



## Finland

### Introduction

A person's liability to Finnish tax is determined by residence status for tax purposes and the source of income derived by the individual. Income tax is levied at progressive rates on an individual's taxable income for the year, which is calculated by subtracting allowable deductions from the total assessable income. Nonresidents pay a flat rate of tax at the source.

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### Key messages

Depending on tax treaty provisions, payroll setup, and the length of stay, extended business travelers may become taxable on employment income relating to their Finnish workdays.

## Income tax

### Liability for income tax

A person's liability for Finnish tax is determined by residence status. A person can be a resident or a nonresident for Finnish tax purposes. An individual is treated as a resident if the individual has a permanent home or habitual abode in Finland or otherwise has stayed in the country for a continuous period of at least six months. It should be noted that the stay in Finland might be regarded as continuous in spite of a temporary absence from the country.

A nonresident for tax purposes in Finland is generally someone who spends less than six months in Finland and does not have a permanent home in Finland.

The general rule is that a person who is a resident of Finland is assessable on worldwide income. Nonresidents are generally assessable on income derived directly or indirectly from sources in Finland. Extended business travelers are likely to be considered nonresident of Finland for tax purposes unless they enter Finland with the intention to remain in Finland for more than six months.

Employment income is generally treated as Finnish-sourced compensation where the individual performs the services for a Finnish employer while physically located in Finland.

### Tax trigger points

Technically, there is no threshold/minimum number of days that exempts the employee from the requirements to file and pay tax in Finland. To the extent that the individual qualifies for relief under the dependent personal services article of an applicable double tax treaty, there will be no tax liability. The economic employer approach is not adapted or legislated in Finland, but it should be noted that there is a risk that the approach may still be used. The tax authority has not provided any written guidelines in this respect.

### Types of taxable income

Normally during short-term assignments (lasting less than six months in total), only employment income for work primarily performed for a Finnish employer or only in Finland (with remuneration paid in cash or in the form of fringe benefits) will be taxed in Finland.

The employment income related to a short-term assignment may be tax exempt on the basis of the relevant tax treaty.

In some cases, the housing and other travel costs to and from Finland can be compensated without tax liability, such as assignments lasting for a period of less than two years where the assignee maintains valid employment in the home country. In this case, a daily tax-exempt allowance may also be paid.

### Tax rates

Finland levies progressive tax rates up to 46.25–51.5 percent (depending on the municipality) for residents. In addition, the local communities of the Evangelical-Lutheran and Orthodox Churches levy church tax. Church tax is imposed at flat rates between 1 and 2 percent.

For nonresidents, a flat 35 percent tax rate is used. There is also a flat basic deduction applicable for nonresidents if this is mentioned in the tax card.

## Social security

### Liability for social security

According to the general rule, all social security premiums must be paid when an individual is working in Finland, regardless of the length of the working period.

Exemption from social security contributions can be granted for individuals seconded to Finland under the EU/EEA Social Security Regulation or an applicable totalization agreement.

Employees coming from countries other than EU/EEA or countries with which Finland has a totalization agreement are generally fully subject to social security payments in Finland. An exemption from obligatory pension insurance may apply under certain circumstances. Exemption may be granted for up to a maximum of five years.

## Compliance obligations

### Employee compliance obligations

Tax returns are normally due May 10 or May 17 following the tax year (which is also the calendar year). The date will be printed on the precompleted tax return form. If a taxpayer has not received a precompleted tax return form, the taxpayer has to file a tax return by May 17.

### Employer reporting and withholding requirements

If salary or fringe benefits are paid by the Finnish entity (company or PE), the local employer has withholding and reporting obligations. Withholding is based on a tax card. Taxation for residents is based on the progressive tax card. There is a tax at source card issued for nonresidents. Tax cards can be obtained from the tax office.

A non-Finnish entity (foreign employer) generally only has a reporting obligation to file an annual notification report if the assignee remains in Finland for over six months.

## Other

### Work permit/visa requirements

Employees outside the EU/EEA generally need a work permit in order to work in Finland. A specific permit is applicable for experts, managers, and sportsmen, for example. An entry visa is needed for those who are not EU/EEA nationals or not part of the visa waiver program. The visa needs to be applied for prior to entry into Finland.

Certain local registrations are also needed after entry into Finland for those that are nationals of the EU/EEA.

### Double taxation treaties

In addition to Finland's domestic arrangements that provide relief from international double taxation, Finland has entered into double taxation treaties with more than 50 countries to prevent double taxation and allow cooperation between Finland and overseas tax authorities in enforcing their respective tax laws.

### Permanent establishment implications

There is the potential that a permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of services performed and the level of authority the employee has.

### Indirect taxes

Value-added tax (VAT) is applicable at between 9 and 23 percent for taxable supplies.

VAT registration may be required in some circumstances.

### Transfer pricing

The Finnish transfer pricing regime is broadly based on the OECD guidelines.

A transfer pricing implication could arise to the extent that the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in another jurisdiction, in other words, a cross-border benefit is being provided. The Finnish transfer pricing regulations require that the entity benefiting from the services performed also bears the costs of the employee performing the services.

### Local data privacy requirements

Finland has data privacy laws.

### Exchange control

Exchange control has been practically abolished in Finland. Only the most significant foreign transactions of financial institutions are subject to authorization.

Certain reporting requirements apply to payments to or from a foreign country. If such a payment is effected through an authorized bank, the bank will supply the required information to the Bank of Finland. If some other method of payment is used, the resident party making the foreign transaction must provide the Bank of Finland with details of information about the transaction.

### Nondeductible costs for assignees

Nondeductible costs for assignees include, for example, clothing, children's school fees, meals, and other costs considered as normal living costs. In some cases, assignees' living costs that are higher than normal living costs may be deductible.

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