs. 33 and 33a.

to use. However, in aggregate, only up to 3,600 euros annually may be written off in this manner. The purchase price of fixed assets that are neither short-life assets (i.e., that have a useful life of three years or less) nor small assets (i.e., that cost 1,200 euros or less) must be capitalized, i.e., pooled and depreciated in accordance with the general rule described above.

Automobiles used for business purposes need not be pooled but may be depreciated using the straight-line method and applying the following maximum rates to the acquisition cost over the first six years of their life: 25%; 20%; 20%; 15%; 15%; and 5%.⁵²⁹

Pleasure boats that are not directly used in the business must be depreciated using the straight-line method at annual depreciation rates not exceeding 10%, instead of in accordance with the regular 25% declining-balance method.⁵³⁰

(2) Buildings

Buildings are depreciated using the declining-balance method at annual maximum rates ranging from 4% to 20%, as follows:

- (i) Residential and office buildings: 4%;
- (ii) Shops, warehouses, factories, workshops, etc.: 7%; and
- (iii) Other buildings in general: 20%.⁵³¹

However, certain constructions, for example, population shelters, constructions for the prevention of pollution, and natural gas pipelines, are depreciated using the straight-line method at an annual rate not exceeding 25%.⁵³²

(3) Other Tangible Assets

The acquisition cost of tangible assets other than those referred to in (1) and (2), above, such as railways, bridges, and dams, is depreciated in equal annual write-offs over the period of probable economic use, which may not, however, exceed 40 years.⁵³³

(4) Natural Resources

The acquisition cost of natural resources, such as sand pits, mines, and peat bogs, is written off in amounts representing the quantity of the resources depleted annually.⁵³⁴

(5) Intangibles

The acquisition cost of an intangible right that may be transferred separately, such as a patent, copyright, trademark or publishing right, is written off for tax purposes in equal annual amounts over the period of the right's probable economic use by the taxpayer, which may not, however, exceed 10 years.⁵³⁵

Securities are normally not subject to wear and tear. However, if it can be proven that the market value of securities (other than shares) at the end of a tax year is substantially lower

than their acquisition cost, as reduced by any prior extraordinary depreciation, the securities may be written down to their current market value. Any such extraordinary depreciation will be added back to taxable income to the extent the market value at the end of any future tax year exceeds the net book value for taxation purposes.⁵³⁶

(6) Other Expenses

Expenses that do not relate to fixed assets and that produce or maintain income for three tax years or more are amortized in equal annual installments over their period of economic use, which may not exceed 10 years. Examples of such expenses are goodwill (if purchased separately), leasehold improvements, advertising campaign expenses, expenses of office removals, personnel training expenses and incorporation expenses.⁵³⁷

Expenses that produce or maintain income for less than three years must be deducted in the year during which they are taken into use.

h. Obsolete Equipment

A taxpayer that is able to prove that, because of obsolescence or for some other reason, the fair market value of a fixed asset (or, in the case of machinery and equipment, the fair market value of the entire stock of such assets) is, after depreciation at the maximum rate for the year concerned, lower than the net book value of that asset (or those assets) for tax purposes, may deduct additional depreciation corresponding to the difference.⁵³⁸

i. Charitable Contributions

In general, charitable contributions are not deductible. However, charitable monetary contributions or donations of at least 850 euros per donation (subject to a maximum of 50,000 euros per donation) made for purposes of contributing to the preservation of Finland's cultural heritage or for purposes of benefiting science or the arts, are tax deductible if the recipient is an association or foundation (or a fund operating in connection with such an association or foundation) whose purpose is the preservation of Finland's cultural heritage or supporting science or the arts and that is located within the EEA. The recipient must be pre-approved by the Tax Administration (a list of approved recipients is published by the Tax Administration). Monetary contributions or donations of at least 850 euros but no more than 250,000 euros made for the purpose referred to above are also tax-deductible if the recipient is an EEA Member State, a university receiving public funding or a fund operating in connection with such a university within the EEA.⁵³⁹

j. Capital Losses

A loss resulting from the disposal of an asset may be set off against a company's taxable income in the business income category. If the loss is not genuine but is caused, for example, by the underpricing of a commodity sold to an affiliate, the deduction may be denied for tax purposes.

⁵²⁹ Business Income Tax Act, Sec. 33.3.

⁵³⁰ Business Income Tax Act, Sec. 33a.

⁵³¹ Business Income Tax Act, Sec. 34.

⁵³² Business Income Tax Act, Sec. 36.

⁵³³ Business Income Tax Act, Sec. 39.

⁵³⁴ Business Income Tax Act, Sec. 38.

⁵³⁵ Business Income Tax Act, Sec. 37.

⁵³⁶ Business Income Tax Act, Secs. 5a and 42.

⁵³⁷ Business Income Tax Act, Sec. 24.

⁵³⁸ Business Income Tax Act, Secs. 32 and 40.

⁵³⁹ Income Tax Act, Sec. 57.

Capital losses incurred with respect to the other income category (i.e., in case of taxation of housing companies and mutual real estate companies)⁵⁴⁰ may be set off only against capital gains within that category. To the extent losses are not set off in this way, they may be carried forward for tax purposes for five years only and set off, in the order in which they were incurred, only against capital gains in the same category.⁵⁴¹

In the business income category, to the extent the capital gains participation exemption applies to the sale of shares (see V.B.3.c., above), corresponding capital losses on the sale of shares in the same circumstances are not deductible.⁵⁴² Capital losses on the sale of shares that form part of fixed business assets that are not subject to the capital gains participation exemption are tax-deductible only from capital gains resulting from the sale of shares within the same tax year and the five years after the sale.⁵⁴³ If the seller did not own the shares sold for at least one year prior to the sale without interruption, dividends and group contributions that it received during the ownership period from the company whose shares are the subject of the sale based on its ownership in that company, as well as other similar items that decreased the assets of the sold company, are deducted from the deductible capital loss. Capital losses on the sale of shares in a corporation that is not resident in Finland or a country with which Finland has concluded a tax treaty applicable to dividends, or that is not a corporation specified in Article 2 of the EU Parent-Subsidiary Directive, are not tax-deductible.⁵⁴⁴

To the extent the loss results from the sale of shares in a company other than a housing company, mutual real estate company or a real estate company or a sale of an interest in a partnership and the sold shares or partnership interest do not belong either to financial, fixed or investment assets, or inventory of the selling company, i.e., it belongs to the “other asset” class (and the selling company is not a housing company or a mutual real estate company), the loss is deductible from capital gains resulting from the sale of property belonging only to the other asset class. Such loss may be carried forward for five years.⁵⁴⁵

A foreign exchange loss on a business-related loan is deducted in the year during which the exchange rate changes, even if the loss has not yet been realized.⁵⁴⁶

k. Casualty Losses

A loss resulting from an uninsured casualty is a deductible item. For inventories, see 2.d., above, and for fixed assets, see V.B.4.f., above. If the asset concerned is insured, the insurance proceeds are paid as a consequence of the casualty and hence the insurance proceeds must be taken into taxable income, un-

less taxation can be deferred via the creation of a replacement reserve.⁵⁴⁷

l. Reserve Accounts

Allocations of insurance compensation to a replacement reserve are allowable for certain types of fixed assets subject to wear and tear, and for buildings and other constructions, if such assets are lost or damaged due to fire or other misadventure. In addition, a replacement reserve may be created with respect to the sales price of a company’s business premises.⁵⁴⁸ Allocations to the replacement reserve must be deducted within the tax year during which the replacement occurred or within the following two tax years, at the latest. Allocations to a replacement reserve created based on lost or damaged fixed assets can be deducted only from the acquisition costs of fixed assets or business premises taken into use, or from costs deriving from the repair of the damaged assets. On the other hand, allocations to a replacement reserve for business premises sold are to be deducted from the acquisition cost of business premises taken into use or costs deriving from the renovation of such premises. The two-year period referred to above can be extended by the Finnish Tax Administration for up to three years upon application for special, valid reasons.⁵⁴⁹

If the amount of the replacement reserve is not entirely deducted in the statutory time period, the remaining amount increased by 20% will be regarded as the income of the taxpayer. The increase is 40%, if the Finnish Tax Administration has granted an extension of the two-year statutory time period on application from the taxpayer but the reserve, or part of it, remains unused at the end of the tax year during which the reserve should have been used.⁵⁵⁰

For businesses constructing buildings, bridges, quays, roads, dams, aircraft, ships (with a hull length of 10 meters or more), machinery or similar heavy construction or manufacturing products, a guarantee reserve representing anticipated guarantee reparations may be created in the tax year during which the product concerned is sold. The excess of the guarantee reserve over the actual repair costs incurred during the warranty period is included in taxable income in the year in which the warranty period expires. The cost against which the guarantee reserve has been created is not deductible for tax purposes.⁵⁵¹

Banks may deduct certain allocations made to credit loss reserves (see l., below).⁵⁵²

Insurance institutions may deduct certain allocations made to cover future insurance liabilities.⁵⁵³

⁵⁴⁰ For a definition of housing companies and mutual real estate companies, see III.B.2.l., above.

⁵⁴¹ Income tax Act, Sec. 50.

⁵⁴² Business Income Tax Act, Sec. 6b.

⁵⁴³ This exception is not applicable to the alienation of shares of a housing corporation, a real estate company, a corporation owning mainly real property or a corporation which business consists mainly of owning or possessing real property (including mutual real estate companies). Business Income Tax Act, Sec. 6b in fine. Losses from the alienation of such shares are deductible from ordinary business income.

⁵⁴⁴ Business Income Tax Act, Secs. 6b.5 and 6b.6.

⁵⁴⁵ Business Income Tax Act, Sec. 8a.

⁵⁴⁶ Business Income Tax Act, Sec. 26.

⁵⁴⁷ Business Income Tax Act, Sec. 43.

⁵⁴⁸ Business Income Tax Act, Sec. 43. In Supreme Administrative Court ruling No. 2024:10, it was concluded that damaged assets falling under the classification of “other assets” instead of fixed business assets within the company are ineligible for the establishment of a replacement reserve.

⁵⁴⁹ Business Income Tax Act, Sec. 43. It should be noted that a replacement reserve cannot be created with respect to the sale of land or deducted from acquisition costs deriving from land. Thus, the cost of land and the cost of buildings should be separated when creating or deducting such a reserve.

⁵⁵⁰ Business Income Tax Act, Sec. 43.

⁵⁵¹ Business Income Tax Act, Sec. 47. Other businesses may create similar provisions for accounting purposes, but are not entitled to deduct allocations to such reserves for tax purposes.

⁵⁵² Business Income Tax Act, Sec. 46.

⁵⁵³ Business Income Tax Act, Secs. 8 and 46.

m. *Bad Debts*

Only actual credit losses relating to accounts receivable may be taken as a deduction for corporate tax purposes.⁵⁵⁴ The concept of accounts receivable has become important in taxation, as credit losses accrued from receivables (other than sales receivables) from subsidiaries are not tax-deductible.⁵⁵⁵ Appropriations to a reserve for bad debts are deductible only for banks and insurance companies.⁵⁵⁶

Banks may make a provision for a doubtful debt reserve amounting to an annual maximum of 0.6% of the amount of outstanding receivables at the end of the tax year. However, the aggregate of undissolved doubtful debt reserves for the current year and prior years may not exceed 5% of the amount of outstanding receivables at the end of the tax year concerned.⁵⁵⁷

n. *Inventory*

The acquisition cost of an inventory item is deducted in the year the item is sold, consumed or lost.⁵⁵⁸

Inventory on hand at the end of the tax year is valued in accordance with the valuation for accounting purposes. The value is the lowest of the acquisition cost on a FIFO basis, replacement cost or net sales value at the end of the tax year. Valuation in accordance with the FIFO principle is assumed, unless proven otherwise by the corporate taxpayer. A proportional amount of essential overhead expenses may be added to the acquisition cost of inventory if it is also added for accounting purposes. If, for example, as a result of deterioration, the value of inventory at the end of the current tax year is less than the value at the previous balance sheet date, a corresponding allowance should be made.⁵⁵⁹

The creation of a general inventory reserve by the artificial writing down of the value of inventory is not allowed.

If inventory has been ordered, but not yet received, and the taxpayer can prove that the value at the end of the financial year is at least 10% lower than the price irrevocably agreed to with the supplier, a deduction corresponding to the reduction is allowed for tax purposes.⁵⁶⁰ No deduction is allowed for the mere risk of a price reduction.

o. *Rent*

Rent paid for immovable property and business premises used in connection with a company's business activities is deductible.⁵⁶¹

p. *Salaries and Wages*

Salaries, wages, pensions and similar periodical payments of remuneration paid to personnel employed, or previously employed, by a company, as well as health insurance charges relating to such payments, are deductible. Qualifying pension commitments may include commitments to both statutory employment pensions and voluntary, additional employee pensions.⁵⁶²

Bonuses paid to personnel are also deductible. The Courts have held intra-group payments for stock options exercised by employees to be deductible.⁵⁶³

Directors' fees, whether paid to resident or nonresident directors, are also deductible items.

Remuneration paid to a shareholder of a company must be justifiable and reasonable in relation to the services rendered by the shareholder. Such remuneration may be deemed to be a hidden profit distribution to the extent it exceeds what is deemed to be arm's-length compensation for the work performed. Hidden profit distributions (constructive dividends) are not deductible for the payer.

When part of an employee's compensation is paid in the form of shares (for example, under a long-term incentive plan such as a stock option plan or a share plan), the acquisition cost of the company's own shares is tax-deductible for the employer, provided the shares are granted or sold to the employee based on an employment agreement and were acquired through public trade (i.e., stock exchanges). Tax deductibility is limited to the fair market value of the shares when the shares are given to the employee or the employee purchases the shares, less the amount the employee paid for the shares.⁵⁶⁴

q. *Research and Development*

Research and development (R&D) expenses relating to the development of a corporate taxpayer's business, i.e., where the focus is on generating or maintaining income, are deductible for corporate tax purposes.⁵⁶⁵ For example, expenses related to product development can be considered deductible expenses. It should be noted that, unlike U.S. Generally Accepted Accounting Principles (GAAP), the Finnish Accounting Act allows the capitalization of development expenses (up to their expected

⁵⁵⁴ Business Income Tax Act, Sec. 17. The credit loss need not be proven to be final. According to Supreme Administrative Court ruling No. 2022:108, the decrease in value of a promissory note is regarded as final if the principal of the debt is reduced due to a restructuring program confirmed by a court ruling.

⁵⁵⁵ Business Income Tax, Sec. 17. E.g., credit losses relating to loan receivables from subsidiaries are not tax-deductible if the parent's direct or indirect ownership interest in the subsidiary exceeds 10% of the subsidiary's stock capital.

⁵⁵⁶ Business Income Tax Act, Sec. 46.

⁵⁵⁷ Business Income Tax Act, Sec. 46.

⁵⁵⁸ Business Income Tax Act, Sec. 28.

⁵⁵⁹ Business Income Tax Act, Secs. 28 and 14.

⁵⁶⁰ Business Income Tax Act, Sec. 49.

⁵⁶¹ Business Income Tax Act, Sec. 8.

⁵⁶² Business Income Tax Act, Sec. 8. If an employer establishes a separate pension fund for its employees, contributions need not necessarily be paid to the fund in the tax year concerned; even if such contributions are not paid, the corporation has incurred a liability to pay them. In this respect, the unpaid portion may be regarded as a pension reserve or provision. A vast majority of Finnish employees' statutory employment pensions are arranged through insurance companies rather than pension foundations or funds established by an employer.

⁵⁶³ The Supreme Administrative Court (ruling No. 2007:29) has ruled that an intercompany payment based on an agreement made by a Finnish subsidiary with its U.S. parent corporation was deductible. A Finnish employee was entitled to subscribe to the parent corporation's new shares based on a stock option plan, and the subsidiary paid the parent corporation the difference between the fair market value of the stock option when exercised and the exercise price. The exercise price for the stock option was the fair market value when it was granted. Previously, the Supreme Administrative Court had ruled in case No. 2003 T 1398 that an intercompany payment is deductible when it is based on old existing shares purchased on the stock market.

⁵⁶⁴ Business Income Tax Act, Sec. 18. CEOs and board members also qualify even though they may not have an employment agreement.

⁵⁶⁵ Business Income Tax Act, Sec. 8.

time of impact, subject to a maximum of 10 years). Expenses that are so capitalized are deducted for tax purposes later, when the amortization of the expenses has been effected in the accounting.

From 2021 to 2027, an additional deduction of R&D expenses is available for projects that have been initiated at the earliest on January 1, 2021, when the temporary law came into force. Where the additional deduction is applicable, 150% of the original amount of the R&D expenses paid to a research organization defined in the Temporary R&D Deduction Act can be deducted. The research organization must be located within the EEA with a main objective to conduct research activities or disseminate research results independently, e.g., a higher education and research institution.⁵⁶⁶ The additional deduction is capped at 500,000 euros per tax year and it is available only in case the amount of qualifying expenses is at least 5,000 euros in a tax year. Only the amount charged by the research organization in relation to the R&D project is eligible for the additional deduction. The additional deduction is not available insofar as the taxpayer has received direct state aid or other public assistance to cover subcontracting bills related to the project. The additional deduction must be claimed before the date of the issuance of the corporate income tax assessment based on the tax return of the company of the relevant tax year.

In addition to the temporary additional deduction discussed above, companies engaged in business activities or agriculture can make an additional deduction of the salary and outsourcing expenses relating to their own R&D activities. This incentive is divided into a so-called general additional deduction and a supplementary additional deduction. The general additional deduction allows companies to deduct 150% of salary and outsourcing expenses that relate to a company's own R&D activities. The additional deduction is capped at 500,000 euros per tax year, and it is available only in case the amount of qualifying expenses is at least 5,000 euros in a tax year.⁵⁶⁷

The supplementary additional deduction is available if a company's R&D related salary and outsourcing expenses increase from one tax year to the next, in which case 45% of such increase is deductible. The deduction is capped at 500,000 euros with no minimum threshold. The general additional deduction is available from 2023 onwards and the supplementary additional deduction from 2024 onwards.

The additional deduction relating to expenses paid to a research organization defined in the Additional R&D Deduction Act and the additional deductions on salary and outsourcing expenses cannot be applied to the same expenses and the deduction is not available insofar as the taxpayer has received direct state aid or other public assistance to cover subcontracting bills related to the project. The additional deduction must be

claimed before the company's corporate income tax assessment has been issued.

r. Other Deductions from Gross Income

All other expenses incurred to obtain or maintain income are, in principle, deductible.⁵⁶⁸ For instance, service and management fees are deductible to the extent they are reasonable and at arm's length (see XIII., below). Sections 8, 17, and 18 of the Business Income Tax Act contain a long list of examples of expenses that are deemed to be incurred to obtain or maintain income. For example, the following expenses are deductible:

- (i) Membership fees paid to labor market organizations;
- (ii) Losses resulting from theft or other crimes;
- (iii) Exchange losses on loans obtained for business purposes (see V.B.4.i., above); and
- (iv) Reasonable life insurance premiums paid by a company with respect to individuals who are crucial to the company's business, provided the company is the beneficiary of the insurance. The life insurance premiums should be paid evenly over the whole duration of the term of insurance. Also, life insurance premiums paid by an employer on behalf of an employee are deductible for corporate tax purposes if the beneficiary of the life insurance is the employee or his or her parent, child, foster child, spouse, grandchild or spouse's child.⁵⁶⁹

For the deductibility of group contributions granted to group companies, see 14., below.

5. Capital Expenditure

The amount of a capital expenditure (for example, the cost of goodwill if it is treated as a separate item in an acquisition) must be capitalized and may not be taken as a current deduction, unless the object of the capital expenditure has an expected economic life of less than three years. Capital expenditure incurred for purposes of producing or maintaining income for three or more tax years is amortized for tax purposes in equal annual installments over the expected economic life of the expenditure, which may not, however, exceed 10 years.⁵⁷⁰

6. Loss Carryovers and Carrybacks

If the entire combined operations of a company in any income category⁵⁷¹ yield losses, the losses may be carried forward for tax purposes and set off against taxable income in the same category of income, in the order they were incurred, during the following 10 tax years. However, if the ownership of more than 50% of the shares of the company (disregarding publicly traded shares of a company that is listed on the stock exchange) changes, for reasons other than inheritance or bequest, during the loss year or thereafter, the right to carry forward the losses is forfeited.⁵⁷² Indirect ownership changes are also taken into

⁵⁶⁶ Act on the Additional Deduction of Research and Development Activities for Tax Years 2021 to 2027, *Laki tutkimus- ja kehittämistoiminnan lisävähennyksestä verovuosina 2021–2027/Lag om ett tilläggsavdrag för forsknings- och utvecklingsverksamhet under skatteåren 2021–2027*, 1078/2020, as amended (the "Temporary R&D Deduction Act"), Sec. 2.

⁵⁶⁷ Act on Additional Tax deductions Based on Expenditure on Research and Development, *Laki tutkimus- ja kehittämistoiminnan menoihin perustuvista lisävähennyksistä verotuksessa/Lag om tilläggsavdrag baserade på utgifter för forsknings- och utvecklingsverksamhet i beskattningen*, 1298/2022. (the "Additional R&D Deduction Act").

⁵⁶⁸ The principal criterion for the deductibility of an expense is that the corporation incurred the expense with a genuine intent to obtain or maintain income.

⁵⁶⁹ Business Income Tax Act, Sec. 8.

⁵⁷⁰ Business Income Tax Act, Sec. 24.

⁵⁷¹ The categories of income are business income, income from agriculture and other income.

⁵⁷² Income Tax Act, Secs. 119, 120, and 122.

account. If there is a change in the ownership of more than 50% of the shares/units of an entity owning at least 20% of the enterprise incurring the losses, the losses are also forfeited. The Finnish Tax Administration may, however, grant a special exception allowing the deduction of losses that would otherwise be forfeited as a result of a change in ownership if the deduction can be justified in the light of continuing business activities.⁵⁷³ As discussed in 4.i., above, certain deductible capital losses arising from the sale of fixed or other assets can be carried forward only for five years.

Losses suffered on the disposal of assets by housing companies and mutual real estate companies⁵⁷⁴ are taken into account under the “other income” category. Consequently, such losses cannot be deducted from the company’s business income. Moreover, the deductibility of losses in the “other income” category is limited.⁵⁷⁵ Such losses can be deducted only from capital gains in that category in the same year, or in any of the following five years, as soon as capital gains are realized in that category.

No loss carryback is allowed under Finnish law.

7. Tax Credits

a. Foreign Tax Credit

Unilateral relief from international double taxation is provided under the Act on Elimination of International Double Taxation. In addition, Finland’s tax treaties generally provide relief from international double taxation, in which case the relevant treaty and the domestic law have simultaneous application.⁵⁷⁶ It should also be noted that certain types of income derived from Finland by nonresidents are unilaterally exempt (see VI. and XI., below).

When a tax treaty applies, all foreign taxes covered by the treaty qualify for a foreign tax credit (provide any other conditions for the availability of the tax credit are also met). In the absence of a treaty, only foreign national taxes qualify for a credit. However, it may sometimes be difficult to know whether a foreign tax qualifies, i.e., whether it is a national tax, since the domestic law does not define this term. State/provincial taxes and taxes paid to cities do not qualify for a tax credit.

The foreign tax credit presupposes that the relevant income from foreign sources is included in taxable income in Finland and tax is computed on the entire amount. To avoid double taxation, the amount of foreign tax is then credited against the total tax so computed and only the difference is payable by the company.

Foreign taxes may be credited only if they have been finally assessed and this is proven by means of adequate documentation. The foreign tax credit must be requested before the final assessment is made. If the final assessment has been issued, the taxpayer may file a claim for a correction.⁵⁷⁷

⁵⁷³ Income Tax Act, Sec. 122.

⁵⁷⁴ Housing companies and mutual real estate companies are defined under III.B.2.1., above.

⁵⁷⁵ Income Tax Act, Sec. 50.

⁵⁷⁶ The text of an applicable tax treaty always overrides the text of the domestic law: a domestic law can never limit the scope of application of a treaty.

⁵⁷⁷ Act on the Elimination of International Double Taxation, Sec. 8. Assessment is made by the end of the 10th month after the end of the tax year. See V.B.9.

In practice, the foreign tax credit is claimed on the taxpayer’s annual income tax return using Form 70, which must be completed for the tax year in which the foreign-source income was taxed, as well as for any unused foreign tax credits carried forward from prior years.⁵⁷⁸ Corporate taxpayers must attach supporting documentation evidencing the amount and basis of the foreign tax (such as foreign tax assessments or withholding certificates), and translations into Finnish or Swedish may be required where appropriate. The Tax Administration provides detailed guidance on filing Form 70, including electronic submission procedures. If the credit is not claimed in the original assessment, the taxpayer may subsequently request a correction or file an appeal in accordance with the general rules governing adjustments of tax assessments.⁵⁷⁹

If income is derived from more than one foreign country, income from each country is treated separately for purposes of computing the qualifying foreign tax credit. In addition, each category of income (in accordance with Finnish law, i.e., business income, income from agriculture and “other income”) and each type of income (earned income and capital income) is treated separately.⁵⁸⁰

The legislation provides that the foreign tax credit may not exceed that part of the Finnish tax, as computed before the credit is deducted, that is attributable to the foreign income in question.⁵⁸¹ Unused foreign tax credits may be carried forward and credited at the request of the taxpayer during the following five tax years. The tax credit carried forward and claimed to be deducted is subject to the maximum credit limitation for the credit year.⁵⁸²

Under Finnish law, no indirect credit is allowed for foreign corporate tax underlying dividends received from abroad (i.e., there is no credit for the foreign corporate income tax paid on the gross income out of which the dividends are distributed).

For further discussion of the foreign tax credit, see XV.A., below.

b. Investment Tax Credit

In 2025 Finland introduced a new temporary tax incentive for large clean transition investments ‘Investment Tax Credit’. The objective of the incentive is to increase major industrial investments that utilize electricity and, at the same time, support the development of clean transition industries in Finland. The tax incentive proved popular as a total of two billion euros were granted credits to 37 projects. The credits granted were based on total investment costs of approximately 15 billion euros.

In spring 2025, the Finnish government decided that support for clean transition investments would continue. The continuation of the tax credit is based on the state aid framework for the Clean Industry Development Program approved by the European Commission in summer 2025, which aims to support the economies of EU Member States and accelerate the clean transition. The Ministerial Committee on Economic Policy de-

⁵⁷⁸ About the income tax return filing obligation, see V.B.9., below.

⁵⁷⁹ Tax Administration guidance (No. VH/3968/00.01.00/2024) on the elimination of double taxation for corporate taxpayers, Ch. 3. See also IV.A.3., above, relating to appealing an assessment decision.

⁵⁸⁰ Act on the Elimination of International Double Taxation, Sec. 4.

⁵⁸¹ Act on the Elimination of International Double Taxation, Sec. 4.

⁵⁸² Act on the Elimination of International Double Taxation, Sec. 5.

cided that the extension of the tax credit will remain in force until the end of 2027.

According to the Committee's guidelines, the continuation of the tax credit will be implemented so that:

- In energy production and storage, the tax credit is targeted more precisely at sectors and technologies with significant support needs; and
- The possibilities under the state aid framework to expand the scope of the tax incentive in industrial decarbonization and net zero technology production are utilized, covering, among other things, technologies related to carbon capture and clean hydrogen production.

According to the Committee's guidelines, the minimum investment amount would remain 50 million euros. The amount of the tax incentive would be a maximum of 20% of the investment costs, and credit of up to 150 million euros could be granted per company. However, for certain net zero technology investments, the credit rate may, due to state aid rules, be limited to a maximum of 15%.

However, as of March 2026, no proposal for new tax credit regime to continue the support for clean transition investment has not been introduced to the Parliament by the government.

c. Other Credits

No other credits against corporate income tax are available under Finnish domestic tax law.

8. Tax Rates and Calculation of Taxable Income

Corporate profits are subject to a national corporate income tax at a flat rate of 20%. The rate applies irrespective of the amount of corporate net income. Companies are not subject to local, i.e., municipal income tax. The State distributes the corporate tax to the municipalities after deducting its share, which is 77.10% in 2026 (up from 76.35% in 2025). The distribution is effected by the Tax Administration and has no direct effect on the company.

9. Assessment and Filing

In general, the tax year of a company is its financial period. If two or more financial periods of a company end during the same calendar year, all of these financial periods are combined and form a single tax year.⁵⁸³

Comment: Since, where the financial period is extended (see V.B.2.b., above), the assessment of tax is deferred accordingly, if no financial period (financial year) ends during a calendar year, the result is a calendar year without taxation. (It goes without saying that, in such a case, taxation is only deferred to the following calendar year.) On the other hand, the possibility of changing the tax year, together with the fact that a corporation is taxed on the tax year(s) ending during the calendar year (see V.B.2.b., above), provides a minor tax planning opportunity: when the tax rate is about to increase, the company may change the end of its tax year to benefit from the lower rate.

⁵⁸³ Tax Assessment Act, Sec. 3. See also the discussion of the different depreciation methods at 4.f., above.

A company must file its corporate tax returns by the end of the fourth month following the end of its tax year. A corporate entity whose accounting period ended on December 31, 2025 must file its 2025 income tax return by April 30, 2026. The tax return must be accompanied by any relevant information pertinent to the tax year concerned, including, in any event, the profit and loss (P&L) account and the balance sheet.

Income taxes are assessed by the Tax Administration. In making an assessment, the Tax Administration may deviate from the information given in a company's tax return without giving prior notice to the company. However, if the deviation is substantial or adds to the amount of taxes payable by the company (or decreases the amount of the company's losses), the company must be given the opportunity to submit an explanation in support of the return.

Assessments are issued at the latest by the end of the 10th month following the end of a company's tax year (i.e., within six months after the filing of the tax return).

In addition to filing annual tax returns, companies must file, among other things, annual reports relating to distributed dividends (annual notification regarding distributed dividends). Such reports must be filed by the end of January following the end of the year during which the dividends were paid.⁵⁸⁴ Salaries and other remuneration paid to employees must be reported to the Incomes Register within five days from the payment of the salary or other remuneration (the "earnings payment report"). If a compulsory filing has not been made by the eighth day of the month following the month when the payment has been made, a late payment fee may be imposed. In addition to the earnings payment report, an employer is required to submit a monthly "employer's separate report" to report, for example, its health insurance charges. The employer's separate report is due by the fifth day of the month following the payment of salary. Employer's contributions (for example, tax withholdings and employer's health insurance charges) must be remitted to the Tax Administration by the 12th of the month following the payment of salary. The due dates for the remittance and reporting obligations thus differ from each other.

Corporate income tax returns and other reports are submitted electronically; filing using separate paper forms is accepted only under special circumstances.

At the beginning of the tax year, each company is issued an advance assessment with an estimate of the income for that year and the amount of advance tax due. The advance tax is payable in installments, the number of which depends on the amount of the advance tax. The estimation of income for purposes of the advance tax is ordinarily based on a company's income in the previous assessment and attempts to match, to the extent possible, the company's final tax for the tax year. The advance assessment may be changed during the tax year.⁵⁸⁵ Amounts collected by way of advance assessment are credited against the company's final tax. Any tax remaining due is collected and any excess paid is refunded to the taxpayer after the tax assessment decision has been issued.

⁵⁸⁴ In some cases, electronic filing is required.

⁵⁸⁵ Prepayment Act, *Ennakkoperintälaki/Förskottsuppbordslag*, 1118/1996, as amended, Secs. 23 and 24.

10. Audits

Tax audits are carried out by tax auditors from the Tax Administration at irregular intervals. Generally, income taxes, withholding taxes (for example, on wages and salaries, and dividends and royalties paid abroad) and VAT-related transactions are examined at the same time, but the scope of an audit may be narrower, for example, where the audit is based on intelligence received from third parties. In practice, transfer pricing and the allocation of expenses are important issues for multinational companies. The audit may be directed to the business activity of the company or may be a “comparison audit” to acquire or verify information relating to the business activity of other taxpayers. In the course of an audit, the auditors may ask a company to provide, for examination in Finland, any information they deem necessary.⁵⁸⁶ However, the request must be directed to accounting or taxation related material of the company and must be, to a certain degree, sufficiently specific.⁵⁸⁷ Normally, the Tax Administration gives a company advance notice of a tax audit, but an audit may be performed without advance notice if the Tax Administration has special reason for not giving advance notification to the taxpayer. The Tax Administration has published guidance on good tax auditing practices, which governs the practices to be used by tax auditors during a tax audit.

11. Limitations Period for Assessment

In certain circumstances, as provided for in the Tax Assessment Act, the Tax Administration may change an initial assessment. The Tax Administration may change an assessment not only to the benefit of the taxpayer company but also to its detriment. Corrections for the benefit of a company must be made within three years from the beginning of the year following the assessment year.⁵⁸⁸ The same statute of limitations applies where a company has failed to file a tax return. In such cases, the taxpayer is usually also required to pay a punitive tax increase and late payment interest.

The Tax Administration may also make corrections to the detriment of a company if the company’s income was assessed only partly or not at all, or if tax was otherwise not levied on such income.⁵⁸⁹ The assessment may not be amended by the Tax Administration if it has specifically scrutinized an issue and issued a specific decision thereon. However, the Tax Administration may nevertheless amend the assessment if its original decision was based on erroneous or inadequate information or if new information comes to light that may have an impact on the issue.⁵⁹⁰

An assessment can be amended to the detriment of a company within a six-year period (rather than the normal three years) where:

- (i) A transfer pricing adjustment is made under Section 31 of the Tax Assessment Act;

- (ii) There is an arrangement between related parties relating to corporate or financing structures within the meaning of Section 31 of the Tax Assessment Act; or

- (iii) The amendment is based on information received through an international exchange of information other than an automatic exchange of information.

Since the Tax Administration may rectify a tax assessment decision even where there is no fraudulent error on the part of the taxpayer company, the company will have no certainty that the tax assessment is final until the three-year (or six-year) statute of limitations has elapsed without the company having heard from the Tax Administration.

The Tax Administration can extend the three-year statute of limitations by one year in certain cases, i.e., where a tax audit has been started based on information received exceptionally late or from another authority, where an audit requires co-operation between authorities, or where the information submitted by the taxpayer company makes the audit more difficult for the Tax Administration.⁵⁹¹

During the extended period, the Tax Administration may adjust errors in the company’s favor only if they relate to the same matter. A company is barred from filing an appeal against the decision to extend the three-year statute of limitations.

12. Alleviation of Taxation

In special circumstances, the Tax Administration or the Ministry of Finance may grant a taxpayer a total or partial tax exemption or tax deferral, particularly with a view to avoiding international double taxation.⁵⁹² The law does not provide any specific requirements for this relief other than there being a “distressed situation” or other special circumstances. In practice, these provisions apply to entities subject to debt restructuring or individual taxpayers who are in a poor financial situation due to various reasons.

It should also be noted that Finnish tax law provides for the possibility, in certain exceptional circumstances, of the Tax Administration granting on application, under certain exceptional circumstances, an exemption from taxes that have become due as well as associated penalty payments. Possible grounds for granting such an exemption include the reduced ability to pay taxes based on illness, unemployment or a comparable reason.

13. Consolidated Group Returns

Consolidated tax returns are not accepted under Finnish tax law. Each corporate taxpayer must file its own tax return, even if it is a member of a group of companies. For accounting purposes, however, a group of companies may be required to prepare consolidated annual accounts.⁵⁹³

Subject to a few exceptions, the consolidation of annual accounts is required if an enterprise carrying on business holds, directly or indirectly, more than half of the voting power in, or otherwise has effective control or important influence over, another enterprise, whether domestic or foreign. The legislation

⁵⁸⁶ Tax Assessment Act, Sec. 14.

⁵⁸⁷ Supreme Administrative Courts Decisions No. 2019:40 and No. 2020:8.

⁵⁸⁸ Tax Assessment Act, Sec. 55.

⁵⁸⁹ Tax Assessment Act, Sec. 56.

⁵⁹⁰ A tax assessment may not be amended if the case has been decided on appeal.

⁵⁹¹ Tax Assessment Act, Sec. 56a.

⁵⁹² Tax Assessment Act, Sec. 89 and Tax Collection Act, Sec. 80.

⁵⁹³ Accounting Act, Ch. 6, Sec. 1.

contains detailed rules to be followed in the preparation of consolidated accounts.⁵⁹⁴

In general, all companies within a group must have the same financial period.⁵⁹⁵

14. Group Contributions

As discussed above, Finland does not have a tax consolidation system for groups of companies. Instead, tax consolidation within a group of companies is effected via a group contribution system.

Contributions in general, i.e., contributions other than group contributions, are deductible for the company paying the contribution (and taxable in the hands of the recipient) only if the companies have a business relationship and the contribution relates to, and is justified by, the business of both companies. To the extent it is reasonable, such a contribution would be regarded as made in order to obtain or maintain income and would, therefore, be deductible for the payer under Section 7 of the Business Income Tax Act. If the contribution is made in order to enhance the economic circumstances of the recipient, the contribution is not deductible to the company paying the contribution.⁵⁹⁶

Other contributions between companies (i.e., contributions that do not have a business purpose) are not deductible (or taxable) as they are deemed to have the nature of capital contributions with no effect on the profit and loss of the parties.

However, specific group contributions defined in the Group Contribution Act are allowable deductions for tax purposes, subject to certain conditions, even if they are not directly related to the parties' business operations. The relevant conditions are as follows:

- (i) One Finnish company must have owned, either directly or indirectly through other subsidiaries, at least 90% of the share capital⁵⁹⁷ of another Finnish company for the entire fiscal year;⁵⁹⁸
- (ii) Both the company granting the group contributions and the recipient must be Finnish resident companies;
- (iii) Both companies must be taxed under the Business Income Tax Act (i.e., be a company other than a housing company, mutual real estate company⁵⁹⁹ or a company car-

rying only agricultural activity) but may not be financial, insurance or pension institutions;

(iv) The tax year of both companies must end on the same date, unless an exemption from this requirement is granted by the Accounting Committee (*Kirjanpitolautakunta/Bokföringsnämnden*); and

(v) The group contributions must be entered in the account books of both companies, so that it affects the profit and loss of both companies.⁶⁰⁰

Group contributions meeting the above requirements are deductible for tax purposes for the payer and taxable in the hands of the recipient in the tax year in which the granting of the group contributions is decided on. It should be noted that a group contribution does not necessarily need to be paid during a particular tax year to be deductible in that year: it is sufficient that it is accounted for as a liability/receivable between the grantor/recipient in the accounting of the respective companies. However, a group contribution may not exceed the annual income of the payer (i.e., computational annual income from which no group contribution has been deducted) and, thus, may not create a loss to be carried forward by the payer company.⁶⁰¹

Qualified group contributions can be paid either from a parent company to its subsidiary, from a subsidiary to a parent or between qualifying subsidiaries, provided that the 90% requirement is met in respect of the parent company and both subsidiaries.⁶⁰² Even a Finnish resident SE or non-Finnish resident SE's Finnish PE can grant group contribution to its Finnish subsidiary provided that the group contribution does not exceed the SE's or its Finnish PE's annual computational income in Finland.⁶⁰³

Indirect ownership by way of passive group companies is also taken into account when determining whether a qualifying holding of at least 90% exists. Specifically, the law provides that the passive companies in such a chain must also be domestic companies. However, the Supreme Administrative Court has deemed in several cases that, in accordance with the non-discrimination clause of a tax treaty, the existence of a nonresident intermediate corporation does not prevent the Group Contribution Act from being applied.

⁵⁹⁴ Accounting Act, Chs. 1 and 6, and Companies Act, Ch. 8, Secs. 9 to 12.

⁵⁹⁵ Accounting Act, Ch. 6, Sec. 5.

⁵⁹⁶ Business Income Tax Act, Sec. 16.7.

⁵⁹⁷ In its decision No. 2022/7, the Central Tax Board addressed the meaning of 'share capital' in the context of group contributions. The decision clarified that owning over 90% of the outstanding shares suffices to meet the requirement of 90% ownership of the other company's share capital, regardless of the rights or other features associated with the shares.

⁵⁹⁸ In Supreme Administrative Court ruling No. 2020:149, the qualifying ownership was deemed to have existed during the entire fiscal year when a parent company, which had owned the shares in a subsidiary at the beginning of the fiscal year, had demerged in a partial demerger during the fiscal year and the shares in the subsidiary had been transferred to the new company incorporated in connection with the demerger.

⁵⁹⁹ For a definition of housing companies and mutual real estate companies, see III.B.2.1., above.

⁶⁰⁰ Group Contribution Act, Secs. 1–5, 7.

⁶⁰¹ Group Contributions Act, Sec. 6. However, see Supreme Administrative Court ruling No. 2023:32, where it was accepted that the payer created a loss to be carried forward despite the given group contribution in order to eliminate the double taxation as a result of the transfer pricing adjustment in other group company.

⁶⁰² Group Contributions Act, Sec. 3. In Supreme Administrative Court ruling No. 2004:65, a Finnish subsidiary's ultimate parent company was resident in the US. Based on the non-discrimination clause of the applicable tax treaty, a group contribution between the subsidiaries was deductible for the granting subsidiary.

⁶⁰³ Supreme Administrative Court ruling No. 2007:30.

Comment: These rules are widely used in corporate tax planning, because they provide a high degree of flexibility within Finnish corporate groups. For instance, a single purpose company that repeatedly generates losses may generally only carry such losses forward, and the losses may be lost completely if the company does not generate sufficient income within the time prescribed for carryforward, or if (except in the case of a listed company; see B.6., above) there is a change in the ownership of more than 50% of the shares of the company after the tax year during which the losses were generated. A group contribution from a profitable member of a group to another loss-making member enables the group to take advantage of the losses immediately by reducing the group's total taxable income.

For the group relief system providing a Finnish parent a tax deduction for its foreign subsidiary's final loss, see XIV.F., below.

15. Reorganizations

a. Change of Legal Form

The Companies Act enables a change of corporate form from a company to a partnership or to a sole proprietorship; however, such a change currently cannot be effected without triggering the adverse tax consequences of a liquidation.⁶⁰⁴

A general or limited partnership may generally be converted into a company without direct tax consequences if the assets and liabilities are transferred with the same book values from the partnership to the successor. Basically, the business of the entity needs to remain the same as before. However, the operating reserve will be dissolved into profit of the change year.

A change in legal form can be executed by filing a notification of change with the Tax Administration and Trade Register. As such a change is considered to end an entity's financial year and therefore also its tax year, the entity is required to file a tax return for its last tax year.

b. Mergers

Under Finnish law, certain mergers can be executed as tax neutral, i.e., no direct tax consequences to the parties involved if certain conditions are fulfilled. Although the following discussion concentrates on absorption mergers, the tax treatment of combination mergers is generally the same.

In a qualifying tax neutral merger, the merging company transfers its assets and liabilities to the recipient company. In return, the shareholders of the merging company receive shares in the recipient company as merger consideration. Cash consideration is also allowed but only up to a maximum of 10% of the merger consideration (see below). No merger consideration is required in a merger in which a fully-owned subsidiary merges into its parent company or where two directly or indirectly fully-owned subsidiaries merge into each other.

The Finnish domestic tax law regarding mergers also applies to mergers involving corporations from other EU Member States, which are covered by the EU Merger Directive⁶⁰⁵ and are

liable to pay such corporate taxes as are mentioned in the EU Merger Directive.⁶⁰⁶

In the case of a qualifying (absorption) merger, the two (or more) merging companies are treated separately for tax purposes until the merger is registered with the Trade Register.⁶⁰⁷ The merging companies must prepare annual accounts as of the registration date and file tax returns for the relevant period(s). The registration of the merger does not affect the recipient company's obligation to prepare annual accounts or file tax returns.

The treatment of the transfer of the assets and liabilities of a merging company to a recipient company is based on the continuity principle, so that, for example, the merging company's inventories, fixed assets and reserves are transferred at their book values, and deductible expenses are deducted by the recipient company in accordance with the provisions of the Business Income Tax Act.

The recipient company is entitled to deduct from its taxable income losses carried forward by the merging company if the recipient company, or its shareholders, or the recipient company and its shareholders together, has or have owned, since the beginning of the loss year, more than 50% of the shares of the merging company.⁶⁰⁸

A profit of the recipient company resulting from a qualifying tax-neutral merger is not taxable income and, conversely, a loss is not a deductible expense.⁶⁰⁹ Taxation is deferred until the assets of the merging company are assigned by the recipient company.

A merger has no direct tax consequences for the shareholders of the companies concerned, except with respect to the cash consideration. To the extent the shareholders of the recipient company receive cash in exchange for their shares, the shares are deemed to be sold for purposes of the capital gains tax. The 10% limit is calculated based on the par value of the shares given as merger consideration by the recipient company.

Example: If the recipient company has 100 shares and a share capital of 10,000 euros and it issues another 100 shares as merger consideration to the shareholders of the merging company, each new share will have a par value of 50 euros. Thus, the shareholders of the merging company can receive a maximum of 500 euros as cash consideration in addition to the new shares without jeopardizing the tax neutrality of the merger.

For the purposes of the future capital gains taxation of the shareholders of the merging company, the newly-issued shares granted as merger consideration by the recipient company will be deemed to have the same acquisition cost and the same acquisition date as those of the (old) shares of the merging company that were transferred in exchange to the recipient company.

For the purposes of transfer tax, the transfer of immovable property and securities in connection with a merger — to the

Member States and to the transfer of the registered office of an SE or SCE between Member States (the "EU Merger Directive").

