DFK INTERNATIONAL

Doing Business in Finland

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Finland.

dfk.com

Prepared by DFK Finland Oy

+44 (0)20 7436 6722

Background

Country overview

Finland has about 5.5 million inhabitants, which equals 18 inhabitants per square kilometre. Most, 67%, of the population lives in cities or urban areas and 33% in rural areas. The capital of Finland is Helsinki, with a population of 600 000 people. The Helsinki metropolitan area also includes the cities of Espoo and Vantaa and has a total population of about one million people. Other major cities in Finland are Turku, Tampere and in the north of the country Oulu. Finland has two official languages: Finnish and Swedish. Finnish is the mother tongue of 89.3% of the population and the equivalent number for Swedish speakers is 5.3%.

The head of state is the President of the Republic. The President is elected for a six-year term by direct popular vote. The Finnish parliament consists of one chamber with 200 members. The members are elected for a four-year term by direct popular vote under a system of proportional representation.

Economic overview

The Finnish currency unit is the euro. Finland was one of the 12 EU countries that started using the euro in 2002. There are three almost equally important export sectors in the Finnish economy: electronics and electro-technical goods, metal and engineering products, and forest industry products. The Finnish industry is particularly dependent on imports of raw materials, machinery, and components, which it needs for manufacturing products for both domestic and export markets.

The current corporate tax rate is 20 %.

Finland does not have any exchange controls. There are no restrictions on transferring investment capital or profits abroad in freely convertible currencies at a legal market rate. There is no limit on dividend distributions, as long as they correspond to a company's official earnings records. Payments to or from Finland must, however, be made through authorized banks in Finland.

Transport infrastructure

Finland has a well-developed infrastructure. Finland's transportation system is based on an efficient rail and road network, supported by a wide network of freight forwarders and trucking companies. Finland's domestic distribution system for goods and services is efficient. Finland's role as a gateway to and from Russia has been growing in recent times, because of a well-functioning transportation system and the fact that Finland's rail gauge is the same as Russia's. Finland has over 50 merchant shipping ports, of which more than 10 are located on inland waterways connected to the Baltic Sea by the Saimaa Canal. Some twenty seaports are open year-round. Finnish ports, more than 10 of which deal with transit traffic through Finland, can handle a wide range of cargo. Ports are secure and automated; loading and unloading operations are consistently quick and trouble-free.

The most convenient way for business travelers to get around Finland is invariably by train. The train network connects all major cities and is operated by VR, a government owned railway company. Finland also has 24 airports and air travel is worth considering on trips to northern destinations, which might take a lot of time to reach by other means. In addition, all the major cities have a well-functioning public transportation system, which is convenient to use if one does not wish to drive themselves.

Apart from Nordic (Sweden, Norway, Denmark, Iceland) citizens, citizens of EU countries and citizens of Switzerland, San Marino and Liechtenstein, foreigners entering Finland must have a valid passport. A tourist or business visa is not required for stays of up to three months. For non-EU citizens, a visa is needed for stays exceeding 90 days.

Choice of Legal Form

Limited company

A limited company in Finland may be established by one or more natural or legal persons.

Limited companies are divided into private and public companies. The main difference between the two types is that the shares of a private limited company may not be traded in a stock exchange.

A private limited company must have a minimum share capital of 2,500 €.

The trade name of a private limited company must include one of these expressions: osakeyhtiö, oy, aktiebolag or ab.

A limited company must have a board of directors consisting of at least three members. If the company's share capital is below 80,000 €, the number of board members may be less than three. At least one of the ordinary members of the board must be a resident in the European Economic Area unless authorities grant an exemption. The general meeting of the shareholders elects the board of directors.

A limited company may have a managing director, but a company with a share capital of at least 80,000 € must have one.

A limited company must have a representative who is permanently a resident of Finland.

The shareholders can exercise their power at the meeting of the shareholders.

A limited company usually must have one or more auditors. The auditors are elected at the shareholders meeting. Small companies, which meet certain limits, are exempt from performing a statutory audit.

General partnership

A General Partnership in Finland should have at least two partners, who are also its founders. The founders may be natural or legal persons, or another general partnership may act as a founder. At least one of the partners in the general partnership must be a resident in or, if the partner is a legal person, have its registered office in, the European Economic Area (EEA). In other cases, a permit must be applied from the authorities.

