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NEWS

TALKING TAX: Finland establishes new ways to enforce taxes

Feb 28, 2007
 Paul Kunnap [at Sorainen Law Offices]

Finland has seen a steady inflow of Estonia's workforce for nearly a decade. Accession to the EU created a flood of Estonian workers in Finland, even though the numbers fell far short of what some Finnish trade unions had predicted. Lack of knowledge of and indifference to Finnish tax laws has often resulted in massive evasion of taxes by both workers and managers of small companies. Thus far tax authorities have been relatively powerless to deal with the issue since their sources of information regarding such service-providers have been limited.



To rectify the situation, at the end of last year Finland's Parliament passed a number of laws to force foreign service-providers to provide more information to the tax authorities and levy income tax on the salaries of leased workers, regardless of the duration of their stay in Finland.

The new laws set a number of new notification requirements. The client using foreign service-providers as contractors, subcontractors or leased workers must now notify the tax authorities or face a fine. Similarly, the foreign service-provider must now notify the tax board of the workers it employs in Finland, as well as all workers who work in Finland at least 183 days in a 12 calendar-month period.

The change to the tax withholding rules applicable in Finland was effective immediately. From the start of this year, Finnish entrepreneurs are obliged to withhold 13 percent of payments made for certain services, including construction and lease of workers, provided by nonresidents. The withholding tax is returned to the nonresident upon relevant application, but generally with a delay of over a year. The tax is not withheld if the nonresident has registered with Finnish tax authorities. To stop the withholding, foreign companies providing services have flocked to register themselves.

As far as leased workers, Finland decided to take advantage of the protocol attached to some of the tax treaties Finland has concluded, including with Estonia, Latvia and Lithuania (but not with Poland, Romania or Bulgaria). The protocol allows Finland to deviate from the ordinary six-month rule that would prohibit it from taxing the salary of nonresidents who work in Finland for less than 183 days in a 12 calendar-month period. Now leased workers from some countries are obliged to pay income tax on their salaries received from Finland from the moment they start working in Finland. The overall effect of the amendments remains to be seen. However, we can expect that the tax discipline of nonresident enterprises and workers in Finland will improve. Tax authorities certainly have a wealth of new sources of information to enforce the taxes.

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