⁶⁰⁶ Business Income Tax Act, Sec. 52.

⁶⁰⁷ Business Income Tax Act, Sec. 52b.

⁶⁰⁸ Income Tax Act, Sec. 123.

⁶⁰⁹ Business Income Tax Act, Sec. 52b.

⁶⁰⁴ Income Tax Act, Sec. 24, Companies Act, Ch. 19, Sec. 4.

⁶⁰⁵ EU Council Directive 2009/133/EC of October 19, 2009, on the common system of taxation applicable to mergers, divisions, partial divisions, transfers of assets and exchanges of shares concerning companies of different

extent the merger consideration is granted in the form of shares by the recipient company — is not deemed to constitute a taxable transaction.⁶¹⁰ The transfer of assets in connection with a merger is generally deemed to be a universal succession and, as such, is not a transaction subject to VAT.

Should a corporate merger not meet all the requirements for tax neutrality under the tax law (for example, because more than 10% of the merger consideration is in the form of cash), the merger will be treated as a liquidation for tax purposes. In this case, the merging company will be deemed to sell its assets to the recipient company for a price equal to their fair market value, which triggers capital gains taxation, as well as transfer tax if the merging company owns real property or securities. If the recipient company owns shares in the merging company, the merger will then potentially result in a taxable gain or a deductible loss.

In principle, the provisions of Section 52b of the Business Income Tax Act on the special tax treatment of mergers, discussed above, apply also to situations in which the acquiring corporation is resident in another EU Member State. Tax exemption is available only to the extent the assets transferred remain effectively connected with a PE in Finland of the non-resident recipient corporation. However, the Supreme Administrative Court has held,⁶¹¹ based on EU law, that a cross-border merger between a Finnish fund and a Luxembourg fund was tax-exempt even though no Finnish PE was left after the merger. In addition, even a merger of a U.S. corporation into a Finnish company sharing the same Finnish resident shareholders has been accepted as a tax neutral transaction.⁶¹²

If the assets are not or are no longer effectively connected with a PE in Finland, they are deemed, for Finnish tax purposes, to be sold at their exit tax value, and reserves relating to the assets become taxable income.⁶¹³ In a cross-border merger, into a company located within an EU or EEA Member State, subject to certain preconditions, the taxation may be deferred for five years.⁶¹⁴ Also, in the case of a cross-border merger, a Finnish company may be able to deduct the losses incurred abroad by its merged subsidiary. According to case law, the conditions to be met in order to set off the foreign losses are, however, relatively strict. The company must be able to prove, that the merged subsidiary could not have received even minimal financial or other income in its country of residence in future years and that the losses could not have been used by a third party, if the subsidiary was sold to a third party in its country of residence.⁶¹⁵

If the assets transferred in a cross-border merger are effectively connected with a Finnish resident company's PE in another EU Member State, the current market value of the assets transferred and the reserves of the PE constitute taxable income of the Finnish company. In such cases, double taxation is eliminated by the application of the tax sparing credit method: the foreign tax that would have been levied, in the absence of the

provisions of the EU Merger Directive, in the other EU Member State is creditable against the Finnish tax on the transfer.⁶¹⁶

Comment: The Supreme Administrative Court has issued two rulings concerning the so-called U.S. flip structures, where a Finnish company was converted into a U.S. parent group by inserting a new U.S.-based entity into an existing structure. Supreme Administrative Court ruling No. 2023:75 states that such structures are generally possible to achieve tax-neutrally through a merger. According to the ruling, a merger can be carried out even without paying consideration to the shareholders of the merged Finnish company, provided they are also shareholders of the new US-based entity that acts as the parent company to the Finnish recipient company in the merger. Conversely, in contrast to this, Supreme Administrative Court ruling No. 2023:74 suggests that achieving tax neutrality in reorganizations involving a share exchange is not possible if the acquiring company is not a resident of the EU or EEA. However, as of January 1, 2026, new legislation allows flip structures involving non-EEA countries to qualify for tax-neutral treatment through a share exchange, provided that certain statutory conditions are met.⁶¹⁷

c. Demergers

Qualifying corporate demergers are also subject to special tax treatment. Qualifying (total) demergers are transactions in which one company (the “demerging company”) dissolves and contributes its assets and liabilities to two or more either existing or new companies (the “recipient companies”). The shareholders of the demerging company receive in exchange for the shares in the dissolving demerging company shares in the recipient companies (the “demerger consideration”). In qualifying (partial) demergers, the demerging company transfers, without being dissolved, one or more (independent) branches of activity to one or more existing or new recipient companies, leaving at least one branch of activity in the demerging company. The shareholders of the demerging company receive shares in the recipient companies as demerger consideration. For purposes of shareholder taxation, the change of merging company shares into recipient company shares is not deemed a taxable event. The acquisition cost and the holding period of the merging company shares are carried over.⁶¹⁸

Comment: Demerger by means of incorporation (see III.B.3.b., above), in which the recipient company issues shares to the demerging company, is not a qualifying demerger under the Business Income Tax Act, but it is likely that it will be treated as a qualifying business transfer (see d., below) for tax purposes, although there is no published case law on this matter.

The same provisions apply to domestic demergers and to demergers involving a corporation from another EU Member State.⁶¹⁹

Demergers also qualify as tax neutral if the assets and liabilities of the demerged company are exchanged for cash. As in

⁶¹⁰ Transfer Tax Act, Secs. 4 and 15. See also C.2., below.

⁶¹¹ Supreme Administrative Court ruling No. 2014:138.

⁶¹² Central Tax Board ruling No. 2021:11.

⁶¹³ Business Income Tax Act, Sec. 52e.

⁶¹⁴ Business Income Tax Act, Sec. 52i.

⁶¹⁵ Supreme Administrative Court ruling No. 2020:51.

⁶¹⁶ Business Income Tax Act, Sec. 52e, subsec. 3.

⁶¹⁷ Taxation of share exchanges, see V.B.15.e., below.

⁶¹⁸ Business Income Tax Act, Sec. 52c. In a qualifying demerger, the recipient corporation cannot be the parent of the demerging corporation.

⁶¹⁹ To qualify, a corporation from another EU Member State must be covered by the EU Merger Directive and must be liable to pay such corporate taxes as are mentioned in the EU Merger Directive.

the case of a merger, the maximum permitted cash consideration is equal to 10% of the proportional stake of the merger consideration shares in the share capital of the recipient company. According to Supreme Administrative Court, if the shares in a recipient company are later sold after the demerger has been implemented, the selling price is not to be regarded as cash consideration when calculating the 10% limit even if a preliminary agreement on the sale of shares has been entered into before the demerger was completed.⁶²⁰

In a qualifying demerger, the assets, reserves, losses, etc. of the demerged company are treated for tax purposes by the recipient companies in the same manner as they would have been treated by the demerged company. As in the case of a merger, the treatment of the transfer of the assets and liabilities of the demerging company to the recipient companies is based on the continuity principle.

Following a qualifying demerger, old losses are transferred to a recipient company to the extent the losses were generated by the activity transferred to the recipient company.⁶²¹ In this context, business activity covers all the income related to that activity without distinguishing among the different categories of taxable income.⁶²²

For the purposes of transfer tax, the transfer of real property and securities in connection with a qualifying demerger is not deemed to be a taxable transaction.⁶²³ The transfer of assets in connection with a demerger is generally deemed to be a universal succession and, as such, not to constitute a transaction subject to VAT.

d. Business Transfers

There is also a tax exemption (or deferral) for qualifying business transfers.⁶²⁴ The same provisions apply to domestic arrangements and arrangements involving a corporation from another EU Member State.⁶²⁵ In the case law of the Supreme Administrative Court,⁶²⁶ the same rules also apply to business transfers whereby a U.S. corporation transfers its Finnish PE's business assets to a Finnish subsidiary.

A qualifying business transfer is a transaction whereby a company (transferring company) transfers either its assets, liabilities and reserves relating to one or more of its independent business units or its entire business to another company (recipient company) in exchange for shares in the recipient company and the recipient company continues the transferred business. The shares given as consideration are given to the transferring company, not to the shareholders of the transferring company. The consideration cannot be cash or a subordinated loan. The share consideration can be either newly issued shares or otherwise the recipient company's own shares in its custody.⁶²⁷

Similarly to a merger and demerger, the treatment of the transfer of the assets and liabilities of the transferring company to the recipient company is based on the continuity principle, so that, for example, the transferring company's inventories, fixed assets, reserves and liabilities are transferred at their book values for tax purposes, and deductible expenses are deducted by the recipient company in accordance with the provisions of the Business Income Tax Act. However, in the accounting of the recipient company, the continuity principle does not need to be followed and the assets and liabilities can be valued at their market value after the business transfer. The shares received by the transferring company as consideration have the same acquisition cost for tax purposes as that of the net assets.

If the assets transferred in a qualifying business transfer include real property or securities, no transfer tax is payable (for a discussion on transfer taxation, V.C.2., below).

In a business transfer, the principle of continuity is not applied so, for example, tax losses of the transferring company cannot be transferred to the recipient company.

e. Share Exchanges

Finnish tax law relating to tax-neutral reorganizations recognizes a share exchange. A (qualifying) share exchange is a transaction in which a company (the "acquiring company") acquires shares of another company (the "target company") resulting in the acquiring company obtaining in total more than 50% of the voting power of the target company. The purchase price paid to the shareholders of the target company must generally be in the form of shares of the acquiring company. The purchase price may include a cash portion, but the cash portion may not exceed 50% of the par value of the shares given as purchase price or, if such shares have no par value, the proportionate amount of paid-in equity of the acquiring company attributable to them.⁶²⁸ It should also be noted that, as a share exchange typically results in a change of ownership, the right to carry forward losses of the target company may be forfeited if more than 50% of the shares of the company change ownership during or after the loss year for reasons other than inheritance or bequest.⁶²⁹ Case law has established that the cash portion is calculated on the transaction as a whole, i.e., the total cash portion paid to all sellers cannot exceed the statutory threshold.⁶³⁰ A share exchange also qualifies if the acquiring company already has more than 50% of the voting power of the target company. The same provisions apply to both domestic arrangements and arrangements involving a corporation of another EU Member State.⁶³¹ The provisions may also apply to arrangements involving a corporation resident outside the EEA, provided that: (i) either the acquiring company or the target company is resi-

⁶²⁰ Supreme Administrative Court ruling No. 2022:79.

⁶²¹ Income Tax Act, Sec. 123.

⁶²² A company may have three sources of income: business income, agricultural income and other income.

⁶²³ Transfer Tax Act, Secs. 4.5, 15.3 and 15.4. See also C.2., below.

⁶²⁴ Business Income Tax Act, Sec. 52d.

⁶²⁵ To qualify, a party which is a corporation from another EU Member State must be covered by the EU Merger Directive and must be liable to pay such corporate taxes as mentioned under the EU Merger Directive.

⁶²⁶ Supreme Administrative Court ruling No. 2013:169. The reasoning of the decision was based on the discrimination Article of the Finland-U.S. tax treaty.

⁶²⁷ Business Income Tax Act, Sec. 52d.

⁶²⁸ Business Income Tax Act, Sec. 52f. For shares with no par value, the cash portion is determined by reference to paid-in equity, including the reserve for invested unrestricted equity.

⁶²⁹ Income Tax Act, Sec. 122 (see V.B.6. above).

⁶³⁰ Supreme Administrative Court rulings No. 2014:151 and 2020:71.

⁶³¹ To qualify, corporations of other EU Member States must be covered by the EU Merger Directive and must be liable to pay such corporate taxes as are mentioned in the EU Merger Directive. According to the Supreme Administrative Court's ruling No. 2012:93, the rules applicable to the exchange of shares may also be applied when a Norwegian corporation acquires shares in a Finnish corporation by issuing new shares (as Norway is within the EEA).

dent in a country with which Finland has a double tax treaty in force for the tax year in question; (ii) both the acquiring company and the target company are, without option or exemption, subject to income tax at a rate of at least 10% in their state of residence; and (iii) the acquiring company and the target company are comparable⁶³² in legal form to a Finnish limited liability company.⁶³³

Comment: If the above conditions are not met, the acquisition of shares of a Finnish company by a U.S. corporation issuing its own shares is a taxable event for the sellers. In practice, the purchase price must be paid partly in cash to cover the tax consequences.

The shares given as purchase price by the acquiring company may be newly issued shares or the acquiring company's own shares that are in the acquiring company's custody. When treasury shares are given as purchase price by the acquiring company, the shareholders of the target company are subject to transfer tax based on the market value of the shares.⁶³⁴

For shareholders of the target company, the transaction is an exempt transaction: the conversion of the target company shares into acquiring company shares is not a taxable event. The acquisition cost and holding period of the target company shares are carried over. To the extent the purchase price is paid in cash, the share exchange is not tax-exempt: for purposes of capital gains taxation, the respective shares are deemed to have been sold. To the extent the purchase price is paid by giving shares in the acquiring company, the share exchange does not constitute taxable income of the shareholder provided that the other conditions set out above are also met. Capital gains taxation is postponed (for example, to the extent the capital gains participation exemption is not available) to the time when the acquiring company's shares received as purchase price are sold.

A share exchange does not equate to universal succession. Instead, from the perspective of the acquiring company, the transaction is treated as a share issuance against a contribution in kind. For the acquiring company, the acquisition cost of the target company's shares for tax purposes depends on whether the share exchange takes place between associated parties or between independent parties. In an associated-party share exchange,⁶³⁵ the acquisition cost for the acquiring company for tax purposes is the target company's mathematical value prior to the share exchange.⁶³⁶ If the parties to the share exchange are

not associated, the target shares can be valued at their fair market value.⁶³⁷

Effective January 1, 2026, a retroactive rule concerning dividend taxation applies where the dividend-distributing company has been party to an associated-party share exchange carried out on or after January 1, 2017. In such cases, the acquired shares are valued by reference to their mathematical value prior to the share exchange instead of the fair market value. The revised valuation affects the allocation of dividends paid to individuals between capital income and earned income for tax purposes, thereby affecting the recipients' tax liability. The change in the valuation method affects the taxation of share transfers only in relation to associated-party share exchanges conducted on or after January 1, 2026.

The relocation of a company from Finland to another country may trigger exit tax relating to the non-taxed capital gains pertaining to a share exchange. If a private shareholder who receives shares of the acquiring company becomes, within five calendar years from the end of the tax year of the share exchange, resident outside the EEA,⁶³⁸ the gain that was tax exempt becomes taxable income of the shareholder in the year of his or her departure from Finland or another EEA country. If the private shareholder alienates the shares while living in the EEA country prior to the end of the five-year period, the gain that was tax-exempt becomes fully taxable.⁶³⁹

f. Exit Taxation

Finland applies fairly broad provisions concerning various exit tax situations to meet the requirements of the ATAD I. Finland is entitled to tax the capital gains arising from the difference between the "exit tax values" and the remaining acquisition values for tax purposes, as well as reserves, in the following types of transactions or measures:

- (i) Asset transfers by a Finnish company (the head office) to its PE in another EU Member State or in a third country so that Finland no longer has the right to tax the transferred assets;
- (ii) Asset transfers by a foreign corporation from its Finnish PE to the head office or another PE in another EU Member State or in a third country so that Finland no longer has the right to tax the transferred assets;
- (iii) Transfer by a Finnish company of its tax residence to another country, except for those assets which remain effectively connected with a PE in Finland; or
- (iv) Transfer by a foreign corporation of the business carried on by its Finnish PE to another country so that Finland no longer has the right to tax the transferred assets.⁶⁴⁰

In addition to the above-mentioned situations covered by the ATAD I, Finland applies similar exit taxation in the following situations:

2005, as amended (the "Act on Valuation of Assets for Tax Purposes"), Sec. 3. For the calculation of mathematical value, see X.C.3., below.

⁶³⁷ Supreme Administrative Court ruling No. 2002:81.

⁶³⁸ Under Finnish domestic law or under the provisions of an applicable tax treaty.

⁶³⁹ Business Income Tax Act, Sec. 52f. Moving into another EEA country does not trigger capital gains taxation.

⁶⁴⁰ Business Income Tax Act, Sec. 51e.

⁶³² According to Government Proposal 125/2025, a foreign company is comparable in legal form to a Finnish limited liability company where, based on an overall assessment, its legal characteristics substantially correspond to those of a Finnish limited liability company.

⁶³³ Business Income Tax Act, Sec. 52. The participation of target company shareholders residing in non-EEA countries does not prevent the application of the share exchange rules.

⁶³⁴ Business Income Tax Act, Sec. 52f.

⁶³⁵ The acquiring company and shareholders of the target company are considered associated when prior to the share exchange: (i) a party holds either alone or jointly with closely related parties, directly or indirectly, more than 50% of the capital of the other party or the voting rights connected to all the shares or interest of the other party; (ii) a third party holds either alone or jointly with closely related parties, directly or indirectly, more than 50% of the capital of both parties or the voting rights connected to all the shares or interest of both parties; or after the share exchange; (iii) a party holds either alone or jointly with related parties, directly or indirectly, more than 75% of the capital of the other party. Business Income Tax Act, Sec. 52f.

⁶³⁶ Act on Valuation of Assets for Tax Purposes, *Laki varojen arvostamisesta verotuksessa/Lag om värdering av tillgångar vid beskattningen*, 1142/

(i) Transfers of assets from Finland in connection with cross-border mergers, demergers or transfers of business to another EU Member State, but only to the extent the assets do not remain effectively connected with a PE in Finland;⁶⁴¹

(ii) A Finnish resident private individual having received shares of the acquiring company becomes resident outside the EEA or becomes resident in another EEA country and disposes of the received shares within five calendar years from the end of the tax year of a tax-neutral share exchange;⁶⁴² or

(iii) Transfer of the seat of an SE from Finland to another EU Member State, but only to the extent the assets of the SE do not remain effectively connected with a PE in Finland.⁶⁴³

Except for the case of a private individual having received shares in a tax-neutral share exchange, there is usually a possibility to request deferral for the payment of tax (to be payable in installments within five years), provided the transfer is to an EU/EEA Member State and certain additional requirements are met. The deferral may alleviate the otherwise potentially fairly harsh tax consequences of exit tax situations.⁶⁴⁴

g. Tax Avoidance Purpose

The special provisions on mergers, demergers, business transfers, share exchanges and transfers of the registered office of an SE or an SCE (see 16., below) do not apply if it is evident that the sole or principal purpose of a reorganization is tax avoidance.⁶⁴⁵ The normal provisions concerning the alienation of property and capital gains are applied in a tax avoidance situation. Thus, a corporate reorganization must have substantial business reasons, in addition to the possible tax reasons, if the beneficial tax treatment is to apply. Business reasons should be carefully documented in advance.

According to case law, substantial business reasons were deemed to exist when cross-ownership was eliminated by a merger, despite the fact that substantial losses were transferred in the merger. The business benefits included administrative cost savings and savings from the transfer and protection of capital loans.⁶⁴⁶ In addition, sufficient business reasons were deemed to exist when an individual contributed shares in an operating company to its holding company, despite the fact that the holding company would not be taxed on future dividends distributed by the operating company.⁶⁴⁷ The business reasons given were to consolidate the ownership and management of the individual's ownership of the companies. Further, the Supreme Administrative Court has held that a demerger and subsequent sale of shares in the recipient companies were not elements of the same measure, and the arrangement did not result in tax advantages foreign to the tax system despite the more favorable tax treatment of the sale of shares after the demerger.

When considering the applicability of the tax avoidance clause, the Court stated that the demerger did not cause the increase in the value of the shares to be eliminated from the tax net and no tangible tax advantages resulted that would be alien to the tax system.⁶⁴⁸

However, substantial business reasons were deemed not to exist when a parent company in a construction group contributed shares in future building project companies (housing companies) to its subsidiary to be sold to third parties, on the basis that the sole or main purpose of the arrangement was to artificially uplift the acquisition cost of the shares in the housing companies.⁶⁴⁹ Similarly, substantial business reasons were deemed not to exist when two individuals, both owning approximately 45% of shares in an operating company, effectively contributed their investment tax neutrally into a holding company by first establishing a holding company which acquired the shares in the operating company through a share exchange. The holding company was then demerged so that the operating company holding was allocated 50/50 between the new companies and then the individuals sold 50% of the shares in the new companies to each other. The Administrative Court held that reason for the arrangement was to enable the individuals personal shareholding in the operating company to be incorporated without tax consequences.⁶⁵⁰

h. Liquidation

For purposes of the taxation of a liquidated company, the assets of the company are deemed to be sold at current market value at the time of the liquidation. Consequently, the difference between the net book value and the market value of the assets of the company becomes taxable income of the liquidated company.⁶⁵¹

For purposes of the taxation of the company's shareholders, the excess of the proceeds deemed to be received over the shareholder's basis (i.e., the (net) original amount invested in or contributed to the liquidated company) is taxable as capital gains. However, if the shareholder would be able to apply the capital gains participation exemption (see V.B.3.c., above) with respect to the shares of the liquidating company, the possible liquidation gains are exempted. A corresponding liquidation loss is generally tax-deductible. However, a liquidation loss is not tax-deductible if the shares of the liquidated company would have qualified for the capital gains participation exemption or would have been held for less than a year prior to the liquidation. In addition, the liquidation loss is non-deductible if the liquidated company is a nonresident corporation that is not mentioned in Article 2 of the EU Parent-Subsidiary Directive and is not entitled to tax treaty benefits with respect to the dividend distribution.⁶⁵²

For purposes of transfer taxation, the shareholders of the liquidated company are subject to transfer tax on the fair mar-

⁶⁴¹ See 15.b., above.

⁶⁴² See 15.e., above.

⁶⁴³ See V.B.16., below.

⁶⁴⁴ Tax Assessment Act, Sec. 50a.

⁶⁴⁵ Business Income Tax Act, Sec. 52h.

⁶⁴⁶ Supreme Administrative Court ruling No. 2013:126.

⁶⁴⁷ Supreme Administrative Court ruling No. 2017:78.

⁶⁴⁸ Supreme Administrative Court ruling No. 2022:79.

⁶⁴⁹ Supreme Administrative Court rulings No. 2021:65 and No. 2017:78.

⁶⁵⁰ Administrative Court of Northern Finland ruling October 13, 2020 (20/0576/2)

⁶⁵¹ Business Income Tax Act, Sec. 51d.

⁶⁵² Business Income Tax Act, Sec. 51d. If the shares of the liquidated corporation do not form part of the business assets of the shareholder, the possible liquidation loss can only be deducted from capital gains during the same tax year and the following five tax years.

ket value of any real property or securities they receive as a result of the liquidation.⁶⁵³

16. *Transfer of the Seat of a European Company*

An SE may transfer its registered office to another EU or EEA Member State without losing its legal personality. Where it is made to an EU Member State, such a transfer may be made without direct income tax consequences in accordance with the EU Merger Directive, provided a PE of the SE remains in the Member State from which the seat of the SE was transferred.

If the seat of an SE is transferred from Finland to another EU Member State, the corporation will become a nonresident for Finnish tax purposes. Upon transfer, if the assets of the SE do not remain assets of a PE in Finland, the taxable portion is taxed as capital gains similarly to other so-called exit tax situations.⁶⁵⁴ It should be noted, however, that the capital gains participation exemption may be available.

17. *Establishing a European Company*

An SE can be established by converting an existing public company, by effecting a legal merger of at least two public corporations limited by shares resident in at least two different EU or EEA Member States, or by forming a parent holding SE or a joint subsidiary SE.⁶⁵⁵

The tax consequences will follow from the domestic law of the states concerned and the EU Merger Directive. The conversion of a Finnish public company into an SE does not have any Finnish income tax consequences.⁶⁵⁶ Similarly, a merger may be effected without any direct tax consequences pursuant to the EU Merger Directive. The tax consequences of establishing a holding SE in Finland depend on whether the share exchange qualifies under domestic law. The tax consequences of the establishment of a subsidiary SE depend on whether the capital gains participation exemption applies to the arrangement.

C. *Other Taxes*

1. *Dividend Tax*

Finland imposes no dividend tax as such. Dividends are taxed as capital income in the hands of the recipient. However, certain tax-related issues are relevant with respect to distributions made by a company to its shareholders.

a. *Dividend Distributions*

Corporate profits are subject to tax regardless of whether they are distributed as dividends. Dividends are not deductible for corporate tax purposes.

Most commonly, a dividend distribution takes the form of a cash payment. A distribution is, however, treated as a dividend regardless of the form it takes, provided it is based on an appropriate decision of a shareholders' meeting. The current value of a non-cash distribution to a shareholder at the time of distribution is treated as a dividend.

⁶⁵³ Transfer Tax Act, Sec. 4.

⁶⁵⁴ Business Income Tax Act, Sec. 52g.

⁶⁵⁵ EU Council Regulation (EC) No. 2157/2001.

⁶⁵⁶ Income Tax Act, Sec. 24 and Central Tax Board decision No. 2004/35.

No withholding tax is due with respect to a dividend paid to a Finnish resident shareholder that is a company other than a corporation or a Finnish partnership, but where a dividend is paid to a Finnish resident shareholder who is an individual or a Finnish estate of a deceased person, the distributing company is required to withhold tax from the dividend payment.⁶⁵⁷ No withholding tax is due with respect to a dividend paid to a corporate shareholder resident in another EU Member State that owns directly at least 10% of the capital of the Finnish payer company, provided the recipient of the dividend is a corporation referred to in Article 2 of the EU Parent-Subsidiary Directive.⁶⁵⁸ Otherwise, tax must be withheld at source and remitted to the Tax Administration with respect to dividends paid (net of the underlying corporate tax of the distributing entity) to nonresident shareholders. The withholding tax rate is 20%, but generally this rate can be lowered pursuant to one of Finland's more than 70 tax treaties.⁶⁵⁹ The treaty rate is usually applied at the time of payment based on documents establishing the country of residence of the shareholder, rather than the excess withholding tax being refunded on application. If the tax to be withheld would not be fully creditable in the nonresident recipient entity's country of residence, the distributing company may refrain from withholding the tax if the following requirements are met:

- (i) The recipient is similar to a Finnish company;
- (ii) The recipient is resident of an EEA Member State;
- (iii) The dividends would have been tax-exempt in the hands of a resident recipient; and
- (iv) A treaty for the exchange of information or EU Directive DAC2 is in place with the country of residence.⁶⁶⁰

Example:

Annual income of the company	100
Corporate tax	20
Net income to be distributed (abroad)	80
Withholding tax under the terms of an applicable treaty (e.g., 5%)	4
Net dividend paid abroad	76

It is the responsibility of the company (i.e., the board of directors of the company) to assess the tax status of the shareholders of the company and apply the correct dividend with-

⁶⁵⁷ Prepayment Regulation, Ennakkoperintäasetus/Förordning om förskottsuppbörd, 1124/1996, as amended, (the "Prepayment Regulation"), Sec. 15.

⁶⁵⁸ Nonresident's Income Tax Act, Sec. 3.6. It should be noted that inbound dividends paid to resident companies from abroad are also exempt from Finnish tax, subject to certain conditions. See V.B.3.d.

⁶⁵⁹ Nonresident's Income Tax Act, Secs. 3 and 7.

⁶⁶⁰ Nonresident's Income Tax Act, Sec. 3.5 and EU Council Directive 2014/107/EU of 9 December 2014 amending EU Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation ("EU Directive DAC2").

holding tax rate to the dividend paid out.⁶⁶¹ If a shareholder cannot convince the company of its tax status and as a consequence too much tax is withheld and paid over to the Tax Administration, the shareholder can submit a refund claim to the Tax Administration. The refund claim must be submitted within three years from the end of the calendar year in which the tax was withheld.⁶⁶²

In public limited companies, whose shares are publicly listed and thus entered in a book-entry system, it is generally the Finnish account operator that makes the judgement as to whether the nonresident shareholder is entitled to tax treaty benefits upon dividend distribution based on the material available at the time of the dividend distribution.

To the extent the shares of a public limited company are on a nominee registered account, applying tax treaty benefits to a dividend payment requires that the recipient of the dividend has been identified and the required identification information is declared to the Tax Administration on an annual information return.

Sufficient identification information can be obtained by the issuer of the dividend or by an intermediary closest to the beneficiary if the intermediary has been registered in the Tax Administration's Register of Authorized Intermediaries. Finland has implemented the OECD Treaty Relief and Compliance Enhancement (TRACE) model. To be registered in the Register of Authorized Intermediaries, the intermediary must, e.g., be domiciled in an EU Member State or in a state with which Finland has conducted a double tax treaty, and must have a right to conduct custodial activities according to the legislation of its country of residence.⁶⁶³

It is not mandatory for intermediaries to register in the Register of Authorized Intermediaries, but the registration allows an intermediary, for example, to report dividend beneficiary information directly to the Tax Administration without having to send client information through the custody chain to other intermediaries. However, the registered intermediaries are also liable to identify dividend beneficiaries, reliably determine the state of residence for tax purposes, and ensure that the provisions of a tax treaty may be applied to the beneficiary. If an incorrect tax rate has been applied due to information provided by a registered intermediary, the intermediary will be liable for the outstanding tax. To be relieved of the liability, the registered intermediary must prove that the error is not due to its negligence.

A withholding tax card issued by the Tax Administration, a certificate issued by the tax authority of the state of residence of the dividend recipient, and a self-declaration are regarded as sufficient identification information. The information on a self-declaration must be reliably documented and consistent with other information held by a registered intermediary.

If it is not possible to identify the country of tax residence of an unidentified dividend beneficiary at the time of a dividend distribution, a 35% tax-at-source will be applied. If the beneficiary has been identified, but the correct tax rate to be applied remains unclear, a 30% tax-at-source should be withheld. In

case the beneficiary has been identified and it has been established that the beneficiary is a corporation, but the correct tax rate to be applied remains unclear, a 20% tax-at-source should be withheld. The applicable tax rate may remain unclear if, for example, it is not certain whether the beneficiary is entitled to treaty benefits.

If it is known that the shareholder of a nominee registered share is a Finnish resident, but the identification information of the shareholder is not available at the time of the dividend distribution, a withholding tax of 50% will be applied.⁶⁶⁴

A refund of overpaid tax-at-source can be applied for from the Tax Administration by the distributing company during the calendar year when the dividend was paid (so called "quick refund process") or by the dividend recipient during the three calendar years following the year of withholding.

b. Hidden Profit Distributions

Payments or distributions of assets by companies to shareholders that are not expressly dividends based on a decision of a shareholders' meeting may be regarded as hidden profit distributions if they are found to be excessive when the arm's-length principle is applied or the distribution of assets has a motive of tax avoidance.⁶⁶⁵ For example, a hidden profit distribution may take the form of an excessive payment for goods sold or services rendered to a company, or a loan with an excessive interest rate granted to a company by a shareholder. The hidden profit principle may also be applied, for instance, where a loan is granted to a shareholder that carries interest at a rate below the current market rate or where a company purchases its own shares from a shareholder (see III.B.2.d., above) at a price exceeding the market price. The fact that shares are redeemed from all shareholders in the absence of a sound business reason (such as a substantial cutting of production or the closing of an entire branch of business so that the company is no longer in need of the capital) may be an indication of a hidden profit distribution, while the redemption of shares from a passive minority shareholder for appropriate business reasons would normally not.

If an arrangement is found to entail a hidden profit distribution, the distribution is not deductible for the payer company. For purposes of the taxation of business income, a hidden profit distribution is taxable income for the recipient company.⁶⁶⁶ In the hands of a recipient who is an individual shareholder, a hidden profit distribution is deemed to be earned income and, as such, is taxed at progressive rates instead of the (normally) lower tax rates applicable to capital income.⁶⁶⁷ Furthermore, penalties and late interest are usually imposed on a hidden profit distribution.

⁶⁶⁴ Withholding Tax Act, Sec. 4a.

⁶⁶⁵ Tax Assessment Act, Sec. 29. The case law on hidden profit distributions is extensive.

⁶⁶⁶ Business Income Tax Act, Sec. 6a.7. The treatment of the payer corporation is the same as in the case of dividends, i.e., disadvantageous as compared to, e.g., salary, because the amount is not a deductible item. For purposes of the taxation of nonresidents, under Nonresident's Income Tax Act, Sec. 3.1, hidden profit distributions made to a nonresident recipient (as well as cross-border transfer pricing readjustments — see XIII., below) are subject to withholding tax at source.

⁶⁶⁷ Income Tax Act, Secs. 62 and 33d. For details, see X.C.2.

⁶⁶¹ The tax withheld must be paid to the Tax Administration on the 12th day of the calendar month following the dividend payment.

⁶⁶² Nonresident's Income Tax Act, Sec. 11.

⁶⁶³ Nonresident's Income Tax Act, Sec. 10d.

2. Transfer Tax

A transfer tax is levied on transfers of real property (land, leaseholds and buildings) at the rate of 3%.⁶⁶⁸ The tax base is calculated by reference to the transfer price.

An asset transfer tax is also levied on the transfer of Finnish securities (including shares), in general, at the rate of 1.5%, unless the transfer is made by way of a stock exchange whether in Finland or abroad — in which case the transfer is exempt.⁶⁶⁹ Subject to a few exceptions, a transfer is also exempt if it is executed between nonresidents.⁶⁷⁰ The tax base consists of the purchase price of the securities increased by the seller's debt investments that are paid back in connection with the sale of the securities through the purchaser's financing efforts. In addition, the tax base covers loan receivables, including shareholder loans, purchased in connection with shares or other securities when the proceeds from the transfer of loan receivables are paid to or will otherwise benefit the seller.

If the securities transferred are shares in a real property holding company (that holds, directly or indirectly, Finnish-situs property), the tax is levied even if both the seller and the buyer are resident abroad. Furthermore, even the transfer of shares of a foreign holding corporation is subject to the transfer tax if over 50% of the foreign corporation's total assets consist of real property located in Finland. However, the transfer tax is levied only if one of the parties to the transaction is a Finnish resident or a Finnish branch of a foreign financial institution.⁶⁷¹

In the case of transfers of shares in a housing company or mutual real estate company,⁶⁷² third party debt of the target company may, in some cases, also be included in the transfer tax base.⁶⁷³

No transfer tax is imposed on contributions of cash to the capital of a company or on the issue of shares by a company. However, if real property or securities are contributed in kind to the capital of a company, a transfer tax will be levied based on the market value of the real property or the securities concerned.

The Supreme Administrative Court has held that no transfer tax is payable when an employee exercises stock options and acquires shares on the basis of a stock option plan, unless the shares acquired by the employee when exercising the stock options were acquired from a third party by the employer company.⁶⁷⁴

The ruling is important in the context of the structuring and execution of incentive and remuneration programs as well as IPOs and share issues on capital markets. Subscribers to such programs can receive existing shares against payment, without having to wait for the shares to be registered in the Finnish Trade Register and without having to pay asset transfer tax.

Transfers of real property and securities are exempt in qualified reorganizations of companies (see V.B.15., above).

⁶⁶⁸ Transfer Tax Act, Secs. 4 and 6.

⁶⁶⁹ Transfer Tax Act, Secs. 15a and 20.

⁶⁷⁰ Transfer Tax Act, Secs. 16.

⁶⁷¹ Transfer Tax Act, Sec. 18.

⁶⁷² For a definition of "housing company" and "mutual real estate company," see III.B.2.1., above.

⁶⁷³ Transfer Tax Act, Sec. 20.

⁶⁷⁴ Supreme Administrative Court ruling No. 2017:39.

Transfers of interests in partnerships are also exempted from transfer tax.

3. Trade Tax

There is no trade tax in Finland.

4. Real Property Tax

A real property tax is imposed on any kind of real property situated in Finland, regardless of the function of the real property, subject to a few significant exceptions, the most important being agricultural and forest land. The tax also applies to buildings, including buildings used for agricultural and forestry purposes, and buildings situated not on the landowner's own land but on leased land.

The person liable for the tax is the owner of the land or building at the beginning of the calendar year. The basis for the tax is the taxable (assessed) value of the real property, which is calculated (in the case of land) based on a technical formula that takes into account, for example, the purpose for which the land is used, the permitted building volume, the location, traffic connections, the suitability for building, the degree of completion of the municipal utility connections and the reasonable price level of similar properties sold between unrelated parties in the same area. In the case of buildings, the value is calculated based on the replacement value of the building, as corrected by an age discount. The Ministry of Finance has issued a detailed decree on the formula for calculating the replacement value. The formula is based on, for example, the area, floor height, cubic volume, type, age and shape of the building, the material of which the supporting structure is made, the existence and type of elevators, air-conditioning, heating, parking and storage spaces, etc. The taxable value of the property can never exceed its market value.

The legislation⁶⁷⁵ provides for minimum and maximum rates for different types of real property. The specific rates applicable are set by each municipality within those limits. The revenue from the tax goes entirely to the municipalities. The general rate applicable to building and structures ranges from 0.93% to 2%, while the general rate applicable to land area ranges from 1.3% to 2%. The rate applicable to permanent dwellings from 0.41% to 1%. The rate applicable to dwellings other than permanent dwellings (for example, leisure residences) ranges from 0.93% to 2%. Power stations are subject to increased discretionary rates as, in certain circumstances, are zoned construction sites that are not built on.

5. Tax on Mined Minerals

Finland imposes a tax on mined minerals (metal ores and industrial minerals) based on the Mining Tax Act.⁶⁷⁶ The tax is paid on minerals that are mined in Finland and covered by the Mining Act,⁶⁷⁷ excluding minerals found by gold panning.

Before they can start their activities that are subject to tax, mining companies and other operators must register as taxpay-

⁶⁷⁵ Real Property Tax Act, Secs. 11 to 14.

⁶⁷⁶ Act on a Mined Minerals Tax, *Kaivosmineraaliverolaki/Lag om gruvmineralskatt*, 314/2023, as amended (the "Mining Tax Act").

⁶⁷⁷ Mining Act, *Kaivoslaki/Gruvlag*, 621/2011, as amended (the "Mining Act"), Sec. 2.

ers with the Tax Administration by submitting an application.⁶⁷⁸ The operators must also record all their active mines in the register.

The tax on mined minerals must be paid by the entity that has mined the minerals and is, under the law, required to have a valid permit for the mining activity.⁶⁷⁹ The tax concerns companies and other mining operators that possess (or should) the permit. Thus, the taxpayer will typically be a mining company with a permit issued by Tukes, the Finnish Safety and Chemicals Agency.

When submitting their annual tax return, mining operators must provide specific data separately for each active mine, and pay the tax on their own initiative for each calendar year by the general due date in March for self-assessed taxes.⁶⁸⁰

The tax on mined minerals is structured as a royalty-based levy consisting of two components:

- (i) Value-based royalty for metal ores;
- (ii) Quantity-based royalty for industrial minerals.

Metal ores include silver, gold, cobalt, chromium, copper, iron, lithium, nickel, lead, palladium, platinum, uranium and zinc. The tax on metal ores is based on the metal content of the mined mineral and the taxable value of the metal. The tax is assessed based on the time when the taxpayer feeds the mined mineral to the concentration process for the first time. The tax on metal ores is 2.5 % of the taxable value of the metal that the mineral contains.⁶⁸¹

The tax on industrial minerals is paid based on the volume mined. The tax is assessed based on the time when the mined mineral is brought to the surface. The tax on industrial minerals is 0.60 euros per ton of industrial mineral.⁶⁸²

6. Local Taxes

Apart from the real property tax, Finnish companies are not subject to local taxes in Finland. Of the corporate income tax revenue, which is paid to the state, 22.90% is transferred by the state to the municipalities.

The Mining Mineral Tax revenue is divided between municipalities and the state. Municipalities where the mine is located are entitled to 30% of the revenue from the tax on mined minerals, whereas 70% belongs to the state.

7. National Broadcasting Tax

Resident companies are liable to pay the national broadcasting tax (the “YLE tax”). The YLE tax, which is deductible for corporate income tax purposes for a company paying it, is based on the company’s taxable income. The tax amounts to 140 euros for taxable income of 50,000 euros, with a 0.35% rate applying to taxable income above 50,000 euros, subject to a maximum tax amount of 3,000 euros per year (which is reached when the amount of income is 867,142 euros). No YLE tax is levied on a company whose taxable income is less than 50,000 euros. The tax rates are as follows:

Taxable Income	Tax Amount
Less than €50,000	€0
€50,000	€140
€50,001 to €867,142	€140 + [0.35% × (taxable income – €50,000)]
Above €867,142	€3,000

For example, if taxable income is 500,000 euros, the tax would amount to 1,715 euros (140 euros + [0.35% × 450,000]).

8. Other Taxes

Resident companies are subject to no taxes other than those discussed in A., B. and 1. to 7., above. For example, there is no capital investment tax, dividend tax or trade tax as such in Finland.

Comment: Finnish companies belonging to certain large multinational groups may be subject to a specific top-up tax based on undertaxed income of group entities situated in low-taxed jurisdictions (see further XIV.D., below).

In addition, it should be noted that employers are obliged to withhold tax from salaries, wages, pensions and other remuneration paid to their current or former employees (see V.B.9., above), and to pay various statutory social security charges (including statutory pension insurance premiums at an average rate of 17.10%, depending on certain criteria) to the Tax Administration and to the relevant insurance institutions on such payments. Furthermore, payers of dividends, royalties, etc. to nonresident recipients are responsible for withholding and paying to the Tax Administration any tax at source (withholding tax) (see XI.F., below).

There are no provisions in Finnish tax law similar to the alternative minimum tax (AMT) provisions of the U.S. Internal Revenue Code.

⁶⁷⁸ Excise Duty Act, *Valmisteverotuslaki/Punktskattelag*, 182/2010, as amended (the “Excise Duty Act”), Ch. 5.

⁶⁷⁹ Mining Tax Act, Sec. 2.

⁶⁸⁰ Self-Assessed Taxes Act, Secs. 17 and 32.

⁶⁸¹ Mining Tax Act, Sec. 5.

⁶⁸² Mining Tax Act, Sec. 5.

VI. Taxation of Foreign Corporations

A. What Is a Foreign Corporation?

A corporation that is not founded in accordance with the Finnish Companies Act, and thus not registered with the Finnish Trade Register, is a foreign corporation. Foreign corporations are generally treated as nonresidents. However, if the place of effective management of a foreign corporation is in Finland, it is deemed to be a resident company. A Finnish subsidiary of a foreign corporation is treated in the same way as any other Finnish company. Similarly, a permanent establishment (PE) in Finland of a foreign corporation is treated in principle in the same way as a resident Finnish company. (See the discussion of branches at VII., below.) Whether a foreign corporation has a PE, a branch, or a place of effective management in Finland is, therefore, of crucial importance.

B. Determination of Taxable Income

A foreign corporation (i.e., a nonresident foreign corporation without a PE in Finland) is, in principle, subject to Finnish tax on income derived from Finnish sources. Such income includes:

- (i) Income from real property or a dwelling (in a housing company or a mutual real estate company) in Finland;
- (ii) Income from business and professional activities carried on in Finland;
- (iii) Dividends from Finnish companies (however, see C., below);
- (iv) Interest paid by a Finnish resident debtor, except that interest is exempt if it is paid on Finnish bonds, debentures and other such debt instruments, on loans from abroad not considered to be capital investments assimilated to the debtor's equity, on deposits in Finnish banks and other financial institutions, or on foreign trade accounts;⁶⁸³
- (v) Royalties and license fees from Finnish sources, i.e., royalties and license fees where the property or right on which the royalties or license fees are based is used in a business in Finland, or the person liable to pay the royalties or license fees is an individual or legal entity resident in Finland;
- (vi) Capital gains on the sale of real property in Finland; and
- (vii) Capital gains on the sale of shares or similar rights in a company, a limited partnership or a trust if, at any time during the 365-day period preceding the sale, the shares or other similar rights derived more than 50% of their value directly or indirectly from real property located in Finland.⁶⁸⁴

⁶⁸³ This exception (i.e., nonresidents not being subject to Finnish tax on such interest from Finnish sources) does not apply to nonresidents with PEs in Finland. Income Tax Act, Sec. 9. Generally, nonresident corporations are subject to Finnish tax on income attributable to Finnish PEs in a manner similar to that in which resident companies are subject to Finnish tax.

⁶⁸⁴ Income Tax Act, Sec. 10. The list in Income Tax Act, Sec. 10 merely contains examples of types of income that are deemed to be derived from Finland, but, in practice, the list has normally been applied as if it were exhaustive.

A foreign corporation with a PE in Finland is subject to Finnish tax on income from Finnish and foreign sources derived by and attributable to the PE in Finland. In other words, in general terms, the PE is assessed in the same manner as a Finnish company.⁶⁸⁵

A foreign corporation that does not have a PE in Finland, as determined either in accordance with domestic law⁶⁸⁶ or an applicable tax treaty,⁶⁸⁷ is not subject to Finnish taxation on its business income derived from Finland. A foreign corporation is subject to tax on other types of income deemed to be from Finnish sources (see the discussion above of Finland's "source rules," which are contained in Section 10 of the Income Tax Act, and see also XI. and XV., below) in accordance with rates stipulated in Finnish domestic law⁶⁸⁸ or an applicable tax treaty.

C. Dividends Paid to Foreign Corporations

Finnish-source dividends paid to foreign corporate entities are generally subject to a 20% withholding tax. An applicable tax treaty or the domestic exemptions described below may lower the general rate.