A general partnership can be founded without a cash input; a work input will be sufficient.

The partners of a general partnership are liable for the commitments of the partnership with their entire personal property. It is a joint liability, i.e. each partner shall be liable for all the debts of the partnership.

The trade name of a general partnership must include the words avoin yhtiö or öppet bolag unless the corporate form is otherwise indicated in the trade name.

General partnerships in Finland have no statutory management bodies. Each partner of a general partnership shall, based on his partnership, be entitled to represent the company.

A general partnership must have a representative, who is permanently a resident of Finland. If a general partnership has already a partner, a managing director or a holder of procuration who is a resident of Finland, it does not need a separate representative.

At least one auditor is usually required for a general partnership.

Limited partnership

There must be two or more partners in a limited partnership and at least one of them has to be a general partner.

At least one general partner shall be resident of the EEA. In other cases, a permit must be applied from the authorities. The general partner does not need to make a capital input to the partnership, a work input is sufficient. The silent partner must, however, make a capital input, although no minimum amount is set.

The trade name of a limited partnership must include one of the following expressions: kommandiittiyhtiö, ky, kommanditbolag or kb.

A limited partnership is constituted by the partnership agreement, which must be registered in the Finnish trade register.

A limited partnership has no statutory management bodies. Each partner is, based on his partnership, and without a separate authorization, entitled to represent the company, unless it is agreed otherwise.

A limited partnership should have a representative, who is permanently a resident of Finland. If a general partnership has a partner, a managing director or a holder of procuration who is already a permanent resident of Finland, a separate representative is not required.

Branch / Representative office

A branch refers to a part of a foreign organization that conducts business activities in Finland as a permanent place of business, without establishing a separate formal subsidiary. The trade name of a branch must include the trade name of the foreign entrepreneur as a supplement, which indicates that it is a branch, e.g. DFK International branch of Finland.

If a foreign organization from outside the EEA wishes to establish a branch in Finland, it must apply for permission from the authorities.

If an organization established under the laws of a country belonging to the EEA establishes a branch in Finland, it must submit a declaration to the Finnish authorities.

Public limited company

Unlike a private company, the shares of a public limited company may be traded in a stock exchange.

A public limited company must have a minimum share capital of 80,000 €.

The trade name of the public limited company must include one of the following expressions: julkinen osakeyhtiö, oyj, publikt aktiebolag or abp.

A public limited company must have a board of directors consisting of at least three members and a managing director. At least one of the ordinary members of the board has to be a resident in the European Economic Area unless authorities grant an exemption. The general shareholders' meeting elects the board of directors.

A limited company must have a representative who is permanently a resident of Finland.

The shareholders can exercise their power at the meeting of the shareholders.

A public limited company must have one or more auditors. At least one auditor must be a KHT auditor or a KHT firm of auditors (an auditor authorized by the Central Chamber of Commerce). The auditors are elected by the shareholders' meeting.

Audit Requirements

Requirement

An auditor in Finland must be a natural person or an authorised firm of auditors. An auditor must have such knowledge and experience about accountancy, economic and legal affairs as well as auditing, as is necessary considering the nature and the scope of the activities of the corporation. A person lacking full legal capacity, in bankruptcy, or banned from business operations may not be elected as an auditor.

