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NEWS

TALKING TAX: Finnish taxes and profit repatriation

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Finland was forced to change its corporate income tax system after the European Court of Justice found the system employed in Finland as incompatible with EU law. The new system has been in force since the beginning of 2005.

Finnish companies are subject to a 26 percent annual income tax. Recent amendments to Finnish tax legislation have left the rules regulating the calculation tax largely unchanged. In general, taxable income is income received as money or monetary benefit from business activities. Costs incurred to gain or retain income are deducted from taxable income. Possible losses can be deducted from future profits for up to 10 years.

The controversial Finnish CFC-regulation must now be amended due to the recent EC court (Cadbury Schweppes) ruling. Under current CFC rules, Finnish tax authorities may deem that income of a foreign company controlled by a Finnish tax resident is taxable if the tax rate of the foreign company in its home country is less than 15.6 percent.

Dividends from a Finnish company are tax free for a Finnish private citizen if the company paying the dividends is not listed on the stock exchange, and the amount of dividends does not exceed 9 percent of the calculable net value of shares held by the shareholder, or 90,000 euros. Dividends received from a listed company or dividends in excess of 90,000 euros incur 19.6 percent income tax. Dividends received from a non-listed company in excess of 9 percent of the calculable net value are equivalent to salary income and incur a progressive rate tax.

In general, dividends from Finnish companies to other Finnish companies are tax free. A notable exception are dividends paid by a listed company to a non-listed company which holds less than 10 percent of the shares of the listed company.
Finland has implemented the parent-subsidiary directive. Dividends paid by a Finnish company to a foreign company based in the EU are tax free if that the company receiving the dividends holds at least a 20 percent share in the Finnish company involved.
Interests from an affiliated Finnish company to a Baltic company are tax free in Finland. Companies are affiliated if they hold at least 25 percent of the shares of the other or if at least 25 percent of the shares of both companies are held by the same third person.

Management services and other service fees do not incur tax obligations in Finland, if the pricing of the service is equivalent to market levels and that the provision of services do not result in the creation of a permanent establishment for the service provider. Naturally overpriced services, unreasonably high interest rates, transfer pricing, and other such measures are likely to incur tax consequences.

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