If the recipient proves that it would not be possible to credit the tax paid in full in the recipient's country of residence, no Finnish dividend withholding tax is due on dividends paid to a corporate shareholder resident in another European Economic Area (EEA) Member State provided that:

- (i) The recipient's legal characteristics are similar to those of a Finnish resident company (reference is made to Article 2 of the EU Parent-Subsidiary Directive);
- (ii) The dividend would be tax-exempt if (theoretically) paid to a Finnish resident company; and
- (iii) A treaty providing for the exchange of tax information or EU Directive DAC2 is applicable to the country of residence of the recipient.⁶⁸⁹

Certain foreign investment funds and foreign non-UCITS funds may be entitled to a special dividend withholding tax exemption — see IX., below.

Dividends paid to a nonresident corporation that is a financial, insurance or pension institution are subject to 15% withholding tax (or a lower rate provided under a tax treaty) provided the distributing company's shares form part of the recipient's investment assets and that:

- (i) The recipient is a corporation resident within the EEA, its legal characteristics are similar to those of a Finnish resident company, an information exchange treaty or EU Directive DAC2 is applicable to the country of residence of the recipient, and the recipient owns less than 10% of

In particular cases, these "source rules" may thus prevent Finland from taxing income of a nonresident even though Finland would be entitled to tax the income under the terms of the relevant tax treaty.

⁶⁸⁵ Income Tax Act, Sec. 9.3. For deviations and details, see VII., below.

⁶⁸⁶ Income Tax Act, Sec. 13a. See VII., below.

⁶⁸⁷ If there is an applicable tax treaty, the treaty definition prevails over the definition under domestic law. However, tax treaties cannot extend taxation rights over those provided for under domestic law.

⁶⁸⁸ Income Tax Act, Sec. 124.

⁶⁸⁹ Nonresident's Income Tax Act, Sec. 3.5.

the distributor's share capital at the time the decision to pay the dividends is made;

(ii) The recipient is a corporation comparable to a Finnish pension institution, is resident within the EEA and owns less than 10% of the distributor's share capital at the time the decision to pay the dividends is made; or

(iii) The recipient is comparable to a Finnish pension institution, owns directly less than 10% of the distributor's share capital, is subject to a Finnish treaty for the exchange of information in tax matters, and is resident in a country that provides sufficient information to enable tax assessment.⁶⁹⁰

A foreign EEA resident pension institution that is similar to a Finnish pension institution is allowed, prior to calculating the amount of the dividend withholding tax, to make a deduction from the gross amount of dividends received with respect to shares belonging to its investment assets. The deduction is calculated based on the amount of tax reserves that a corresponding Finnish pension institution would be able to make to cover pension and similar obligations. The deduction is subject to the following conditions:

(i) The recipient institution must own directly less than 10% of the distributor's share capital;

(ii) There must be an applicable treaty for the exchange of information between Finland and the recipient's country of residence;

(iii) The recipient's country of residence must provide sufficient information to enable the tax assessment to be made in Finland; and

(iv) The recipient must provide sufficient information to the Tax Administration regarding the grounds and the amount of the deduction.⁶⁹¹

To the extent the dividend distributing Finnish company is a publicly-listed company, the rules described above in V.C.1.a., are applicable to the withholding taxation of the div-

⁶⁹⁰ Nonresident's Income Tax Act, Sec. 7.3.

⁶⁹¹ Nonresident's Income Tax Act, Sec. 3.7.

idend and the nonresident dividend recipient corporation may suffer a higher dividend withholding taxation than what it is entitled to. In that case, the correct tax position is attained by applying for a refund.

D. Method of Taxation

Income derived by a foreign corporation from Finnish sources is subject to tax at the rate of 20% regardless of the type of income,⁶⁹² unless, in the case of dividends, interest or royalties, an applicable tax treaty or Finnish domestic law provides for a lower rate.⁶⁹³

Generally, the Finnish source income of a nonresident corporation is subject to a final withholding tax at source (withheld, for example, by the entity distributing a dividend to the corporation). In the case of business income of a PE or a Finnish subsidiary or, for example, income received by the nonresident corporation from leasing operations of Finnish real properties, taxes are assessed in the course of regular assessment in the year following the income year.

For the rates of source country taxation applying to investment income, services income and capital gains under Finland's domestic law and tax treaties and the context for the application of those rates, see the Withholding Tax Chart.

E. Assessment and Filing

The same rules with respect to tax assessment and filing requirements apply to PEs of nonresident corporations as apply to Finnish resident corporate taxpayers (see V.B.9., above). In the case of nonresident corporate taxpayers with no PE in Finland that receive Finnish-source income that is taxable in Finland, tax withholding at source usually applies.

⁶⁹² Either by way of withholding tax at the rate of 20% under Nonresident's Income Tax Act, Sec. 7 (or a lower tax treaty rate), or by way of the general corporate tax under Income Tax Act, Sec. 124 based on assessment under the Tax Assessment Act.

⁶⁹³ Under Nonresident's Income Tax Act, Sec. 13.4, payments made to non-residents in consideration for the use of, or the right to use, cinematographic films are taxed, regardless of whether they are derived from a PE, based on assessment, so that expenses incurred to obtain or safeguard such income are deductible. Such payments are thus treated differently from other types of royalties.

VII. Taxation of a Branch

A. Determination of Taxable Income

In the following discussion, the business activities of a branch of a foreign corporation is deemed to constitute a permanent establishment (PE) to the foreign corporation under Finnish domestic law⁶⁹⁴ and, when there is an applicable tax treaty, under the relevant treaty provisions.⁶⁹⁵ It should be noted, however, that there may be exceptional cases in which a branch does not have all the characteristics of a PE for tax purposes.⁶⁹⁶ In such circumstances, the foreign corporation to which the branch belongs is taxed in the same way as any other nonresident in Finland: it is subject to withholding tax only on non-business income from Finnish sources (see VI., above). On the other hand, there may also be exceptional situations in which a PE is not intentionally established in Finland by a foreign corporation but is deemed by the Tax Administration to exist based on the particular facts concerned. For instance, a foreign corporation that is managed from Finland may be deemed to have a PE in Finland for tax purposes; in other words, the mere management of the foreign corporation may constitute a PE.⁶⁹⁷ In addition, the effective management of a foreign corporation in Finland may cause the foreign corporation to become a Finnish resident. (See further at V.A., above.)

A nonresident corporation with a branch (i.e., a PE) in Finland is subject to Finnish corporate tax on income from Finnish and foreign sources attributable to the branch.⁶⁹⁸ After making the properly allocable and appropriate deductions, including deductions for interest, royalties and service fees, the net income of the branch is subject to Finnish corporate tax. To

this end, when making an attribution of business income to a Finnish PE, the OECD Transfer Pricing Guidelines⁶⁹⁹ and the OECD Commentary on the Articles of the Model Tax Convention⁷⁰⁰ are taken into account as interpretative tools.

A Finnish PE of a shipping company resident in another EU Member State engaged in the international transportation of goods or passengers may elect to be subject to a tonnage tax system based on the net tonnage of the company's ships instead of the normal corporate income taxation based on actual profits. (See further at V.B.3.a., above.)

Only activities carried on through a branch are attributed to the branch for Finnish tax purposes.⁷⁰¹ If the foreign corporation carries on any activity in Finland that is not related to the branch, profits from that activity are not taxable in Finland as profits of that branch. It should be noted, however, that a foreign corporation may have several different branches in Finland.

It should also be noted that the transfer of ownership of a nonresident corporation may have an impact on the taxation of its Finnish PE. Certain types of changes of ownership can cause old losses to be forfeited going forward.⁷⁰² In decision No. 2016/7 of the Central Tax Board, old losses could not be transferred to a new PE. B Ltd owned shares of A Ltd, which was resident in the United Kingdom, and shares of D Ltd, which owned C Plc, which was resident in Ireland. A Ltd was merged into C Plc under U.K. and Irish company rules. Ninety percent of the consideration received by B Ltd from C Plc under the arrangement was in cash and represented A Ltd's net asset value and the remaining 10% consisted in C Plc's own shares. The right to use the losses in the future was lost as the corporate restructuring was not a merger qualifying under the Business Income Tax Act and the EU Merger Directive.

B. Method of Taxation

Tax is assessed on a Finnish PE of a nonresident corporation by the Tax Administration in the same manner, where applicable, as tax on a resident company, at the 20% corporate tax rate. (See V.B.9., above, for further discussion.)

C. Subsidiary vs. Branch

From the perspective of Finnish tax law, there are no overwhelming factors in favor of a subsidiary or a branch. In general, the decision whether to establish a branch or a subsidiary also involves considering the tax aspects in the foreign corporation's home country.

Although branch profits also are subject to the general 20% corporate tax, it is the foreign corporation, and not a Finnish entity, that is subject to taxation in Finland (since the branch is not a separate legal entity). Consequently, it is more likely that a credit will be allowed to the foreign corporation in the foreign country for the Finnish corporate tax paid on

⁶⁹⁴ Under Income Tax Act, Sec. 13a, a PE is, for example, a place where business activity is carried on a permanent and independent basis, such as an office, branch, factory, workshop or shop, or any other permanent place used for sales or trading purposes. Also, a place where, for purposes of carrying on business on a continuing basis, special measures have been taken or arrangements have been made, such as a place where the management of a business is located, may constitute a PE under Income Tax Act, Sec. 13a.

⁶⁹⁵ If there is an applicable tax treaty, the treaty definition is decisive. Generally, the definitions in Finland's treaties follow the OECD Model Tax Convention definitions, are more detailed than the definitions under domestic law, and vary from treaty to treaty. For a more detailed discussion, see XV.D.1., below.

⁶⁹⁶ For example, this was the case in Supreme Administrative Court ruling No. 2021:171, where Finnish pharmaceutical representatives operating from their home offices did not create a PE for their Swedish employer in Finland.

⁶⁹⁷ This was the issue in Supreme Administrative Court ruling No. 1999:25. A corporation incorporated in the Cayman Islands that was engaged in leasing vessels on bareboat terms via its Finnish parent corporation to associated corporations carrying on shipping activities was deemed to have a PE in Finland, because the Cayman corporation was considered to be operated from the Finnish parent corporation's premises by the resident board members of the parent corporation. Furthermore, the accounting and auditing of the Cayman corporation was carried out in Finland. The case concerned tax years when the Finnish controlled foreign corporations (CFC) legislation did not exist. Once enacted, shipping activities were left out of the scope of the legislation. See XIV.C., below.

⁶⁹⁸ Hence, although the branch is not an independent legal entity, the foreign corporation (the head office) is liable for the commitments of the branch; the existence of the branch (or more precisely, the PE) in Finland causes the foreign corporation to be subject to taxation on worldwide income attributable to the branch. It should also be noted that the registered resident representative required by legislation to be appointed by the foreign corporation is jointly and severally liable with the foreign corporation for the payment of taxes imposed on the branch/foreign corporation in Finland.

⁶⁹⁹ *OECD Transfer Pricing Guidelines for Multinationals and Tax Administrations 2022*, OECD Publishing, Paris.

⁷⁰⁰ *OECD Model Tax Convention on Income and on Capital: Condensed version 2017*, OECD Publishing, Paris.

⁷⁰¹ Income Tax Act, Sec. 9.3 provides that profits, from both Finland and abroad, of a PE in Finland of a foreign enterprise are subject to tax in Finland, unless an applicable tax treaty provides otherwise.

⁷⁰² See V.B.6.

the branch profits than if the profits were generated by a subsidiary (even though Finnish private companies may, for example, “check the box” in order to be treated as transparent under U.S. tax laws).

As discussed above, dividends (and interest and royalties) paid by a Finnish subsidiary may be subject to Finnish general withholding tax at the rate of 20%, but domestic law- and tax treaty-based exemptions exist (see V.C.1.a., above). Under the terms of Finland’s treaties, any such withholding tax is usually credited in the recipient’s home country.

The net income of a branch is deemed to be remitted annually by the branch to its head office. Neither deemed nor actual remittances to the head office are subject to withholding tax. There is no tax comparable to the U.S. branch profits tax under Finnish tax law.

In most cases, losses of a Finnish subsidiary cannot be deducted abroad, whereas losses of a branch may be available for current deduction under the applicable law in the jurisdiction of the head office of the foreign corporation concerned.

D. Liquidating a Branch

Business activities of a Finnish branch of a foreign corporation will cease if the foreign corporation sells the business assets connected with the branch. This removes the obligation to have the branch registered in the trade register. Assuming the activities of the branch have constituted a PE of the foreign corporation, the gain/loss realized on the sale is the difference between the current market value and the book value of the branch assets. Previous losses, if any, may be offset against tax otherwise payable.

A Finnish branch of a foreign corporation may also be closed down by transferring the assets connected with the branch to another country where the same corporation may or may not have business activities. If the activities of the branch have constituted a PE, this kind of a transfer is treated as sale for Finnish tax purposes. The current market value of the transferred assets is included in the taxable profits of the PE. The same treatment applies if only a part of the assets of the foreign corporation’s Finnish branch is transferred abroad from Finland, even if the branch is not closed down.

VIII. Taxation of Partnerships

For income tax purposes, a partnership (*yhtymä/sammanlutning*), whether general or limited (see III.D., above), is not a taxable entity as such. A joint venture formed by two or more entities carrying on business to accomplish a construction or similar project is also treated as a partnership for tax purposes. The income of a partnership (even though taxed in the hands of its partners) is, however, computed separately from that of the partners and a separate partnership tax return is filed. Losses of a partnership are validated at the partnership level and carried forward to following years based on the same rules as apply to companies. Thus, a partnership may be thought of as “semi-transparent” for income tax purposes.

The partnership income of a partnership that carries on business activities is computed in accordance with the Business Income Tax Act (i.e., in accordance with the same principles as apply with respect to a company). However, a significant benefit is available to a partnership that has only individuals and estates of deceased persons as partners: it can deduct an operating reserve of a maximum of 30% of salaries and wages paid during the last 12 months of the financial period.⁷⁰³ Furthermore, dividends not relating to the partnership’s business are not included in the computation of a partnership’s net “other income”, but are taxed directly as income of the partners.⁷⁰⁴

Each partner is then taxed based on his or her distributive share of the net income of the partnership. However, as noted above, losses of a partnership are carried forward at the partnership level and not allocated to the partners. Remuneration paid to a partner⁷⁰⁵ for services rendered to a partnership is deductible in computing the partnership’s distributable income, but is taxed as income of the partner (in addition to his/her distributive share of the partnership profits).⁷⁰⁶

Comment: A partner’s taxation is not dependent on the profit distribution of the partnership. The decisive factor is the fact that the partnership has incurred profit. Actual profit distributions received from the partnership are exempted income to the partners.

A Finnish resident individual partner’s share of partnership income is included in either his or her earned income and taxed at progressive rates amounting to up to almost 51%, or in his or her capital income and taxed at the capital income tax rate of 30% (34% to the extent the annual capital income of the taxpayer exceeds 30,000 euros).⁷⁰⁷ The rules determining what proportion of the partnership income is earned income

and what proportion is capital income in the hands of a partner are as follows:

(i) An amount of 20% of the previous year’s net assets of the partnership is deemed to be capital income. If the amount of earned income of a partner is so low that the earned income tax rate would be lower than the capital income tax rate, the partner may elect prior to the tax assessment that only 10% of the net assets of the partnership be treated as capital income;

(ii) A partner’s share of capital gains from real property and securities that are fixed assets belonging to the partnership’s business activities are deemed to be entirely capital income regardless of the amount of net assets of the partnership; and

(iii) A partner’s share of the profits of a partnership other than business profits is deemed to be entirely capital income.

A partner who is an individual or that is the estate of a deceased person is entitled to a 5% deduction (the “entrepreneur deduction,” *yrittäjävähennys/företagaravdrag*) from a partnership’s profit attributable to him/her or it. The entrepreneur deduction does not increase the losses of the partnership and hence can be deducted only from profit.⁷⁰⁸

A resident corporate partner’s share of partnership income is taxed like any other corporate income at the 20% corporate tax rate.

In the case of a partner who is a nonresident individual, the partner’s share of the partnership income is taxed, to the extent it is deemed to be capital income, at the rate of 30%/34% (like the shares of resident partners) and, to the extent it is deemed to be earned income, at the flat tax rate of 35%.⁷⁰⁹ A nonresident corporate partner’s distributive share is taxed at the flat rate of 20%. However, in the case of a nonresident partner, the provisions of any applicable tax treaty must be taken into account. Most tax treaties do not mention partnerships, so Finland’s taxing rights must be established based on whether a partnership share is “other income” or “income connected with a permanent establishment (PE)”. Based on a ruling of the Supreme Administrative Court (No. 2002:34), Finland can tax a nonresident company that is a limited partner in a Finnish limited partnership engaged in business activity. However, a special provision applies to qualified tax treaty benefits entitling nonresident limited partners of Finnish partnerships engaged in private equity or venture capital activity. In case these nonresident limited partners are foreign partnerships registered in or established based on laws of a jurisdiction with a tax information exchange treaty with Finland, the same provision applies to qualified tax treaty benefits entitling nonresident partners of these foreign partnerships. The qualified partners are taxed as if they had invested directly in the investment targets of the Finnish

⁷⁰³ Business Income Tax Act, Sec. 46a. Such a reserve is not available to companies or partnerships that have companies as partners. If the accumulated amount of the reserve exceeds the 30% maximum, the excess is added to the taxable income of the partnership (and allocated to the partners).

⁷⁰⁴ Income Tax Act, Sec. 16.4.

⁷⁰⁵ It should be noted that salary or other remuneration paid by a taxpayer to his/her spouse or child under the age of 15 is not a deductible item for the taxpayer. Income Tax Act, Sec. 31.2.

⁷⁰⁶ This also applies to interest paid by a partnership on a loan made (for business reasons) to the partnership by a partner. However, any capital repayment, capital withdrawal or profit distribution payment made by a partnership to its partners is not a taxable event (i.e., it is neither deductible for the partnership nor taxable income in the hands of the partners).

⁷⁰⁷ Income Tax Act, Secs. 40 and 41. For the distinction between earned income and capital income, see X.C., below.

⁷⁰⁸ Income Tax Act, Sec. 30a.

⁷⁰⁹ For the principles governing the taxation of capital income and earned income, see X., below, and in particular X.C.

partnership. Any tax levied based on this provision is withheld by the Finnish partnership.⁷¹⁰

When a partner takes real property, buildings, securities or rights from a partnership for his or her private use, the transfer price is deemed to be the market value of the real property, etc. When a partner takes other assets from the partnership for his or her own private use, the transfer price is deemed to be the market value or the acquisition costs of the assets, whichever is lower.⁷¹¹ The same principles apply when a partnership is dissolved.

A foreign partnership may be subject to tax in Finland if it has income that is deemed to be Finnish-source income, which is most income when the foreign partnership has a PE in Finland. Foreign (nonresident) partnerships are treated for tax purposes like domestic partnerships, i.e., as semi-transparent entities. Both the resident and nonresident partners of a foreign partnership are subject to tax on the partnership's income that

is taxable in Finland, in accordance with the tax rates applicable to each of the partners individually. In addition, a resident partner of a foreign partnership is subject to tax on the partner's share of the partnership's net income from foreign sources.⁷¹² Where applicable, the provisions of the Act on Elimination of International Double Taxation or a tax treaty are taken into account.

Under special legislation, a partnership can be converted into another kind of partnership or into a limited company with no tax consequences,⁷¹³ but a limited company cannot be converted into a partnership without tax consequences. In the latter circumstances, the limited company is considered to have been dissolved. However, a company may be a partner in a partnership.

For VAT, excise and customs duty, transfer tax, and real property tax purposes, partnerships are tax subjects like domestic companies.

⁷¹⁰ Income Tax Act, Sec. 9. Subsecs 5 and 6. A partnership is deemed to be foreign if it is not established in Finland and (thus) registered with the Finnish Trade Register.

⁷¹¹ Income Tax Act, Sec. 26, and Business Income Tax Act, Sec. 51b.

⁷¹² Income Tax Act, Sec. 16a.

⁷¹³ Income Tax Act, Sec. 24. Based on a ruling of the Administrative Court of Vaasa March 26, 2021 (21/0111/4), the conversion of a limited partnership into a company was tax neutral even if the company demerged into two separate companies immediately after the conversion.

IX. Taxation of Other Business Entities

A. Cooperative Associations, Representative Offices, and Investment Funds

Finnish tax law does not contain any specific provisions dealing with closely held or family corporations.⁷¹⁴ However, this should not be understood to mean that the form in which business is carried on is irrelevant. Indeed, one of the fundamental issues to be considered, for example, in commencing a family business, is which legal form to choose.⁷¹⁵

A cooperative association is taxed at the 20% corporate tax rate and, if it carries on business, is taxed under the Business Income Tax Act. From an international investor's viewpoint, a cooperative association does not provide any tax advantages over a limited company. A cooperative association is an entity that carries on business to further the economic interests of its members (for instance, farmers, milk producers, depositors or consumers), rather than to maximize their profits from the association. The rules on the administration of a cooperative association are close to those applying to a limited company. Although cooperative associations may also have shares, they have not gained as much popularity as companies. For the above reasons, a cooperative association is normally not regarded as the most convenient type of entity for carrying on business, particularly for foreigners.

Income or losses of unincorporated Finnish entities (prior to their registration) are directly attributable to their beneficiaries.

A representative office of a foreign corporation is not a business entity. In fact, a representative office is not even a branch if it does not carry on business or have the other characteristics of a branch.⁷¹⁶ Consequently, it is not subject to tax in Finland. On the other hand, a representative office may not, by definition, derive income from Finland by carrying on business in Finland. In the initial stage of intended business operations,

representative offices are sometimes used by foreign corporations for analyzing markets, collecting information, and making contacts.⁷¹⁷ Although a representative office is not subject to Finnish corporate income tax, it may be liable for withholding tax and similar responsibilities of a Finnish employer with respect to salaries paid to the employees in Finland. If the representative office of a foreign corporation starts carrying on business activity, the foreign corporation is obligated to register a branch in Finland.

For tax purposes, European Companies (SEs)⁷¹⁸ and European Cooperative Associations are treated as limited companies and as cooperative societies, respectively.

A Finnish investment fund and a Finnish non-UCITS fund qualify as separately taxable corporate entities for Finnish tax purposes. Under special provisions, these funds are, however, not subject to income tax.⁷¹⁹ Income from such funds is taxed in Finland only in the hands of the resident or nonresident fund investors and only to the extent the fund makes a distribution to them. Finnish investment funds and non-UCITS funds are regarded as persons covered by tax treaties. Generally, the income from an investment fund is deemed as "other income" under Finland's treaties and, thus, not taxed in Finland.

A foreign investment fund and a foreign non-UCITS fund are treated for Finnish income tax purposes as separately taxable corporate entities that may not be subject to income tax provided that they are comparable to a Finnish investment fund or a Finnish non-UCITS fund.⁷²⁰ For a foreign fund registered outside the EEA, the exemption also requires that the fund has been incorporated in accordance with the respective legislation applicable in its country of registration, and that exchange of tax information is available between said country and Finland. A foreign fund that does not meet these requirements is taxed in Finland on its Finnish-source income in accordance with Fin-

⁷¹⁴ However, the Companies Act makes a distinction between public and private companies, only public companies being able to have their securities listed on the stock exchange and raise funds from the public (see III.A. and B., above). The distinction between dividends from listed and non-listed companies has some indirect relevance for individual income tax purposes (see X.C.2., below). See also the description of housing companies and mutual real estate companies in III.B.2.I., above. These entities are generally not taxed under the Business Income Tax Act, but rather under the Income Tax Act as all of their income is deemed to belong to the other income source.

⁷¹⁵ For instance, the liability of shareholders of a limited company is, in principle, limited to their contribution to the company (see III.A., above), whereas the liability of the partners, other than limited partners, in a partnership is unlimited (see III.D., above); the tax rate for companies is always a flat, relatively low rate (currently 20%), but distributions from a company normally entail tax consequences (see V.B., above); an operating reserve is only available to partnerships (see VIII., above); deductible group contributions are in principle allowable only among resident companies and co-operative associations (see V.B.14., above); the administrative control on deductions for expenditure may in practice be less rigorous for a company than, e.g., for a sole proprietorship; a partnership can be converted into a limited company but not vice versa (see V.B.15.a., above); and there may be differences in inheritance and gift taxation, e.g., with respect to the transfer of a business to the younger generation (see XII., below), etc.

⁷¹⁶ For the definition of a branch (PE) for tax purposes, see VII., above. The definition of a branch for Trade Act purposes is discussed in III.A.4., above. There may be borderline situations where the literal statutory definition is decisive for the determination of a foreigner's responsibilities in Finland.

⁷¹⁷ It should be noted that even a minor change in the activities of a representative office of a foreign corporation may make the representative office a PE in accordance with the domestic law definition or the definition in an applicable tax treaty, and subject to Finnish corporate income tax on income from all sources that is attributable to the PE.

⁷¹⁸ Setting up an SE requires careful planning as to the details to be considered. Relevant aspects to be considered include tax rate, tax base, income attributable to PEs, and elimination of double taxation.

⁷¹⁹ Income Tax Act, Sec. 20a.

⁷²⁰ Income Tax Act, Sec. 20a. For example, based on Central Tax Board's decisions No. 2019/58 and No. 2019/48 a Luxembourg FCP-FIS and a German Sondervermögen were deemed similar to a Finnish non-UCITS funds. According to Supreme Administrative Court rulings No. 2022:130, 2022:138 and 2022:142 and ruling June 7, 2022 (H3151) of the Administrative Court of Helsinki, also sub funds of a Delaware Statutory Trust and a Luxembourg FCP fund (*Fonds Commun du Placement*) as well as a French FPCI fund (*Fonds Professionnel de Capital Investissement*) and an SCPI fund (*Société Civile de Placement Immobilier à capital variable*) were deemed similar to Finnish investments funds or non-UCITS funds. An FCP fund cannot, however, invest more than 20% of its assets in construction activities in order to be treated as a non-UCITS fund (Supreme Administrative Court ruling No. 2022:139, Real Estate Funds Act Sec. 15). Based on Central Tax Board's decision No. 2025:22, fund vehicles structured as Luxembourg SCSp's (*société en commandite spéciale*) were deemed for Finnish tax purposes as foreign partnerships rather than funds comparable to Finnish investment funds. Furthermore, according to Supreme Administrative Court ruling of May 13, 2025, No. 1078, a French AIFM-regulated real estate fund SPPICAV (*société de placement à prépondérance immobilière à capital variable*) was deemed comparable to a Finnish non-UCITS real estate fund and, therefore, tax exempt under Section 20a despite not meeting the statutory EEA real estate allocation requirement of capital.

land's domestic tax law. As regards entitlement to benefits under a tax treaty, a foreign fund that is regarded as a separate taxable subject in its state of registration may be regarded as a resident of that state for purposes of the treaty concerned.

B. Real Estate Investment Trusts

Finland has special rules regarding real estate investment trusts (REITs).⁷²¹ These rules allow a resident limited company carrying out the renting of apartments to submit an application to be exempted from income tax.⁷²² Only publicly traded companies qualify for the exemption. A REIT company should apply for the listing of its shares, i.e., to become a publicly traded company within three years from commencing business.

The following criteria must be satisfied for a REIT company to qualify for the exemption and to continue to be exempt:

- (i) The company may carry on no activity other than owning, managing and renting residential apartments;
- (ii) At least 80% of the company's property must consist of residential apartments;

⁷²¹ Act on Tax Exemptions for Certain Limited Companies Carrying out the Letting of Apartments, *Laki eräiden asuntojen vuokraustoimintaa harjoittavien osakeyhtiöiden veronhuojennuksesta/Lag om skattelättnad för vissa aktiebolag som hyr ut bostäder*, 299/2009, as amended (the "REIT Act").

⁷²² However, the sale of apartments during the first five years of ownership is taxable.

(iii) The company may not manage other assets than those needed for its purpose;

(iv) Each shareholder must own less than 10% of the company's share capital;

(v) The Real Estate Fund Act⁷²³ must be applicable to the company;

(vi) The company's current liabilities represent no more than 80% of its balance sheet total; and

(vii) The company must distribute at least 90% of its income, subject to certain exceptions.

Dividends paid by a REIT company are fully taxable income in the hands of the recipient when paid based on tax-exempt tax years, i.e., no portion of the dividends is considered tax exempt in the hands of the recipient. Dividends paid based on tax years prior to a tax-exempt period are taxable under the ordinary dividend income rules rather than the REIT rules, even if the decision to pay them was adopted during a tax-exempt period or they are payable during a tax-exempt period.

Comment: Despite being in existence for more than 15 years, the Finnish REIT regime has not been very popular. Currently, only one Finnish company has announced to apply the regime.

⁷²³ Real Estate Fund Act, *Kiinteistörahastolaki/Lag om fastighetsfonder*, 1173/1997, as amended.

X. Taxation of Resident Individuals

A. Scope of Taxation

Individuals who are resident in Finland are subject to Finnish taxation based on their worldwide income. However, the provisions of an applicable tax treaty or the provisions relieving foreign salary income from Finnish tax in certain circumstances⁷²⁴ (see X.C.3., below) may result in reduced taxation or total exemption of foreign-source income. Furthermore, the foreign tax credit provisions (see V.B.7.a., above and XV.A., below) may mitigate international double taxation in cases where a treaty is not applicable.⁷²⁵

B. Residence

An individual is resident in Finland if his or her ordinary place of abode and home is in Finland, or if he or she continuously resides in Finland for a period of more than six months. A temporary absence does not prevent a stay in Finland from being deemed continuous.⁷²⁶

Under what is referred to as the “three-year rule,” a Finnish citizen is considered to be resident in Finland for three full calendar years following the year of departure from Finland, unless the individual can prove that he or she no longer has substantial ties to Finland. After the departure year and three years following that year, the individual is deemed to be a nonresident of Finland, unless it is proven otherwise.⁷²⁷

The term “substantial ties” is not defined in the legislation and all relevant facts are weighed as a whole in each individual case. In practice, substantial ties have been deemed to exist, for example, where the taxpayer has a spouse or dependent family members residing in Finland (except where there has been an official separation or divorce), has a dwelling in Finland at one’s disposal, owns substantial real property in Finland, or carries on business activities in Finland requiring active management. The existence of a mere summer residence in Finland, or even a large amount of passive investment income from Finland, is usually not, as such, deemed to constitute a substantial tie to Finland.⁷²⁸ Finnish citizenship, as such, is not an essential tie to Finland; in fact, Finnish citizenship is very seldom a criterion for taxation under Finnish law. (For the few instances in which Finnish citizenship is relevant, see XI.A., below.)

Where there is an applicable tax treaty, the treaty residence definition must be considered as well as the residence definition in Finland’s domestic law. To establish how the provisions of a treaty are applicable, it is necessary to determine which one of the respective countries is deemed to be the taxpayer’s country of residence for purposes of the treaty (see XV., below). However, it is always the definition in Finland’s domestic law that determines the manner in which (as opposed to the extent to which) a taxpayer is taxed in Finland.

⁷²⁴ Income Tax Act, Sec. 77.

⁷²⁵ For relief in purely domestic situations, see X.D. and X.E., below.

⁷²⁶ Income Tax Act, Sec. 11.

⁷²⁷ Income Tax Act, Sec. 11. See also XI.A., below.

⁷²⁸ In Supreme Administrative Court ruling No. 2021:172, a Finnish citizen was deemed not to have substantial ties to Finland after his departure, even though he still owned 100% of the shares in a Finnish company, 5% of the shares in another company and was a board chairman or member in a number of Finnish companies.

Foreign executives and specialists, even though they may be considered to be resident in Finland due to the length of their stay in Finland, may elect nonresident tax treatment with respect to their employment income from Finland if certain conditions are fulfilled.⁷²⁹

Under Finnish domestic law, Finnish citizens serving the State of Finland at a Finnish diplomatic or consular representation are deemed to be resident in Finland if they were employed from Finland (i.e., are not already resident abroad at the moment of recruitment).⁷³⁰ As to foreigners serving at a foreign mission in Finland, see X.C.3., below.

C. Determination of Gross Income

Unless it is expressly exempted,⁷³¹ all income received from whatever source by a resident taxpayer in money or money’s worth is income subject to income tax in Finland.⁷³² As in the case of companies, there are three categories of income for purposes of the taxation of individuals, i.e., business income, agricultural income, and “other income.” Income of each category is treated separately. The treatment of business income of an individual is, broadly speaking, the same as the treatment of business income of a company (see V., above). There are, however, a few exceptions. For example, the capital gain participation exemption is not available, group contributions are not available and dividends are taxed differently (dividends from publicly-listed companies are 85% taxable and dividends from non-listed companies are 75% taxable). In addition, a special “entrepreneur deduction” of 5% of gross business income is available. In the following discussion, it is assumed that an individual has only income that falls into the “other income” category, which is typically the case.

Finnish tax law makes a further distinction as regards the income of individuals: between earned income and capital income. The distinction is of crucial importance mainly because capital income is subject to tax at a flat rate of 30% on annual income of up to 30,000 euros and 34% on the excess, whereas the marginal tax rate (i.e., the rate applicable to the top of the “income pillar”) applicable to the earned income of a resident individual may, in accordance with the progressive national tax table (increased by the local taxes at flat rates), be as high as 50.40%.⁷³³ In both cases, net taxable income is the difference

⁷²⁹ The “Expert Tax Regime” based on Act on Tax at Source of Resident Foreign Employees, *Laki ulkomailta tulevan palkansaajan lähdeverosta/Lag om källskatt för löntagare från utlandet*, 1551/1995, as amended, (“the Foreign Expert Tax Act”) is granted on application and may be valid for the first seven years of employment from the beginning of a taxpayer’s stay in Finland. For further discussion, see X.E., below.

⁷³⁰ Income Tax Act, Sec. 11.2/1. A Finnish citizen serving the United Nations (U.N.) or a suborganization of the U.N. abroad that was a resident of Finland immediately before the mission started is subject to the general rules (i.e., is presumed to be resident in Finland), including the three-year rule. Income Tax Act, Sec. 11.3.

⁷³¹ For instance, under Income Tax Act, Sec. 85, winnings from lotteries organized in Finland or in the EEA do not constitute taxable income (unless the winnings can be deemed to have the nature of salary or to be paid as consideration for the performance of a task).

⁷³² Income Tax Act, Sec. 29. Income from a CFC represents an exception: CFC income may be subject to tax even if it has not yet been received by the taxpayer. For the tax treatment of CFC income, see XIV.C., below. The same exception applies to a taxpayer’s share of partnership income. See VIII., above.

⁷³³ The overall tax rate applicable to earned income (i.e., the “average” applicable to the entire earned income), including the national, municipal and

between gross taxable income, and allowable expenses and deductions.

1. Capital Income

Capital income is any yield from capital investment, including capital gains,⁷³⁴ interest, rental income, yield from endowment policy and capital redemption policy,⁷³⁵ capital income from forests and natural resources, yield drawn out from an equity savings account⁷³⁶ or a long-term savings account⁷³⁷ and, generally, dividends from listed companies (see below). In addition, dividends from unlisted companies are generally deemed to be capital income to the extent they do not exceed 8% of the appropriately computed mathematical value or (for example, in the case of shares of a foreign corporation) the market value of the shares on which they are paid (for more details on the taxation of dividends, see 2., below). Remuneration (royalties) with respect to patents, copyrights or similar rights is deemed to be capital income if the right is received by the taxpayer by way of inheritance or bequest, or acquired against consideration; otherwise, such remuneration is deemed to be earned income (i.e., if it is a consequence of the taxpayer's personal activity).⁷³⁸ Furthermore, income derived from a business and a partner's share of partnership income are deemed to be capital income to the extent of 20% or, at the taxpayer's own election in the case of income derived from business, 0% or 10% of the appropriately computed net equity.⁷³⁹

church taxes, and social security charges, often exceeds 40%, even where the level of annual income is relatively modest. (For the tax rates, see E., below.) On the other hand, if the amount of earned income is less than (roughly) 40,000 euros, the overall tax rate on earned income may be less than the flat 30% rate applicable to capital income.

⁷³⁴ There is no separate capital gains tax in Finland — capital gains constitute one type of capital income — but capital gains and capital losses are subject to certain special rules discussed at C. and E., below.

⁷³⁵ In certain cases, all proceeds drawn from endowment policies and capital redemption policies may be taxable. Profits from endowment policies and capital redemption policies are taxed as capital income either at the end of a contract period or when funds are withdrawn. When a taxpayer withdraws funds from an endowment policy or a capital redemption policy, a pro rata share of the withdrawn amount that equals to the accrued profits at the time of the withdrawal, is taxed as capital income. Potential losses may be deducted from capital income at the end of a contract period (Income Tax Act, Sec. 34). If a policyholder has the power to manage the underlying investments within a policy, all capital gains arising out of sales are regarded as taxable capital income of the policyholder (Income Tax Act, Sec. 35b). In Central Tax Board decision No. 2022/44, such power to manage all underlying investments within a policy was deemed to exist when the reference investments of the policy contained certain rented apartments chosen by the policyholder. However, based on Supreme Administrative Court ruling No. 2022:41, such power was not deemed to exist when the policyholder was only able to choose the underlying investment targets of the policy within the limits of alternatives offered by the insurance company, which then provided the corresponding purchase/sales order to maintain the statutory reserves required to cover the policy liability. See also Supreme Administrative Court ruling No. 20.3.2025 T 643. In addition, insurance benefits payable on death to the close relatives or estate of the deceased may also be subject to inheritance tax instead of income tax. (Income Tax Act, Sec. 36; Inheritance Tax Act, Sec. 7).

⁷³⁶ Income Tax Act, Sec. 32 and Equity Savings Account Act, *Laki osakesäästötilitistä/Lag om aktieparkonton*, 680/2019, as amended.

⁷³⁷ Income Tax Act, Sec. 34a and Act on Binding Long-Term Investment *Laki sidotusta pitkäaikaissäästämisestä/Lag om bundet långsiktigt sparande*, 1183/2009, as amended.

⁷³⁸ Income Tax Act, Sec. 52.

⁷³⁹ Income Tax Act, Secs. 32 and 38 to 41. See reference to Income Tax Act, Secs. 40 and 41, under VIII., above.

Comment: The remaining share of a partner's share of partnership income is treated as earned income and thus taxed in accordance with progressive tax rate, which start at a lower level than the capital income tax rate(s). Thus, it may be beneficial for the individual partner to elect a larger part or all of the partnership income to be taxed as earned income.

Subject to many exceptions, pension income based on voluntary pension insurance is treated as capital income.

An amount outstanding at the end of a calendar year on a loan from a company is taxable capital income if the debtor owns (together with family members) directly or indirectly at least 10% of shares (or controls at least 10% of the voting power) in a company.⁷⁴⁰ Non-payment of interest for such a loan is not deemed to be a hidden profit distribution. Repayment of such a loan is deductible if repaid within five years.⁷⁴¹

Capital gains and dividend income accumulated to an equity savings account or any capital income accumulated on a long-term savings account of a taxpayer are exempted income (until drawn out).

Capital gains from the disposal of household effects are exempt up to 5,000 euros annually. Similarly, if the aggregate sales price of assets other than household effects does not exceed 1,000 euros during the tax year, any capital gains from the disposal of such assets are exempt.⁷⁴² Capital gains from the disposal of a taxpayer's own dwelling (house or apartment) are exempt if the dwelling has been owned and at the same time used by the taxpayer as his or her (or his or her family's) permanent residence for at least two years (730 days) without interruption. The permanent use does not have to take place immediately prior to the sale of the dwelling (for example, the owner may rent out the dwelling after having lived in it for two years). Renting a dwelling, even if for only a short period of time (for example for days rather than months), will interrupt the continuous residence period and, consequently, the tax exemption for the sale of an own dwelling after the two-year residence period will not be available.⁷⁴³

Finally, capital gains may be exempt from tax in certain cases in which real property constituting the site of the taxpayer's farm (or forestry activity) or in which a share in a partnership is, or at least 10% of the shares of a company are, transferred to a close relative, subject to certain conditions.⁷⁴⁴

Any use of crypto assets (such as conversions into fiat currency, exchanges for other crypto assets, or payments for goods or services) is subject to the tax rules relating to capital gains from the disposal of property.⁷⁴⁵ In the case of an exchange or use as payment method, the crypto assets are deemed to be sold

⁷⁴⁰ Income Tax Act, Sec. 53a. Based on a ruling of the Administrative Court of Turku June 2, 2020 (20/0416/3), taxation takes place when the 10% shareholding exists at the end of the year even if it did not exist at the time of drawing the loan.

⁷⁴¹ Income Tax Act, Sec. 54c.

⁷⁴² Income Tax Act, Sec. 48.6.

⁷⁴³ Supreme Administrative Court ruling No. 2021:75 on June 7, 2021.

⁷⁴⁴ Income Tax Act, Sec. 48. See also X.E., below, and, for partnership shares, VIII., above.

⁷⁴⁵ Supreme Administrative Court ruling No. 2019:42. See also Supreme Administrative Court ruling No. 2024:123, according to which, when calculating the taxable capital gains arising from the sale of crypto assets, the first in, first out (FIFO) principle will be applied. The taxation of capital gains and losses is discussed in X.C. and E.

for fair market value. Income earned in the form of staking⁷⁴⁶ crypto assets is treated as capital income.⁷⁴⁷ Taxation of crypto asset mining activities is discussed under 3., below.

Certain unrealized capital gains on specified assets may be subject to exit taxation upon a change of tax residence, whereby such gains are deemed to be realized for tax purposes at the time of departure. (See V.B.15.f., above)

2. Dividend Income

For purposes of individual taxation, dividend income is, in principle, capital income, but, in certain circumstances, dividends may constitute earned income. Dividends are treated as capital income or earned income, or they are exempt in accordance with the principles set out in a. to d., below.

a. Dividends from a Domestic Listed Company

Out of dividends paid by a publicly traded company, 85% is considered to be capital income; the remaining 15% is tax exempt.⁷⁴⁸ Publicly traded means that the shares concerned are:

- (i) Traded on a regulated market in accordance with the Act on Trading in Financial Instruments;
- (ii) Traded on another regulated market outside the EEA that is controlled by the authorities; or
- (iii) Quoted under the multilateral trading system, as defined in the Act on Trading in Financial Instruments, if the company has applied for or has given its consent to public trading.

The repatriation of funds from the invested unrestricted equity reserve is taxed in the same way as dividend income, though in certain circumstances, the repatriation of funds may be taxed like a profit on sale. See V.B.3.d., above, for further information.

Dividends from Finnish REITs (see IX.B., above) are considered to be capital income for the full amount.

b. Dividends from a Domestic Unlisted Company

Dividends from a domestic unlisted company are taxed as follows:

- (i) To the extent the annual dividend amount is at least 8% of the mathematical value of the shares on which the dividends are paid, 25% of the dividends is taxable capital income. The mathematical value is calculated in accordance with the rules in the Act on Valuation of Assets for Tax Purposes. The remaining amount of the dividends, i.e., 75%, is treated as tax-exempt.
- (ii) However, if the total amount of dividend income received from unlisted companies exceeds 150,000 euros (but not the 8% limit referred to above in (i)), 85% of the excess is treated as capital income and the remaining 15% is exempt.

⁷⁴⁶ “Staking” refers to the locking of crypto assets under the “proof of stake” protocol as collateral for the right to take part in the maintenance of a blockchain in exchange for crypto assets.

⁷⁴⁷ Tax Administration guidance (No. VH/3057/00.01.00/2025), Taxation of crypto-assets, Ch. 2.11.1.

⁷⁴⁸ Income Tax Act, Sec. 33a.

(iii) To the extent the 8% limit referred to above in (i) is exceeded, 75% of the excess is treated as earned income and the remaining 25% is exempt.⁷⁴⁹

(iv) Notwithstanding the above, dividends are taxed as earned income of the recipient if the basis for the payment of the dividends is the recipient’s work input, based on a resolution adopted at the shareholders’ meeting, as stated in the company’s articles of association or in a shareholders’ agreement or in any other agreement.⁷⁵⁰ Such dividends are tax-deductible for the distributing company. If the recipient of the dividend is, for example, a holding company controlled by the person whose work performance the dividends pertain to, the tax will be imposed on the ultimate beneficiary and the holding company will be disregarded for tax purposes.

The repatriation of funds from the invested unrestricted equity reserve is taxed in the same way as dividend income. By way of exception, if it can be reliably proven that funds have ended up in the invested unrestricted equity reserve via a capital contribution made by the same taxpayer which was made less than 10 years earlier and the repatriating company is not a listed company, the repatriation of funds is taxed like a profit on sale (i.e., the repatriated amount is treated as capital income, but the acquisition cost of the shares can be deducted from the taxable amount).⁷⁵¹

c. Dividends from a Nonresident Corporation

Dividends paid by a nonresident corporation are treated according to the same rules as domestic dividends if they are paid by a corporation that is:

- (i) Referred to in Article 2 of the EU Parent-Subsidiary Directive;
- (ii) Resident in an EEA Member State and not resident outside the EEA under the terms of a tax treaty; or
- (iii) Resident in a country with which Finland has concluded a treaty that applies to the dividends concerned.

In above cases (ii) and (iii), the corporation must be subject to tax at the rate of at least 10% that cannot be avoided and is not subject to exemption, and applies to the income out of which the dividends are paid.

In other words, such dividends are taxed as capital income or earned income, or they are exempt in accordance with the principles discussed above in connection with treatment of dividends paid by domestic companies (Sections 33a and 33b of the Income Tax Act). However, in the case of dividends paid by an unlisted foreign corporation, the market value of the shares on which the dividends are paid at the end of the previous tax year instead of the mathematical value can be applied for purposes of computing the 8% threshold (see b., above) that is required in order to determine the portion of taxable dividend income under Section 33b of the Income Tax Act.