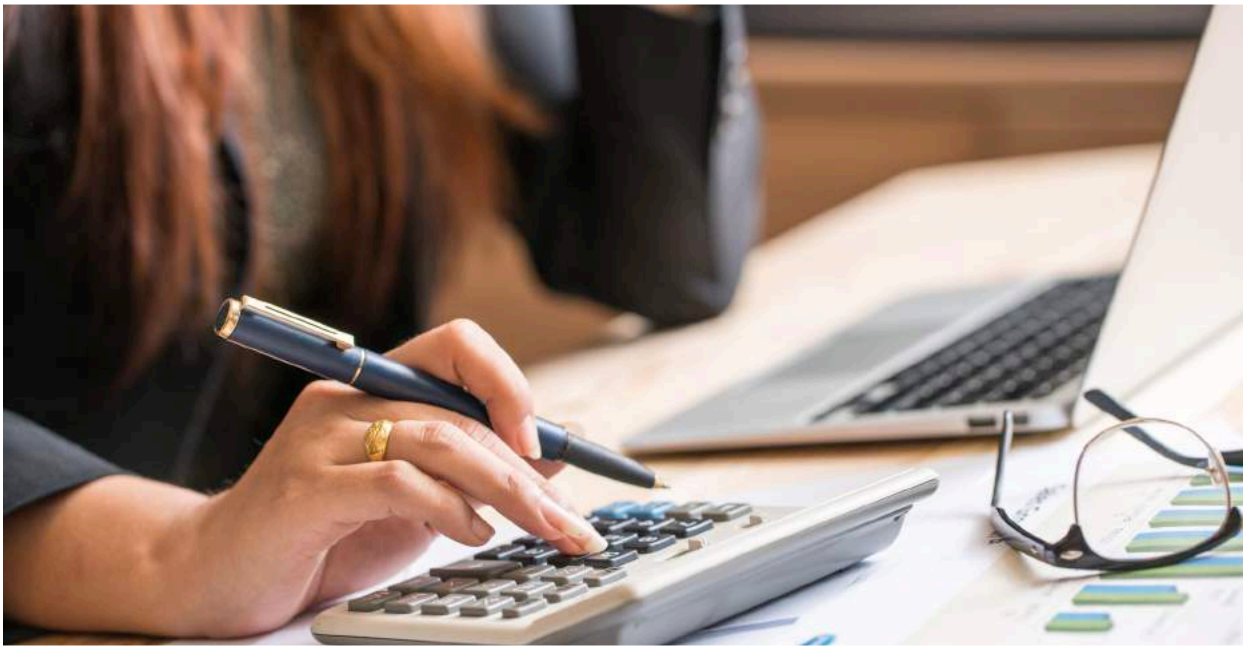
At least one of the auditors must be resident in European Economic Area or be a KHT or HT (an auditor authorized by the Chamber of Commerce) firm of auditors.

An entity is exempt from a statutory audit if two of the following criteria are met for the two previous financial periods:

- total balance sheet is under 100,000 Euros,
- turnover or equivalent is under 200,000 Euros. or
- number of personnel is under 3.

A statutory audit must, however, be performed if the main business of the entity is the ownership and governance of financial securities or the entity has significant influence over the business or financing of another entity.

Taxation



In Finland, the right of taxation belongs to the State, the municipalities, and both state churches (Evangelic-Lutheran and Greek-Orthodox).

Corporation tax

Different corporate forms are taxed differently. The following tax rates are the ones currently in use.

Taxation of private entrepreneurship

The net result of a business is added up with the other income of the entrepreneur. Of the profit of the business a 0-20% yield calculated on the net property of the previous year is considered capital income. The rest is taxed as earning income.

The tax rate of capital income is 34%, the rate of earnings income is progressive, between 0 to 57%.

Taxation of general or limited partnerships

A general or limited partnership is not a separately liable tax entity; instead its result is divided and taxed as income of the partners. The income is divided between the partners in accordance with their profit share agreed upon in the partnership agreement.

Of the income share of a partner, the amount of capital income equals a 20% annual yield on their share of the net assets of the partnership at the end of the previous tax year. The rest is taxed as earnings income.

Taxation of limited companies

The tax rate for both private and public limited companies is 20%. Finnish companies are taxed for their worldwide income in Finland.

Small companies' rate

Finland has no separate small companies' rate.

Dividend payments

The dividend income for domestic shareholders of Finnish limited companies is considered to be tax-exempt income, capital income or earned income for the receiver, depending on the company's net property and the number of dividends distributed.

The assessment of tax on dividends paid by a non-public Finnish limited company in Finland depends on whether the company distributes as dividends a return of more or less than 8% of the value of equity. If the dividends are in total less than 8% of the value of equity, they will be subject to a reduced tax for the shareholder up to 150,000 €. The proportion of the dividends exceeding 150,000 € will be taxed partly as capital income. If, however, the company distributes as dividends more than 8% of the value of equity, the amount exceeding will be taxed partly as earned income (0-57%).

Dividends from one private limited company to another are tax exempt, as are dividends from a private limited company to a public limited company. Dividends from a public limited company to a private company are taxed.