Dividends paid by a foreign corporation other than those referred to above, i.e., generally a corporation resident in a low-

⁷⁴⁹ Income Tax Act, Sec. 33b.

⁷⁵⁰ Income Tax Act, Sec. 33b.

⁷⁵¹ Income Tax Act, Sec. 45a. See V.B.3.d., above.

tax-country with which Finland has not concluded a tax treaty that would apply to the dividends concerned, are treated as earned income regardless of whether or not the corporation is publicly traded.⁷⁵²

d. Income from a Cooperative Association

A portion of the surplus received from a cooperative association is taxable as capital income. Surplus derived from a cooperative association is defined to include interest on membership equity and other surplus derived from the cooperative association.⁷⁵³

Out of the surplus from a publicly-traded cooperative association, 85% is considered to be capital income; the remaining 15% is exempt.⁷⁵⁴ The term “publicly traded” has the meaning set out in a., above.

Comment: Currently there are no publicly traded cooperative associations in Finland.

Surplus from a domestic unlisted cooperative association is taxed as follows:

(i) Out of the annual surplus amount, 25% is subject to tax as capital income and the remaining 75% is tax exempt, but only up to an annual amount of 5,000 euros (in total, not per payer) per individual;

(ii) To the extent the 5,000 euros limit is exceeded, 85% of the excess is treated as capital income and the remaining 15% is tax exempt; and

(iii) If the association has fewer than 500 members who have paid their membership fees prior to the end of the financial year preceding the current tax year, 75% of the excess is treated as earned income and the remaining 25% is exempt to the extent it exceeds 8% of the mathematical value of the shares and membership interests owned in the financial year before calculation of the surplus on equity on the cooperative’s balance sheet.⁷⁵⁵

It should also be noted that the following sections of the Income Tax Act applying to dividends apply *mutatis mutandis* to surpluses: Sections 16.3 and 16.4 (unincorporated entity); Section 22.1 3 (public-benefit entity); Section 31.4 and 5 (deductible expenses with respect to tax-exempt dividend income and dividend compensation); Section 32 (capital income); Section 33b.3 (dividends related to work performance treated as earned income provided such treatment is based on an agreement, etc.); Section 33d.1 and 3 (hidden profit distribution, applying to surplus and to surplus compensation); Section 34a.6 (long-term savings plan); Section 58 (tax deductions); and Section 62 (earned income dividends).

⁷⁵² Income Tax Act, Sec. 33c. Based on Supreme Administrative Court ruling No. 2021:90, income distributed from a Luxembourg SICAV fund whose legal form was a variable capital investment company was comparable to a Finnish investment fund, as both were exempt from income tax and their income was taxed only at the level of income recipients. As such distributions from the SICAV were regarded as capital income instead of dividend income, based on Article 63 of the TFEU.

⁷⁵³ Income Tax Act, Sec. 33e. “Other surplus” is as defined in the Co-operatives Act.

⁷⁵⁴ Income Tax Act, Sec. 33e.

⁷⁵⁵ Income Tax Act, Sec. 33e.

3. Earned Income

Earned income is any other income, i.e., any income not deemed to be capital income.⁷⁵⁶ Earned income includes salaries, wages, pensions⁷⁵⁷ and any other remuneration for work performance.⁷⁵⁸ Taxes paid by an employer on behalf of an employee are taxable income. All benefits in kind are in principle included in earned income at market value.⁷⁵⁹ The Tax Administration issues an annual decision confirming the taxable values of certain benefits in kind. Among the confirmed taxable values are usually values for housing benefits, meal benefits, car benefits, etc.

The taxable income of an individual is determined in accordance with the Income Tax Act. However, the net income from business activities carried on by an individual is determined in accordance with the rules in the Business Income Tax Act, and income from agriculture in accordance with the Agricultural Income Tax Act.

Some expressly listed types of income are exempt. These include: alimony payments in general; certain artistic awards; generally, scholarships received for studies, research or artistic activities, subject to certain limits; certain social benefits and per diems and certain reimbursements of business related travel expenses, subject to prescribed maximum amounts.⁷⁶⁰ The amount of the tax exempt per diems is confirmed by the Tax Administration annually.

The estate of a deceased person is taxed as a separate entity.⁷⁶¹

Furthermore, a few benefits provided by an employer to an employee or retired employee are tax exempt, provided they are reasonable and customary and available to all personnel. Such arrangements include, for example: the provision of a general health service program and health care for an employee during a six-month period after termination of an employment agreement; child care services provided to an employee if employee’s child is sick for a maximum of four days per sickness; staff discounts on goods or services produced by the employer; birthday presents other than in money or in money’s worth; and recreational activities, for instance in the form of a sports club or vouchers for cultural or exercise activities. An employer may also provide a home internet connection (i.e., an internet connection that can also be used during free time) and shared transportation from home to work. The tax-exempt amount of recreational activities, culture and sports, is 400 euros per year per employee. Subject to the same conditions, discounted or free

⁷⁵⁶ Income Tax Act, Sec. 61.

⁷⁵⁷ See, however, the discussion at 1., above, on income from voluntary pension insurance treated as capital income.

⁷⁵⁸ See Supreme Administrative Court ruling No. 2018 T 2002, where donation of employer company’s shares to the CEO of the company by the shareholders of the company was deemed as earned income instead of a taxable gift.

⁷⁵⁹ Income Tax Act, Sec. 64.

⁷⁶⁰ The maximum domestic per diem in 2026 is 54 euros; the half-day allowance (over six hours) is 25 euros. For business travel outside Finland, the tax-free allowance ranges from 29 euros to 134 euros per day, depending on the destination.

⁷⁶¹ Income Tax Act, Sec. 17. A domestic estate of a deceased person is taxed as a separate entity if the beneficiaries so wish; however, if the estate carries on business, treatment as a separate entity is limited to the first three years after the death of the decedent, and thereafter the income of the estate is allocated to the beneficiaries.

travel tickets provided by a traffic contractor to its employees or retired employees are not deemed to constitute taxable income in their hands.⁷⁶²

In addition, specific statutory exemptions apply in certain situations. In particular, no taxable benefit arises from legal fees paid by an employer on behalf of an employee in criminal, administrative or civil proceedings, provided that certain statutory conditions are met. If the employee subsequently receives compensation for the same costs and does not reimburse the employer, the amount is treated as earned income.⁷⁶³

As a general rule, a discount on the fair market value of shares issued to employees is regarded as taxable income. However, both listed and non-listed companies and cooperative associations can issue shares to their employees at a reduced price without tax consequences if certain conditions are met. In case of listed companies and co-operative associations, the discount is exempt to the extent it does not exceed 10% of the fair market value, provided the benefit is available to the majority of the staff.⁷⁶⁴

For employees of non-listed companies, the benefit is tax exempt up to the net asset value per share (the mathematical value) provided that the benefit is available to the majority of the staff. The mathematical value is calculated by dividing the net assets of the company by the number of outstanding shares. Due to the possibility of significant benefits to employees, several conditions have been set for the regime to apply. The employee subscribing for shares must be employed by the company in which shares are offered and the regime only applies to employees and the CEO of said company, i.e., not to board members or employees of a subsidiary or parent company. The company must also be domiciled in the EEA or in a country with which Finland has an agreement in place for the exchange of information on tax matters and such exchange effectively takes place.⁷⁶⁵

If the special regime for non-listed companies is not applicable or the mathematical value of shares is higher than 90% of the fair market value, the same rules are applicable as to employee share issues of listed companies.

A benefit in the form of a stock option granted in connection with an individual's employment or directorship is deemed to be taxable earned income at the time the stock option is exercised (i.e., when the individual receives or acquires⁷⁶⁶ the shares

or other securities concerned), the taxable value being the difference between the value of the securities when the stock option was exercised and the consideration the employee or director paid for the securities. Taxation relating to stock options, especially in an international context, is largely based on a substantial body of case-law.⁷⁶⁷

Coaching and education provided to a former employee to promote the future employment of the former employee is not taxable income in the hands of the former employee if the employer is required to organize such coaching or training.⁷⁶⁸ Compensation paid by the employer where the employer fails to comply with the obligation to provide coaching and education is taxable income in the hands of the former employee.⁷⁶⁹ Other arrangements agreed between the employer and the employee to substitute the obligation to arrange coaching and education are treated as a taxable benefit in the hands of the employee.

Employer-subsidized commuter tickets are tax-exempt up to a maximum of 3,400 euros per year. Certain reasonable allowances for travel and similar expenses paid to members of the Parliament or the European Parliament or to national experts serving on an organ of the EU are exempt.⁷⁷⁰ Compensation for travel and accommodation expenses incurred for business trips, and per diems relating to business trips are exempt, subject to annually fixed limits.⁷⁷¹ Finally, inheritances and gifts are exempt from income tax, except for gifts given in lieu of salary or wages.⁷⁷² However, inheritances and gifts are generally taxable income in the hands of the heir or the donee in accordance with the Inheritance and Gift Tax Act.

In addition, salary income for (generally full-time) employment abroad lasting for at least six months is tax exempt if the following conditions are fulfilled:⁷⁷³

transferring a stock option to any person other than a relative or associate of the transferor is considered to be exercising the stock option.

⁷⁶⁷ Income Tax Act, Sec. 66 contains detailed rules on the tax treatment of stock options granted in connection with an employment relationship, e.g., with respect to the valuation of the eventual benefit and the further transfer of the options. For further information regarding the taxation of employee stock options, see Tax Administration Guidance (No. VH/7145/00.01.00/2024) on the taxation of employee stock options (<https://www.vero.fi/en/detailed-guidance/guidance/47752/taxation-of-employee-stock-options6/>).

⁷⁶⁸ An employer must provide coaching and education if: (i) it has at least 30 employees; (ii) the employee, whose employment agreement is terminated has been employed by the employer for at least five years prior to the termination of the employment agreement; and (iii) the termination is based on economic and production-related reasons.

⁷⁶⁹ Income Tax Act, Sec. 69a.

⁷⁷⁰ Income Tax Act, Secs. 70 and 76.

⁷⁷¹ Income Tax Act, Sec. 71.

⁷⁷² It should be noted that, in principle, the worldwide income of a resident taxpayer is subject to tax. Only nonresidents are subject to tax on income from Finnish sources only (for the taxation of nonresidents, see XI., below).

⁷⁷³ Income Tax Act, Sec. 77. The reason for the stay abroad must be the employment and only (salary or wage) income from dependent personal services qualifies. In this respect, stock option benefits are not considered comparable to salary or wages and thus exempt under the six-month rule, unless there is a tax treaty between Finland and the country in which the work was performed and the stock option benefit is taxed as earned income in that other country and this is adequately proved by the employee. It should be noted that this "six-month rule" applies to resident individuals only; the salary income of a nonresident from employment outside Finland (the employer being other than a Finnish public body) is not subject to tax in Finland. See X.I.C. For further information regarding the six-month rule, see Tax Administration Guidance (No. VH/7484/00.01.00/2024) on the six-month rule for exempting salary in-

⁷⁶² Income Tax Act, Sec. 69.

⁷⁶³ Income Tax Act, Sec. 69e.

⁷⁶⁴ Income Tax Act, Sec. 66.

⁷⁶⁵ Income Tax Act, Sec. 66a. According to Supreme Administrative Court ruling No. 2023:65, shares are considered to be offered to the majority of the employees even if the number of shares to be offered per employee is based on the duration of an employee's employment contract. Additionally, Supreme Administrative Court ruling No. 2023:66 clarified the legal landscape regarding the appropriateness of evaluation criteria and procedures in terms of objectivity and equality. According to the ruling, it was acceptable to allocate shares to employees based on their roles as well as the value of their work contribution in the company. The categorization of employees into different categories was determined by each employee's supervisor, who assessed the employee's merits, impact, and considered feedback from other employee's and supervisors.

⁷⁶⁶ Giving or otherwise disposing of a stock option to a close relative or another associate (e.g., a child or, in a partnership, a co-partner of the holder of the stock option) is not considered to be exercising the stock option: the subsequent increase in value of the stock option in the hands of the person to whom the stock option was transferred remains earned income of the transferor, subject to tax at the time when the stock option is finally exercised. However,

- (i) The employee does not reside in Finland for more than six days per month on average in the period during which the work is performed abroad;
- (ii) The employment is not on board a Finnish vessel or aircraft;⁷⁷⁴
- (iii) The employer is not the State of Finland, a Finnish municipality or any other Finnish public body; and
- (iv) The country in which the work is performed is not prevented from taxing the income in question by a provision of a tax treaty (if no treaty is in place between Finland and the country in which the work is performed, this condition does not apply).

If these conditions are fulfilled, the salary income from the employment abroad is entirely exempt in Finland. In practice, the income exempt from tax is not taken into account in determining the applicable tax rate for the salary income that is taxable income in Finland (i.e., the exemption is not exemption with progression). The six-month rule applies both to situations in which the employee has a local employer abroad (i.e., has a local employment contract) and those in which the employee is assigned to work abroad by his or her Finnish employer. However, if the employee is covered by Finnish social security, the social security charges are imposed. If the employee is on an assignment, an insurance salary is set for social security purposes. Insurance salary is a computation amount used to calculate the amount of employer and employee social security contributions payable. It should be noted that, if a tax treaty applies and the other country is prevented under the treaty's provisions (generally under the 183-day rule,⁷⁷⁵ but sometimes, for example, under special teacher or student articles (see XI.C., below)), from taxing the income, the income is fully taxable in Finland. In such cases, double taxation is eliminated by applying the provisions of the tax treaty (see XV., below).

Foreigners serving in Finland at a foreign diplomatic, consular or other similar representation and foreigners serving in Finland at the United Nations (U.N.) or a sub-organization of the U.N., as well as their family members and their private servants, are subject to tax in Finland only on income derived from real property in Finland, rental income from a Finnish housing company, income derived from business and professional activities carried on by them in Finland, and salary and pension income from an employment or activity in Finland not related to a diplomatic, consular or similar role in Finland.⁷⁷⁶

Unlike other income from crypto assets, crypto assets earned in the form of cryptocurrency mining⁷⁷⁷ are taxed as earned income. Any cost relating to mining activity, such as electricity and equipment acquisition cost, is deductible, as discussed in X.D., below.⁷⁷⁸ By contrast, where an activity is not

come earned from working abroad (<https://www.vero.fi/en/detailed-guidance/guidance/106872/six-month-rule-for-wage-income-earned-abroad3/>).

⁷⁷⁴ Based on Central Tax Board decision No. 2022/3, salary income from foreign employment (in this case, a flying instructor) was tax exempt to the extent it pertained to work performed in a Finnish registered aircraft. The exemption did not require that the aircraft was used for international traffic.

⁷⁷⁵ For this rule, see XV.F.1.i., below.

⁷⁷⁶ Income Tax Act, Sec. 12.1.

⁷⁷⁷ The "mining" of crypto assets refers to the lending of computer processing power for the use of a blockchain in exchange for receipt of new crypto assets.

regarded as income-generating activity for tax purposes, related expenses are not deductible.⁷⁷⁹

D. Allowances, Deductions, and Credits

All expenses incurred to obtain or maintain income are deductible ("natural deductions").⁷⁸⁰ However, expenses incurred to obtain or maintain exempt income are generally not deductible. The borderline between what is and what is not a natural deduction is not clear-cut. For instance, expenses for tax consultation or tax planning advice are not deductible for individuals (unless they are incurred in relation to the business income category; see V.B.4., above).

With respect to capital income, the most important deductible items are interest payments. Interest payments on a loan taken out for the purpose of acquiring capital income (including tax-exempt dividend income) is fully deductible.⁷⁸¹ However, interest paid on a mortgage loan of taxpayer's own home or recreational dwelling is not deductible. For the tax credit with respect to interest paid on certain student loans, see below. Other examples (a non-exclusive list) of deductions are discussed below. An annual fee for a bank safe deposit box or custodian services is deductible if the costs exceed 50 euros in a tax year.⁷⁸² A deduction for voluntary pension insurance premiums and payments into a long-term savings account is computed against capital income, the maximum deduction generally being 5,000 euros per annum (2,500 euros per annum, if the employer has taken out voluntary pension insurance for an employee and paid the premiums).⁷⁸³ Foreign exchange losses with respect to foreign currency loans (other than bonds) related to investment activity are deductible.⁷⁸⁴ If deductions relating to capital income exceed the amount of taxable capital income, a taxpayer is entitled to credit part of this loss against taxes to be paid on his/her earned income.⁷⁸⁵

With respect to earned income,⁷⁸⁶ an individual is granted the following:

- (i) A standard employment income deduction of 750 euros. However, if the amount of actual work-related expenses exceeds this amount, the actual amount may be deducted. In addition to the standard allowance (or actual (other) work-related expenses), labor union membership fees

⁷⁷⁸ Tax Administration guidance (No. VH/3057/00.01.00/2025), Taxation of crypto assets, Ch. 2.10.1.

⁷⁷⁹ See Supreme Administrative Court ruling of May 28, 2025, No. 1225, in which extensive internet casino gaming using crypto assets was not found to be income-generating activity or business activity and therefore the income was taxed as earned income on a gross basis without deduction of related expenses.

⁷⁸⁰ Income Tax Act, Secs. 29 and 54.

⁷⁸¹ Income Tax Act, Sec. 58.

⁷⁸² Income Tax Act, Sec. 54.

⁷⁸³ Income Tax Act, Sec. 54d. From January 1, 2027, see Income Tax Act, Sec. 34c (as amended by Act 377/2025).

⁷⁸⁴ Income Tax Act, Sec. 54b.

⁷⁸⁵ In the case of a single individual, the maximum deficit credit is 1,400 euros; if the taxpayer alone or together with his/her spouse has/have supported a minor child, the maximum (for one of the spouses) is increased by 400 euros, or, if he/she/they has/have supported two or more minor children, by 800 euros. Income Tax Act, Sec. 131. If these limits are exceeded, the excess deficit constitutes a loss to be carried forward and deducted from future capital income within 10 years. Income Tax Act, Secs. 60 and 118.

⁷⁸⁶ For the distinction between capital income and earned income, see C., above.

and the costs of commuting between home and work are deductible. Labor union membership fees are no longer deductible starting from the 2026 tax year, although payments to unemployment funds remain deductible. Commuting costs, however, may only be deducted to the extent they exceed a minimum of 900 euros (the “own-risk share”). The deduction is capped at 7,000 euros, i.e., the maximum deduction is available when the commuting costs reach 7,900 euros (7,900 euros minus the own-risk share of 900 euros = 7,000 euros). The standard employment income deduction of 750 euros is granted automatically by the Tax Administration to all resident taxpayers with taxable earned income.

(ii) A deduction for statutory pension insurance and unemployment insurance contributions⁷⁸⁷ and obligatory pension insurance premiums paid.⁷⁸⁸

(iii) A (moderate) pension deduction, if the individual has only low or moderate pension income. The deduction is phased out at an annual earned income level of around 50,000 euros.⁷⁸⁹

(iv) A discretionary deduction (of up to 1,400 euros) for circumstantial reduced ability to pay taxes (for example, as a result of serious illness).⁷⁹⁰

(v) A minor credit for child maintenance payments (if the individual is divorced).⁷⁹¹

(vi) A credit for certain ordinary domestic help services, subject to various conditions. The credit is subject to an own-risk share of 150 euros per person and an annual maximum of 1,600 euros for maintenance and construction work, cleaning, child care and other household work.⁷⁹²

(vii) A student loan tax credit. The credit is allowed to a university student who has started his or her studies before August 1, 2014 and who has completed his or her studies within the prescribed time (normally not more than one or two years, depending on the degree passed, more than the notional average time). The maximum credit is 30% of the total amount of student loan capital exceeding 2,500 euros raised on or after August 1, 2005.⁷⁹³

⁷⁸⁷ These are among the social security charges discussed in E., below.

⁷⁸⁸ Income Tax Act, Sec. 96.

⁷⁸⁹ Income Tax Act, Sec. 100.

⁷⁹⁰ Income Tax Act, Sec. 98. Medical expenses as such are not deductible.

⁷⁹¹ One-eighth of payments based on an agreement or a court ruling is creditable against the payer's national tax on earned income, up to a maximum of 80 euros per minor child per annum. Income Tax Act, Sec. 127.

⁷⁹² Income Tax Act, Secs. 127a–127c. The credit is equal to 13% of the remuneration plus the social security charges relating to the remuneration paid for work performed by a hired employee or, if the remuneration is paid to an entrepreneur (in which case the invoice includes VAT), the credit is equal to 35% of the remuneration. The first 150 euros are not creditable. The credit is personal; in other words, if both spouses, for example, have sufficient income (and tax), they can credit up to 1,600 euros per person (corresponding, in the case of an entrepreneur, to an expense of 5,000 euros) annually, which would normally, e.g., allow their flat to be cleaned twice per week. Also, services provided to the parents (or their household) of the taxpayer qualify for the credit for household services.

⁷⁹³ Income Tax Act, Secs. 127d and 127e (student loan credit). This credit is no longer available to new students after July 31, 2014. Instead, a student loan compensation payment by the Social Insurance Institution is available subject to certain conditions.

(viii) A student grant deduction. A student who has received a student grant from the Social Insurance Institution (*Kansaneläkelaitos/Folkpensionsanstalten*) is also eligible for a student grant deduction (up to 2,600 euros) if his or her annual earned income after certain deductions is less than 7,800 euros.

(ix) A general “earned income tax credit” against the national tax assessment. The credit amounts to 18% of net earned income (excluding pension income). The maximum amount of the credit depends on the age of the taxpayer, as follows:

- The general maximum amount of the credit is 3,430 euros; or
- If the taxpayer has turned 65 before the beginning of the tax year, the maximum amount of the credit is 4,630 euros.

The tax credit is reduced by 2% for annual net earned income of more than 35,000 euros.

(x) A basic deduction if the individual's total annual net income is less than 27,959 euros after certain deductions. The maximum deduction is 4,265 euros.⁷⁹⁴

(xi) A deduction for rental expenses relating to having a second home because of work, up to a maximum of 450 euros per month.⁷⁹⁵

(xii) A deduction for donations of between 850 euros and 500,000 euros made to universities receiving public funding in the EEA and for purposes of promoting science or art.⁷⁹⁶

(xiii) A deduction for reasonable salaries, wages and other remuneration paid to individuals (with the exception of the individual's spouse and children up to age 14) assisting the taxpayer in the acquisition of taxable income.

To support entrepreneurship, a tax deduction is allowed to individuals or estates conducting agricultural or business activities. The deduction for entrepreneurs is 5% and may be used to offset against agricultural or business income after deducting previous losses.⁷⁹⁷

Medical expenses, life insurance premiums and gifts, among other items, are not deductible for individuals.

With respect to foreign-source income, individuals may be entitled to relief from international double taxation in the form of a foreign tax credit under either domestic law or applicable tax treaties. The credit generally allows foreign taxes paid on income taxable in Finland to be credited against Finnish tax, subject to certain limitations and procedural requirements. In the absence of a tax treaty, relief is typically limited to foreign national-level taxes. For a more detailed discussion of the foreign tax credit mechanism, see V.B.7.a., above, and XV.A., below, and the relevant treaty provisions.

⁷⁹⁴ Income Tax Act, Sec. 106. If total annual net income exceeds 4,265 euros, the deduction is reduced by 18% of the excess over 4,265 euros and is fully phased out at 27,959 euros.

⁷⁹⁵ Income Tax Act, Sec. 95a.

⁷⁹⁶ Income Tax Act, Sec. 98a.

⁷⁹⁷ Income Tax Act, Sec. 30a.

E. Rates and Calculation of Taxable Income

Capital income is subject to national tax only, at the flat rate of 30%. The rate is 34% for amounts exceeding 30,000 euros per year.

Earned income computed for national tax purpose is subject to national tax at progressive rates of up to 37.50% and local taxes at flat rates. The local taxes payable on income (earned income) computed for local tax purposes are:

- (i) Municipal tax at flat rates ranging from 4.70% to 10.90 (in 2026, the rate in Helsinki is 5.30%, and the average rate in mainland Finland is 7.57%; municipal tax is applicable in mainland Finland, but not in the autonomous province of Åland, where the allocation of the tax burden between the state and municipalities is different), depending on the municipality in which the individual is resident at the beginning of the income year;
- (ii) Church tax at flat rates ranging from 1% to 2.25%, depending on the congregation of which the individual is a member (the rate for Evangelical Lutheran Church members in Helsinki is 1% in 2026; no church tax is imposed if the taxpayer is not a member of either the Evangelical Lutheran or the Greek Orthodox Church); and
- (iii) Employee social security charges at varying flat rates depending on the type of income concerned (in the case of salary income, the rate is 10.17%,⁷⁹⁸ and the charges are tax deductible).

The social security charges payable by an employee are:

- (i) the sickness insurance contribution of 1.10% and *per diem* contribution of 0.88% for income of 17,255 euros and over (the contribution is tax deductible in 2026); (ii) the employee pension insurance charge of 7.30%; and (iii) the unemployment insurance charge of 0.89%. The latter two are levied on employment income only and are deductible from income for (earned) income tax purposes. The progressive national income tax rates for 2026 are as follows:

Taxable Income (euros)	Tax Due on First Amount (euros)	Plus Tax on Excess (%)
0–22,000	0.00	12.64
22,000–32,600	2,780.80	19.00
32,600–40,100	4,794.80	30.25
40,100–52,100	7,063.55	33.25
Above 52,100	11,053.55	37.50

National tax on (net) earned income of, for example, 50,000 euros is 10,355.30 euros (representing a rate of approximately 20.71%). Total income tax including state and municipality taxes on earned income of 50,000 euros before standard

⁷⁹⁸ Employee's unemployment insurance contribution 0.89% + employee's pension insurance contribution 7.30% + employee's sickness insurance contribution 1.10% + *per diem* 0.88% on income of at least 17,255 euros = 10.17%.

allowances and social security contributions (see X.D., above) is approximately 13,365 to 17,090 euros (representing a rate of about 27% to 34%). The overall tax rate is approximately 20% on total annual salary income of 32,000 euros, approximately 40% on salary income of 100,000 euros and approximately 47% on salary income of 225,000 euros. The total marginal tax rate (the rate applied to the top portion of the income) normally reaches 50% on annual salary income of approximately 52,000 euros (depending on local, municipal and church taxes).

Pension income is subject to the ordinary rate of tax. However, if the amount of pension income exceeds 60,000 euros after certain deductions, the excess portion is subject to tax at the applicable tax rate increased by 5.85%.⁷⁹⁹

Individual resident taxpayers are liable to pay national broadcasting tax at the rate of 2.5% (subject to a maximum of 160 euros per annum) of the total of net earned income and net capital income exceeding 15,150 euros. Only the excess portion is subject to the national broadcasting tax. Resident taxpayers under the age of 18 are not liable to pay the national broadcasting tax.

Taxable income is computed separately with respect to both types of income, earned income and capital income (and with respect to each category of income).

The taxable income of individuals is computed using the cash method: income is taxable in the year of receipt or the year in which it became subject to the individual's control.⁸⁰⁰ Capital gains, however, are taxable in the year in which the underlying transaction is carried out, regardless of whether the proceeds are paid in that year. However, to the extent a conditional additional sales price (earn-out) has been agreed to in the sales agreement, capital gain with respect to the additional sales price will be taxed in the year when the obligation to pay the additional sales price will be realized.⁸⁰¹ Similarly, expenses are deductible in the year in which they are incurred. However, prepaid interest is deductible only to the extent it relates to the year in which it is paid and the immediately following year, and certain larger expenditures must be capitalized and written off by way of annual depreciation in accordance with the provisions of the Business Income Tax Act.⁸⁰² Losses relating to earned income are deductible (for national tax purposes, from earned income,⁸⁰³ and for local tax purposes, from any income) as soon as income arises during the 10 years following the year in which the loss is incurred. Losses relating to capital income (other than capital losses, see below) are deductible from capital income arising during the following 10 years.⁸⁰⁴ However, to the extent losses incurred in relation to the capital income category cannot be deducted immediately within that category, and

⁷⁹⁹ Income Tax Act, Sec. 124.4.

⁸⁰⁰ Income Tax Act, Sec. 110. However, a sportsperson with annual sports income of at least €9,600 may defer the taxation of the income by transferring up to 50% of his/her annual total sports income (subject to a maximum of €100,000 per year) to a (fictitious) sports fund. Such income is (or reserved funds are) added back to the sportsperson's taxable income during at least two and up to 15 years after the end of his or her sports career. Income Tax Act, Sec. 116c.

⁸⁰¹ Income Tax Act, Secs. 110 and 110a.

⁸⁰² For a discussion of depreciation, see V.B.4.f., above.

⁸⁰³ Income Tax Act, Sec. 118. I.e., only from income in the same category. The distinction between the earned income and capital income categories is discussed in C., above.

⁸⁰⁴ Income Tax Act, Secs. 117 and 118.

subject to certain limitations, they may be deducted indirectly, so that 30% of the non-deductible portion is credited against tax payable on earned income.⁸⁰⁵

Losses arising from business activities are, in principle, deductible from business income arising in subsequent years,⁸⁰⁶ but, at the taxpayer's request, can be deducted from capital income of the year in which they are incurred.⁸⁰⁷ The carryback of losses is not allowed.

Capital gains are calculated by deducting acquisition cost from sales proceeds.⁸⁰⁸ The acquisition cost of an inherited or gifted asset is generally the inheritance and gift tax value of the inherited asset or the asset received as a gift. The acquisition cost of an inherited or gifted farm or business may be reduced in certain circumstances.⁸⁰⁹

Instead of deducting the real acquisition cost, the legislation allows a taxpayer to deduct a presumed acquisition cost of 40% of the sales proceeds if the asset was acquired at least 10 years before the sale, or 20% if the asset was acquired less than 10 years before the sale, regardless of the actual acquisition cost.⁸¹⁰ The presumed acquisition cost treatment is also available in connection with sales of crypto assets or a capital redemption policy.⁸¹¹

Capital losses (i.e., losses arising on the sale of assets) are not taken into account in determining a capital income deficit. Capital losses are deductible from any kind of capital income but may be carried forward only for the following five years.⁸¹²

Capital losses arising from the disposal of the taxpayer's own dwelling or household effects are not a deductible item, nor are capital losses from the alienation of assets other than household effects, if the aggregate purchase price and aggregate sales price of such assets alienated during the tax year does not exceed 1,000 euros.⁸¹³

A special, favorable tax treatment that spreads income over the years in question for purposes of national taxation may be applied at the taxpayer's request to earned income received as a lump-sum⁸¹⁴ that relates to more than one tax year (in the past or in the future), that amounts to at least 2,500 euros and that constitutes at least one-fourth of the taxpayer's annual net earned income for the current tax year.⁸¹⁵

⁸⁰⁵ Income Tax Act, Secs. 60 and 131 to 134. See also D., above.

⁸⁰⁶ Income Tax Act, Sec. 119.

⁸⁰⁷ Income Tax Act, Sec. 59.

⁸⁰⁸ Income Tax Act, Sec. 46. Under Income Tax Act, Sec. 47.1, the cost of any fundamental improvement of the alienated property during the alienator's ownership is included in the acquisition cost. If the property was acquired for no consideration, the amount to be deducted is generally the taxable value that was used for inheritance or gift tax purposes.

⁸⁰⁹ Income Tax Act, Sec. 47.

⁸¹⁰ Income Tax Act, Sec. 46.

⁸¹¹ Supreme Administrative Court rulings No. 2019:42 and No. 2019:79.

⁸¹² Income Tax Act, Sec. 50.

⁸¹³ Income Tax Act, Sec. 50.

⁸¹⁴ For instance, wages or salaries for previous years, a lump-sum payment on the termination of employment, income from the sale of the taxpayer's business, income from the sale of an artistic work by the artist, or income from a copyright or patent that is not capital income. Income Tax Act, Sec. 128.

⁸¹⁵ Income Tax Act, Secs. 128 and 129. The request must be made before the time for assessment has expired. The income is spread over a maximum of five years. Because the law provides a minimum (national) tax rate for purposes of income spreading (15%), spreading does not always result in less burdensome taxation.

If, in addition to earned income from Finland, a resident individual derives earned income from a foreign country that, under a tax treaty, is taxable only in that foreign country, and if the aggregate of the Finnish tax on the Finnish earned income (taking into account the effect of the exemption with progression method — see XV.B., below) and the foreign tax on the foreign earned income exceeds the amount of Finnish tax that would have been payable if the whole earned income had been derived from Finland, tax representing the excess over that theoretical Finnish tax is not levied in Finland.⁸¹⁶

Under the Foreign Expert Tax Act, a foreign specialist, executive, professor or researcher becoming a Finnish tax resident may elect, at the beginning of their employment or assignment in Finland, a final flat tax rate of 25% if he or she is a specialist (sportspersons excluded) earning at least 5,800 euros in salary per month during the whole employment/assignment. In the case of a foreign teacher in an academic institution or a foreign researcher⁸¹⁷ (doing research in the public good), the 5,800 euros salary threshold does not apply.⁸¹⁸

No deductions or personal allowances are allowed when the Foreign Expert Tax Act is applied. The employment must be uninterrupted, and the special treatment is available for the first seven years of employment. The person may not have been resident in Finland during the last five calendar years preceding the year in which the employment commences.⁸¹⁹ After seven years of employment, the person, if he or she stays in Finland, is taxed as a resident taxpayer. In the case of a Finnish citizen, the maximum period during which the individual can be considered a foreign key employee is, however, 60 months. The special 25% tax rate treatment must be applied for, and the time limit for filing an application is 90 days from the commencement of the employment in Finland.

F. Assessment and Filing

Tax is assessed and returns are filed on a calendar year basis. Individual taxpayers are within a system that does not require (or even allow) a tax return to be filed by taxpayers on their own initiative. Instead, in March or April of the assessment year (the year following the income year), the Tax Administration sends individual taxpayers what is known as a "pre-completed tax return form" based on information collected automatically by the Tax Administration from employers, pension funds, insurance companies, securities custodians, banks, etc. Taxpayers must simply review the pre-completed tax return form. If the individual taxpayer agrees with the pre-

⁸¹⁶ Income Tax Act, Sec. 136.

⁸¹⁷ Under certain older tax treaties, employment income of teachers and researchers coming to work in Finland from the other Contracting State may be exempt from tax in Finland (see XI.C.).

⁸¹⁸ Most foreign specialists qualifying for the special treatment are likely to elect the Expert Tax Regime method because on a full year's salary of 5,800 euros per month, the ordinary overall tax rate applicable to a resident individual would be close to 36%, and the marginal tax rate as high as almost 52%. Although the special flat tax rate applies instead of regular state tax, municipal tax and social security charge payable by the employee, it should be noted that, in the absence of an A1/E101 certificate, the salary may nevertheless be subject to other social security contributions.

⁸¹⁹ A non-resident who stays in Finland for six months or less (and does not have his or her permanent home in Finland) remains a nonresident and is in any case subject to the general 35% nonresident tax rate. For the taxation of non-resident individuals, see XI., below.

completed tax return form, the taxpayer may ignore the tax return because, if no changes are required, then the taxpayer is not expected to file the return. If the taxpayer does not agree with the pre-completed tax return, the taxpayer may file justified corrections via the Tax Administration's online portal My-Tax or via mail. The corrections are to be made to a separate correction sheet instead of on the provided pre-completed tax return form. The correction sheets (and any additional necessary documents) must be filed by the date specified in the pre-completed tax return form. Each taxpayer has his or her own due date for the filing of the correction sheets (and any additional necessary documents). Generally, the due date is sometime during April. For taxpayers engaged in independent professions, business, agriculture or forestry, the deadlines and the entire timetable are somewhat earlier (the due date usually being at the beginning of April).

No receipts, invoices or other documents should be filed with the returned correction sheets unless specifically requested. Instead, taxpayers are required to store such documentation (regardless of whether they file any correction sheets) and keep it for six years after the income year. At any time during that six-year period, the Tax Administration may request copies of the documents to be submitted for their perusal. A taxpayer who, for example, has carried on trading in listed shares must also keep written records of his/her trading and retain such information for six years. Such documentation may be in electronic form, provided it can be easily printed out. A taxpayer is not required to keep documentation on facts that are correctly stated by the Tax Administration on the pre-completed form. Similarly, there is no need to keep trivial documents such as daily travel tickets.⁸²⁰

Spouses are assessed separately on their respective income.⁸²¹ In broad terms, it is irrelevant for income tax purposes⁸²² whether a taxpayer is married. However, some deductions (such as voluntary pension insurance premiums in certain situations) can be transferred only to the taxpayer's spouse, and in some respects, taxation can be more lenient in the case of spouses (for example, an entrepreneur's earned income may be apportioned between spouses in accordance with specific rules). Individuals who marry during a tax year are treated as spouses for the entire tax year.⁸²³ On the other hand, spouses are no longer treated as spouses in the year during which they divorce or move apart in order to live permanently separated. Where either spouse is or both spouses are not resident for tax purposes, the couple is not treated as married.⁸²⁴ For income tax purposes, two persons living together without being married are treated as spouses if, and only if, they have previously been married to each other or if they have or have had a child together.⁸²⁵

The general anti-avoidance provision, discussed in V.B.3.b., above, also applies for individual tax purposes.⁸²⁶

Salaries, wages, pensions and similar regular income payments are generally subject to tax withholding.⁸²⁷ Tax is withheld based on a "tax card", which is a document issued by the Tax Administration at the beginning of each year containing a withholding tax rate for (estimated) remuneration for the whole tax year and a "marginal" tax rate for excess income. Also, remuneration other than that deriving from an employment relationship, such as payments for the use of a copyright or patent, is, in principle, subject to withholding tax; there is an important exception for independent entrepreneurs (see below). Payments to a recipient who does not present his/her tax card to the payer are subject to withholding at the rate of 60%.⁸²⁸ The employer is generally liable to report and remit the withheld amount to the Tax Administration (see V.B.9., above).

Interest payments on bonds and bank deposits are generally subject to a final withholding tax at source at the rate of 30%. Dividend payments relating to publicly traded shares are generally subject to a 25.5% withholding tax while dividend payments relating to unlisted shares are subject to a 7.5% withholding tax (28% if the dividend exceeds 150,000 euros).

Remuneration paid to an entrepreneur who is independent from the payer of the remuneration may also be subject to tax withholding. If the entrepreneur invoices his or her services via a company, the payer of the remuneration is liable to withhold tax at the rate of 13% if the company invoicing the services is not registered in the Tax Administration's Prepayment register.⁸²⁹

Such remuneration, as well as income other than salaries, wages, pensions and similar payments, is generally subject to preassessment. For example, rental income may be subject to preassessment at a taxpayer's request. Preassessment is an estimate made by the Tax Administration based on an individual taxpayer's income specified in the latest regular assessment at the tax rates applicable in the current year. If a taxpayer proves that there are reasons for increasing or decreasing the estimate so made, the preassessment may be adjusted accordingly. A taxpayer who is not satisfied with a preassessment (for instance, because his/her situation has changed) may apply for a new preassessment.

The amount pre-assessed is collected during the income year in no less than two installments, depending on the amount due. The amounts withheld, for instance by the employer, are remitted to the Tax Administration by the twelfth day of the

⁸²⁶ Tax Assessment Act, Sec. 28. Under this provision, if a measure or a transaction has been given a legal form that does not correspond to its actual character or purpose, the Tax Administration may ignore it for tax purposes and make the assessment as if the correct form had been applied. Furthermore, if it is obvious that a sale price or other consideration or any other terms have been agreed to in order to avoid tax, the Tax Administration may estimate the taxable income to the relevant extent.

⁸²⁷ Prepayment Act, Sec. 9.

⁸²⁸ Prepayment Regulation, Sec. 3.

⁸²⁹ Prepayment Act, Sec. 13. Remuneration that is subject to withholding generally takes the form of regular payments; remuneration that is not subject to withholding tax generally takes the form of occasional payments. However, remuneration for services rendered may be subject to withholding even if the payment is occasional (e.g., a bonus paid to an employee at the end of the year, extra remuneration for a lecture, or a director's fee). In determining whether tax (including social security charges) must be withheld, the decisive factors are whether the payment is for services rendered and whether the payee is independent from (i.e., not under the control of) the payer. However, there are numerous exceptions and the rules are complex.

⁸²⁰ Tax Assessment Act, Secs. 10 to 11a.

⁸²¹ Income Tax Act, Sec. 14.

⁸²² For purposes of inheritance and gift taxation, a spouse is in a privileged category. See XII., below.

⁸²³ Income Tax Act, Sec. 7.1.

⁸²⁴ Income Tax Act, Sec. 7.2. For the determination of residence of an individual, see B., above.

⁸²⁵ Income Tax Act, Sec. 7.3.

month following that in which the tax is withheld. Amounts withheld or pre-assessed are credited against a taxpayer's final tax liability.

Final assessments are due by the end of October (at the latest) in the year following the tax year. Overpaid taxes are refunded to the taxpayer between July and December of the year following the tax year. Additional taxes are generally due for payment between July of that year and February of the immediately following year. The additional taxes are paid in two installments if the amount of taxes due amounts to 170 euros or more. The applicable dates may differ among individuals, but are within the mentioned timeframes.

G. Audits and Limitations Period for Assessment

Although the legislation governing tax audits discussed in relation to corporate taxpayers at V.B.10., above, applies also to individual taxpayers, tax audits directed solely at individual taxpayers are very rare. Tax audits of individual taxpayers may be conducted in connection with tax audits of companies of which they are major shareholders or employees or if the in-

dividual taxpayers themselves carry on significant business activity.

The rules relating to the process whereby a previously settled tax assessment may be amended by the Tax Administration or a taxpayer and the statute of limitation for such amendments is the same for individual taxpayers as for companies (see V.B.11., above).

A supplementary tax decision can be issued by the Tax Administration if a taxpayer provides additional information on his or her claim for correction. This additional information must be presented for the first time on the claim for correction after the date of the issuance of the income tax assessment the relevant tax year. A supplementary tax decision is regarded as part of regular taxation and is thus, not considered as part of appeal proceedings. If a supplementary tax decision is issued, the claim for correction will be dismissed.⁸³⁰

⁸³⁰ Tax Assessment Act, Sec. 51a.

XI. Taxation of Nonresident Individuals

A. In General

In general, citizenship is not a criterion relevant to determining an individual's tax liability in Finland, as it is in certain other countries.⁸³¹ Any individual who is not a resident in accordance with the principles discussed in X.B., above, is a nonresident, regardless of whether he or she is a citizen of Finland. It should be noted that an individual may be treated as resident for part of a tax year and as nonresident for the rest of that year, for instance, if the individual moves to Finland or from Finland⁸³² during the tax year.

Citizenship, therefore, generally has no bearing on tax treatment in Finland. However, under the Foreign Expert Tax Act, foreign executives and specialists are eligible for tax treatment similar to that for nonresidents for the first seven years of their employment in Finland, notwithstanding their status as tax residents of Finland (for details, see X.B. and E., above).

Hence, the rules discussed in XI.B. to F., below, apply in principle regardless of whether the nonresident concerned is a Finnish or a foreign citizen. The rules are subject to modification under the terms of an applicable tax treaty: whenever a tax treaty applies, the provisions of the treaty override the provisions of Finnish domestic law.⁸³³ However, even if a treaty attributes the right to tax to Finland, the income in question must be taxable in Finland, i.e., Finnish-source income, to be actually subject to tax in Finland.

A nonresident who lives in a European Economic Area (EEA) Member State or a country that concluded a tax treaty with Finland that covers exchange of information and mutual assistance, or who holds a residence permit outside the EEA but is covered under the EU Research Directive⁸³⁴ regarding scientific research, may elect to be taxed as a resident.⁸³⁵ Under this regime, income derived by the nonresident from Finland is taxed under a procedure similar to the regular assessment procedure, i.e., the progressive national tax rates and a flat municipal tax rate corresponding to the average municipal tax rate in Finland are applied, and subject to the regular deductions and allowances that would be granted to a resident. Earned income received from other countries is generally taken into account when determining the national tax rates (as the rates are progressive). The election for this regime must be made within three years from the end of the relevant tax year.

⁸³¹ However, there are a few exceptions to this rule. For instance, the "three-year rule" determining the fiscal residence of an individual applies only to Finnish citizens (see X.B., above); and foreign diplomats working in Finland are subject to special treatment for purposes of Finnish inheritance and gift taxation (see XII., below). In addition, Finland's tax treaties sometimes provide different tax treatment for citizens and noncitizens.

⁸³² However, the three-year rule applies to citizens of Finland moving abroad, as discussed in X.B., above, and this rule treats each calendar year as one coherent whole.

⁸³³ For a discussion of Finland's tax treaties, see XV., below.

⁸³⁴ EU Directive 2016/801 of the European Parliament and of the Council of May 11, 2016 on the conditions of entry and residence of third-country nationals for the purposes of research, studies, training, voluntary service, pupil exchange schemes or educational projects and au pairing (the "EU Research Directive").

⁸³⁵ Nonresident's Income Tax Act, Secs. 13–14.

B. Business Income

The computation of the business income of a nonresident individual is similar to the computation of the business income of a nonresident corporation. (See VI.B., above, where the Finnish "source rules" (containing examples of types of income deemed to be derived from Finland) are discussed.) However, while the tax rate applicable to nonresident corporations is always 20%, the rate provided by the Nonresident's Income Tax Act for individuals is 35% for earned income (see, however, the discussion at the end of this section) and 30% (34% to the extent the income exceeds 30,000 euros on an annual basis) for capital income.⁸³⁶ The extent to which a nonresident individual's business income from Finland constitutes capital income or earned income is determined in accordance with the general rules applicable with regard to individual taxation (see X.C., above). The general rule is that business income is regarded as capital income to the extent of 20% or, subject to the taxpayer's own election, 0% or 10% of the net value of the investment in question in the case of income derived from a business (8% of the market value in the case of dividends from companies other than listed companies), and the excess is regarded as earned income.⁸³⁷ It should be noted, however, that employment income (salaries and wages) is always entirely earned income, and, unless exempted under domestic law or the provisions of a tax treaty, is subject to the 35% tax rate, unless the employee elects to be subject to the progressive taxation regime explained in C., below.

Business income of a nonresident individual is deemed to be derived from Finland if it is derived from a business or profession carried on in Finland.⁸³⁸ In practice, a nonresident is deemed to carry on business in Finland through a permanent establishment (PE). A PE is constituted if there is a fixed place of business, such as an office or a workshop, for that purpose in Finland, and if that fixed place is used for commercial purposes. The mere use of an independent agent in Finland does not constitute such PE.⁸³⁹

C. Salaries, Wages, and Pensions

Salaries and wages derived from the Finnish government or another Finnish public body are not regarded as business income under Finnish tax law, nor are salaries and wages derived from employment carried on solely or primarily in Finland for a Finnish resident employer. If derived by a nonresident individual, such income is deemed to be income subject to Finnish

⁸³⁶ There is a special rate (15%) for artists and sportspersons. Nonresident's Income Tax Act, Sec. 7.

⁸³⁷ Nonresident's Income Tax Act, Sec. 13. See reference to Income Tax Act, Secs. 40 and 41, under VIII. and X.C.2., with respect to the taxation of dividends from Finnish sources.

⁸³⁸ Income Tax Act, Sec. 10.

⁸³⁹ For further information, see Tax Administration Guidance (No. VH/82/00.01.00/2024) on the income taxation of foreign self-employed individuals (<https://www.vero.fi/en/detailed-guidance/guidance/48373/income-taxation-of-foreign-self-employed-individuals3/>).

withholding tax at the rate of 35%,⁸⁴⁰ generally without any deductions being allowed,⁸⁴¹ except as discussed below.⁸⁴²

Although taxable salaries and wages are deemed to include any compensation relating to the employment concerned, the reimbursement of traveling and accommodation expenses paid to a nonresident (and not directly to the transport contractor or hotel) are excluded, as are per diems. It should be noted that the concept of salary/wage/remuneration is exceptionally broad under the Nonresident's Income Tax Act. In principle, it includes any compensation, whether in money or in kind, relating to employment. Although, in principle, expenses should be reimbursed to the nonresident him or herself, it may be acceptable for hotel costs to be paid directly by the employer to the hotel; however, it should be borne in mind that such an arrangement may be deemed to constitute a taxable fringe benefit if the employment contract implies that the accommodation is provided by the employer.

In general, no deductions for expenses incurred in obtaining or safeguarding income are allowed if the income concerned is earned income subject to a final 35% withholding tax. However, a nonresident taxpayer is entitled to a monthly deduction of €510 (or a daily deduction of 17 euros) from taxable income before being subjected to the 35% withholding tax.

The withholding taxation also applies to income derived by a nonresident individual from employment carried on in Finland for a nonresident employer if the nonresident employer has hired out the nonresident employee to a resident commissioner of the work. In other words, salaries and wages received in such circumstances are deemed to be Finnish-source income.

Whether directors' fees paid to a nonresident director of a Finnish company are subject to tax in Finland does not depend on whether the meetings of the board of directors are held in Finland: remuneration based on membership of the board of directors or a similar organ of a Finnish company or partnership is always deemed to be income derived from Finland.⁸⁴³ Consequently, director's fees paid to a nonresident director of a Finnish company are taxable in Finland (subject to the provisions of an applicable tax treaty) even if the board meetings are held abroad. The applicable tax rate is 35% and there is no right to any deductions.

Under some of Finland's older tax treaties, teachers and students coming to work in Finland from the treaty partner country may escape Finnish taxation completely for a fixed time, provided certain conditions are fulfilled.

Nonresident artists (entertainers) and athletes (sportspersons) are subject to special tax treatment. Income from the performances of such individuals in Finland is always deemed to be income from Finland regardless of whether it is paid directly to the artist or athlete concerned or to a resident or nonresident

agent.⁸⁴⁴ However, such income of an artist or athlete is subject to a reduced 15% tax rate.⁸⁴⁵

Progressive taxation (as opposed to final flat rate taxation at source) applies to pension income derived by a nonresident from Finland, and, subject to the taxpayer's own election and provided certain conditions are fulfilled, to earned income derived by a person who is resident in another EEA Member State, a person who is resident in a country with which Finland has concluded a treaty with respect to executive assistance and information exchange or a person who is a holder of a researcher residence permit in accordance with the EU Research Directive.

Generally, pensions accrued from work performed in Finland (assuming that the employee concerned was covered by Finnish social security during the accrual period), pensions received from the state of Finland, or a Finnish municipal or other public body, and pensions derived from traffic insurance or pension insurance from a Finnish insurance company, are all Finnish-source income.⁸⁴⁶ The Supreme Administrative Court has ruled that statutory pension income received by a nonresident from a Finnish pension company that has accrued mainly based on work performed abroad, is not taxable income in Finland.⁸⁴⁷

If a nonresident taxpayer elects progressive taxation, the earned income derived by the nonresident from Finland is taxed under a procedure similar to the regular assessment procedure, with the progressive national tax rates being applied and a flat municipal tax rate corresponding to an average municipal tax rate in Finland, and with the regular deductions and allowances that would be granted to a resident being allowed, regardless of the foreign country in which the nonresident recipient of the income is resident. (It should be noted that the provisions of a tax treaty are applied regardless of this regime and such provisions may exempt earned income of a nonresident from Finnish taxation.) The pension income of a nonresident is taxed in a manner similar to that described above and the average municipal tax rate is used unless the municipality of residence can be determined (for example, if the taxpayer has moved abroad during the tax year).

A nonresident taxpayer who is resident in another EEA Member State, who elects to be taxed at progressive rates and whose salary income derived from Finland represents at least 75% of his or her total worldwide income may request that income received abroad not be taken into account in determining the applicable progressive tax rate. For such a request to be accepted, the taxpayer is required to provide the Tax Administration with a certificate issued by the tax authority of his or her country of residence confirming the taxable income of the taxpayer in that country. Such a request may also be made by certain qualified scientists who are resident outside the EEA.⁸⁴⁸

D. Investment Income

In the absence of an applicable tax treaty, a nonresident individual is subject to Finnish national tax on dividends, in-

⁸⁴⁰ However, pensions based on such employment are taxed at ordinary progressive tax rates.

⁸⁴¹ Income Tax Act, Sec. 10, and Nonresident's Income Tax Act, Secs. 2 and 7.

⁸⁴² For further information, see also Tax Administration guidance (No. VH/7163/00.01.00/2024) on the income taxation for nonresident workers in Finland (<https://www.vero.fi/en/detailed-guidance/guidance/49113/taxation-of-employees-from-other-countries9/>).

⁸⁴³ Income Tax Act, Sec. 10.

⁸⁴⁴ Income Tax Act, Sec. 10 and Nonresident's Income Tax Act, Sec. 3.

⁸⁴⁵ Nonresident's Income Tax Act, Sec. 7.

⁸⁴⁶ Income Tax Act, Sec. 10.

⁸⁴⁷ Supreme Administrative Court ruling No. 2014:146.

⁸⁴⁸ Nonresident's Income Tax Act, Secs. 13–14.

terest (however, see the domestic exemption relating to interest withholding tax, below), royalties, rental income, capital gains and other capital income in general at the rate of 30%. No local tax is levied although the applicable progressive tax rate is calculated using the municipal tax rate in addition to the national tax rate. Finland's tax treaties generally provide for substantially lower rates with respect to dividends, interest and royalties. Subject to a few exceptions, the total income is subject to tax, and no deductions are allowed with respect to the types of income listed above.⁸⁴⁹ Furthermore, no tax return generally need be filed in Finland in these cases, except (as explained in F., below) when, for example, rental income, capital gains or timber income is involved. A tax return is normally also required in the case of business income.

Dividends received by a nonresident individual taxpayer from a Finnish company listed on the stock exchange are entirely capital income, as are dividends from unlisted companies. Consequently, dividends from Finnish companies paid to nonresidents are subject to the 30% rate, or a lower treaty rate, applicable to dividends. The rules described above under V.C.1.a. may, however, cause a higher withholding tax to be collected at source in connection with the dividend payment of a publicly-listed Finnish company and the distributing company or the dividend recipient may have to apply for refund to be entitled to the correct Finnish tax treatment.

Dividends paid to a nonresident individual residing in the EEA may be taxed in a way similar to that in which they would be taxed in the hands of a resident individual if the recipient of the dividends requests that the dividends be so taxed and withholding taxes cannot be fully credited in the country of residence of the recipient based on an applicable tax treaty between Finland and the recipient's country of residence.⁸⁵⁰

Example: An individual living outside Finland, but within the EEA, owns shares in a Finnish company. The mathematical value of the shares is 1.5 million euros and the shares give rise to a dividend of 65,000 euros. The rate of withholding tax is 30%. Because the dividend is both less than 8% of the mathematical value of the shares and less than 150,000 euros, 75% of the dividend would be tax exempt in the hands of a Finnish tax resident and with the remainder being taxed as capital income at the tax rate of 30% (given no other taxable capital income). Provided that an application for a refund of withholding tax is filed with the Tax Administration and there is sufficient documentation showing that withholding taxes cannot be fully credited in the recipient's country of residence, the dividend may be taxed as if the recipient were a Finnish tax resident and, thus, the excess withholding tax would be refunded.

The repatriation of funds from the invested unrestricted equity reserve of a Finnish entity to foreign shareholders is considered to constitute taxable income in the hands of the nonresidents for Finnish tax purposes, if the distribution is taxed as a dividend. In that case, the distribution is generally subject to

Finnish withholding tax. An applicable tax treaty, if any, may eliminate the need to withhold tax in Finland. If the distribution is taxed as a capital gain, the income received is not considered Finnish-source income subject to tax unless 50% or more of the distributing company's assets consist of real property situated in Finland. If the repatriated income is considered to be business income of a PE of a nonresident shareholder in Finland, the distribution is taxed like any other distribution received by a Finnish resident shareholder.⁸⁵¹

Interest income derived by a nonresident from Finland is exempt from Finnish tax if the interest is derived from bonds, debentures or similar debts, bank accounts, international trade accounts, or foreign loans that are not investments equivalent to the borrower's own capital. Thus, withholding tax on interest income received by a nonresident is imposed in only very rare situations.⁸⁵² It should be noted, however, that this exemption does not apply to interest attributable to a Finnish PE of a nonresident enterprise. In fact, the law expressly provides that a PE is subject to tax in Finland on any income attributable to it, regardless of whether the income is derived from Finland or from another country.⁸⁵³

As regards investment income derived from Finnish situated real property, under Section 10 of the Income Tax Act and the terms of most of Finland's tax treaties, rental income derived by a nonresident from Finland is subject to tax in Finland if it is derived from real property or shares in a housing company or a mutual real estate company⁸⁵⁴ in Finland. Rental income is taxed as capital income and certain expenses may be deducted from the gross amount.

E. Capital Gains

Capital gains of a nonresident derived from the sale or other disposal of Finnish immovable property or shares or similar rights in a company, a limited partnership or a trust if, at any time during the 365-day period preceding the disposal, the shares or other similar rights derived more than 50% of their value directly or indirectly from real property located in Finland are generally subject to taxation.⁸⁵⁵ The tax rate is 30% where the total annual capital income is 30,000 euros or less and 34% to the extent such income exceeds 30,000 euros. For purposes of computing the amount of taxable gain, a presumed acquisition cost of 20% (if the asset concerned was acquired less than 10 years before disposal) or 40% (if the asset was acquired 10 years or more before disposal) of the sales proceeds may be applied instead of the actual acquisition cost, if the actual cost is lower.

⁸⁵¹ Income Tax Act, Secs. 33a and 33b; Business Income Tax Act, Sec. 6a; EVL, Sec. 6c; and Nonresident's Income Tax Act, Sec. 10.

⁸⁵² Income Tax Act, Sec. 9.

⁸⁵³ Income Tax Act, Sec. 9. For the taxation of PEs, see VII., above.

⁸⁵⁴ For the definition of a housing company and mutual real estate company, see III.B.2.1., above.

⁸⁵⁵ Income Tax Act, Sec. 10. See also VI.C., above, and Supreme Administrative Court ruling No. 2026:1, where a capital gain from the disposal of non-listed fund units was not regarded as Finnish-source income if the fund had a publicly listed unit class.

⁸⁴⁹ Nonresident's Income Tax Act, Sec. 2. For the exceptions, see XI.E., below.

⁸⁵⁰ Nonresident's Income Tax Act, Sec. 13.

F. Method of Taxation

A nonresident individual is subject to Finnish income tax either by way of final withholding tax in the case of a dividend, interest, royalty,⁸⁵⁶ or salary income, or by way of assessment in the case of any other type of income.⁸⁵⁷ The applicable withholding tax rate is 30% (or a lower treaty rate) for capital income where the withholding tax is a final tax at source and 35% for earned income in general. Where tax is levied under the assessment procedure, the rate for capital income is 30% (34% to the extent it exceeds 30,000 euros) and the rates in accordance with ordinary progressive tax brackets for ordinary earned income. Generally, no deductions or reliefs are allowed for pur-

poses of the taxation of nonresidents except where the income they derive is taxed by way of assessment.⁸⁵⁸

In the case of dividend, interest, royalty or salary income, the payer of the income must withhold the tax at source, and complete and file an appropriate notification of the payment with the Tax Administration. In the case of any other type of income, including pension income, the recipient must ensure that he or she receives a pre-completed tax return form, and, if needed, makes any necessary corrections and files the required corrective sheet(s) on an annual basis. Nonresident individuals are entitled to receive interest on overpaid taxes that are refunded, whether the taxes were withheld at source or paid based on an assessment, on the same terms as resident taxpayers.⁸⁵⁹

⁸⁵⁶ However, under Nonresident's Income Tax Act, Sec. 13, film royalties are subject to assessment instead of final tax at source; consequently, expenses incurred in obtaining or safeguarding such royalty income are deductible.

⁸⁵⁷ Nonresident's Income Tax Act, Secs. 3 and 13. However, if the Foreign Expert Tax Act discussed at the end of X.E. is applied, even salary income is subject to the assessment procedure.

⁸⁵⁸ See also the discussion under X.C., above, on Income Tax Act, Sec. 10, etc.

⁸⁵⁹ Nonresident's Income Tax Act, Sec. 11.

XII. Estate/Inheritance and Gift Taxes

A. In General

Finland levies no tax on a decedent's estate as such. Instead, an inheritance tax is imposed individually on each heir with respect to his or her share in the estate, i.e., the market value of the inheritance. The same principle applies with respect to gift taxation. There are no local inheritance or gift taxes. There are two progressive tax brackets for purposes of both inheritance taxation and gift taxation, their application depending on the degree of kinship between the transferor and the transferee.

The principal criterion by virtue of which certain assets may become subject to Finnish inheritance or gift tax is the transferor's or the transferee's residence in Finland at the time of death or the time of granting the gift (for details, see below). Under the Inheritance and Gift Tax Act, an individual is considered to be resident in Finland if his or her permanent place of abode is in Finland.⁸⁶⁰

Inheritances or gifts from a decedent or donor who is not a resident of Finland left or made to an heir or donee who is also not a resident of Finland will normally only be subject to Finnish inheritance or gift tax to the extent they consist of real property located in Finland or shares in a company whose assets consist principally of Finnish real property (see B.2. and C.2., below). Regardless of whether the transferor is a resident of Finland and where the transferee's permanent home is located, a transferee is subject to Finnish inheritance or gift tax only on real property located in Finland and shares in a company whose assets consist principally of Finnish real property if the transferee is employed by a foreign state in an embassy or a consular or other similar mission in Finland, or by the United Nations (U.N.) or a related organization in Finland, or if he/she is a member of the family, or a private servant, of such an individual and is not a citizen of Finland.⁸⁶¹

Inheritance tax is normally assessed based on an estate inventory, which contains a list of the heirs and, as an appendix, an eventual will. The estate inventory must be prepared within three months of the date of death and submitted to the Tax Administration within one month of the date of its preparation.⁸⁶² In certain exceptional cases, an inheritance tax return (and not an estate inventory) must be filed, for example, when the deceased was not a resident of Finland. If the taxpayer (heir) is a nonresident, the person in possession of the estate is responsible for filing a tax return.⁸⁶³ Gift tax is assessed based on a gift tax return filed by the donee.⁸⁶⁴ If the value of the gift is below the statutory limits (see C.2.b. and C.3., below), a tax return need be filed only if the authorities so request.

In principle, inheritance tax and gift tax become due when the relevant property is transferred. In the case of inheritance, generally the tax liability accrues at the time of the death. The

taxable value is the fair market value at the moment of transfer (on death or by gift). In certain cases, when the same property has been transferred recently, previously paid taxes may be creditable or deductible.⁸⁶⁵

The legislation provides that an artificial or simulated transaction or arrangement may be ignored for inheritance or gift tax purposes if it is obvious that avoidance of inheritance or gift tax is the purpose of the transaction or arrangement.⁸⁶⁶ Relief from inheritance or gift tax may be available under the terms of Finland's estate and gift tax treaties. Finland has concluded inheritance (or estate/death) tax treaties with France,⁸⁶⁷ The Netherlands,⁸⁶⁸ Switzerland,⁸⁶⁹ the United States,⁸⁷⁰ and the Nordic countries⁸⁷¹ (i.e., Denmark and Iceland, excluding Norway and Sweden), and a gift tax treaty with Greece on donations of real property for the public good.⁸⁷² The last treaty aims at avoiding the double taxation of gifts as well as inheritances.

On written request, and subject to a statutory service fee, the Tax Administration may issue an advance ruling on a matter concerning inheritance and gift tax.⁸⁷³

B. Inheritance Tax

1. Liable Persons

A person receiving assets by way of inheritance or bequest is liable for inheritance tax generally if the deceased or the heir resided in Finland at the time of death or if the inherited assets are considered to be real property located in Finland (see below). The person needs not be an individual. However, the Finnish State, a government institution, a municipality, a congregation or other religious community, a non-profit institution/association having as its purpose the public good, and cer-

⁸⁶⁵ For instance, tax paid on capital gains may be deductible from gift tax under Inheritance and Gift Tax Act, Sec. 21a, referring to Income Tax Act, Sec. 47.1. For credits and deductions of prior taxes, see also XII.B.2.a. and XII.B.2.b.

⁸⁶⁶ Inheritance and Gift Tax Act, Sec. 33a.

⁸⁶⁷ Convention between France and Finland for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Death Duties, 26/1959 (the "Finland-France inheritance tax treaty").

⁸⁶⁸ Agreement between the Republic of Finland and the Kingdom of the Netherlands for the Avoidance of Double Taxation and the Establishment of Rules of Reciprocal Administrative Assistance with Respect to Death Duties, 48/1955 (the "Finland-Netherlands inheritance tax treaty").

⁸⁶⁹ Convention between the Swiss Confederation and the Republic of Finland for the Avoidance of Double Taxation with Respect to Succession Duties 9/1957 (the "Finland-Switzerland inheritance tax treaty").

⁸⁷⁰ Convention Between the Republic of Finland And the United States of America for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Estates and Inheritances, 18/1952 (hereinafter "Finland-United States inheritance tax treaty").

⁸⁷¹ Convention between Denmark, Finland, Iceland, Norway and Sweden for the Avoidance of Double Taxation with Respect to Taxes on Inheritances and Gifts, 83/1992 (the "Nordic Inheritance and Gift Tax Treaty"). Sweden terminated the agreement as of August 24, 2007, as it has totally abolished inheritance and gift taxation. Norway also terminated the agreement as of August 22, 2014.

⁸⁷² Agreement on certain exemptions from the taxation of immovable property received as donation, 58–59/1996, applicable to gifts donated on or after January 1, 1995.

⁸⁷³ Inheritance and Gift Tax Act, Sec. 39a. With respect to gift tax, the request may be made by the donor or the donee. With respect to inheritance tax, the request may be made by the transferee or by the surviving spouse, even if the spouse is not a co-heir.

⁸⁶⁰ Inheritance and Gift Tax Act, Secs. 4 and 18.

⁸⁶¹ Inheritance and Gift Tax Law, Sec. 4.

⁸⁶² Under the Inheritance Act, *Perintökaari/Ärvdabalken*, 40/1965, as amended (the "Inheritance Act"), Ch. 20, Secs. 1 and 8, and the Inheritance and Gift Tax Act, Sec. 29.

⁸⁶³ The (inheritance or gift) tax return must be filed within three months of the date of transfer. Inheritance and Gift Tax Act, Secs. 26 and 30.

⁸⁶⁴ Inheritance and Gift Tax Act, Sec. 30.

tain other non-individual transferees are exempt from inheritance (and gift) tax.⁸⁷⁴

2. Taxable Base

a. Taxable Property

Assets located in Finland or abroad, regardless of their type, are subject to Finnish inheritance tax if either the transferor or the transferee (or both) was (were) resident in Finland at the time of the death of the transferor. In addition, even if neither the transferor nor the transferee was resident in Finland, real property located in Finland, as well as shares in a company whose assets consist principally of real property in Finland, is subject to Finnish inheritance tax.⁸⁷⁵

An individual is considered to be resident in Finland if the individual's permanent place of abode is in Finland.⁸⁷⁶ (For foreign diplomats and their family members, see XII.A., above.)

Gifts (except for those exempted, as discussed in C.2.b., below) received from the deceased during the last three years (1,096 days) prior to the date of death and all "advance inheritances",⁸⁷⁷ are included in taxable inheritance, but gift tax previously paid and asset transfer tax paid on the registration of real property are credited against the inheritance tax due.⁸⁷⁸

Money received by the estate or by an heir based on a life insurance contract on the life of the deceased is also subject to inheritance tax, provided the amount received is not regarded as the beneficiary's taxable income (which it may be in certain circumstances).⁸⁷⁹

The receipt of a benefit granted for life or for a fixed period of time is not generally subject to inheritance tax. Usually these types of benefits inherently cannot be transferred at one time and hence the benefit accrues bit by bit or the ownership of the asset itself is not inherited by the recipient of the benefit (usufruct). For example, the right to use a cabin owned by another person could constitute such a tax-exempt usufruct.⁸⁸⁰ If the benefit could be transferred as a lump sum, the tax exemption would not generally be applicable.

b. Exempt Transfers

No exempt transfers, unified credits, or (except as mentioned under C.2.d., below) marital or similar deductions are available under Finnish law. However, conventional household effects are exempt up to the value of 7,500 euros (per heir) and inheritances with a value of less than 30,000 euros are not taxable.⁸⁸¹

⁸⁷⁴ Inheritance and Gift Tax Act, Secs. 2 and 4.

⁸⁷⁵ Inheritance and Gift Tax Act, Sec. 4.

⁸⁷⁶ Inheritance and Gift Tax Act, Sec. 4.

⁸⁷⁷ Under Inheritance Act, Ch. 6, Sec. 1, anything given during the life of the deceased to direct heirs is presumed to be an advance inheritance, unless the deceased specifically expressed otherwise, whereas anything given during this period to any other person is presumed not to be an advance inheritance, unless the deceased expressly instructed otherwise.

⁸⁷⁸ Inheritance and Gift Tax Act, Sec. 16. The latter tax is, naturally, not creditable if it has been already credited against any gift tax.

⁸⁷⁹ Inheritance and Gift Tax Act, Sec. 7a.

⁸⁸⁰ Inheritance and Gift Tax Act, Sec. 2. It should be noted that such a benefit or the yield therefrom often constitutes, under Income Tax Act, Sec. 37, taxable income; such income is either earned or capital income depending on the circumstances.

⁸⁸¹ Inheritance and Gift Tax Act, Secs. 7b and 13.

Furthermore, the transfer of property from the estate of the deceased to a surviving spouse based on marital rights is not a taxable transfer. The right of a widow or widower to retain the estate (including a dwelling) of a deceased spouse undistributed in possession is not subject to inheritance tax; instead, it reduces the taxable value of the property for purposes of the heir's or heirs' inheritance tax. Consequently, childless spouses, in particular, may use a marriage settlement and a will as tax planning tools.⁸⁸²

Finally, if the same property is transferred by way of inheritance twice or more, as a result of two or more deaths in the course of two years, inheritance tax is levied on only one of the transfers, i.e., the transfer subject to the highest tax rate.⁸⁸³

c. Deductible Liabilities

Liabilities of the deceased and of the estate, including funeral expenses and expenses for preparing the estate inventory, are deductible. However, liabilities, loans and obligations relating to property that is not taxable in Finland are not deductible. Liabilities, loans and obligations that do not relate to any specific property are deductible from total assets on a *pro rata* basis. Finnish inheritance taxes levied on the heirs are not deductible.⁸⁸⁴

Any foreign national inheritance tax paid by a resident heir is creditable against Finnish inheritance tax on the same property, up to the amount of Finnish tax proportionally attributable to that property.⁸⁸⁵ However, foreign inheritance tax, if any, on immovable property located in Finland is not creditable.⁸⁸⁶

The capitalized value of a usufruct granted to a person other than the transferee of the title to the property in question is deductible for purposes of inheritance (or gift) tax.

d. Personal Allowances

The surviving spouse is entitled to deduct 90,000 euros from the taxable base.

Any child or adopted child, or direct descendant of a child or adopted child who is under 18 years of age at the time of death is entitled to deduct 60,000 euros.⁸⁸⁷ For certain deductions and credits, see also the discussions above.

The transfer of the assets of a farm or a business to a successor is subject to special provisions that grant partial relief from inheritance (or gift) tax if the successor continues to run the farm or business for at least five years, and if certain other conditions are fulfilled.⁸⁸⁸

3. Tax Rates

Different rate tables apply with respect to Finland's inheritance and gift taxes.

⁸⁸² Based on the safeguard provisions of the Inheritance Act or a will.

⁸⁸³ Inheritance and Gift Tax Act, Sec. 17.

⁸⁸⁴ Inheritance and Gift Tax Act, Sec. 9.

⁸⁸⁵ Foreign inheritance taxes other than national inheritance taxes are thus not creditable under Finnish domestic law. In Supreme Administrative Court ruling No. 2022:104, the inheritance consisted of real property located in Canada. The income tax on capital gain due in Canada by the estate of the deceased person was credited in Finland against Finnish inheritance tax under the relevant income tax treaty.

⁸⁸⁶ Inheritance and Gift Tax Act, Sec. 4.2.

⁸⁸⁷ Inheritance and Gift Tax Act, Sec. 12.

⁸⁸⁸ Inheritance and Gift Tax Act, Sec. 55.

The rates depend on the relationship between the deceased and the heir. The rates in the first class apply if the transferee is the transferor's spouse, child, spouse's child, adopted child, parent, grandparent, or other direct ancestor, adoptive parent, any direct descendant of a child or adopted child of the taxpayer or spouse, or, subject to certain conditions, intended spouse. In all other cases, including, for example, where the transferee is the transferor's brother, sister, half-brother, half-sister, or a lineal descendant of the transferor's brother, sister, etc., rates in the second tax class apply.

The inheritance tax rates in the first tax class are as follows:

Tax Bracket 1: Closest Relatives		
Value of Transfer (euros)	Tax on First Amount (euros)	Plus Tax on Excess (%)
30,000–40,000	100.00	7.00
40,001–60,000	800.00	10.00
60,001–200,000	2,800.00	13.00
200,001–1,000,000	21,000.00	16.00
Above 1,000,000	149,000.00	19.00

Thus, for example, if the net value of the assets inherited within the first class is 50,000 euros, the inheritance tax is 800 euros + 10% × (50,000 – 40,000) = 1,800 euros.

The inheritance tax rates in the second tax class are as follows:

Tax Bracket 2: Others		
Value of Transfer (euros)	Tax on First Amount (euros)	Plus Tax on Excess (%)
30,000–40,000	100.00	19.00
40,001–60,000	2,000.00	25.00
60,001–200,000	7,000.00	29.00
200,001–1,000,000	47,600.00	31.00
Above 1,000,000	295,600.00	33.00

Thus, no tax is due if the taxable value of the inheritance is less than 30,000 euros (after the deduction of personal allowances).

Example: Assuming the value of the net inheritance left by a decedent is 270,000 euros, to be shared equally among his two children and one grandchild (all three under the age of 18) of a previously deceased child, the total inheritance tax is 0 euros (3 × 0 euros), as after the minor's

allowance each beneficiary's taxable share amounts to 30,000 euros, which falls below the taxable threshold.

If the deceased has no direct heirs and leaves the inheritance equally to his two sisters, the total tax is 69,300 euros (2 × 34,650 euros).

If the deceased has only a common-law spouse (no children) to whom the deceased leaves the entire inheritance, the total tax, after adjusting for the spousal deduction, is 18,400 euros (i.e., 2,800 euros + [(270,000 – 90,000 euros) × 0.13]).

In principle, current market values at the time of death are applied to determine the taxable value of the transfer. In the case of property located abroad, the purchase value is often used, unless it is proven to be incorrect.

As stated above, the inheritance taxes payable are assessed based on the estate inventory, which must be prepared within three months of the date of death and submitted to the Tax Administration within one month of the date of its preparation.⁸⁸⁹ In certain exceptional cases, an inheritance tax return (and not an estate inventory) must be filed, for example, when the deceased was not a resident of Finland. If the taxpayer (heir) is a nonresident, the person in possession of the estate is responsible for filing a tax return.⁸⁹⁰

The Tax Administration sends tax decisions on the amount of taxes due to the heirs. In general, if the amount of tax payable is less than 500 euros, it must be paid in one installment. Larger amounts may be paid in two installments. However, the tax may be paid in up to 10 installments provided the taxes due are at least 1,700 euros and relate to inherited assets of a farm or a business and the heir continues to run the farm or business. The heir must submit a special application to apply the longer payment period. If the application is approved, the taxes related to a farm or business are divided into up to 10 annual payments for up to a 10-year period. Each payment must be at least 850 euros.⁸⁹¹

If the inheritance tax is paid after its due date, late-payment interest will be charged. Following the due date, the heir will have 10 years to pay the tax. During this period, the tax will not be transferred to the enforcement authorities for recovery, bankruptcy proceedings will not be initiated due to the unpaid inheritance tax, and the unpaid tax will not be recorded in the tax debt register.⁸⁹²

C. Gift Tax

1. In General

The beneficiary, i.e., the donee, is liable for gift tax. If the donor pays the gift tax, the amount of the tax is considered to be an additional gift and is thus also subject to gift tax. It should be noted that donations of real property or shares in Finnish companies owning mainly real property in Finland are not subject

⁸⁸⁹ Inheritance Act, Secs. 1 and 8, and the Inheritance and Gift Tax Act, Sec. 29.

⁸⁹⁰ The (inheritance or gift) tax return must be filed within three months of the date of transfer. Inheritance and Gift Tax Act, Secs. 26 and 30.

⁸⁹¹ Inheritance and Gift Tax Act, Sec 56.

⁸⁹² Inheritance and Gift Tax Act, Sec 52.

to transfer tax provided the assets are transferred for no consideration. However, it should be noted that a transfer tax notification must be filed with the Tax Administration.⁸⁹³

The Finnish State, government institutions, municipalities, congregations and other religious communities, nonprofit institutions/associations having as their purpose the public good, and certain other non-individual transferees are exempt from (inheritance and) gift tax.⁸⁹⁴

2. Taxable Base

a. Taxable Property

Assets located in Finland or abroad, regardless of their type, are subject to Finnish gift tax if either the transferor or the transferee (or both) is (are) resident in Finland at the time of the gift. In addition, even if neither the transferor nor the transferee is resident in Finland, real property located in Finland is subject to Finnish gift tax, as are shares in a company whose assets consist principally of real property in Finland.⁸⁹⁵

An individual is considered to be resident in Finland if his or her permanent place of abode is in Finland. (For foreign diplomats and their family members, see A., above.)

All gifts received by a donee from the same donor during the three years (1,096 days) prior to the gift concerned, are accumulated and gift tax is imposed on the aggregate value of the gifts, but a credit is granted for any gift tax previously paid.⁸⁹⁶

If property is sold or exchanged but the agreed consideration is not more than 75% of the fair market value of the property transferred, the difference between the agreed consideration and the fair market value of the property is treated as a gift.⁸⁹⁷

Comment: Gift taxation is avoided by setting the consideration so that it exceeds 75% of the fair market value; however, this may be difficult because the fair market value is often a somewhat arbitrary figure.

Money received under an insurance contract owned and paid by a close relative of the recipient is subject to gift tax. The receipt of a benefit granted for life or for a fixed period of time, usually usufruct, is subject to gift tax only if it is paid in a lump sum.⁸⁹⁸

b. Exempt Transfers

No exempt transfers or unified or similar credits are available under Finnish law. However, gifts of conventional house-

hold effects intended for the donee's or the donee's family's personal use are exempt up to the value of 7,500 euros. In addition, gifts with an aggregate value of less than 7,500 euros every three years from the same donor are not taxable.⁸⁹⁹

Furthermore, any amounts given exclusively for purposes of another person's upbringing, education or maintenance are exempt from gift tax and, in the case of a divorce, the transfer of property from one spouse to another based on marital rights is not a taxable transfer. Finally, the transfer of a farm or business may qualify for special relief (see d., below).

c. Deductible Liabilities

Liabilities encumbering the property transferred are deducted from the value of the property, provided the liabilities are also transferred. Liabilities and loans relating to property that is not taxable in Finland are not deductible.⁹⁰⁰

Any foreign national gift tax paid by a resident donee is creditable against Finnish gift tax on the same property, up to the amount of the Finnish tax proportionally attributable to that property. However, foreign gift tax, if any, on real property located in Finland is not creditable.⁹⁰¹

The capitalized value of a usufruct granted to a person other than the transferee of the title to the property in question is deductible for purposes of (inheritance or) gift tax.

d. Personal Allowances

No personal allowances are available for gift tax purposes. However, special provisions concerning the transfer of the assets of a farm or a business (generally to a descendant) grant partial relief from gift tax if the descendant continues to run the farm or business for at least five years, and if certain other conditions are fulfilled. In such cases, if the financial consideration exceeds 50% of the fair market value of the transferred property, no gift tax is imposed.⁹⁰²

Comment: In planning for the most tax efficient way to transfer ownership to the next generation, consideration should be given to a sale or partial sale coupled with a gift because sale proceeds are tax exempt for the seller provided the rules on 10% ownership and the 10-year holding period are complied with.⁹⁰³

⁸⁹³ Shares in a real property holding company donated to a recipient were not subject to transfer tax even though, in addition to the rights being transferred, the shares were transferred with the donor's debt towards the real property holding company as allocated to the shareholder under legislation governing such companies. Such debt could not be characterized as consideration despite the fact that the recipient of the gift had to pay the debt to the real property holding company instead of the donor. Supreme Administrative Court ruling No. 2016:160.

⁸⁹⁴ Inheritance and Gift Tax Act, Sec. 2.

⁸⁹⁵ Inheritance and Gift Tax Act, Sec. 18.

⁸⁹⁶ Inheritance and Gift Tax Act, Sec. 20.

⁸⁹⁷ Inheritance and Gift Tax Act, Sec. 18.

⁸⁹⁸ Otherwise it may, under Income Tax Act, Sec. 37, be subject to income taxation, as earned or capital income depending on the circumstances. See X., above.

⁸⁹⁹ Inheritance and Gift Tax Act, Sec. 19.

⁹⁰⁰ Inheritance and Gift Tax Act, Sec. 21.

⁹⁰¹ Inheritance and Gift Tax Act, Sec. 18. It should be noted that any foreign gift tax that is not a national tax is not creditable.

⁹⁰² Inheritance and Gift Tax Act, Secs. 55 to 57. These provisions also aim to ensure the tax benefits obtained are lost if the strict conditions are not fulfilled. For a more detailed definition of a business in this context, see Supreme Administrative Court ruling No. 2018:163 and Supreme Administrative Court ruling No. 2024:68, and regional administrative court rulings September 4, 2019 (19/0794/1, Administrative Court of Eastern Finland), November 24, 2010 (10/0543/2, Administrative Court of Oulu), November 18, 2021 (2379/2021, Administrative Court of Eastern Finland) and June 27, 2022 (1514/2022, Administrative Court of Eastern Finland) where a holding company was not regarded as engaging in business activities as envisaged in Inheritance and Gift Tax Act, Sec. 55.

⁹⁰³ Income Tax Act, Sec. 48.

3. Tax Rates

The principles for the application of the rates for inheritance tax purposes discussed at B.3., above, also apply for gift tax purposes.

The rates depend on the relationship between the donor and the donee. The rates in the first tax class apply when the donee is the donor's spouse, child, spouse's child, adopted child, parent, adoptive parent, or any direct descendant of a child or adopted child. In all other cases, the rates in the second tax class apply.

The gift tax rates applicable to the first tax class are as follows:

Tax Bracket 1: Closest Relatives		
Value of Transfer (euros)	Tax on First Amount (euros)	Plus Tax on Excess (%)
7,500–25,000	100.00	8.00
25,001–55,000	1,500.00	10.00
55,001–200,000	4,500.00	12.00
200,001–1,000,000	21,900.00	15.00
Above 1,000,000	141,900.00	17.00

The gift tax rates applicable to the second tax class are as follows:

Tax Bracket 2: Others		
Value of Transfer (euros)	Tax on First Amount (euros)	Plus Tax on Excess (%)
7,500–25,000	100.00	19.00
25,001–55,000	3,425.00	25.00
55,001–200,000	10,925.00	29.00
200,001–1,000,000	52,975.00	31.00
Above 1,000,000	300,975.00	33.00

A tax return must be submitted where taxable gifts are made. In other cases, a tax return is to be submitted upon request. The gift tax return regarding taxable gifts must be submitted within three months of the date when the property was gifted.

The Tax Administration sends tax decisions on the amount of tax due to the donees. In general, if the amount of tax payable is less than 500 euros, it has to be paid in one installment. Larger amounts may be paid in two installments. However, the tax may be paid in up to 10 installments if the taxes due are at least 1,700 euros and relate to donated assets of a farm or a business and the donee continues to run the farm or business. The donee must submit a special application to apply the longer payment period. If the application is approved, the taxes related to a farm or business are divided in up to 10 annual payments for up to a 10-year period. Each payment must be at least 850 euros.

XIII. Value Added Tax

A. Scope of Taxation

Finland levies a VAT that affects virtually all commercial sales of goods and services in Finland and intra-EU acquisitions, as well as the importation of goods from outside the EU.

Under the Finnish VAT system, unless expressly exempted, all services are taxable, including, for example, legal, auditing, advertising, accounting, property management, consulting and travel services.

For further information on Finland's VAT system, see also the *VAT Navigator*.

B. Taxable Person and Registration

The entity liable for VAT is the entity that supplies the goods (for consideration)⁹⁰⁴ or renders the services (for consideration)⁹⁰⁵ in the course of business. However, the credit system, i.e., the mechanism for recovering VAT paid at an earlier stage in the production process, indicates that the tax is not designed to be a cost to the VAT taxpayer, but a sales tax, the burden of which falls only on the final consumer. In other words, the burden of tax is rolled over in the production and distribution chain by allowing the buyer (producer, distributor, etc.) at each stage in the chain, except for the ultimate consumer, to deduct the input VAT included in the price of its purchases for production or resale.⁹⁰⁶

Unless a company is engaged in a VAT-exempt business, generally, VAT registration is required in Finland when a company's annual turnover exceeds 20,000 euros in a calendar year. Beneath this threshold amount, VAT registration is voluntary. In some circumstances, VAT registration may still be required even when a company's business operations are not otherwise subject to VAT, particularly in cases where companies are involved in the intra-EU acquisition of goods.

C. VAT Rates

1. In General

The standard VAT rate, which applies to most services and goods sold in Finland, is 25.5%.

As of January 1, 2026, a reduced rate of 13.5% applies, for example, for groceries, fodder, restaurant and catering services (alcohol and tobacco not included), books (in paper, electronic and audio form), pharmaceutical products, sanitary protection products and children's diapers, physical exercise services, entrance fees to cultural and entertainment events, passenger

⁹⁰⁴ This means that not only selling but also, for instance, exchanging goods or services is subject to tax. Furthermore, VAT is levied on the own use for "nondeductible purposes" of goods and services originally purchased or manufactured by an entrepreneur for business purposes, subject to certain limitations and thresholds. It should also be noted that the transfer of goods belonging to a business carried on by an entrepreneur in Finland to another EU Member State for use in the business of the same entrepreneur is, under the VAT Act, Sec. 18a, also considered to be the supply of goods.

⁹⁰⁵ VAT Act, Sec. 17 defines: "goods" as material objects, and electricity, gas, heat, cooling and other comparable energy commodities; and "services" as being anything else that can be sold in the form of business activities.

⁹⁰⁶ However, a seller of exempt services cannot deduct VAT included in the price of its purchases.

transport, accommodation services and public broadcasting activities.

Royalties for public television and radio activities and newspapers and periodicals (in paper and electronic forms) are subject to a 10% VAT rate.

Certain commercial sales, such as exports sold outside the EU market and those involving tax-exempt sales, are zero-rated for VAT.

2. Exemptions

Exempt services (and the conditions for exemption) are listed in the VAT Act and include (subject to certain exceptions) health, medical and social welfare services, basic educational services, certain cultural and entertainment events organized for non-profit purposes (if organized for commercial purposes, such events are subject to tax at a rate of 13.5%),⁹⁰⁷ the selling and renting of real property, lotteries, and financial and insurance services, including securities trading. The transfer of goods or services in connection with the sale of an entire business or an independent part of a business to an entity that continues the business is exempt from VAT, provided that the goods and services transferred remain in taxable use.⁹⁰⁸ Generally, the transfer of assets in connection with a business reorganization is deemed to be a universal succession and, as such, not to constitute a transaction subject to VAT.

D. Place of Supply

In general, services supplied to a Finnish entrepreneur are deemed to be supplied in Finland if they are supplied to a purchaser who is resident in Finland or to the permanent establishment (PE) of a nonresident purchaser in Finland. Consumer services are generally deemed to be supplied in Finland, if the seller is a Finnish resident or the service is supplied from a nonresident seller's Finnish PE. A service that is deemed to be supplied abroad (for example, because it is supplied to another entrepreneur within the EU) is not subject to Finnish VAT. It should be noted, however, that, in such a case, VAT is normally levied in the foreign country in which the service is supplied.

E. Intra-EU Trade

As a member of the EU, Finland is part of the EU free trade area. In principle, goods can circulate freely within the EU, so that trade with other EU Member States is subject to completely different treatment from that applying to trade with countries outside the EU. Intra-EU trade is subject to VAT in accordance with the EU VAT rules and principles, including the extensive VAT Directives issued within the EU and jurisprudence established by the Court of Justice of the European Union (CJEU). Formalities at the frontiers between EU Member States and Finland (with the exception of the region of Åland)⁹⁰⁹ have been virtually abolished and the VAT proce-

⁹⁰⁷ VAT Act, Sec. 85a.

⁹⁰⁸ VAT Act, Sec. 19a regarding the sale of a business or part of a business. If the use for taxable purpose is only partial, an exemption will be applied only to goods and services used for taxable purposes.

⁹⁰⁹ The partly self-governing province of Åland in Finland's southwestern archipelago is outside the EU VAT area, which includes Finland, although the Finnish VAT law is, as a general rule, also applied in the province. However,

dures concerning intra-EU trade has been transferred from the customs authorities to the domestic VAT authorities.

In the case of cross-border intra-EU trades, detailed provisions attempt to determine whether goods or services are to be deemed to be supplied for export (zero rate) or supplied in Finland (Finnish VAT at varying rates).⁹¹⁰ the type of goods or services, the place of delivery, the place of consumption and the place where the work is done may be decisive in borderline cases. As a general rule, VAT on the supply of goods is paid in the EU Member State to which the goods are transported. The supply of services is usually taxed in the country of supply and the seller of the services is liable for the tax. The country of supply in the case of business-to-business (B2B) services is usually the country of the buyer.

In certain situations, reverse VAT liability (the reverse charge) is applied with the result that the buyer of the service rather than the supplier of the service is liable to VAT. For example, if the seller of B2B services is not located in the same country as the buyer of the services, the reverse charge is applied. If the buyer of the services is a consumer, the services are considered to be supplied in the country of the seller.

Consequently, although Finnish exports are subject to tax at a zero rate, a seller resident in Finland may be liable for VAT in another EU Member State in accordance with the local law of that other Member State. For this reason, it is often advisable for a Finnish enterprise carrying on trade within the EU to ascertain whether local VAT registration is required in all the countries concerned.

F. Foreign Companies

A nonresident entrepreneur with a PE in Finland, such as an office, mine, warehouse, building, or installation or construction site lasting for more than nine months, is subject to VAT and required to register in the same manner as a resident entrepreneur on the assumption that the PE participates in the supply of goods and services subject to VAT in Finland.⁹¹¹

Where a nonresident supplier of goods or services does not have a PE in Finland and has not applied for taxable status for supplies in Finland,⁹¹² a resident purchaser⁹¹³ of the goods or services is liable for the tax (reverse charge). The reverse charge applies in many situations. However, the charge is not reversed and a nonresident supplier is subject to Finnish VAT (for supplies made in the course of a business in Finland) if:

(i) The buyer is a nonresident that does not have a PE in Finland and has not registered with the Finnish VAT register;

(ii) The buyer is a private individual (a private individual is, however, subject to VAT when purchasing new means of transportation, such as a car or a motorcycle, from another EU Member State);

(iii) The making of the supplies involves “distance selling” (for example, mail order) from another EU Member State to private individuals and the volume of the sales within the EU exceeds 10,000 euros per year (however, the seller may voluntarily register in Finland even if the volume does not exceed that threshold);

(iv) Passenger transportation services are involved; or

(v) Teaching or scientific services, or services relating to cultural, entertainment or sports events in Finland, and other similar services are involved, or services directly related to the arrangement of such services.⁹¹⁴

A nonresident entity outside the EU/EEA carrying on taxable activities without a PE in Finland can register for VAT purposes if it has a resident representative approved by the Tax Administration. The registration does not, as such, constitute a PE for the nonresident for purposes of income taxation.⁹¹⁵ The representative is responsible for maintaining appropriate accounts with respect to the business in Finland, but is not liable for the tax itself. The Tax Administration may require a guaranty for the payment of VAT.⁹¹⁶

Foreign entities that are not liable to VAT in Finland⁹¹⁷ but are engaged in intra-EU supplies or acquisitions of goods in Finland must submit a monthly VAT return and recapitulative statement in Finland.⁹¹⁸

Foreign entities not subject to VAT in Finland are entitled to apply for a refund of the tax included in the purchase price of goods or services purchased from Finland if the goods or services are to be used in a business carried on abroad.⁹¹⁹ Similarly, a foreign entity whose entire supplies in Finland are subject to VAT based on the reverse charge paid by a resident buyer is entitled to apply for a refund with respect to any purchases including Finnish VAT. VAT paid in connection with the importation of goods is also refundable.⁹²⁰ A refund must be applied for within six months from the end of the calendar year in

Åland is an integral part of the EU customs area, which includes Finland. See also XIV.B.

⁹¹⁰ Unless, as noted above, VAT is payable in the EU Member State in which the goods are consumed.

⁹¹¹ For purposes of the VAT Act, a nonresident is defined in VAT Act, Sec. 10, as being an entrepreneur that is domiciled abroad. An installation or construction site lasting more than nine months includes several consecutive sites lasting in aggregate more than nine months. It should be noted that the definition of a PE (fixed place of business) for VAT purposes is not exactly the same as the definition of a PE for purposes of Finland's tax treaties (generally Article 5) or the definition in Income Tax Act, Sec. 13a, for (nontreaty) Finnish income tax purposes. For the latter definitions, see below at XV.D.1., VI. and VII., respectively.

⁹¹² I.e., to benefit from credit for VAT paid.

⁹¹³ However, no tax is due if the purchaser is the State of Finland.

⁹¹⁴ VAT Act, Sec. 9. Entrepreneurs established outside the EU are, in principle, subject to VAT on electronic services (e-services) rendered to consumers and other non-entrepreneurs in Finland. However, they may choose to register with a special EU-wide scheme that allows them to fulfill their obligations to declare and pay VAT by choosing one of the EU Member States as the (only) State with which they will deal (the “identification or registration state”). Although the special scheme does not entail the right to deduct VAT, a non-EU entrepreneur may be entitled to apply for a refund of the VAT that it has paid for its e-services in accordance with the general rules.

⁹¹⁵ For a discussion on the income taxation of a branch, see VI. and VII., below.

⁹¹⁶ VAT Act, Sec. 173a.

⁹¹⁷ I.e., foreign entities that do not have a PE in Finland and are not voluntarily registered in Finland for VAT purposes.

⁹¹⁸ VAT Act, Secs. 72a, 72f, 132, and 162.

⁹¹⁹ VAT Act, Secs. 122 to 129e and 150 to 156.

⁹²⁰ VAT Act, Sec. 102.

which the period concerned falls.⁹²¹ The right to a refund exists regardless of whether the home country of the foreign business concerned has a similar refund system for foreigners.⁹²²

G. VAT Calculation

VAT is calculated on the total consideration for goods sold or services rendered, excluding the VAT itself but including all surcharges.⁹²³ For instance, the tax base includes costs incurred for the delivery of goods for which the seller invoices the buyer. The point at which the tax liability is triggered is generally when the goods are delivered or the services rendered (accrual basis). Correspondingly, deductions for input tax can normally be taken as soon as the goods or services concerned are received.

However, taxpayers with annual revenues of up to 500,000 euros in one calendar year or with respect to which the Accounting Act is not applicable, or taxpayers that are allowed under the Accounting Act to prepare annual accounts on a cash basis (i.e., based on payments rather than on invoices) are allowed to pay VAT based on actual payments received and not on invoices submitted. If the 500,000 euros threshold is exceeded, a taxpayer is allowed to continue paying VAT based on payments received until the end of the financial year, provided the excess is caused by an unexpected or unforeseeable event. This special rule applies only to sales and acquisitions in Finland.⁹²⁴

H. Import VAT

Imports from non-EU countries remain subject to control, customs declaration and VAT taxation at the frontier. The importation of goods from outside the EU is subject to VAT, irrespective of whether the importer carries on business. VAT on importation from outside the EU is collected and supervised by the customs authorities with the assistance of the border guard authorities. If the importer concerned is registered in the Finnish VAT register, the Tax Administration will collect the VAT due.

I. Input VAT

The accumulation of VAT is prevented by means of a deduction (credit) system. With a few exceptions, the input tax on taxable purchases made by a (VAT) taxpayer from another (VAT) taxpayer⁹²⁵ in the course of taxable (but not exempt) business is creditable against the output tax on taxable supplies made by the first taxpayer, provided the goods or services purchased are used in the purchaser's taxable business activities.⁹²⁶

⁹²¹ VAT Act, Sec. 150.

⁹²² Detailed instructions issued by the Tax Administration concerning the refund of VAT to foreign businesses can be found in the Worksheets.

⁹²³ VAT Act, Secs. 73 and 73b. Separate rules apply in case of own use: in general, the tax base in this case is the purchase price or the probable sales price, whichever is lower. AVL, Sec. 74.

⁹²⁴ VAT Act, Sec. 137.

⁹²⁵ However, secondhand goods, works of art, collectors' items and antiques represent an exception: even if these goods are bought from a non-taxpayer (so that the price does not include "visible" VAT), the buyer (who is generally a dealer or reseller) has the option of deducting the "hidden" VAT contained in the purchase price of such goods using a "marginal tax scheme" (only the reseller's profit margin is subjected to tax). VAT Act, Secs. 79a to 79k. A similar scheme applies to travel agency services. VAT Act, Sec. 80.

Only the value added at each stage in the production process is subject to tax. The most important exception concerns export sales: although exports are not taxable (or, more correctly, are taxable at a "zero rate"), the input tax on taxable purchases made in the course of export sales business is creditable against the output tax on taxable supplies, i.e., supplies other than export supplies. To the extent the input tax cannot be so credited (because there are not enough taxable supplies), the exporter may apply for a refund of the uncredited input tax.

A noteworthy aspect regarding VAT deductions in Finland is the deduction of transaction expenses. Said matter arises often in holding company structures in which a holding company founded by a private equity investor for the purpose of serving as an acquisition vehicle acquires the shares in an operative company. Pursuant to the case law by the Supreme Administrative Court and the Central Tax Board,⁹²⁷ the holding company should be entitled to deduct the VAT on the transaction expenses if it can be established that the holding company will supply services subject to VAT to the target company after the acquisition. Generally, the intention of the holding company is to sell services to the acquired company after the purchase.⁹²⁸ Hence, a holding company should have a right to the deduction even if its taxable business activities have not yet been commenced but only prepared by virtue of a shares purchase. Similarly, the VAT on transactional expenses resulting from a sale of shares should be deductible if the sale is connected to the seller's business activities that are subject to VAT, i.e., the seller has supplied services subject to VAT to the target company prior to the sale.

VAT deductions for real property investments will be adjusted if there is a change in the use of the property for VAT deductibility purposes or the real property is sold. The period for adjustments is 10 years.⁹²⁹ In practical terms, if the adjustment liability is triggered, for example, as a result of a change in the use of the property, the taxpayer may be liable to remit the once-deducted VAT back to the Tax Administration. Each year, the amount to be adjusted is 1/10 of the original amount of the VAT deducted.⁹³⁰

⁹²⁶ VAT Act, Ch. 10. Purchases with respect to which VAT is deductible include intra-EU acquisitions and importation from countries outside the EU.

⁹²⁷ See, e.g., Supreme Administrative Court rulings No. 2017:129 and 2019:81. See also Central Tax Board decision No. 2021/39 (a special purpose acquisition company (SPAC) was entitled to deduct VAT on expenses resulting from, e.g., the preparation of an initial public offering and seeking an operative target company that the SPAC intended to merge with) and decision No. 2022/42 (a special purpose vehicle of a private equity fund was allowed to deduct VAT on the advisory service costs relating to an acquisition; advisory service costs relating to structuring where not, however, deemed to be paid in the interest of the special purpose vehicle and therefore were not deductible). See also Supreme Administrative Court ruling No. 2023:33, concerning the extent of the VAT deduction right in the context of an initial public offering. See also Supreme Administrative Court ruling No. 2025:61, confirming that acquisition-related advisory services may require an allocation of VAT deduction where the services benefit both the acquiring holding company and entities higher up in the ownership structure.

⁹²⁸ Securities trading is a VAT-exempt activity and, therefore, related VAT expenses are generally not deductible. The sale of administrative services to subsidiaries, on the other hand, is subject to VAT.

⁹²⁹ VAT Act, Sec. 121a.

⁹³⁰ VAT Act, Sec. 121d.

Example: An investor purchases renovation services (year 1). VAT included in the price is 100,000 euros. Eighty percent of the real property is used for VAT-deductible purposes. The VAT deduction during the first year is 80,000 euros ($100,000 \times 80\%$). As from January 1 of the following year (year 2), only 60% of the real property is used for VAT deductible purposes. The change for VAT deductible purposes is 20% ($80\% - 60\%$). The adjustment is calculated as follows: $1/10 \times (80\% - 60\%) \times 100,000 = 2,000$ euros. The investor must, therefore, remit 2,000 euros to the Tax Administration. The adjustment is also 2,000 euros per year for the following eight years if the use of the real property remains the same.

The input VAT on certain taxable purchases is not deductible, even though input tax has been charged and the purchases relate to the manufacture of taxable goods or the production of taxable services. Such “non-deductible items” include: expenses relating to real property used as the taxpayer’s or the taxpayer’s personnel’s dwelling(s) or for recreational purposes, and goods and services relating thereto; the expenses of traveling to and from work; the cost of passenger cars (or “dual use” cars)⁹³¹ not purchased for resale or renting, and operating expenses with respect to such cars; certain vessels and small aircraft, as defined in the VAT Act, intended for pleasure and not purchased for resale or renting, and the operating expenses with respect to such vessels and aircraft; and “representation” expenses.⁹³² “Representation” in this context includes various forms of hospitality or entertaining directed to existing and potential customers and other persons (other than the company’s own staff) who have an influence on a company’s business. Representation aims at maintaining existing business, promoting or enhancing sales, or otherwise furthering a company’s business. Free samples are not part of representation and are “deductible items.” Representation is to be separated from marketing as the VAT on marketing expenses related to business is fully deductible.⁹³³

The Supreme Administrative Court has ruled on investment banking and VAT. If an investment bank provides assistance to its clients, for example, in purchasing or selling shares, and provides typical investment banker’s work relating to that assistance, excluding any legal or tax services, the investment bank does not pay VAT on the success fee it receives based on the making of a deal. This is because the provision of financial services is exempt from VAT.⁹³⁴ On the other hand, if an investment bank receives a monthly retainer fee, it must include VAT on its retainer fee invoice and pay VAT. If, however, the services provided lead to a deal (whether a share deal or a business deal), the VAT previously invoiced must be reversed. In addition, if the services provided are intended to cover only the purchase or sale of shares, VAT is not applicable regardless of whether the services result in a deal.⁹³⁵

⁹³¹ However, input VAT on passenger cars acquired exclusively and solely for a “deductible purpose” qualifies for deduction. VAT Act, Sec. 114.

⁹³² VAT Act, Sec. 114.

⁹³³ VAT Act, Sec. 102.

⁹³⁴ VAT Act, Secs. 41 and 42.

⁹³⁵ Supreme Administrative Court ruling No. 2016:137.

J. Assessment and Payment

1. Tax Period

The standard tax period is one month. For each one-month period, taxable transactions must be accounted for, the tax return regarding VAT issued and submitted to the Tax Administration, and the difference between the aggregate VAT collected for the taxable transactions in the period and the qualifying deductions for input VAT paid by the taxpayer during the period must be paid to the Tax Administration (without any request having to be made by the authorities).

If the taxpayer’s annual turnover does not exceed 100,000 euros, the tax period may be three months and, if annual turnover does not exceed 30,000 euros, the tax period may be three months or one year. Use of the three-month or the one calendar year periods requires the approval of the Tax Administration. The approved tax period is only binding on the taxpayer for one year at a time. The tax periods for VAT and employer contribution purposes may be of different lengths.

2. Tax Payment

VAT is paid directly to the Finnish Tax Administration and must be made by the 12th day of the second month following the end of the tax period. For example, if the tax period is one month, the tax return (self-assessed tax return) must be filed with, and payment made to, the Tax Administration by the twelfth day of the second following month, for example, for the September tax period, the self-assessed tax return must be filed and VAT paid by November 12th.⁹³⁶ In addition, intra-EU supplies must be declared monthly even if the tax period for VAT would otherwise be three months or a calendar year. The due date for this Recapitulative Statement is the twentieth day of the month following the month during which the relevant transaction took place.⁹³⁷

3. VAT Returns

Self-assessed VAT returns must be filed electronically. The filing of paper returns will only be allowed where there is a special reason, such as a technical obstacle. Electronic returns may be filed through the Tax Administration’s MyTax (*OmaVero/MinSkatt*) services.⁹³⁸ The return can also be filed using certain types of accounting software that have an interface connection with the systems of the Tax Administration.

The taxpayer may correct minor errors in the return for the next tax period without filing a new replacement return for the original tax period. An error is considered minor if the discrepancy (whether positive or negative) does not exceed 500 euros.⁹³⁹ If the error is not considered minor, a new replacement return must be filed to correct the error.⁹⁴⁰

⁹³⁶ VAT Act, Sec. 147, Act on the Assessment of Self-Assessed Taxes, *Laki oma-aloitteisten verojen verotusmenettelystä/Lag om beskattningsförfarandet beträffande skatter som betalas på eget initiativ*, 768/2016, as amended (the “Self-Assessed Taxes Act”), Secs. 17 and 32.

⁹³⁷ VAT Act, Sec. 162.

⁹³⁸ Self-Assessed Taxes Act, Sec. 18.

⁹³⁹ This threshold is assessed separately for each tax category.

⁹⁴⁰ Self-Assessed Taxes Act, Sec. 25.

Punitive tax increases may reach a maximum of 50% of the amount of the tax imposed on the taxpayer. The level of the punitive increase is determined based on a formula, with the base level being 10% of the tax imposed. An increased penalty may be imposed on a taxpayer that fails to file a tax return or files an incomplete or an inaccurate tax return.⁹⁴¹

Information on a tax return regarding the tax period may be rectified during a 45-day period without penalties for delay.⁹⁴² If the information is not rectified within 45 days, a late fee will apply and the fee will be calculated (including on the 45-day period) as follows: at the rate of 3 euros per day for the first 45 days and thereafter at 2% of the amount of tax reported late; however, the late fee is capped at 15,000 euros.

K. Special Schemes

1. VAT E-commerce

A so-called One Stop Shop (OSS) scheme is available for sellers carrying out business-to-consumer (B2C) sales. The OSS is a voluntary VAT special scheme that allows for a seller to manage its VAT liabilities in one EU Member State only, meaning that a separate VAT registration in each country where the seller carries out B2C sales would not be required. The sales of all goods and services to consumers can be reported and the VAT paid via the OSS scheme to the tax administration of the country in which the seller is established. The tax administration in question will transfer the VAT to the tax administration of the country to which the goods or services have been sold. If a seller has not registered for the OSS scheme, a VAT registration is required in all EU Member States where consumers have purchased goods or services if the seller's net

revenue from all B2C sales within the EU exceeds €10,000 in a calendar year.

2. Small Businesses and Nonprofits

Certain reliefs from VAT liability are available to small businesses and nonprofit organizations.⁹⁴³ Small businesses with an annual turnover of up to 20,000 euros are not required to register for VAT purposes in Finland, unless they voluntarily apply to be registered for VAT.⁹⁴⁴

3. Property Transfers and Leasing

The selling and leasing of real estate is generally VAT-exempt.⁹⁴⁵ However, the owner or holder of real property (land, leasehold, buildings or premises therein) can voluntarily apply for VAT registration for the conveyance of real property provided that the tenant practices business activities subject to VAT at the real property. The owner or holder could thus become liable to VAT on leasing activity and so obtain credit for VAT on its own purchases.⁹⁴⁶

⁹⁴³ Non-profit associations and religious communities are exempt with respect to activities other than business activities. Non-profit associations, however, are liable to VAT on restaurant and meal services, and real estate services for their own use (see VAT Act, Secs. 4 and 5).

⁹⁴⁴ VAT Act, Sec. 3.

⁹⁴⁵ Including the provision of electricity, gas, heat, water and similar commodities in connection with leasing, e.g., business premises. VAT Act, Sec. 27. It should be noted that, although the alienation of real property is, in principle, exempt, the provision of numerous services relating to land, such as renting hunting rights, hiring out hotel or conference rooms or exhibition or sporting space, providing aircraft with the use of an airport or vessels with the use of a harbor, or hiring out parking lots or advertising space or space for vending machines, is subject to VAT, and building and other construction activities, including the supply of new buildings by real property developers, is subject to VAT under a separate scheme. VAT Act, Secs. 29 to 33.

⁹⁴⁶ This will make the real property holder's supplies subject to VAT, but the VAT-registered tenants will be able to deduct the (input) tax from the (output) tax on their own supplies.

⁹⁴¹ Self-Assessed Taxes Act, Secs. 37–38.

⁹⁴² Self-Assessed Taxes Act, Sec. 36.

XIV. Transfer Pricing

A. Scope of the Provision

Under the Tax Assessment Act,⁹⁴⁷ the Tax Administration is authorized to adjust the amount of taxable income of a resident company in a situation in which a price paid by a resident company to a related-party is not considered to be at arm's length. The arm's length principle applies not only to transfers between a resident and a nonresident company, but also to transactions between Finnish resident companies having a relationship of "economic or proprietary dependency." The OECD Transfer Pricing Guidelines are generally accepted as an interpretive tool in applying these rules. The arm's length principle also applies to transactions between Finnish permanent establishments (PEs) of foreign companies and Finnish companies, and transactions between an individual and a company if the transactions are conducted in the context of the individual's business activities.⁹⁴⁸

For the Tax Administration to adjust the taxable income of a resident entity as a result of the pricing in related party transactions (a transfer pricing adjustment), it is required that there exists an "economic or proprietary dependency" between the parties. In addition, it is required that the amount of taxable income of the resident entity is lower than what it would have been if the transaction had been entered into between unrelated parties. The difference must be due to the terms of the transaction between the related parties, and the terms must differ from the terms that would have been used between unrelated parties in a similar transaction.⁹⁴⁹

When analyzing whether the related party transaction complies with the arm's length principle, the commercial or financial relations between the associated enterprises, and the economically relevant characteristics of the arrangement will be examined. Consequently, agreed terms for the arrangement, related parties' functions, assets and risks and the characteristics of the transferred assets or services and related parties' current financial situations and market circumstances and strategies should be examined. Based on this, the Tax Administration is allowed to disregard the legal form and re-characterize the related party transactions based on their economic substance.

The rules include a definition of related parties for purposes of establishing "economic or proprietary dependency." Parties are considered to be related parties if one party has control over the other or a third party alone or together with its related entities or individuals has control over the parties to the transaction. Companies and/or corporations are considered to be related if one company/corporation:

- (i) Directly or indirectly owns more than 50% of the capital of the other corporation/company;

- (ii) Directly or indirectly controls more than 50% of all the votes of the other corporation/company;

- (iii) Directly or indirectly has the right to nominate more than half of the other corporation's/company's directors or members of a similar corporate organ; or

- (iv) Is managed jointly with the other company or *de facto* exercise control over the other corporation/company.

The loose definition of related parties covers, for example, sister companies/corporations.

Finland has no safe harbor rules with respect to the adjustment of intra-group prices.

B. Determination of Arm's Length Price

When determining the arm's length price, i.e., whether the price used in a transaction between related parties would have been the same as what unrelated parties would have used, the Tax Administration and Supreme Administrative Court usually follow the methods presented in the OECD Transfer Pricing Guidelines. However, the methods to be used in the determination of the arm's length price are not restricted to the OECD's methods and any other known method may be used, if deemed suitable.

The OECD Transfer Pricing Guidelines list five transfer pricing methods: the comparable uncontrolled price method, the resale price method, the cost plus method, the transactional net margin method and the transactional profit split method.

The comparable uncontrolled price method compares the price charged for services rendered or property transferred in a transaction between related parties to the price charged in transactions between unrelated parties in comparable circumstances. According to the Tax Administration, this method is the preferred method in relation to the trading of movable property.

The resale price method can also be used in relation to the trading of movable property. Under the resale price method, the determination of the arm's length price begins with the price at which a product or service purchased from the related party is sold to an unrelated party. The appropriate gross margin is then deducted from the resale price. This "resale price margin" would cover, for example, the operating expenses and risk position.

The cost plus method can be used, for example, when determining the arm's length price of services or the sale of semi-finished goods. The arm's length price would consist of the costs incurred by the party in the related party transaction. A cost plus mark-up is then added to the costs.

Under the transactional net margin method, the net profit relative to an appropriate base is examined and under the transactional profit split method, the assumed division of profits that unrelated parties would have expected from the transaction concerned is determined.

C. Documentation Requirements

Domestic Finnish tax law requires related party entities to keep documentation on their intra-group pricing. A taxpayer is required to keep written documentation of its related-party transactions during the tax year if the other party to the transactions is a foreign party or the transactions were conducted be-

⁹⁴⁷ Tax Assessment Act, Sec. 31.

⁹⁴⁸ However, there are no transfer pricing documentation requirements for transactions among such Finnish resident companies. See XIII.C., below.

⁹⁴⁹ Nonresident's Income Tax Act, Sec. 3, provides that transfer pricing adjustments (and hidden profit distributions, see V.C.1.b., above) are to be treated as dividends for purposes of the taxation of nonresidents.

tween a foreign entity and its PE in Finland.⁹⁵⁰ Hence, no “transfer pricing documentation” is required for transactions between Finnish parties. In addition to entirely domestic transactions, small and medium-sized entities are released from the transfer pricing documentation requirement. An entity is considered to be small or medium-sized if it employs fewer than 250 people, its revenue is no more than 50 million euros or its balance sheet total is no more than 43 million euros, and it meets the other requirements for small and medium-size entities set out in European Commission Recommendation 2003/361/EC.⁹⁵¹

The documentation requirements are in line with the OECD Transfer Pricing Guidelines and the European Union (EU) rules.⁹⁵² The documentation consists of three items: Master file, Local File and Country-by-Country (CbC) report.

Documentation should include the following information regarding the group structure (Master File):

- (i) The structure of the organization;
- (ii) An outline of the business;
- (iii) A description of activities regarding intangible property;⁹⁵³
- (iv) A description of financing activities;
- (v) Annual accounts, or similar information if annual accounts are not available; and
- (vi) Information regarding advance rulings and agreements on the allocation of cross-border income.⁹⁵⁴

The above information is not required if the total amount of the transactions between the taxpayer and the contracting parties does not exceed 500,000 euros.

Documentation should also include the following information regarding the taxpayer (Local File):

- (i) Description of the organization and administrative structure;
- (ii) An outline of the business (including but not limited to drivers of business profits);
- (iii) A description of related structures;
- (iv) Information regarding transactions entered into with related parties and between the company and its PEs;
- (v) A functional analysis regarding transactions between related parties and between the company and its PEs;
- (vi) A comparability analysis and information regarding independent companies engaged in similar activities;

⁹⁵⁰ Tax Assessment Act, Sec. 14a.

⁹⁵¹ European Commission Recommendation of May 6, 2003, concerning the definition of micro, small and medium-sized enterprises. The recommendation mentions that the size of the whole consolidated group needs to be taken into account when determining whether an entity is “small or medium-sized.”

⁹⁵² Communication from the Commission to the Council, the European Parliament and the European Economic and Social Committee on the work of the EU Joint Transfer Pricing Forum on transfer pricing documentation for associated enterprises in the EU, COM/2005/0543 final (Code of Conduct, CMO 2005:542).

⁹⁵³ Intangible property means value-generating property other than tangible property or property relating to financial intangible property as defined in the OECD Transfer Pricing Guidelines.

⁹⁵⁴ Tax Assessment Act, Sec. 14b.

(vii) A description of the transfer pricing method used and its application;

(viii) Annual accounts, or similar information if annual accounts are not available; and

(ix) Information regarding advance pricing rulings issued by countries other than Finland and advance pricing agreements (APAs) allocating cross-border income relating to transactions carried out by the taxpayer and its related parties in which Finland is not a party.⁹⁵⁵

The functional analysis, comparability analysis and information concerning the applied transfer pricing methods are not mandatory if the amount of the transactions between the taxpayer and the other party does not exceed 500,000 euros per year.

The definition of a “group” is the same as under the Accounting Act⁹⁵⁶ or under similar foreign rules. The rules regarding groups also apply to a foreign corporation that is not part of a group but has a PE in Finland. “Group” means the whole international group of which a taxpayer is a member. For example, if a Finnish company is part of a U.S. GAAP group, the information to be provided must relate to the U.S. GAAP group.

Alternatively, information about the group structure can be given only with respect to the business sector in which the taxpayer is engaged, subject to several conditions. First, the relevant business area must function independently within the group and must be separable. Second, this option is not available in the case of a parent company in a group. Third, the taxpayer must submit similar information regarding other business areas at the request of the Tax Administration.⁹⁵⁷

The resident group parent company is required to prepare a CbC report where:

- (i) At least one foreign entity or a foreign PE is part of the group; and
- (ii) The consolidated group revenue of the previous tax year is at least 750 million euros.⁹⁵⁸

A parent company of a group is defined as a company that, under the Accounting Act or similar foreign rules, is required to have consolidated accounts or would be required to have consolidated accounts, if its equity instruments are traded on a stock exchange located in its country of residence. Additionally, it may not be a company controlled directly or indirectly by another company required to prepare consolidated accounts.⁹⁵⁹

A resident taxpayer that is not the parent company of the group (including a PE) is required to provide the Tax Administration with the CbC report if the consolidated group revenue was at least 750,000 euros during the previous tax year and the parent company of the group is not obligated to prepare a CbC report, there is no applicable treaty with respect to the sharing of information regarding CbC reports between Finland and the country of residence of the parent corporation or the parent cor-

⁹⁵⁵ Tax Assessment Act, Sec. 14b.

⁹⁵⁶ Accounting Act, Ch. 1, Sec. 6.

⁹⁵⁷ Tax Assessment Act, Sec. 14b.

⁹⁵⁸ Tax Assessment Act, Sec. 14d.

⁹⁵⁹ Tax Assessment Act, Sec. 14d.

poration of the group is resident in a country that has proven to be negligent with respect to information requests.⁹⁶⁰

If the foreign parent corporation refuses to supply the required information to the resident taxpayer for the resident taxpayer to provide the Tax Administration with the CbC report and a notice has been issued regarding the refusal notifying the Tax Administration of the refusal, the resident taxpayer is only liable to provide the Tax Administration with the information in its possession.

A foreign parent corporation may request another group corporation resident in another EU Member State to provide the required information with respect to the CbC report if certain conditions are fulfilled. The required information can also be provided to a non-EU authority by a group entity.

The following information regarding the parties of the group or company is to be included in the CbC report:

- (i) Amount of revenue;
- (ii) Profit or loss before taxes;
- (iii) Paid and accrued income taxes and taxes at source;
- (iv) Stated capital;
- (v) Accumulated earnings;
- (vi) Number of employees;
- (vii) Tangible assets other than cash or cash equivalent; and
- (viii) Information regarding the parties or entities of the group or corporation, the nature of their activities, sources of information used, and currencies.

The transfer pricing documentation may be provided in English, Finnish or Swedish. If the documentation is provided in English, translation to Finnish or Swedish may only be requested if it is necessary for taxation purposes.

Transfer pricing documentation must be submitted to the Tax Administration within 60 days after the Tax Administration has requested it, but may in no case be required earlier than six months from the end of the relevant financial year. Clarifying documentation, like comparable analysis information, must be submitted within 90 days after it has been requested. An extension may be granted based on the submission of an application.⁹⁶¹ The CbC report must be provided to the Tax Administration within 12 months from the end of the financial year in question.⁹⁶²

In cases of non-compliance with the transfer pricing rules, a request of the Tax Authorities to provide additional information or the provision of misleading information, a tax increase of up to 25,000 euros may be imposed with respect to each non-compliance issue.⁹⁶³ Additionally, transaction-related penalties and interest may be imposed.

D. Transfer Pricing Risk Management

1. Advance Pricing Agreements

Under the terms of most of Finland's tax treaties, the competent authorities of the contracting states are to endeavor, by mutual agreement (Article 25 of the OECD Model Tax Convention), to resolve any difficulties arising in the application or interpretation of the relevant treaty and, in particular, may agree to the same allocation of income or deductions between persons. They may also consult together for the elimination of double taxation in cases not provided for in the treaty. As there is no specific legislation in Finland regarding advance pricing agreements (APAs), an APA can be concluded only based on the treaty article. Hence, if there is no tax treaty in place between Finland and the country in question, an APA cannot be concluded.

An APA is a binding advance agreement between Finland and the treaty partner country (or countries) with respect to transfer pricing. An APA should give the taxpayer certainty as to how the transfer pricing of the group is treated for purposes of income taxation in the treaty countries in order to avoid double taxation. The aim is to agree on criteria according to which the pricing is at arm's length if the established criteria are met. As an APA is an agreement between countries, it is also negotiated by countries but it is usually initiated and applied by a taxpayer.

A taxpayer may initiate APA negotiations with a pre-filing meeting with a competent authority prior to filing the actual APA application. Since an APA is applied for with a written application in each country concerned, the taxpayer should check what information is required and in what form an APA is applied for in those countries. In Finland, the written application should include a description of the transaction in question and the transfer pricing method used, as well as the economic circumstances.

An APA is agreed to only for a certain period of time and the competent authorities will decide the applicable tax years. Once an APA is agreed to, it may be renewed on application.

It should be noted that the downside of applying for an APA is that the APA process may take quite a long time to be completed and it is not certain that the negotiations will lead to an actual agreement.

2. Mutual Agreement Procedure

Another option for a taxpayer wishing to obtain more certainty with respect to its transfer pricing is to initiate a Mutual Agreement Procedure (MAP), which is a bilateral or multilateral state negotiation procedure with respect to transfer pricing and double taxation. A MAP is based on the MAP Article of an applicable tax treaty or the EU Arbitration Convention.⁹⁶⁴ In addition, a third method is available to avoid double taxation, i.e., the MAP based on the EU Dispute Resolution Directive.⁹⁶⁵ This

⁹⁶⁰ Tax Assessment Act, Sec. 14d.

⁹⁶¹ Tax Assessment Act, Sec. 14c. There is no right of appeal against the Tax Administration's decision on the application.

⁹⁶² Tax Assessment Act, Sec. 14d.

⁹⁶³ Tax Assessment Act, Sec. 32.

⁹⁶⁴ Convention on the elimination of double taxation in connection with the adjustment of profits of associated enterprises (90/436/EEC) (hereinafter "EU Arbitration Convention").

⁹⁶⁵ Council Directive (EU) 2017/1852 of 10 October 2017 on tax dispute resolution mechanisms in the European Union (hereinafter "EU Dispute Resolution Directive"). The Directive has been implemented in Finland by the

method is only applicable to companies resident in EU countries and it further requires that the dispute concerns transfer pricing or that there is a tax treaty in force between the countries involved.

A taxpayer may present its case to the competent authority and request that the competent authority resolve it in a MAP, regardless of the remedies provided under Finnish domestic law (although a possible domestic law procedure postpones initiating the MAP). Taxpayers have the right to request a MAP if the actions of the countries result or will result in double taxation or any other tax treatment that is not in accordance with the treaty. In the MAP based on the EU Dispute Resolution Directive, the application for the MAP must be accepted unless specified grounds for rejection exist, and a possible rejection decision can be appealed. Under the two other procedures, a taxpayer may not force the competent authority to invoke the MAP or to grant a tax exemption. The authorities determine on a case-by-case basis whether to enter into negotiations and whether to allow an exemption. It is not possible to appeal their decision.

It is of paramount importance that a taxpayer gives the competent authority all relevant information as the negotiations are carried out between the competent authorities and the taxpayer does not have a right to participate in the negotiations. All relevant information should be given as of the date of filing the MAP application. If necessary, the taxpayer will be asked at a later time to clarify unclear questions, in accordance with the general principle applicable to administrative hearings. Prior to filing a MAP application with the competent authority, it may be advisable for the taxpayer to discuss with the authority whether the question at hand can be resolved by a MAP.

As a result of formal or informal negotiations, the competent authority may allow a total or partial tax exemption in a situation of double taxation or where the tax treatment is otherwise in conflict with the object and purpose of a tax treaty. Taxes already paid may be refunded or transferred to the other treaty country. However, the competent authorities are generally not obligated to reach any conclusion nor are there any timelines for the conclusion to be reached if a MAP is commenced in accordance with a tax treaty (although it may be noted that, one of Finland's tax treaties has included provisions on binding arbitration, and that the MLI, discussed under XV.C.1., below, has further changed the status between certain treaty partner countries).

In the MAP based on the EU Dispute Resolution Directive, the competent authorities shall endeavor to resolve the question within two years of the last notification of a decision on accepting to initiate the MAP. The above-mentioned period can be extended by one year. If the competent authorities fail to reach an agreement, the taxpayer may generally request that the matter be dealt by an advisory committee, which shall present its opinion within six months (extendable by three months). After that, the competent authorities have another six months to agree on how to resolve the matter. If they fail, they are bound by the opinion of the Advisory Commission.

Under the EU Arbitration Convention, an obligatory arbitration procedure applies between the parties to the Convention,

to eliminate double taxation occurring in relation to transfer pricing adjustments in two different EU Member States.⁹⁶⁶ The Convention enables access to the MAP as noted above and the arbitration procedure for the elimination of economic and juridical double taxation caused by a transfer pricing adjustment of profits of associated enterprises of the Member States.

A taxpayer may file a complaint with the competent authority of the EU Member State concerned, for purposes of eliminating international double taxation caused by a transfer pricing adjustment.

If the request of a taxpayer does not lead to unilateral elimination of double taxation, the competent authorities of the Member States concerned must reach a solution in a MAP. If the authorities fail to reach an agreement within two years after the taxpayer's complaint, they must set up an advisory commission. The advisory commission must deliver an opinion on how to eliminate the double taxation concerned. The competent authorities, however, are under no obligation to agree to the process or to set up the advisory commission if the actions of the taxpayer giving rise to the profit adjustment result in the taxpayer being subject to criminal sanctions or administrative consequences.

As stated above, the Finnish competent authority is entitled to grant a total or partial tax exemption in cases of double taxation or if taxation is otherwise in conflict with the object and purpose of a tax treaty. That is also the case in the context of the arbitration procedure. As in the case of a MAP, taxes already paid may be refunded or transferred to the other country concerned. An exemption may be granted even if taxation would formally be imposed in accordance with Finnish domestic tax law and the applicable tax treaty. It is not possible to appeal the decision of the Finnish competent authority. The fact that the taxpayer simultaneously pursues remedies under the Finnish general domestic appeal system does not prevent an exemption from being granted.

In addition to the formal processes discussed above, a taxpayer may request an advance ruling from the Tax Administration with respect to its transfer pricing. However, it should be noted that such an advance ruling does not bind other countries. Hence, an advance ruling as such does not eliminate double taxation.⁹⁶⁷

3. Cross-Border Dialogue

The Tax Administration has also lately applied a cross-border dialogue (CBD) process with certain countries, which is based on Finland's initiative towards OECD Member States. While the CBD process has yet to establish its position in the international arbitration field, it seems to have been favorably received. The CBD process is dependent on the domestic law of each participating country but could also be based on the Exchange of Information Article in a tax treaty.

The CBD process is a cross-border advance dialogue on the matter concerned presented to the tax administrations by the taxpayer. The request for the CBD process must be presented simultaneously to each country concerned. Each country

Act on International Tax Dispute Resolution Procedures, *Laki kansainvälisten veroriitojen ratkaisumenettelystä/Lag om förfarandet för att lösa internationella skatttvister*, 530/2019 and the related Decree (661/2019).

⁹⁶⁶ With respect to Finland, the Convention is applicable between Finland and all EU Member States, except Croatia.

⁹⁶⁷ See IV.A.2. for further information regarding the application of an advance ruling.

will then independently decide whether to participate in the dialogue. Even though the dialogue is between the countries, the taxpayer's active participation is required, especially in producing information, if the process is to be successful. The result of the CBD process is not necessarily an agreement between the participating countries or between the Tax Administration and the taxpayer, but rather the Tax Administration's take on the matter discussed in accordance with the applicable legislation. The dialogue may also lead to an "agree to disagree" result that should not be considered to represent a failure. The

CBD process could produce crucial information for the more formal processes that may follow it and could give the taxpayer further information on the tax administrations' views on the matter concerned.

E. Competent Authority

In Finland, the competent authority with respect to an APA, the MAP (based on a tax treaty or the EU Arbitration Convention), and the CBD is the Tax Administration. Sometimes, in matters of principle, it can be the Ministry of Finance.

XV. Special Provisions Relating to Multinational Operations

A. Foreign Family Foundations and Trusts

Foreign family foundations and trusts are not recognized under Finnish civil or tax law per se. However, there is Finnish case law on foreign trusts and how they should be treated under Finnish law, most notably on trusts from the United States and Jersey. In reference to the case law, it should be noted that no general rules or precedent has been established, as each trust in question has been different, and the cases have concerned different legal questions.

The Supreme Administrative Court ruling No. 2015:9 and the Central Tax Board decision No. 2016/44 concerned whether dividend income distributed by Finnish listed companies to U.S. (Delaware) statutory trusts are subject to Finnish withholding tax. It was held in both cases that trusts most closely paralleled with the Finnish concept of publicly traded limited liability companies or Finnish investment funds, which are both exempted from tax when receiving dividends from other Finnish listed companies. The courts took into account the principle of free movement of trade under Article 63(1) of the Treaty on the Functioning of the European Union and case law of the Court of Justice of the European Union, stating that dividends received from a Finnish listed company was not subject to withholding tax.

The Tax Administration consider trusts in its guidelines, stating that each trust should be analyzed on a case-by-case basis.⁹⁶⁸ Hence, it is possible that inheritance or gift tax (see XII.C.2.a., above) would be imposed on property or assets placed in trust. The person liable for taxes would be the beneficiary of the trust, however, the timing of tax liability needs to be separately reviewed as with some trusts it arises when the trust is formed and with some once the beneficiary receives benefits from the trust. It would, however, seem that the courts are more favorable to an interpretation that the tax liability arises once the beneficiary actually receives something from the trust. For example, in the Supreme Administrative Court ruling No. 2013:51, the beneficiary became liable for taxes only when the funds were dispensed from the trust. This was due to the allocation of funds from the trust being depended on the discretion of the trustee and funds could only be allocated on the application on certain specific grounds mentioned in the rules of the trust. Similarly, in Supreme Administrative Court ruling No. 2017:149, it was held that the beneficiary only became tax liable for gift tax once they received possession of the trust assets, and not at the time of the trust being formed.

B. Tax Haven Operations

Finnish tax law contains no express provisions concerning multinational corporations or tax haven operations. Nor are there any “tax free zones” that would be exempted from income taxation.

However, the semi-autonomous province of Åland (a group of islands in southwestern Finland) is within the EU cus-

toms area as part of Finland but is outside the EU harmonization system of indirect taxation. Hence, a “tax border” (with respect to VAT and certain excise duties) is required to be maintained between Åland and the rest of the EU, including the mainland of Finland.

C. Controlled Foreign Corporations

The Act on Controlled Foreign Corporations (“the CFC Act”) entitles Finland, subject to certain conditions, to tax Finnish resident shareholders of a foreign corporation on income accrued in the corporation (i.e., before the distribution of profits or even if no profits were to be distributed) if the foreign corporation is under the control of such shareholders. This also applies to a nonresident shareholder of such a CFC if the accrued income of the CFC is related to a permanent establishment (PE) in Finland of the nonresident shareholder. Any foreign entity that is treated as a separately taxable corporate entity for Finnish tax purposes may fall within the scope of the Finnish CFC regime. The regime is intended to apply not only to foreign corporations similar to Finnish companies, but also to such entities as co-operative associations, investment funds, mutual insurance companies and foreign trusts. The type of income of a CFC is not relevant. The CFC Act complies with the minimum standards laid down by ATAD I.

A foreign corporation is deemed to be under the control of the taxpayer if the taxpayer owns, directly or indirectly, as the sole owner or together with related parties (corporate entities or individuals) at least 25% of the capital or the voting power of the foreign corporation. Furthermore, a foreign corporation is deemed to be under the control of the taxpayer if the taxpayer is entitled to at least 25% of the yield of the assets of the foreign corporation.⁹⁶⁹

An individual or an entity is regarded as a related party of a taxpayer for purposes of the CFC Act if:

- (i) The individual/entity owns directly or indirectly at least 25% of the capital or voting power of the taxpayer or is entitled to at least 25% of the taxpayer’s profits;
- (ii) The taxpayer owns 25% of the (related) entity’s capital or voting power directly or indirectly or is entitled to 25% of the yield of the (related) entity’s assets; or
- (iii) The (related) entity and the taxpayer are owned by the same owner with a 25% share in both entities (either directly or indirectly).⁹⁷⁰

⁹⁶⁹ CFC Act, Sec. 2. Based on Central Tax Board’s decision No. 2025:25, a Hungarian revocable trust was deemed not to be controlled, for the purposes of the CFC Act, by a beneficiary, who had no subjective right to demand funds from the trust, to order the trust to be liquidated, nor to give orders to or replace the trustee.

⁹⁷⁰ In Central Tax Board decision No. 2023:42, the Finnish taxpayer owned 29.34% of the limited partnership interests of a Scottish limited partnership in 2023 and 26% in 2024. The Scottish limited partnership owned 89.5% of the limited partnership interests in an English limited partnership in 2023–4. The English partnership held 100% of the shares in a low-taxed company resident in the Isle of Man. The Finnish taxpayer was deemed to be a related party with the English limited partnership for purposes of the CFC Act in 2023 but not in 2024 and with the Scottish partnership in both years. The Finnish taxpayer and its related parties were deemed to own 100% of the shares in the low-taxed company for purposes of the CFC Act in 2023 but only 89.5% in 2024.

⁹⁶⁸ Tax Administration guidance (No. A118/200/2015), Inheritance and gift tax in international situations Ch. 6.1.2.

The taxpayer's spouse, children, parents, siblings and their spouses, as well as the estate of any such deceased individuals, are considered to be related parties.⁹⁷¹

The determination as to whether a foreign entity is deemed to be under the control of the taxpayer or under the control of the taxpayer and related parties is made separately for each tax year.

In general, the CFC regime applies only to shareholders of a foreign corporation that is subject to income taxation in its country of residence at a rate below three-fifths of the Finnish applicable corporate tax rate (20%), i.e., currently below 12%. When determining the level of taxation of the foreign corporation, a dividend that the foreign corporation has received from another foreign corporation to which the CFC regime is applied, is not taken into account in the determination if the dividend was distributed out of profits of the other foreign corporation that have been taken into account during the preceding five tax years when determining the level of taxation of the other foreign corporation. In addition, the results of a non-taxable or tax-exempt PE of the foreign corporation are not taken into account in determining the level of taxation of the foreign corporation.⁹⁷²

Foreign PEs of foreign subsidiaries of the taxpayer in low-tax jurisdictions are treated as foreign legal entities for purposes of the CFC regime. Thus, the CFC regime applies to a PE in the same manner as to other entities, provided the CFC regime would apply to the PE if it were a separate legal entity and the PE is neither located nor taxed in the foreign subsidiary's country of residence.⁹⁷³

Comment: This can lead to situations in which the PE of a foreign subsidiary could be regarded as a CFC even though the subsidiary itself was not regarded as a CFC.

Foreign partnerships and other entities that are treated as transparent entities in Finland do not, as such, fall within the scope of the CFC regime. The CFC regime covers only separately taxable entities. However, as noted above, PEs situated abroad may be treated as CFCs for purposes of the CFC regime, even though they are not legally separate entities. In addition, a foreign partnership or other transparent entity may come within the scope of application of the CFC regime as a result of having a PE in a third country and that PE being treated as a taxable entity.

The CFC regime does not apply to a foreign corporation situated in the European Economic Area (EEA) that is deemed to carry on actual economic activity in the jurisdiction of its country of residence. A foreign corporation is considered to conduct actual economic activity if:

- (i) The corporation has the necessary business premises, facilities and assets to carry on its business;
- (ii) The corporation has sufficient personnel at its disposal in the jurisdiction of its country of residence and the personnel is competent to run the business of the entity independently; and

- (iii) The corporation's personnel makes independent decisions regarding the corporation's day-to-day activities.⁹⁷⁴

The determination as to whether a foreign corporation is to be deemed to have carried on actual economic activity is made on a case-by-case basis.

Comment: Holding companies are not automatically classified as CFCs and there is some uncertainty as to how their status and activities should be assessed.

The exclusion based on actual economic activity may also apply to a foreign corporation situated outside the EEA. However, in such circumstances, additional conditions must be fulfilled for the foreign corporation to be excluded from the CFC regime:

- (i) The jurisdiction of the foreign corporation's country of residence must not be deemed to be/to have been non-cooperative by the Council of the European Union at the end of the current or previous tax years;
- (ii) Finland and the country of residence of the foreign corporation must have agreed on the exchange of information and the exchange of information must actually be carried out; and
- (iii) The foreign corporation's income must accrue either: from carrying on industrial production activities, production activities comparable to industrial production activities, shipping (including ship-owning) activities, or sales or marketing activities relating to, and directly serving, the industrial, industrial-like or shipping activities in the jurisdiction of the foreign corporation's country of residence; or from payments made by another group entity resident in the same jurisdiction that is engaged in the activities listed above.⁹⁷⁵

⁹⁷⁴ CFC Act, Sec. 3. In the Central Tax Board decision No. 2019:35, a Luxembourg subsidiary of a Finnish company carried on investment activity, owning shares in three different publicly listed companies as well as a small amount of cash. The subsidiary did not have local employees or offices. Investment decisions were made locally by the board of directors a few times in a year. The subsidiary was deemed to be a CFC under the CFC Act. On the other hand, in Central Tax Board decision No. 2023:41, a Luxembourg company that had an office space, one full-time and another part-time employee making investment decisions (on approximately 100 transaction each year) based on a pre-determined investment policy, and that managed a passive investment portfolio of 300 million euros and an active investment portfolio of 190 million euros was deemed to conduct economic activity in Luxembourg and was thus not deemed to be a CFC under the CFC Act. In Supreme Administrative Court ruling 2025:5 a regulated tax-exempt investment fund in the form of a Japanese trust had net assets of 384 million euros but had a separate Japanese management company (with over 1000 employees). Although the investment fund had no employees, premises or facilities and did not make its investment decisions independently, these being made by the management company, the investment fund was still deemed to carry on economic activity in Japan and was thus not deemed to be a CFC under the CFC Act. By contrast, in Supreme Administrative Court ruling No. 2025:52, a Swedish alternative investment fund was deemed to be a CFC because it lacked its own premises, personnel and decision-making capacity and had fully outsourced its activities to a management company.

⁹⁷⁵ CFC Act, Sec. 3. In Central Tax Board decision 2019/59, a Swiss sales subsidiary of a Finnish group had 60 local employees and place of management in Switzerland. The subsidiary was considered not to be a CFC under the CFC Act. Similarly, in Central Tax Board decision No. 2021/19, an offshore insurance company belonging to a Finnish group carried out underwriting activity with 30 employees and a place of management in a foreign jurisdiction and was not deemed to be a CFC. According to the Supreme Administrative Court's ruling of June 6, 2024 (1662/2024), a company based in Singapore that

⁹⁷¹ CFC Act, Sec. 2.

⁹⁷² CFC Act, Sec. 2.

⁹⁷³ CFC Act, Sec. 2.

The Tax Administration publishes a white list of the jurisdictions that meet the exchange of information requirement referred to above.⁹⁷⁶

For purposes of the CFC regime, the income of a CFC is computed in accordance with Finnish principles, as if the CFC were resident in Finland.⁹⁷⁷ Dividends actually received by the taxpayer from the CFC are taxable in Finland only to the extent they do not consist of income that has already been taxed as CFC income of the taxpayer for the same tax year or any of the preceding five tax years.⁹⁷⁸ Income received from the sale of the shares of, or an interest in, the CFC is deemed taxable only to the extent the income exceeds the amount of income previously taxed as CFC income of the taxpayer. Dividends previously deemed taxable based on the CFC regime are deducted from the previously taxed CFC income when computing the taxable sale proceeds.⁹⁷⁹ On the other hand, foreign national taxes paid by the CFC are creditable against Finnish taxes payable by the taxpayer on the same CFC income. If Finland has a tax treaty with the country of residence of the CFC, other taxes also covered by the treaty are creditable.⁹⁸⁰ Taxes paid by a CFC can be credited during the current tax year and the following five years.⁹⁸¹ For 10 years following a loss year, a taxpayer's share of the losses of the CFC is deductible from the taxpayer's income from that CFC that is taxable under the CFC Act. Based on Supreme Administrative Court ruling No. 2021:144, when other conditions for deducting losses are met, losses of a CFC from the time it was not yet controlled by the taxpayer, are also deductible in the taxpayer's taxation against the CFC's later profits.

Based on case law, the income of a CFC is recognized as the taxpayers taxable income at the end of the financial period of the CFC.⁹⁸²

A taxpayer (whether an entity or an individual) must provide detailed information regarding its/his/her interests in a CFC in its/his/her tax return, including such information as is necessary for the calculation of the income of the CFC and information regarding the foreign taxes paid by the CFC.⁹⁸³ The CFC regime does not contain any specific sanctions for failure to provide the required information and the general rules, therefore, apply.

acted as raw material supplier to another industrial production group company also based in Singapore was deemed to carry out activity relating to and directly servicing the industrial production activity and was thus not a CFC under the CFC Act.

⁹⁷⁶ After the latest update (issued on February 2, 2021), the list includes 114 jurisdictions.

⁹⁷⁷ The Finnish income category into which income derived from CFC shares in Finland falls will determine the income category into the CFC's income attributable to shareholders falls.

⁹⁷⁸ CFC Act, Sec. 4.2. In Supreme Administrative Court ruling 2025:4, the court held that the Finnish taxpayer's share of a limited partnership's income related to the profits of a company controlled indirectly by the limited partnership which had previously been taxed as CFC income of the Finnish taxpayer was not taxable income in the hands of the Finnish taxpayer.

⁹⁷⁹ CFC Act, Sec. 4.

⁹⁸⁰ CFC Act, Sec. 6.

⁹⁸¹ See V.B.7. and XV.

⁹⁸² In Supreme Administrative Court ruling No. 2021:115, capital gains realized by a CFC were not taxable income of the shareholder as the shareholder had become nonresident before the end of the financial period of the CFC.

⁹⁸³ CFC Act, Sec. 7.

D. Global Minimum Tax

1. The Minimum Tax Act

The Minimum Tax Act⁹⁸⁴ allows Finland to impose a top-up tax onto Finland-based entities that belong to certain large multinational or domestic groups ("Constituent Entities").⁹⁸⁵ The purpose of the top-up tax is to ensure that the profits of the group will be taxed on a certain minimum level (15%) in all of the jurisdictions where the Constituent Entities operate. The Minimum Tax Act fulfills the minimum requirements of the OECD's Global Anti-Base Erosion Rules (GloBE) Rules⁹⁸⁶ and the EU Minimum Tax Directive.⁹⁸⁷ It is also compliant with the OECD's guidance on the interpretation of the GloBE Rules (including the so-called Side-by-Side system) up to December 2025 and partly up to January 2026. The Tax Administration has issued guidance that gives a general description of the Act.⁹⁸⁸

2. Basic Rules

a. Qualifying Multinational or Domestic Group

The multinational or domestic groups to which the Minimum Tax Act is applied must have an annual turnover of at least 750 million euros. The threshold must have been met on at least two of the previous four financial periods.⁹⁸⁹ Group turnover is defined based on group accounts prepared based on International Financial Reporting Standards (IFRS) or other acceptable or authorized accounting standards.⁹⁹⁰

Governmental entities, international organizations, pension funds and non-profit organizations are "Excluded Entities" and thus outside of the scope of the Minimum Tax Act. The same applies to investment funds and real estate investment vehicles if these are ultimate parent entities in a group. Certain subsidiaries of the above-mentioned exempted entities are also Excluded Entities. Excluded Entities can be opted to be temporarily regarded as Constituent Entities.⁹⁹¹

b. The IIR

The top-up tax is principally levied based on the so-called Income Inclusion Rule (IIR). This means that a Finnish situated ultimate parent entity of a group must pay top-up tax relating to the low-taxed foreign Constituent Entities or relating to the par-

⁹⁸⁴ Act on the Minimum Tax for Large Groups, *Laki suurten konsernien vähimmäisverosta/Lag om minimiskatt för stora koncerner*, 1308/2023 (the "Minimum Tax Act").

⁹⁸⁵ For the purposes of the Minimum Tax Act, the term "Entity" includes any legal entities or legal arrangements that prepares separate financial accounts. Finnish situated Constituent Entities include typically Finnish companies, partnerships or Finnish permanent establishments of nonresident entities.

⁹⁸⁶ Tax Challenges Arising from the Digitalisation of the Economy Global Anti-Base Erosion Model Rules (Pillar Two), OECD December 14, 2021 ("OECD GloBE Rules").

⁹⁸⁷ Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union ("EU Minimum Tax Directive").

⁹⁸⁸ Tax Administration guidance (No. VH/6109/00.01.00/2024), Minimum taxation for large groups.

⁹⁸⁹ Minimum Tax Act, Ch. 1, Sec. 2.

⁹⁹⁰ Minimum Tax Act, Ch. 1, Sec. 9.

⁹⁹¹ Minimum Tax Act, Ch. 1, Sec. 3.

ent entity itself, if it is considered to be a low-taxed entity. Alternatively, a Finnish intermediate parent entity in a group may be subject to top-up tax relating to the low-taxed foreign Constituent Entities or relating to the intermediate parent entity itself, if it is considered to be a low-taxed entity, unless the ultimate parent entity of the group or another intermediate parent entity of the group, which is a direct or an indirect parent entity of the Finnish intermediary parent entity, has been subject to a top-up tax based on a qualified IIR in another country. If a foreign low-taxed entity is owned through an intermediate parent entity which is subject to top-up tax based on a qualified IIR in another country, the Finnish top-up tax is lowered with the top-up tax paid in the other country.⁹⁹²

c. The UTPR

Secondly, the top-up tax may be levied based on the so-called Undertaxed Profits Rule (UTPR). This means that the Finnish situated Constituent Entities must pay top-up tax relating to the low-taxed foreign Constituent Entities, in case the ultimate parent entity of the group is situated in a country, where the ultimate parent entity is not subject to a qualified IIR or in case the ultimate parent entity is an Excluded Entity. The Finnish situated Constituent Entities must also pay top-up tax relating to a low-taxed foreign ultimate parent entity if it is not subject to a qualified IIR in its residence country. The top-up tax to be paid is allocated between the Finnish Constituent Entities based on their proportional amount of the number of the total employees and total net value of the tangible assets of the Finnish Constituent Entities (excluding any investment funds and real estate investment vehicles). The obligation to pay top-up tax under the UTPR is secondary to the obligation to pay top-up tax under the IIR, meaning that the top-up tax under the UTPR relating to the low-taxed Constituent Entities is zero, if all of the ultimate parent entity's ownership interests in such low-taxed group entity are held directly or indirectly by one or more parent entities that are required to apply a qualified IIR in respect of that low-taxed Constituent Entity.⁹⁹³ The rules concerning the top-up tax under the UTPR are applied as of the financial period starting after December 31, 2024.⁹⁹⁴

d. Qualified Domestic Minimum Top-up Tax

Finally, the Finnish situated Constituent Entities may be subject to a Qualified Domestic Minimum Top-up Tax (QDMTT), which means that these entities must pay top-up tax to the extent these entities themselves are deemed as low-taxed entities.⁹⁹⁵

Comment: Based on the EU Minimum Tax Directive, the implementation of the QDMTT is optional, but Finland has chosen to levy this tax in order to protect its tax base.

When calculating the QDMTT, the same rules are generally applied than when calculating the top-up tax based on IIR and UTPR, including applying the accounting standards of the ultimate parent entity and applying the substance-based income exclusion (see below).⁹⁹⁶

3. Computation of Top-up Tax

a. Qualifying Income or Loss

To determine which entities are low-taxed, a qualifying income or loss is calculated for each Constituent Entity by making certain adjustments to the financial accounting net income or loss of the entity prior to any consolidation adjustments to eliminate intra-group transactions as determined under the accounting standard used in the preparation of the consolidated financial statements of the ultimate parent entity of the group.⁹⁹⁷ These adjustments include net tax expenses, certain dividend income and capital gains/losses, certain revaluation gains/losses, gains and losses relating to certain asset transfers in reorganizations, certain foreign currency gains/losses, illegal payments, fines and penalties, prior period errors and changes in accounting principles, accrued pension expenses and expenses relating to certain hybrid financing arrangements. If intra-group transactions have not been made based on the arm's length principle, corresponding adjustments are made when calculating the qualifying income/loss. Certain refundable tax credits are deemed to be income.⁹⁹⁸ The treatment of certain items, such as: foreign currency exchange rate amendments relating to certain hedging instruments; portfolio shareholding dividend income; debt releases; stock-based compensation cost; fair value or impairment accounting; the periodization of certain jurisdictional capital gains; the possible consolidation of income and losses in an entity belonging to a tax consolidation group; and the inclusion of certain qualified ownership interest income or loss may differ based on an election made by the Constituent Entity.⁹⁹⁹ Further, the method for calculating the qualifying income includes special provisions relating to insurance companies and banks, corporate restructuring, joint ventures, multi-parented groups, transparent entities, eligible distribution tax systems, investment funds and real estate investment vehicles, and shipping activity as well as PEs.¹⁰⁰⁰

b. Adjusted Covered Taxes

Once the qualifying income or loss has been calculated for each Constituent Entity, one must determine the amount of adjusted covered taxes for each entity to calculate its effective tax level. The adjusted covered taxes are calculated by adjusting the income and similar taxes (excluding any top-up tax) in Constituent Entity's financial accounts with certain items such as, for example, adding covered taxes accrued as an expense in the profit before taxation in the financial accounts and deducting tax expense with respect to income excluded from the computation of qualifying income or loss as well as tax relating to uncertain tax position, unless it has been paid. Taxes in Constituent Entity's financial accounts are adjusted also with regard to certain tax credits as well as to differences of deferred taxes due to differences in qualified income/loss and actual taxable income/loss of the Constituent Entities. Further, the method for allocating the covered taxes includes special provisions relating to PEs, transparent entities, CFCs, hybrid entities,

⁹⁹² Minimum Tax Act, Ch. 2, Secs. 2–7.

⁹⁹³ Minimum Tax Act, Ch. 2, Secs. 8–11.

⁹⁹⁴ Minimum Tax Act, Ch. 10, Sec. 1.

⁹⁹⁵ Minimum Tax Act, Ch. 2, Sec. 12.

⁹⁹⁶ Minimum Tax Act, Ch. 2, Sec. 13.

⁹⁹⁷ Minimum Tax Act, Ch. 3, Sec. 1.

⁹⁹⁸ Minimum Tax Act, Ch. 3, Secs. 2–3, 5–6, 9 and 24.

⁹⁹⁹ Minimum Tax Act, Ch. 3, Secs. 2b, 2c, 3a, 4, 7, 10 and 23.

¹⁰⁰⁰ Minimum Tax Act, Ch. 3, Secs. 2a and 11–22.

taxes accruing to owners' books relating to the distribution of profits and certain flow-through tax benefits relating to certain qualified ownership interests.¹⁰⁰¹

c. Effective Tax Rate and Top-up Tax

The effective tax rate of the group in each of its operating countries is calculated by dividing the sum of adjusted covered taxes of the Constituent Entities in the country with the sum of qualifying income and losses (excluding any investment funds and real estate investment vehicles). In case the effective tax rate of the country is less than 15%, a top-up tax will be calculated relating to the country (jurisdictional top-up tax). The jurisdictional top-up tax is calculated by multiplying the excess profit (net qualifying income less substance-based income exclusion) with top-up tax percentage (15% less the effective tax rate of the group in the country) and deducting from this any QDMTT collected by this jurisdiction.¹⁰⁰² The substance-based income exclusion is calculated by multiplying the sum of payroll costs of the Constituent Entities with 5%.¹⁰⁰³ This amount is added to the amount, which is calculated by multiplying the sum of tangible assets of the Constituent Entities in the country with 5%.¹⁰⁰⁴

In case the effective tax rate of the country is negative, the excess negative amount is carried forward to the following financial periods to be deducted from the effective tax rate of the country for the purpose of calculating the jurisdictional top-up tax. Finally, the jurisdictional top-up tax may be adjusted based on any corrections made to the jurisdictional effective tax rate and top-up tax from previous financial periods. The top-up tax relating to each Constituent Entity in a low-taxed jurisdiction will be calculated by dividing the jurisdictional top-up tax proportionally with the Constituent Entities in the country based on their qualified income amounts.¹⁰⁰⁵

In case the average turnover of the Constituent Entities in a country is less than 10 million euros and the average qualifying income is less than 1 million euros, the group may annually opt to apply the top-up tax for all the Constituent Entities (except any investment funds and real estate investment vehicles) in this country to be zero.¹⁰⁰⁶

Further, the Minimum Tax Act has special provisions concerning minority-owned Constituent Entities,¹⁰⁰⁷ group restructurings (mergers, demergers, entities joining and leaving a group, transfers of assets and liabilities),¹⁰⁰⁸ fair market value adjustments of assets and liabilities,¹⁰⁰⁹ joint-ventures,¹⁰¹⁰ multi-parented groups,¹⁰¹¹ transparent entities,¹⁰¹² ultimate parent en-

tities applying deductible dividend regime,¹⁰¹³ eligible distribution tax systems,¹⁰¹⁴ and investment funds and real estate investment vehicles.¹⁰¹⁵

The Tax Administration has issued guidance relating to the calculation of the effective tax rate and top-up tax.¹⁰¹⁶ The guidance contains certain examples of application situations and interpretation suggestions that are based on guidance issued by OECD.

d. Top-up Tax Under the Side-by-Side System

Top-up tax under the IIR or UTPR will be deemed zero, if the low-taxed foreign Constituent Entities are subject to the "Side-by-Side Safe Harbor" rule. This rule can be applied (through an election) to the foreign Constituent Entities, if the ultimate parent entity of a group is situated in a jurisdiction, which has a qualifying tax system approved by the OECD/G20 Inclusive Framework.¹⁰¹⁷ The same applies to top-up tax under the UTPR with respect to foreign Constituent Entities that are situated in the same jurisdiction with the ultimate parent entity of the group and that jurisdiction has a similar qualifying tax system.¹⁰¹⁸ Furthermore, top-up tax is deemed zero to the extent it is caused by qualifying substance-based tax incentives received by the foreign Constituent Entity.¹⁰¹⁹

4. Reporting Obligations

Each Finnish Constituent Entity is obligated to file with the Tax Administration annually a top-up tax information return. The Finnish Constituent Entities may also nominate one designated Finnish Constituent Entity to file the top-up tax information return on behalf of the other Finnish Constituent Entities. This obligation does not, however, exist, if the top-up tax information return has been filed either by a foreign ultimate parent entity or a designated foreign filing entity in a country having an information exchange agreement with Finland. In that case, the Finnish Constituent Entities (or the nominated entity) must notify the Tax Administration which Constituent Entity is filing the top-up tax information return.¹⁰²⁰

In case a Finnish Constituent Entity must pay top-up tax, it must file a top-up tax return with the Tax Administration.¹⁰²¹

Comment: The "top-up tax return" is based neither on the GloBE rules nor the EU Minimum Tax Directive but is simply a national additional control measure enacted by Finland to assist the Tax Administration in collection of the top-up taxes in time rather than wait for the required information to flow to the Tax Administration through international exchange of tax information channels from foreign tax authorities.

¹⁰⁰¹ Minimum Tax Act, Ch. 4, Secs. 1–19, 19a, 19b and 23.

¹⁰⁰² Minimum Tax Act, Ch. 5, Secs. 1–3.

¹⁰⁰³ Minimum Tax Act, Ch. 5, Sec. 7. This percentage is higher, declining annually from 10% to 5% during the transition period extending to year 2032 (Minimum Tax Act, Ch. 10, Sec. 2).

¹⁰⁰⁴ Minimum Tax Act, Ch. 5, Sec. 7. This percentage is higher, declining annually from 8% to 5% during the transition period extending to year 2032 (Minimum Tax Act, Ch. 10, Sec. 2).

¹⁰⁰⁵ Minimum Tax Act, Ch. 5, Secs. 4, 5, and 8.

¹⁰⁰⁶ Minimum Tax Act, Ch. 5, Sec. 9.

¹⁰⁰⁷ Minimum Tax Act, Ch. 5, Sec. 10.

¹⁰⁰⁸ Minimum Tax Act, Ch. 6, Secs. 1–10 and 11a.

¹⁰⁰⁹ Minimum Tax Act, Ch. 6, Sec. 11.

¹⁰¹⁰ Minimum Tax Act, Ch. 6, Secs. 12–13.

¹⁰¹¹ Minimum Tax Act, Ch. 6, Secs. 14–15.

¹⁰¹² Minimum Tax Act, Ch. 7, Secs. 1–3.

¹⁰¹³ Minimum Tax Act, Ch. 7, Secs. 4–7.

¹⁰¹⁴ Minimum Tax Act, Ch. 7, Secs. 8–10.

¹⁰¹⁵ Minimum Tax Act, Ch. 7, Secs. 11–15.

¹⁰¹⁶ Tax Administration guidance (No. VH/3994/00.01.00/2025) Minimum taxation for large groups — Effective tax rate and supplementary tax.

¹⁰¹⁷ OECD/G20 Inclusive Framework on Base Erosion and Profit Shifting is a global cooperation platform established in 2016 to allow countries and jurisdictions to participate on an equal footing in developing, implementing, and monitoring international tax standards aimed at tackling tax avoidance by multinational enterprises.

¹⁰¹⁸ Minimum Tax Act, Ch. 9, Secs. 12 and 13.

¹⁰¹⁹ Minimum Tax Act, Ch. 9, Secs. 14 and 15.

¹⁰²⁰ Minimum Tax Act, Ch. 8, Secs. 3 and 5.

¹⁰²¹ Minimum Tax Act, Ch. 8, Sec. 4.

The top-up tax information return, the notification of the filing entity and the top-up tax return must be filed with the Tax Administration within 15 months after the end of the financial period. For the first returns and notifications (concerning the first financial period starting after December 31, 2023) this deadline is 18 months.¹⁰²²

Finnish Constituent entities may be subject to a punitive tax increase (50% of the increased top-up tax in the maximum) or a late filing fee (5,000 euros in the maximum) for failing the above-mentioned reporting the obligations.¹⁰²³

5. Other Procedural Rules

As of the beginning of 2027, the Minimum Tax Act will include an anti-avoidance rule. According to the rule, the Tax Administration may, if a group to which the Minimum Tax Act is applicable, has undertaken an arrangement or measure contrary to the objective or purpose of the Minimum Tax Act with an apparent purpose to (i) avoid the application of the Minimum Tax Act to the group, (ii) to reduce the amount of the top-up tax, (iii) to avoid the top-up tax entirely, or (iv) causing the conditions for the application of elections or safe harbor provisions listed in the Minimum Tax Act to be met, apply the Minimum Tax Act as if such arrangement or measure had not been undertaken.¹⁰²⁴

Comment: The inclusion of an anti-avoidance provision in the Minimum Tax Act does not stem from the OECD GloBE or the EU Minimum Tax Directive. Instead, it has been incorporated into Finnish domestic law in order to uphold the principles of legal certainty and clarity within the Finnish tax system as all the other Finnish tax statutes contain their own anti-avoidance provisions. The prohibition of abuse of EU law constitutes a general principle of EU law. However, although the Minimum Tax Act is based on the EU Minimum Tax Directive, Finland has chosen not to rely solely on interpretation and direct application of EU law in addressing issues of abuse. Rather, Finland has deemed it appropriate to expressly enshrine the prohibition of abuse in its domestic legislation.

The Minimum Tax Act contains also a possibility for an advance ruling. Constituent Entities or other entities belonging to the group to which the Minimum Tax Act is applicable, may request a binding decision from the competent tax authority on how specific provisions of the Minimum Tax Act will be interpreted and applied in its specific circumstances. Once issued, the ruling must be applied each financial year prior to the deadline for submission of the top-up tax information return.¹⁰²⁵

Comment: The inclusion of a possibility to apply an advance ruling in the Minimum Tax Act does not either stem from the OECD GloBE or the EU Minimum Tax Directive. Instead, it has also been incorporated into Finnish domestic law in order to uphold the principles of legal certainty and clarity within the Finnish tax system as all the other Finnish tax statutes contain their own advance ruling provisions.

6. Transitional Rules

The Minimum Tax Act includes numerous transitional rules relating to the calculation of the top-up tax, reporting obligations and penalties. These transitional rules apply to specified transitional periods, including early financial years beginning on or after January 1, 2024, the first financial year in which the group falls within the scope of the Minimum Tax Act in the relevant jurisdiction, and, for certain safe harbor and presumption rules, the first five financial years of application.¹⁰²⁶ For example, Constituent Entities with an ultimate parent entity situated in a jurisdiction with a statutory corporate income tax rate of at least 20% would not be subject to the UTPR in financial periods starting on or before December 31, 2025 and ending on or before December 31, 2026.¹⁰²⁷

Comment: The common approach to the GloBE Rules requires that various implementations and interpretations of these rules be globally similar, OECD still continues the work on the GloBE Rules publishing new guidance on the interpretation and recommending certain transitional rules. As the constitutional requirements¹⁰²⁸ restrict all OECD developments from being adopted in Finnish tax practice, these developments will need further legislative action in Finland. For example, the Simplified Effective Tax Rate Safe Harbor rule also included in the Side-by-Side System still needs to be implemented in Finland.

E. Anti-Hybrid Rules

Finland applies a special Anti-Hybrid Act on the taxation of certain hybrid mismatch arrangements. The Anti-Hybrid Act intends to prevent any double deductions and deductions without inclusion in cross-border arrangements between related parties arising from conflicts between Finland and other jurisdictions on the characterization of financial instruments, payments and entities, and from the allocation of income. In addition to corporate entities, the Anti-Hybrid Act applies to partnerships and nonresidents with a PE in Finland.¹⁰²⁹

The Anti-Hybrid Act applies to payments or income allocation between related parties and to “structured arrangements,” which are defined as certain arrangements where the mismatch outcome is priced into the terms of the arrangement or an arrangement that has been designed to produce a hybrid mismatch outcome, unless the taxpayer or a related entity could not reasonably have been expected to be aware of the hybrid mismatch and did not share in the value of the tax benefit resulting from the hybrid mismatch.¹⁰³⁰

For the purposes of the Anti-Hybrid Act, an individual or an entity is regarded as a related party of a taxpayer if:

- (i) The (related) entity and the taxpayer are part of the same consolidated group for financial accounting purposes;

¹⁰²² Minimum Tax Act, Ch. 8, Sec. 10 and Ch. 9, Sec. 3.

¹⁰²³ Minimum Tax Act, Ch. 8, Secs. 15–17.

¹⁰²⁴ Minimum Tax Act, Ch. 8, Sec. 31.

¹⁰²⁵ Minimum Tax Act, Ch. 8, Sec. 32.

¹⁰²⁶ Minimum Tax Act, Ch. 9, Secs. 1–3 and Ch. 10, Secs. 1–13 and 18–20.

¹⁰²⁷ Minimum Tax Act, Ch. 10, Sec. 19.

¹⁰²⁸ See IV.A.1., above.

¹⁰²⁹ Anti-Hybrid Act, Sec. 1.

¹⁰³⁰ Anti-Hybrid Act, Sec. 1.

(ii) The taxpayer owns directly or indirectly at least 50% of the capital or voting power of the (related) entity or is entitled to at least 50% of the (related) entity's profits;

(iii) The individual/entity owns directly or indirectly at least 50% of the capital or voting power of the taxpayer or is entitled to at least 50% of the taxpayer's profits;

(iv) The (related) entity and the taxpayer are owned by the same owner with at least a 50% share in both entities (either directly or indirectly); and

(v) The taxpayer has a significant influence in the management of a (related) entity or a (related) entity has a significant influence in the management of the taxpayer.¹⁰³¹

For the purposes of the Anti-Hybrid Act, a person acting together with another person in respect of the voting rights or capital ownership of an entity shall be deemed to have all the voting rights or all the capital ownership of the other person in that entity.¹⁰³²

The Anti-Hybrid Act recognizes different types of hybrid mismatch arrangements potentially involving a double deduction, a deduction without inclusion or non-taxation without inclusion and resolves such situations by applying rules regarding denial of deduction or inclusion of income in order to neutralize the effects of the hybrid mismatch arrangement in question. The rules include, inter alia, the following:

(i) A payment based on a financial instrument is, except for certain exceptions, not deductible in Finland to the extent the corresponding income is not included in the tax base in the other jurisdiction. The deductibility of the payment is denied to the extent the hybrid mismatch is due to a difference in the characterization of the instrument or payment in question;¹⁰³³

(ii) A payment received by a hybrid entity is not deductible in Finland to the extent the corresponding income is not included in the tax base in the other jurisdiction. The deductibility of the payment is denied to the extent the hybrid mismatch is due to a difference in the characterization of the entity in question. Further, a payment made to a hybrid entity in another jurisdiction, which is not included in the tax base in that other jurisdiction, is taxable in Finland to the extent it corresponds to the holding of a Finnish taxpayer in the hybrid entity and it is deductible for the entity that made the payment. The inclusion in the taxable base of the payment applies to the extent the hybrid mismatch is due to a difference in the allocation of the payment in question;¹⁰³⁴

(iii) A payment made by a hybrid entity is not deductible in Finland to the extent the corresponding income is not

included in the tax base in the other jurisdiction. The deductibility of the payment is denied to the extent the hybrid mismatch is due to the fact that the payer is a hybrid entity. Further, a deductible payment from a foreign hybrid entity is taxable income in Finland to the extent the hybrid mismatch is due to the fact that the payer is a hybrid entity. In the above scenarios, the deductibility is denied and the payment is included in taxable income to the extent that the deduction in the payer's jurisdiction is made from income, which is not included in the tax base in the other jurisdiction;¹⁰³⁵

(iv) A payment is not deductible in Finland to the extent the same payment is deductible for another entity in another jurisdiction. The denial of the deductibility requires that the hybrid mismatch is due to the fact that the entity in the other jurisdiction is a hybrid entity and the income from which the payment is deducted by the non-Finnish entity is not taxable in Finland. Alternatively, a similar denial of double deductibility requires that the taxpayer is a hybrid entity and the deduction is not denied in the other jurisdiction. Further, a payment is not deductible in Finland if a Finnish resident company is considered to be a resident also in another jurisdiction. The deduction is denied to the extent the other jurisdiction does not deny the deduction;¹⁰³⁶

(v) A payment is not deductible in Finland in case the hybrid mismatch is due to the allocation of the payment by the recipient to a PE in a jurisdiction that does not recognize the existence of the PE, or none of the jurisdictions of the recipient's PEs or head office allocating that payment to the taxable income. A denial of a deduction takes place also in case of a fictitious payment from a PE in Finland to its head office in another jurisdiction or in case of deductibility of the payment both in Finland and in the jurisdiction of the PE. Further, income that is tax-exempt in accordance with the applicable tax treaty, is taxed in Finland if it is exempt in the other jurisdiction in the absence of a PE in that jurisdiction;¹⁰³⁷

(vi) A payment to an entity outside of the EU is not deductible in Finland to the extent that the corresponding income may be directly or indirectly set off against a payment that causes a hybrid mismatch covered by the ATAD Directives;¹⁰³⁸ and

(vii) Taxation of income allocated to a nonresident partner in a Finnish partnership, in case the partnership is a "reverse hybrid entity", i.e., it is deemed as an opaque entity for income tax purposes in the tax residence jurisdiction of the nonresident partner. A partnership that is a regulated alternative investment vehicle, with a wide ownership base and a diversified portfolio, is, however, is not within the scope of this rule.¹⁰³⁹

¹⁰³¹ Anti-Hybrid Act, Sec. 1.

¹⁰³² Anti-Hybrid Act, Sec. 1. In Supreme Administrative Court's ruling No. 2023:31, the foreign limited partners of a private equity fund in the form of a Finnish limited partnership, each owning less than 50% of the interests in the fund, were not deemed to act together in respect of the voting rights or capital ownership and were thus not deemed to be related parties of the fund's Finnish subsidiary, which paid shareholder loan interest to the fund, while the fund was considered transparent for Finnish tax purposes.

¹⁰³³ Anti-Hybrid Act, Sec. 3.

¹⁰³⁴ Anti-Hybrid Act, Sec. 4.

¹⁰³⁵ Anti-Hybrid Act, Sec. 5.

¹⁰³⁶ Anti-Hybrid Act, Sec. 6.

¹⁰³⁷ Anti-Hybrid Act, Sec. 7.

¹⁰³⁸ Anti-Hybrid Act, Sec. 8.

¹⁰³⁹ Anti-Hybrid Act, Sec. 8a.

The Anti-Hybrid Act is based on the ATAD Directives implementing the minimum requirements concerning hybrid mismatch arrangements. Further, the provisions of the Anti-Hybrid Act are also in line with the OECD BEPS Action 2 recommendations.

F. Group Relief

Parent companies are, in some circumstances, able to deduct from their taxable income final losses of their subsidiaries located in another EEA member state as a so-called group relief. The relief is available to companies that are eligible to pay or receive intra-group contributions according to the Group Contribution Act, i.e., when the parent company has at least 90% direct ownership in the subsidiary. The group relief is an additional deduction of the parent company and it must be separately applied for before the date of the issuance of the corporate income tax assessment based on the tax return of the company of the relevant tax year. To apply for the group relief, the parent company must be able to provide evidence of the amount and final status of the losses as referred to by EU law, as the group relief is not available if the subsidiary or any other party still has a possibility to deduct said losses in its own taxation. The deduction must be made in the taxation of the year in which the subsidiary is dissolved and the deductible amount is capped at the amount of the parent entity's profits in said tax year.¹⁰⁴⁰

Based on case law, the requirements to qualify for group relief are stringent, in particular with regard to the requirement that there is no possibility of an offset of the losses in the other EEA member state.¹⁰⁴¹

G. Mandatory Disclosure Regime for Cross-Border Arrangements

The EU Administrative Cooperation Directive¹⁰⁴² that governs exchange of tax information between the EU member states' tax authorities has been amended several times since its issuance in 2011. The fifth amendment took place in 2018.¹⁰⁴³ The common abbreviation used for the fifth amended version of the directive is DAC 6, as it is the sixth version of the directive. The most significant addition in EU Directive DAC 6 has been on automatic exchange of reportable cross-border arrangements. This has also been referred to as the mandatory disclosure regime or mandatory disclosure rules (MDR). Hence, both DAC 6 and MDR are used as abbreviations for the same requirements. The EU Directive DAC 6 rules obligate intermediaries of certain arrangements to report to the tax authorities certain information of the arrangements they have de-

signed, marketed, organized or otherwise provided for their clients.

In order for EU Directive DAC 6 obligations to apply, the arrangement in question needs to be a cross-border arrangement. Hence, the arrangement needs to concern either more than one Member State or a Member State and a third country. Therefore, even though EU Directive DAC 6 is primarily a European issue, it will affect non-EU entities when they are party to such an arrangement that involves an entity in an EU Member State. However, not all cross-border arrangements are reportable, rather only the ones that fall within conditions or hallmarks of EU Directive DAC 6.

As implemented in Finnish legislation under the DAC 6 Act,¹⁰⁴⁴ the hallmarks, which trigger reporting, include:

- (a) Conditions relating to the management of the arrangement, such as confidentiality clauses, fee related to a tax benefit, or standard documents and structures;¹⁰⁴⁵
- (b) Customer identification matters, such as the avoidance of automated data exchange or hidden beneficial owners;¹⁰⁴⁶
- (c) Arrangements related to benefits, such as work done for a recipient who is not taxed anywhere or in a jurisdiction on the EU/OECD blacklist, unilateral transfer pricing regulations, transfer of hard-to-value intangible rights, transfer of business, or arrangements relating to special tax rebates;¹⁰⁴⁷ and
- (d) Arrangement which satisfy the so-called main benefits test. The main benefits test states that the test will be satisfied if it can be established that the main benefit or one of the main benefits which, having regard to all relevant facts and circumstances, a person may reasonably expect to derive from an arrangement is the obtaining of a tax advantage.¹⁰⁴⁸

EU Directive DAC 6 did not specify penalties for non-compliance, hence it is up to each Member State to decide what these may be. Due to this, the amount of penalties differs greatly between Member States. The maximum penalty in Finland for non-compliance of DAC 6 Act obligations is €15,000.¹⁰⁴⁹

Comment: Some EU countries have significantly higher penalties and even imprisonment as consequences for breaching the EU Directive DAC 6 obligations. This may cause problems and possible "forum-shopping" as differences vary widely.

Another issue of the DAC 6 Act has been the conflict between DAC 6 Act obligations and attorney-client privilege. Attorney-client privilege is regulated in Finland by the Advocates Act, whereby breaking attorney-client privilege may lead to imprisonment up to a year.¹⁰⁵⁰ Hence, it is difficult to define what

¹⁰⁴⁰ Act on the Group Relief of Final Losses of a Subsidiary Located in the European Economic Area, *Laki Euroopan talousalueella sijaitsevan tytäryhtiön lopullisen tappion konsernivähennyksestä/Lag om koncernavdrag för slutliga förluster i ett dotterbolag inom Europeiska ekonomiska samarbetsområdet*, 1198/2020 Sec. 9.

¹⁰⁴¹ Central Tax Board decision No. 2021/8.

¹⁰⁴² Council Directive 2011/16/EU of February 15, 2011, on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC ("EU Administrative Cooperation Directive").

¹⁰⁴³ Council Directive 2018/822/EU of May 25, 2018, amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements ("EU Directive DAC 6").

¹⁰⁴⁴ DAC 6 Act, *Laki raportoitavista järjestelyistä verotuksen alalla/Lag om rapporteringspliktiga arrangemang i fråga om beskattning*, 1559/2019 (the "DAC 6 Act").

¹⁰⁴⁵ DAC 6 Act, Secs. 12–14.

¹⁰⁴⁶ DAC 6 Act, Secs. 20–21.

¹⁰⁴⁷ DAC 6 Act, Secs. 18–19 and 22.

¹⁰⁴⁸ DAC 6 Act, Sec. 12.

¹⁰⁴⁹ Tax Assessment Act, Sec. 22a.

¹⁰⁵⁰ Advocates Act, *Laki asianajajista/Lag om advokater*, 496/1958, as amended, sec. 5c and Criminal Code, Ch. 38 Sec. 1.

aspects of DAC 6 Act obligations need to be reported and what information falls under attorney-client privilege. The Tax Administration has not taken a clear stand on the matter and has only stated generically that information that falls under attorney-client privilege does not need to be reported, but it does not specify what kind of information this may be. Therefore, it remains to be seen what information law firms will report and what they omit. This will enhance the need for cooperation between different service providers to ensure that all report or omit the same information. If the attorney-client privilege prevents the intermediary from reporting the arrangement, and no other intermediary has been involved in the arrangement, the client is obligated to report the arrangement to the Tax Administration.

Reportable arrangements must be reported within 30 days once one of the following thresholds is exceeded:

- (a) On the day after the reportable cross-border arrangement is made available for implementation;
- (b) On the day after the reportable cross-border arrangement is ready for implementation; or
- (c) When the first step in the implementation of the reportable cross-border arrangement has been made.¹⁰⁵¹

H. Reporting Obligations of Digital Platform Operators

The sixth amendment to the EU Administrative Cooperation Directive (referred to generally as DAC 7), effected in 2021¹⁰⁵² was implemented in Finnish law on December 29, 2022 by enacting the DAC 7 Act.¹⁰⁵³ EU Directive DAC 7 imposes the information-reporting requirement (IRR) that obliges digital platform operators operating in EU member states to disclose information about transactions and sellers registered on the platform to tax authorities of the other EU member states. The EU Directive DAC 7 also places a due diligence requirement on the quality of reportable information.¹⁰⁵⁴

Under the DAC 7 Act, the digital platform operators are required to gather information of the sellers who operate on the platform and annually file a report of relevant activities such as:

- a) Provision of personal services, e.g., passenger transport or accounting services;
- b) Sales of goods; and
- c) Rental of residential and commercial premises, parking spaces, immovable property and means of transport.

If there are no reportable activities, the operators are required to submit a return, in which they confirm that there is no information to be reported.

Reportable information includes demographic information of the sellers, including the full name, address, business iden-

tification numbers, VAT registration numbers, date of birth, and financial information on the transactions that were carried out.¹⁰⁵⁵ As of January 1, 2026, VAT registration numbers and date of birth are required primarily with respect to EU-related reporting and may not be required in all cases involving non-EU jurisdictions.

The DAC 7 Act does not oblige the platform operator to report the activities of an exempt seller.¹⁰⁵⁶ Exempted sellers include public authorities, entities or their affiliated organizations that are regularly traded on an established securities market, entities that have leased a property complex under the same platform operator more than 2,000 times during the reporting period and sellers who have, during the reportable period, sold less than 30 articles under the same platform operator, and the total amount of consideration paid or credited for the sale does not exceed €2,000.¹⁰⁵⁷

The Tax Administration is obliged to gather information from platform operators and exchange the information with all relevant authorities within other EU member states. The Tax Administration also exchanges corresponding information with non-EU jurisdictions with which Finland has activated the Multilateral Competent Authority Agreement on Automatic Exchange of Information on Income Derived Through Digital Platforms.¹⁰⁵⁸

The regulated platform operators are liable to register in a dedicated platform operator register, to record sellers' identification information and to report the required information. This registration and reporting obligation applies equally to non-EU platform operators that are required to report to Finland under the applicable rules, including where Finland is the member state of registration for DAC 7 reporting.¹⁰⁵⁹

The DAC 7 Act does not have an effect to the taxation of any sales taking place at the digital platforms. However, the sellers may be indirectly affected by the obligations set out for the platform operators, such as the obligation to obtain additional identification information from the sellers. In addition, platform operators may rely on an approved electronic identification service for purposes of verifying a seller's identity and tax residence, in which case certain identification data need not be collected separately from the seller.¹⁰⁶⁰

Only platform operators that are domiciled in Finland or that have their single registration for annual report submittal in Finland are required to report to Finnish tax officials.¹⁰⁶¹ Respectively, the same reporting obligations concern platform operators which are domiciled or registered for annual report submittal in other EU member states than Finland in accordance with applicable legislation. The national tax officials are required to exchange information with corresponding tax officials in other member countries. Thus, the platform operators are required to fulfil the information reporting requirement in

¹⁰⁵¹ DAC 6 Act, Sec. 5.

¹⁰⁵² Council Directive (EU) 2021/514 of 22 March 2021 amending Directive 2011/16/EU on administrative cooperation in the field of taxation ("EU Directive DAC 7").

¹⁰⁵³ DAC 7 Act, *Laki digitaalisen alustatalouden toimijoiden tiedonantovelvollisuudesta verotuksen alalla/Lag om skyldighet för aktörer inom digital plattformsekonomi att lämna upplysningar i fråga om beskattning*, 1267/2022 (the "DAC 7 Act").

¹⁰⁵⁴ EU Directive DAC 7, Art. 8ac.

¹⁰⁵⁵ DAC 7 Act, Sec. 11.

¹⁰⁵⁶ DAC 7 Act, Sec. 3.

¹⁰⁵⁷ DAC 7 Act, Sec. 2.

¹⁰⁵⁸ DAC 7 Act, Secs. 1.3 to 1.4. See also Finland's activation of the Multilateral Competent Authority Agreement on Automatic Exchange of Information on Income Derived Through Digital Platforms (DPI-MCAA), SopS 34/2025, available at <https://finlex.fi/fi/valtiosopimukset/sopimussarja/2025/34>.

¹⁰⁵⁹ DAC 7 Act, Secs. 12.4 to 12.5 and 17.2.

¹⁰⁶⁰ DAC 7 Act, Secs. 2.24 and 11.5.

¹⁰⁶¹ DAC 7 Act, Sec. 12.

only one EU member state. In addition, reporting may also cover information relating to sellers resident in, or immovable property situated in, participating non-EU jurisdictions where Finland is the jurisdiction of reporting under the applicable framework.¹⁰⁶²

The platform operator must submit the report to the Tax Administration by the end of January following the reportable tax year using electronic data transmission method specified by the Tax Administration.¹⁰⁶³

I. Reporting Obligations of Crypto-Asset Service Providers

The seventh amendment to the EU Administrative Cooperation Directive (referred to generally as DAC 8), was adopted by the European Council on October 17, 2023¹⁰⁶⁴ and was implemented in Finnish law on November 28, 2025 by enacting the DAC 8 Act.¹⁰⁶⁵ EU Directive DAC 8 introduces reporting re-

quirements for crypto asset service providers (CASPs), which obligates such entities to submit information to the national tax authorities regarding themselves, their customers, their crypto asset holdings and trades.

Under the DAC 8 Act, CASPs must collect and report specific customer and transaction data to the Tax Administration. Beginning with transactions carried out in 2026, the provider must submit annual reports covering customers' crypto asset exchanges, transfers, and related activities that are relevant for taxation.¹⁰⁶⁶

The reporting obligation applies both to providers established in Finland and to foreign providers that offer services to customers resident in Finland. The provider must also carry out due diligence procedures to identify customers' tax residency and ensure the accuracy of the reported information.¹⁰⁶⁷ These obligations support the automatic exchange of tax information between Finland and other jurisdictions and are intended to improve tax compliance in the crypto asset market.

¹⁰⁶² DAC 7 Act, Secs. 12.4 to 12.5.

¹⁰⁶³ DAC 7 Act, Sec. 10.

¹⁰⁶⁴ Council Directive (EU) 2023/2226 of 17 October 2023 amending Directive 2011/16/EU on administrative cooperation in the field of taxation ("EU Directive DAC 8").

¹⁰⁶⁵ DAC 8 Act, *Laki raportiovien kryptovarapalvelun tarjoajien tiedonantovelvollisuudesta verotuksen alalla/Lag om rapporteringsskyldighet för rap-*

porteringsskyldiga leverantörer av kryptotillgångstjänster i fråga om beskattning 1041/2025 (the "DAC 8 Act").

¹⁰⁶⁶ DAC 8 Act, Secs. 47 and 48.

¹⁰⁶⁷ DAC 8 Act, Secs. 37–43.

XVI. Avoidance of Double Taxation

A. Foreign Tax Credit

The principal method provided for by the Act on the Elimination of International Double Taxation (and by Finland's tax treaties) is the credit method (see also V.B.7.a., above), but in certain (treaty) cases the exemption method applies (for such cases, see XV.B., below). The creditable taxes, i.e., the types of taxes that may be credited (for example, local taxes or only national taxes) varies from treaty to treaty.¹⁰⁶⁸ When there is no applicable treaty (in which case the credit method is always to be applied) only foreign national taxes are available for credit.¹⁰⁶⁹

Under the Act on the Elimination of International Double Taxation, each category of income (business, agricultural or "other")¹⁰⁷⁰ and each type of income (in the case of individuals, earned and capital income) is treated separately for purposes of computing the foreign tax credit.¹⁰⁷¹ The amount of credit may not exceed the aggregate of Finnish national and local taxes attributable to the foreign income. The amount of foreign tax available for credit is always limited by reference to the ratio of foreign-source income to the taxpayer's worldwide income, applied on a global rather than a per country basis.¹⁰⁷²

Maximum tax credit = (Net amount of foreign income/Total income of the category and type concerned) × Total Finnish national and local tax on that category and type of income

Example: Assumptions: resident company, all income is in the same category (say, business income), there is no tax treaty between Finland and country A, foreign net income from country A = 20,000, foreign national tax = 6,000, foreign local tax = 1,000, Finnish net income = 50,000, and Finnish corporate income tax = 14,000, i.e., 20% of the total net income of 70,000. The following is the maximum amount of foreign tax credit:

$$(20,000/70,000) \times 14,000 = 4,000$$

Since the foreign national tax was 6,000, the difference of 2,000 remains uncreditable. However, the unused foreign tax credits, i.e., the amount of foreign taxes exceeding the amount of Finnish taxes imposed on the taxpayer on the same income, may be carried forward over the next five years. Old tax credits are used before new tax credits. The taxpayer must make a claim to be able to make use of old tax credits. Unused foreign tax credits or foreign taxes are

not generally considered to be deductible expenses for tax purposes. There are, however, certain exceptions to this rule: for example, a real property tax related to rental income taxable in Finland may be deductible when assessing the taxes in Finland.

If it is assumed in the above example that Finland has a tax treaty with country A and that the treaty also covers local taxes, the only difference would be that the credit would have been computed in different proportions (national/local) and that 3,000, instead of 2,000, would have remained to be carried forward to the following year (because the immediate credit would cover a larger range of taxes).

Finnish law does not allow the recipient of dividends from abroad to claim an indirect credit for the foreign corporate tax underlying the dividends. However, Finland's tax treaties with less developed countries consistently include a "tax-sparing clause." Under the terms of such a clause, the taxpayer may also be granted a tax credit for the foreign tax that would have been levied in the other contracting state if, but for a deduction allowed, an exemption or a reduction of tax granted, as part of an incentive program, the tax has not been actually levied.

For a summary of the procedural rules for filing foreign tax credit claims see V.B.7.a., above.

B. Exemption Method

Generally, foreign income may be exempted either under tax treaty provisions or under specific domestic law provisions. Finland's tax treaties normally provide that, where certain income is exempt from Finnish tax, Finland may nevertheless apply the tax rate that would have been applicable had such income not been exempted (exemption with progression method). In other words, the exempted income is included in the tax base, but Finland allows as a deduction from the income tax liability that part of the income tax liability that is attributable to the exempted foreign income. The Act on the Elimination of International Double Taxation provides more detailed rules on how the exemption with progression method is to be applied. The effect of the method is to raise the tax rate applicable to the taxpayer's nonexempt income to the level at which it would have been without the exemption.

Under certain tax treaties, the full exemption method (where the tax exempt amount of income is not taken into account in determining the applicable tax rate) is also used. Furthermore, Finnish domestic tax law provides certain tax exemptions that prevent the double taxation, but they are not considered to represent the use of the exemption method, as such (for example, see the exemption of certain dividend payments at V.C.1., above).

C. Tax Treaties

1. In General

Finland has concluded tax treaties with over 70 countries. For the texts and status of Finland's tax treaties, see the *International Tax Treaties* database.

While Finland's earlier tax treaties generally used the exemption method for avoiding double taxation, those concluded or renegotiated since the mid-1970s use the credit method as

¹⁰⁶⁸ The Act on the Elimination of International Double Taxation provides that foreign national taxes can be credited not only against Finnish national taxes but also against Finnish local taxes.

¹⁰⁶⁹ In Central Tax Board decision No. 2021/34, the Indian equalization levy was not regarded as being eligible for the foreign tax credit.

¹⁰⁷⁰ For the distinction, see V.B.3.a., above, and X.C., above.

¹⁰⁷¹ For the distinction, see X.C., above.

¹⁰⁷² There are two exceptions: (i) for foreign taxes paid on interest income, to which EU Council Directive (EU) 2015/2060 of November 10, 2015 repealing EU Directive 2003/48/EC on taxation of savings income in the form of interest payments is applicable; and (ii) for foreign taxes paid on dividends, which are partly tax exempt in Finland — these may be creditable in their entirety, regardless of the ratio. Act on the Elimination of International Double Taxation, Sec. 3.

the principal method.¹⁰⁷³ For example, the exemption method is used under the Nordic Tax Treaty with respect to, for example, pensions. The scope of a tax treaty is generally specified in its initial articles. Normally Finland's treaties cover the most important (but sometimes only national) income taxes in both countries. Some of Finland's treaties also cover net wealth taxes, but since the Finnish net wealth tax was abolished in 2006, corresponding treaty provisions are no longer relevant. As a rule, social security charges are outside the scope of Finland's tax treaties. Consequently, Finland may, in certain cases, impose social security charges even when the income in question is exempt. However, in addition to its tax treaties, Finland has concluded social security agreements with certain countries (for example, India¹⁰⁷⁴ and Australia).¹⁰⁷⁵

Finland has signed and ratified the multilateral BEPS convention on preventing tax base erosion and profit shifting (MLI)¹⁰⁷⁶ on June 7, 2017. Finland has selected mostly those provisions of the MLI that are minimum standards: the preamble text under Article 6, the provisions of Article 7 on the prevention of treaty abuse, and the provisions of Article 16 on the MAP. In addition, Finland has selected the provisions under Article 9 on taxation of capital gains from alienation of shares or interest of entities deriving their value principally from immovable property (a reservation was originally made on this Article, but it was lifted in 2023) and Article 17 on corresponding adjustments to the price tag for profit shifting for inclusion in Finland's tax treaties that do not yet incorporate this. Finland has also selected arbitration, subject to certain restrictions.¹⁰⁷⁷ The existing bilateral tax treaties of the signatory countries may be amended based on the MLI. For the MLI to be in force between tax treaty partner countries, the convention must be validated, i.e. signed and ratified by both treaty countries. Finland ratified the MLI on February 13, 2019, and the MLI entered into force on June 1, 2019. Most of the countries with which Finland has concluded tax treaties have also ratified the MLI.¹⁰⁷⁸

On September 11, 2022, Finland also signed the multilateral competent authority agreement on automatic exchanges regarding CRS avoidance arrangements and opaque offshore structures (MDR MCAA). This agreement was initiated by the OECD to combat the circumvention of the rules requiring the correct reporting of relevant information to the local tax administrations, including information to be reported under the OECD's Common Reporting Standard (CRS) rules. Based on the EU Administrative Cooperation Directive, the obligation to report this information has been implemented into Finnish tax legislation.¹⁰⁷⁹

¹⁰⁷³ It should be noted that, quite often, both methods are used in the same treaty, the credit method applying to certain kinds of income and the exemption method to others.

¹⁰⁷⁴ Agreement on Social Security between Finland and India, 66–67/2014.

¹⁰⁷⁵ Agreement on Social Security between Finland and Australia, 35–36/2009.

¹⁰⁷⁶ Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting.

¹⁰⁷⁷ See Ministry of Finance Press Release of June 8, 2017, at http://vm.fi/en/article/-/asset_publisher/suomi-allekirjoitti-monenkeskisen-verosopimuksen.

¹⁰⁷⁸ Jurisdictions with which Finland has tax treaties but that have not ratified or even signed the MLI include Brazil, Italy, the Philippines, Türkiye and the United States.

¹⁰⁷⁹ Tax Assessment Act, Secs. 17b–17d.

2. Treaty Interpretation

Tax treaties are a particularly tricky subject to interpretation as they are a result of negotiations between the contracting states but, as a part of domestic legislation, they affect the taxing right of each contracting state. A country's right to tax is based on its domestic legislation and different norms and concepts may be used in domestic legislation and in a tax treaty. This may result in double taxation if the contracting states classify an item of income differently and thus, apply different articles of a tax treaty to said income. There is no domestic legislation in Finland on the interpretation of tax treaties.

Finland has ratified the Vienna Convention on the Law of Treaties,¹⁰⁸⁰ which can be referred to for the interpretation of tax treaties. According to the convention, a treaty shall be interpreted in good faith in accordance with the ordinary meaning to be given to the terms of the treaty in their context and in the light of its object and purpose. For example, the preamble and annexes of a treaty as well as *travaux préparatoires*, later agreements made between the contracting states on the interpretation of a treaty and case law can be taken into account.

Finland's tax treaties are largely based on the OECD Model Tax Convention. Even if the model tax convention is not a formally binding source of interpretation, the convention itself and its commentary are used as important tools of interpretation.¹⁰⁸¹ The commentary can be useful especially if the wording of the tax treaty in question is identical to the wording of the OECD Model Tax Convention.

As a general rule, the wording of an article of a tax treaty forms the basis for its interpretation. The mutual purpose and intent of the parties may also be taken into account. As tax treaties are enacted in Finland by blanket acts, there is usually little national *travaux préparatoires* available to be used for interpretation. As the treaties are a means to restrict the taxing right of the contracting states, expansive interpretation should be avoided. In the event of a disagreement on interpretation, the authorities of the contracting states may seek unanimity by negotiation. In Finland, the Supreme Administrative Court has the ultimate power to interpret tax treaties and its interpretation is independent from the interpretation in the other contracting state.

Tax treaties may be concluded in one or more official languages. In some of Finland's tax treaties, it is stated that one language version (usually English) shall prevail. A similar tax treaty concluded with another state may also be used in the interpretation of a particular tax treaty in case the provisions of the two treaties are similar.

3. Tax Treaty Negotiations and Ratification Process

Tax treaties are negotiated by the Ministry of Finance's tax department. The initiative to negotiate a new tax treaty or renegotiate an existing one may come from Finland or the other country concerned, or taxpayers may propose that a treaty should be concluded. The Ministry of Finance may appoint a delegation for negotiation purposes. Usually countries prepare

¹⁰⁸⁰ The Vienna Convention on the Law of Treaties, May 23, 1969.

¹⁰⁸¹ See Supreme Administrative Court rulings Nos. 2002:26, 2016:71 and 2016:72.

model tax treaties for negotiation purposes. Once the actual treaty text has been agreed to, the delegations' chairpersons initial each page. The signature copy of the treaty is then prepared and signed.

For a signed tax treaty to come into force, domestic Finnish law requires that the treaty first be approved by the Parliament and then enacted in Finnish law. First, the Government issues a legislative proposal regarding the tax treaty, which is approved by the Parliament. The tax treaty is then enacted in Finnish law by a blanket act and decree, which are approved by the Parliament. If the Parliament approves the proposal, the President approves the treaty and ratifies the act, and the treaty becomes part of Finnish domestic law.

4. *Withholding Tax Refund Procedure*

In general, if Finland is established to be the treaty country responsible for the elimination of double taxation, the taxpayer concerned is required to file a claim in writing identifying the treaty provisions to be applied that would eliminate or minimize the double taxation in accordance with the applicable tax treaty. The taxpayer may present the claim to the payer of the income at the tax withholding stage or, alternatively, to the Tax Administration when filing the annual income tax return or may file a corrective claim after the relevant tax year has closed. It is preferable to make separate claims for the elimination of double taxation and the application of treaty provisions per item of income. When claiming a refund in the annual tax return, a private individual may present a more general claim but, when requesting the elimination of double taxation in advance or when filing a corrective claim, a taxpayer needs to specify how the taxation of the previous years is to be corrected based on more specific reasoning. The taxpayer is required to present the Tax Administration with an explanation of the amount of the taxes payable in the other country, the grounds for taxation in the other country, the payment of those taxes and any other information required for the elimination of double taxation.¹⁰⁸² The taxpayer may be asked to present proof of taxation, for example, a tax assessment decision or a tax return to establish that taxation was imposed in the other treaty country.

In general, double taxation may not be eliminated until the taxation in the other country is final and the final amount of taxes payable (or alternatively, when a foreign tax advance payment is made that corresponds to the amount of final tax) or the taxable income has been confirmed (and generally taxes paid) unless elimination at the withholding stage is possible. The elimination of double taxation at the withholding stage may be granted if the taxpayer can prove liability for the tax in the other treaty country on an ongoing basis and is able to present an estimation of both the amount of the taxable income and the amount of taxes payable, as well as the grounds for taxation in the other country. Even if elimination of double taxation is granted in advance at the tax withholding stage, the taxpayer is required to renew the claim in the annual tax return and to declare the foreign income and foreign taxes paid for tax assessment purposes. If it appears, when the taxes are being assessed, that the amount of the foreign income was, for example, less

than anticipated, the Tax Administration will correct the taxation in this respect.

Form 3091 (the English version is form 3091e) may be used by resident corporate taxpayers when requesting the removal of double taxation. The form may be used when filing the annual tax return electronically or in paper form. A corrective claim may be filed as a free-format letter (paper filing) or electronically via the MyTax service portal in free-format. Corporate taxpayers may also request the elimination of double taxation electronically when requesting that advance taxes be reassessed. Private individuals may request the elimination of double taxation in a free-format letter at any stage, or by telephone when requesting such elimination in advance and electronically when filing their annual tax returns.

A nonresident taxpayer may also request that tax treaty provisions be applied at each stage of taxation in Finland. A nonresident taxpayer, be it a corporation or an individual, may request an advance ruling; a nonresident individual taxpayer may also request the issuance of a tax-at-source card. In either case, if the nonresident is required to file a tax return, the request may be made in the return. If the treaty provisions have not been applied in the tax withholding or the taxation of the nonresident for some other reason is not in accordance with the treaty provisions concerned, the nonresident may file a corrective claim or request that excess tax withheld be refunded. A nonresident is also entitled to receive interest on overpaid final withholding tax, which is refunded on the same terms as apply for a resident taxpayer.¹⁰⁸³ In general, the nonresident should claim the treaty provision to be applied in writing. The Tax Administration has certain forms available for both individual and corporate taxpayers that may be used to request a refund of excess tax withheld (see Worksheets 9 and 10).

In certain situations, the payer of income may apply tax treaty provisions without a separate claim being made to the Tax Administration at the tax withholding stage. For example, where taxable dividends, royalties or interest are paid to a nonresident, it is sufficient for the recipient of the income to provide the Finnish payer with proof of entitlement to benefits under the relevant treaty. The payer of the income (and, where the payer is a corporation, in the last instance, the members of the payer's board of directors) is responsible for ensuring that the recipient is entitled to the benefits of the relevant treaty. The recipient must provide the payer with certain information, including the full name, date of birth or business identification number, address in country of residence, and a certificate of residence from the tax authority confirming that the recipient is a tax resident of that country. For information on tax treaty benefits in cases where a nonresident's shares are nominee registered, see V.C.1.a., above.

D. *Taxation of Business Income*

1. *Permanent Establishment*

Finland's income tax treaties closely follow the OECD Model Tax Convention. The existence of a PE is, therefore, generally determined in accordance with the principles set out in the OECD Model Tax Convention, as set out below. (For the

¹⁰⁸² The Act on the Elimination of International Double Taxation, Sec. 8.

¹⁰⁸³ Nonresident's Income Tax Act, Sec. 11.4.

significance of the existence of a PE, see also VI., above, and VII., above.)

A PE means a fixed place of business through which an enterprise carries on business. In particular, the term includes a place of management, a branch, an office, a factory, a workshop, a mine, a quarry and any other place of extraction of natural resources. A building site or installation project constitutes a PE only if it lasts for more than 12 months or, under some tax treaties, more than six months.

Furthermore, a home office or other remote working arrangement may also create a PE in Finland if an employee or senior executive has a home office in Finland from which the enterprise's business is carried on permanently. Casual or occasional work from home is not sufficient, and no PE is created if the activities carried on from the home office are merely preparatory or auxiliary in nature.¹⁰⁸⁴ A PE may arise, for example, where the foreign enterprise does not provide office premises, but the duties require office space and require a Finland-based employee to work from home, or where the foreign enterprise has a business-related interest in the work being carried on from Finland, such as serving customers in Finland or carrying on sales activities directed to Finland or nearby Nordic or Baltic markets.

By contrast, where the foreign enterprise provides office premises but the employee works from a home office in Finland solely at the employee's own request and without a business-related connection to Finland, no PE is created. The same may apply where the employee merely uses ordinary work equipment provided by the employer, whereas the assessment may be different if the employer requires home working because adequate office space is not available or reimburses home office premises costs. In addition, a home office in Finland used by a senior executive may constitute a PE as a place of management if independent decisions concerning the whole or part of the enterprise's business are made there on a permanent basis. In all cases, the assessment must be based on objectively verifiable facts and the overall circumstances, considering the employee's or executive's duties as a whole and the relationship between the work performed from the home office and the other activities of the foreign enterprise.¹⁰⁸⁵

The term "permanent establishment" does not include the maintenance of a fixed place of business solely for purposes of carrying on any activity of a merely preparatory or auxiliary character for an enterprise.¹⁰⁸⁶ Furthermore, an enterprise is not deemed to have a PE in a country merely because it carries on business in that country through an agent of independent status acting in the ordinary course of his/her business. Finally, the fact that a corporation that is a resident of a country controls or is controlled by a corporation that is a resident of another country, or that carries on business in that other country — whether

through a PE or otherwise — does not of itself make either corporation a PE of the other.

Finnish domestic law also contains a definition of a PE (see VII.A., above).¹⁰⁸⁷ In general, the tax treaty definitions of a PE are more detailed. If there is an applicable treaty, the treaty definition takes precedence over the domestic definition (unless, exceptionally, the domestic definition would result in less burdensome taxation).

2. Industrial or Commercial Profits

Under Finland's tax treaties, business income (as determined in the relevant treaty articles, i.e., excluding dividends, interest and royalty income, and generally capital gains, which are types of income that are dealt with in separate treaty articles) of a foreign enterprise may be taxed in Finland only to the extent the income is attributable to a PE situated in Finland. No tax exposure in Finland arises from activities carried on in Finland that do not constitute a PE. No distinction is made in this respect between industrial and commercial or any other business profits. The concept of a branch profits tax, such as exists in the United States, does not exist under Finnish tax law.

3. Planning to Minimize Taxation of Business Income

Finland's tax treaty network is quite extensive and includes treaties with most OECD countries and Eastern European countries. Finland's tax treaties with certain countries consistently include a "tax-sparing clause." Under the terms of such a clause, a taxpayer may also be granted a tax credit for the foreign tax that would have been levied in the treaty partner country but for a deduction allowed, or an exemption or a reduction of tax granted, as part of an incentive program in that country. Such a clause is included, for example, in the Finland-Philippines tax treaty.¹⁰⁸⁸

Finland's corporate tax rate of 20% is lower than the average rate for Western Europe. The maximum withholding tax rates provided for under Finland's tax treaties for dividends, interest and royalties are generally low. Furthermore, Finnish domestic law provides privileged tax treatment for foreign dividends flowing through a Finnish recipient company to another nonresident group corporation. For details, see V.B.3.d., above.

Comment (1): Based on these provisions, Finland's tax law and tax treaties may provide a useful basis for the establishment of a base company. Such a base company could be the vehicle for investments into a third country with which a foreign investor's country of residence has no treaty, and (subject to treaty limitations) could enable the foreign investor to take advantage of the benefits under a Finnish treaty with regard to investments and dealings with persons in that third country.

Comment (2): In this regard, the developments under the OECD's BEPS reports and especially the EU ATAD III proposal¹⁰⁸⁹ must be noted. They will likely create substance requirements for base companies that invest cross-border into

¹⁰⁸⁴ See also OECD, the 2025 Update to the OECD Model Tax Convention, approved by the OECD Council on November 18, 2025. Finland generally applies the principles and interpretations of the OECD Model Tax Convention.

¹⁰⁸⁵ Tax Administration guidance (No. VH/5613/00.01.00/2022), Income taxation of nonresident foreign corporate entities, Ch. 3.2.5.

¹⁰⁸⁶ In Supreme Administrative Court ruling No. 2021:171, product demonstrators located in Finland, who did not have right to execute contracts, receive purchase orders or negotiate sales prices on behalf of their foreign parent company (the employer), did not create a PE for the parent company in Finland.

¹⁰⁸⁷ Income Tax Act, Sec. 13a.

¹⁰⁸⁸ Convention between the Republic of the Philippines and the Republic of Finland for the avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income, signed in Manila on October 13, 1978.

¹⁰⁸⁹ European Parliament legislative resolution of January 17, 2023 on the proposal for a Council directive laying down rules to prevent the misuse of shell entities for tax purposes and amending Directive 2011/16/EU.

other countries using the treaty network of the base jurisdiction. However, Finland's highly educated population makes it possible for investors to hire local professional staff for such a base company with a view to creating the required substance. In addition, the fact that the Finnish capital gains participation exemption does not apply to companies deemed to carry on private equity or venture capital activity if the base company is an investment vehicle owned by a private equity or a venture capital fund needs to be taken into account.

E. Taxation of Investment Income

1. What Is Investment Income?

Investment income is income from passive investment, and includes capital gains, interest and dividends.¹⁰⁹⁰ Royalties or other periodic payments for the use of tangible or intangible assets, as well as rental payments, are also generally deemed to be investment income and not business or commercial income. This, however, depends on the particular circumstances.

In cross-border situations, investment income may be classified differently in the payer country and the payee country and even in the same country under domestic law on the one hand and under an applicable tax treaty on the other. This may lead to situations in which, for instance, foreign-source dividends are deemed to be dividends under the applicable treaty but interest under Finnish domestic law, in which case they may be taxed in Finland as interest but only to the extent allowed for dividends by the treaty. On the other hand, investment income paid from Finland may be deemed to be dividends in Finland so that the treaty withholding tax rate for dividends is applied, while in the recipient country the same income is considered interest income and treated accordingly (for example, no credit for Finnish withholding tax may be granted). In Finnish domestic law these situations are dealt with by the anti-Hybrid Act (see XIV.E., above). In a treaty situation, the problem may be resolved via a MAP, as provided for by the applicable treaty, or by way of informal contact between the competent authorities of the treaty partners. However, sometimes such a conflict may anyway lead to international double taxation.

2. Withholding Rates

Under the terms of Finland's tax treaties, the withholding tax rates on dividends, interest and royalties are generally reduced from the 30% rate provided for by domestic law¹⁰⁹¹ to rates ranging from zero to 20%, depending on the type of income and the treaty concerned. In many cases, the rate is zero, particularly with respect to interest, certain types of royalties and dividends other than portfolio dividends.¹⁰⁹² As the applicable tax rate varies between from treaty to treaty, it is always advisable to check for the correct rate in the treaty concerned.

¹⁰⁹⁰ However, for domestic tax purposes, dividend income from corporations other than listed corporations may be divided into capital income and earned income. See X.C., above. For capital gains, see also XI.E., above.

¹⁰⁹¹ In case of publicly listed companies, the domestic dividend withholding tax rate may even be 35% (see V.C.I.a., above).

¹⁰⁹² Finnish withholding tax rates on dividends are available at <https://www.vero.fi/globalassets/suomesta-ulkomaille-maksettavien-mm.-osinkojen-1%C3%A4hdeveroprosentit-2024.pdf>.

In addition to the tax treaties, Finnish domestic law may also have an effect on the applicable withholding tax rate. For example, interest income derived by nonresidents (other than via a PE in Finland) from Finnish sources is, under Finnish domestic law, exempt from Finnish tax if the interest is derived from bonds, debentures and similar debts, bank accounts, international trade accounts, or loans borrowed from a foreign source that are not investments equivalent to the borrower's equity. This provision makes the withholding of tax from Finnish-source interest income a very rare occurrence: no tax is withheld if the income is exempt from tax based on Finnish domestic law.

F. Tax Treaties with the United States

1. Finland-United States Income Tax Treaty

The current tax treaty between Finland and the United States was signed on September 21, 1989. A Protocol amending the 1989 tax treaty was signed by the parties on May 31, 2006 and came into force on January 21, 2008.

In the United States, the tax treaty covers only the federal income tax and not state taxes. Hence, where double taxation is eliminated in Finland by crediting U.S. taxes against taxes payable in Finland, only the U.S. federal taxes are credited.¹⁰⁹³

a. Residence

As a general rule, the Finland-U.S. tax treaty applies to persons that are residents of one or both of the contracting states, except as otherwise provided in the treaty. The right to tax income from particular sources is divided between the contracting states depending on the source of income, the type of income and the state in which the person receiving the income is deemed to be resident for purposes of the treaty. One of the principal objects of the treaty is to avoid double taxation. This object cannot be realized without first applying the rules of the treaty determining the (primary) state of residence. Therefore, the treaty rules determining residence¹⁰⁹⁴ are of crucial importance.

Where a person has such connections to both contracting states that he/she is, under the respective domestic tax laws, deemed to be resident in both states, the treaty contains elaborate tie-breaker rules for determining the person's residence for purposes of the treaty. Where the rules apply, the principal criteria for determining residence are the person's permanent home, the center of his/her vital interests, his/her habitual abode and his/her citizenship. The residence must be genuine in order to be respected. In this regard, an advance ruling of the Supreme Administrative Court¹⁰⁹⁵ may be of interest. In the case concerned, a resident of Finland received dividend and interest income from an investment fund established under Luxembourg law in Luxembourg. The investment fund was of the *fonds commun de placement* (FCP) type, which, under Luxembourg law, is not a legal entity but merely a pool of assets managed by a separate fund management corporation. An FCP is not subject to tax in Luxembourg, and the profit-share pay-

¹⁰⁹³ Finland-U.S. tax treaty, art. 2.

¹⁰⁹⁴ Finland-U.S. tax treaty, art. 4.

¹⁰⁹⁵ Ruling of the Supreme Administrative Court No. 2004:116. The case was decided on a 3-2 vote.

ments it makes abroad to its foreign unitholders are not subject to any withholding tax. For purposes of the Finnish taxation of the resident unitholder, the ruling treated the FCP concerned as a pass-through entity and investment income derived by the Finnish resident via the fund from, in this case, the United States was treated as if it were received directly from the United States. As a consequence, the Finland-U.S. tax treaty (and the rates applying thereunder) was applied (and not the Finland-Luxembourg tax treaty) in relation to the yield on the investment that was paid from Luxembourg but derived from the United States.

b. Saving Clause

The current Finland-U.S. tax treaty includes a saving clause¹⁰⁹⁶ that enables the United States to ignore the treaty with respect to its own residents and citizens, subject to certain limitations. The United States may tax its former citizens and long-term permanent residents under section 877 of the Internal Revenue Code if, as of the date they lose citizenship or permanent residence status, they meet certain net worth requirements or had a certain minimum average five-year annual federal income tax liability; or if they fail to certify under penalties of perjury that they fully complied with their federal tax obligations for the previous five years.

c. Permanent Establishment

A PE means a fixed place of business through which the business of an enterprise is wholly or partly carried on.¹⁰⁹⁷ A PE includes a place of management, a branch, an office, a factory, a workshop, and a mine, an oil or gas well, a quarry, or any other place of extraction of natural resources. A building site or construction or installation project constitutes a PE only if it lasts for more than 12 months. An installation rig or ship used to explore for or exploit natural resources constitutes a PE only if such activity lasts for more than 12 months.

The definition of a PE excludes:¹⁰⁹⁸

- (i) The use of facilities solely for purposes of the storage, display, or delivery of goods or merchandise belonging to the enterprise;
- (ii) The maintenance of a stock of goods or merchandise belonging to the enterprise solely for purposes of storage, display or delivery;
- (iii) The maintenance of a stock of goods or merchandise belonging to the enterprise solely for purposes of processing by another enterprise;
- (iv) The maintenance of a fixed place of business solely for purposes of purchasing goods or merchandise, or of collecting information for the enterprise;
- (v) The maintenance of a fixed place of business solely for purposes of carrying on, for the enterprise, any other activity of a preparatory or auxiliary character; and

- (vi) The maintenance of a fixed place of business solely for any combination of the activities referred to above in (i) to (v).

A person, other than an independent agent, acting in one of the contracting states on behalf of an enterprise of the other contracting state is deemed to constitute a PE of the enterprise in the former state if the person has, and habitually exercises, an authority to conclude contracts in the name of the enterprise, unless the person's activities are limited to the activities, referred to above in (i) to (vi), which have a preparatory or auxiliary character only.¹⁰⁹⁹

An enterprise of one of the contracting states is not deemed to have a PE in the other state merely because it carries on business in that state through an independent agent, where the agent is acting in the ordinary course of his or her business.¹¹⁰⁰

The fact that a corporation of one of the contracting states controls, or is controlled by, a corporation that is a resident of the other state or that carries on business in that other state does not, of itself, make either corporation a PE of the other.¹¹⁰¹

d. Business Profits

The profits of an enterprise of a contracting state may be taxed (as business profits; see also VI. and VII., above) in the other contracting state only if the enterprise carries on business in the other state through a PE situated therein and only to the extent that the profits are attributable to that PE.¹¹⁰²

e. Income from Real Property

Income derived by a resident of a contracting state from real property situated in the other contracting state may be taxed in that other state.¹¹⁰³ For purposes of the Finland-United States tax treaty, shares in a housing company or a mutual real estate company (see XI.D. and III.B.2.I., above) are deemed to be real property.¹¹⁰⁴

f. Dividends

Dividends paid by a company that is a resident of a contracting state to a resident of the other contracting state may be taxed in that other state.¹¹⁰⁵ The maximum withholding tax rate provided for by the current Finland-U.S. tax treaty is generally 15%, or 5% if the recipient is a corporation owning at least 10% of the voting stock of the distributing corporation.¹¹⁰⁶ In addition, the treaty provides that dividends paid by a U.S. corpora-

¹⁰⁹⁹ Finland-U.S. tax treaty, art. 5(5).

¹¹⁰⁰ Finland-United States tax treaty, art. 5(6).

¹¹⁰¹ Finland-U.S. tax treaty, art. 5(7).

¹¹⁰² Finland-U.S. tax treaty, art. 7(1). Note, however, that if such profits have the nature of income that is dealt with separately in the other articles of the treaty, such as dividend or royalty income, they may be subject to taxation under the provisions of those articles.

¹¹⁰³ Finland-U.S. Income Tax Treaty, art. 6(1).

¹¹⁰⁴ Finland-U.S. tax treaty, Arts. 6(4) and 22. Note that such shares are, in general, regarded as movable property under Finnish law.

¹¹⁰⁵ Finland-U.S. tax treaty, art. 10(1).

¹¹⁰⁶ Finland-U.S. tax treaty, art. 10(2). Dividends are exempted from withholding tax subject to limitations provided that the recipient owns directly or indirectly at least 80% of the voting stock of the payer company or if the recipient is a pension fund.

¹⁰⁹⁶ Finland-U.S. tax treaty, art. 1.

¹⁰⁹⁷ "Permanent establishment" is defined in Finland-United States tax treaty, art. 5. Whether the foreign corporation has a PE in Finland may be of crucial importance. See VI., above, and VII., above.

¹⁰⁹⁸ Finland-U.S. tax treaty, art. 5(4).

tion to a Finnish company owning at least 10% of the voting stock of the U.S. corporation, are exempt from Finnish tax.¹¹⁰⁷

g. Interest

Interest income is taxed only in the contracting state in which the recipient is resident,¹¹⁰⁸ unless the interest, in fact, constitutes business profits or income from independent personal services, in which cases the provisions concerning those types of income apply. This total exemption is in line with Finnish tax law, which provides, in general, that interest income derived by a nonresident is exempt from tax.¹¹⁰⁹

h. Royalties

Royalties also are exempt from tax in the source state.¹¹¹⁰

i. Salaries and Wages

Remuneration derived by a resident of a contracting state with respect to employment is taxable only in that state, unless the employment is exercised in the other contracting state. If the employment is so exercised, remuneration derived from that other state may be taxed in that other state.¹¹¹¹

However, remuneration derived by a resident of a contracting state with respect to employment exercised in the other state is taxable only in the state of residence if:

(i) The recipient is present in the other state for a period or periods not exceeding in the aggregate 183 days in any 12-month period; and

(ii) The remuneration is paid by, or on behalf of, an employer that is not a resident of the state of employment.

The remuneration is not borne by a PE, a fixed base, or any other trade or business that the employer has in the state of employment.¹¹¹²

j. Independent Personal Services

Income derived by an individual who is a resident of a contracting state from the performance of personal, independent services — other than as an artist or a sportsman — may be taxed in the other contracting state only to the extent such services are performed in that other state and the income is attributable to a fixed base regularly available to the individual in that other state for purposes of performing his activities.¹¹¹³

k. Elimination of Double Taxation

The principal method for the elimination of double taxation is the credit method, both in Finland and in the United States.¹¹¹⁴ It should be noted that the tax treaty is not applicable to U.S. state taxes; it covers only U.S. federal income tax.

2. Finland-United States Inheritance Tax Treaty

The Finland-U.S. inheritance tax treaty was signed in 1952. There is no gift tax treaty between the two countries, nor is there a treaty concerning the U.S. generation-skipping transfer tax.¹¹¹⁵ The Finland-U.S. inheritance tax treaty applies only with respect to the U.S. federal estate tax and the Finnish inheritance tax.

The core purpose of the Finland-U.S. inheritance tax treaty is to provide rules for a consistent determination in both countries of the situs of each type of asset, and to guarantee that a credit for the federal estate tax or inheritance tax imposed in the United States or Finland, respectively, is allowed in the other contracting state.

a. Residence

For purposes of the Finland-U.S. inheritance tax treaty, the question of whether a decedent was resident in the United States or Finland at the time of his/her death is determined in accordance with the laws in force in the United States or Finland, respectively. Finland has adopted residence of the decedent or of the beneficiary of the estate, whereas the United States has adopted domicile of the decedent, as a jurisdictional basis.¹¹¹⁶ The relevant provisions of Finnish law determining residence are discussed at XII.A., above.

The treaty does not contain “tie-breaker rules” for determining which one of the countries is the principal place of residence for purposes of the treaty. Under Article X of the treaty, possible double taxation situations would be resolved by mutual agreement between the competent authorities.

b. Saving Clause

The Finland-U.S. inheritance tax treaty does not contain an express saving clause, i.e., a provision reserving to the United States the right to tax U.S. citizens and residents as if the treaty had not come into effect.¹¹¹⁷

c. Situs Rules

Finnish tax law does not contain express rules for determining the place where an asset is deemed to be situated. The situs rules are important in ascertaining that the situs of an asset is determined consistently in both countries.

Under the situs rules of Article III of the Finland-U.S. inheritance tax treaty, immovable property has its situs where it is located. Tangible movable property, including currency, has its situs at the place where it is located at the time of death or, if it is in transit at the time of death, at the place of destination. However, ships and aircraft have their situs at the place of registration.

Debts generally have their situs where the debtor is resident. Shares of a corporation have their situs at the place where the corporation is created or organized. Goodwill has its situs where the business to which it pertains is carried on. Patents and trademarks have their situs where they are registered or used. Copyrights, franchises and similar rights have their situs

¹¹⁰⁷ Finland-U.S. tax treaty, art. 23(1)(b).

¹¹⁰⁸ Finland-United States tax treaty, art. 11(1).

¹¹⁰⁹ Income Tax Act, Sec. 9.

¹¹¹⁰ Finland-U.S. tax treaty, art. 12.

¹¹¹¹ Finland-U.S. tax treaty, art. 15(1).

¹¹¹² Finland-U.S. tax treaty, art. 15(2). This is the important 183-day rule that is found in various forms in virtually all tax treaties.

¹¹¹³ Finland-U.S. tax treaty, art. 14.

¹¹¹⁴ Finland-U.S. tax treaty, art. 23. For the application of the credit method, see XV.A., above, and V.B.7.a., above.

¹¹¹⁵ Finland does not levy a generation-skipping transfer tax.

¹¹¹⁶ Finland-U.S. inheritance tax treaty, art. III.

¹¹¹⁷ Such a clause exists in the Finland-U.S. tax treaty, art. I.

where they are exercisable. Finally, all property not specifically referred to in the treaty is deemed to be situated in accordance with the laws of the contracting state imposing the tax based on the situs of the property within that state. If neither of the contracting states imposes the tax based on the situs of property in that state, then all such other property will be deemed to be situated where the deceased person was domiciled at the time of his or her death.

d. Exemptions, Deductions, Allowances, and Credits

Exemptions, deductions and allowances provided for by the domestic laws of Finland and the United States are available, but only to a limited extent in the case of a nonresident decedent. Article IV of the Finland-United States inheritance tax treaty contains express provisions on this matter. The same also applies to credits. Article V of the treaty provides that the country of domicile or residence or, in the case of the United States, citizenship, is to allow a credit against its estate or inheritance tax for the amount of tax imposed in the other contracting state, subject to certain limitations.

3. Other Treaties

In addition to the income tax treaty (see 1., above) and inheritance tax treaty (see 2., above), Finland and the United States have also concluded a treaty concerning the exemption of income derived from international transportation activities (air and sea) on April 22, 1988 (effective from May 10, 1988), and a social security agreement on June 3, 1991 (effective from November 1, 1992).

Finland also concluded a FATCA¹¹¹⁸ intergovernmental agreement with the United States on March 5, 2014. FATCA aims to curtail offshore tax evasion by facilitating the exchange of tax information. The intergovernmental agreement is a “Model 1” agreement, which means the Tax Administration is tasked with collecting information from Finnish financial institutions, instead of Finnish companies having the duty to report information themselves to the United States’ authorities. Pursuant to the agreement, exchange of information began in 2015.

There are no other tax treaties in force between Finland and the United States.

¹¹¹⁸“FATCA” stands for the Foreign Account Tax Compliance Act of the United States.

TABLE OF WORKSHEETS

Worksheet 1	Start-up Notification — Limited Companies, Co-operatives, Savings Banks, Foundations, Associations and Other Organizations (Form Y1). Available at: https://www.ytj.fi/material/collections/1Tk6Xxplm/HMe8AGNSw/y1e.pdf.
Worksheet 2	Application for Prepayment and for Change in Withholding Tax Percentage (Form 5010e). Available at: https://www.vero.fi/contentassets/d47b1277cb384a758ae3bb747c2e56ee/5010ev26_t.pdf.
Worksheet 3	Letter of Authorization for Tax Representation of Individual Taxpayers (Form 3818e). Available at: https://www.vero.fi/contentassets/20e73324cdb84e27acd0f8061faae516/3818ev23_ws_2.3.2023.pdf.
Worksheet 4	Certificate of Residence and Tax Liability for the Use of Finnish Tax Administration (Form 6132e). Available at: https://www.vero.fi/contentassets/efe9a83b3bda4731838595ddc48fabf0/6132fv18_w.pdf.
Worksheet 5	Business Tax Return for Business Partnership (Form 6A). Available at: https://www.vero.fi/contentassets/06f454f3517f40b9a332e33c4816f049/6a_3055ev23_6a_ws.pdf.
Worksheet 6	Corporate Income Tax Return and Related Forms: • Form 6B (Tax Return of Business Activities). Available at: https://www.vero.fi/contentassets/216052c574d4442c86bbbc7b1cc64aeb/3052ev24_ws.pdf. • Form 62 (Itemization of Reserves, Revaluations, and Depreciation of Fixed Assets). Available at: https://www.vero.fi/contentassets/561a0a114866474197784f79d233d020/3050ev24_ws.pdf. • Application for Extension of Time to Submit Corporate Tax Return  Available at: https://www.vero.fi/contentassets/bcdc7b1064b44cc587cdb2c1c19c57c6/3105ev17_t.pdf. • Form 70 (Claim for Removal of Double Taxation). Available at: https://www.vero.fi/contentassets/ce2f7d288e60461caecd09afd7df184e/3091ev26_ws.pdf.
Worksheet 7	Corporate Income Tax Prepayment Application (Form 5017e). Available at: https://www.vero.fi/contentassets/7f855fe130fb48dc92e5ae9ad0bc05ea/5017ev20_ws_21.2.2024.pdf.
Worksheet 8	Form 78 (Explanation of Transfer Prices). Available at: https://www.vero.fi/contentassets/4dbb25d8ab8346d6bd0c144f85ded566/3054ev26_ws.pdf.

Worksheet 9	Withholding Tax Refund Claims or Relief Applications (Dividends, Interest and Royalties): • <i>Application for Refund of Finnish Withholding Tax Income (Dividends, Interest and Royalties)</i> (Individual Applicant — Form 6164e). Available at: https://www.vero.fi/contentassets/c10f3e2f303547d0852d1acb971234a1/6164ev24_ws.pdf. • <i>Application for Refund of Finnish Withholding Tax on Dividends, Interest, and Royalties</i> (Non-Individual Applicant — Form 6163e). Available at: https://www.vero.fi/contentassets/b64a4e9b20df4f4ebe2f348f51347e23/6163ev20_ws.pdf. • <i>Specification of Dividend Payments for Which Refund Is Being Requested</i> (Form 6167e). Available at: https://www.vero.fi/globalassets/lomakkeet/6167ev20_ws.pdf. • <i>Foreign Corporation's Tax-at-Source Card Application for Dividend, Interest and Royalty Income</i>. Available at: https://www.vero.fi/contentassets/9d4a140b14464636b40862afb40002ef/6211ev20_ws.pdf.
Worksheet 10	Withholding Tax Refund Claims (Income Other than Dividends, Interest and Royalties): • <i>Application for Refund of Finnish Withholding Tax on Other Income than Dividends, Interest, and Royalties</i> (Individual Applicant — Form 6166e). Available at: https://www.vero.fi/contentassets/c10f3e2f303547d0852d1acb971234a1/6166ev18_t_28.3.2018.pdf. • <i>Application for Refund of Finnish Withholding Tax on Other Income than Dividends, Interest, and Royalties</i> (Non-Individual Applicant — Form 6165e). Available at: https://www.vero.fi/contentassets/b64a4e9b20df4f4ebe2f348f51347e23/t%C3%A3ytt%C3%A3_6165ev17_11.2017.pdf.
Worksheet 11	Application for the Extension of Time to Submit Tax Return (Form 3200e). Available at: https://www.vero.fi/contentassets/49cbc925974e4b49b6914580c5505141/3200ev18_w.pdf.
Worksheet 12	[Reserved.]
Worksheet 13	Application Form/Repayment of VAT to Foreign Businesses (Form 9550e). Available at: https://www.vero.fi/contentassets/ed722d5696444bec8212a601b6509627/9550ev19_t_1.2.2019.pdf.
Worksheet 14	Registration Information on a Foreigner Staying in Finland Temporarily (Form 6150e). Available at: https://www.vero.fi/contentassets/1e0dfe0aeb7c4c9b93254449ac442b64/6150s_ev19_t.pdf. • Non-Resident's Application for Tax at Source Card, Tax Card, Tax Prepayment or Tax Number. Available at: https://www.vero.fi/contentassets/f361fcca29fc4cf5b24403f37c7531e7/5057ev22_ws.pdf.
Worksheet 15	List of Social Security Agreements Signed by Finland as of March 1, 2022.
Worksheet 16	Sample of Articles of Association.

Working Papers for this Portfolio can be found online at <https://bloombergtax.com>.

Additional Resources

Note: The Tax Administration is greatly promoting the use of the MyTax portal. As a result, the use of most paper forms is decreasing and more and more tax matters must be or are encouraged to be handled online. Most tax forms still in paper form may be obtained through the Tax Administration at:
<https://www.vero.fi/en/About-us/contact-us/forms/>.

- The Start-up Notification form and other Trade Register forms are available at:
<https://www.ytj.fi/en/index/notifications.html>.
- Instructions — Pre-completed Tax Return Form. Available at:
https://www.vero.fi/en/individuals/tax-cards-and-tax-returns/your_tax_return_and_tax_assessment_deci/instructions-for-filing/.