Branch profits tax

The branch of a foreign company is considered a fixed business facility and is taxed in Finland as if it were a Finnish limited company.

Personal income tax

Prepayment of taxes shall be effected either as withholding of taxes (employees) or as payment of taxes in advance (business undertakings). Withholding of taxes shall be carried out by the employer, who is also responsible for paying the withheld amount to the tax authorities.

Tax authorities assess the advance tax for companies based on earlier years. The advance tax is usually paid monthly. As the income of the partnerships is taxed on its partners, the advance taxes are levied directly on them.

Capital gains tax

Capital gains are taxed at a tax rate of 30 - 34%. Almost all capital gains are subject to tax. The main exemptions are: profit made on the sale of a personal residence and the profit made from the sale of shares belonging to fixed assets. The latter applies only to limited companies and is highly regulated.

Land tax

Real property situated in Finland is subject to real estate tax. Land used in forestry or agriculture is exempted.

Real estate tax is payable by those who own taxable property at the beginning of the calendar year.

The amounts of real estate tax are based on the tax value of the real property. Tax rates vary in different municipalities between 0.8% and 1.55% of the taxable value. The rate for living residences is between 0.37% and 0.8% of the taxable value.

Value added tax

The Finnish value added tax (VAT) applies to the sale of goods and services in the conduct of business in Finland, the import of goods to Finland and to intra-community acquisitions of goods in Finland.

The VAT is always payable on sales unless there is a specific provision in the legislation supporting the exemption of the sales from the tax.

The sale of goods and service may be exempt from tax under the following grounds:

- The sales do not take place in Finland.
- The sales are not considered conduct of business.
- The special provisions relating to corporate bodies for prompting the public good or small-scale activity may be applied to the seller.
- The sale of the goods and services in the following areas have been exempt from VAT:
    - health and medical care
    - social welfare
    - general education and vocational training
    - financial and insurance services
    - lottery and gambling
    - fees of performing artist
    - certain copyrights
    - certain vessels and aircrafts used in international aviation
    - newspapers and periodicals in the form of a subscription
    - sales abroad
    - intra-community sales of goods and services.

The seller of the goods or services is liable to pay tax for those goods or services sold. If the seller is a foreigner entity, the liability to pay the tax is often shifted to the buyer if the seller does not have a fixed place of business in Finland.

The importer of goods is always liable to pay tax for the imported goods.

The corporate form is not relevant in the regard of tax liability.

Small-scale activity for which the seller is not liable to pay VAT, refers to any business activity were the net sales for the accounting period do not exceed 10,000 €. If the net sales do not exceed 30,000 €, the taxpayer is entitled to a tax concession.

The VAT rates in Finland are:

- 24% is the general tax rate
- 14% is applied on food and feed products
- 10% is applied to:
  - passenger transport
  - accommodation facilities, e.g. hotels
  - services which create a possibility for physical exercise, e.g. gyms
  - entrance fees for cultural and entertainment events and institutions
  - pharmaceuticals
  - books

Tax treaties

Please see Appendix 1, Double Taxation Treaties table on page 17.

Transfer pricing rules

Finland adapted several transferring pricing regulations i.e. inter group interests of more 500.000 euro may not be deducted from the taxable income, if certain criteria is not fulfilled. The tax authorities have also focused on transferring pricing issues, although they have lost many of their cases in the courts of appeal.

Allowances

Depreciation

The depreciation rates in Finland are:

- 25% for machinery using the declining balance method
- 4-7% for buildings using the declining balance method
- 10-20% for other long term fixed assets using the strait line method.

Investment allowance

For investments in development areas of Finland, there is the possibility of using higher depreciation rates.

In some municipalities in the Northern Finland and in the archipelago, the social security charge has been eliminated.

Employment

Social security

An employer paying salaries is liable to pay the government a social security payment (approx. 2%). The employer is also liable take out pension insurance for all employees. The cost of this varies between 17 and 19% of paid salaries.

The employer must also take out mandatory accident insurance, life insurance and unemployment insurance, the cost of those together is approximately 3% of paid salaries.

Employment of foreign personnel

The right to perform gainful employment in Finland is determined according to citizenship as follows:

Citizens of the European Union, Norway, Iceland, Liechtenstein and Switzerland may work in Finland without a worker's residence permit.

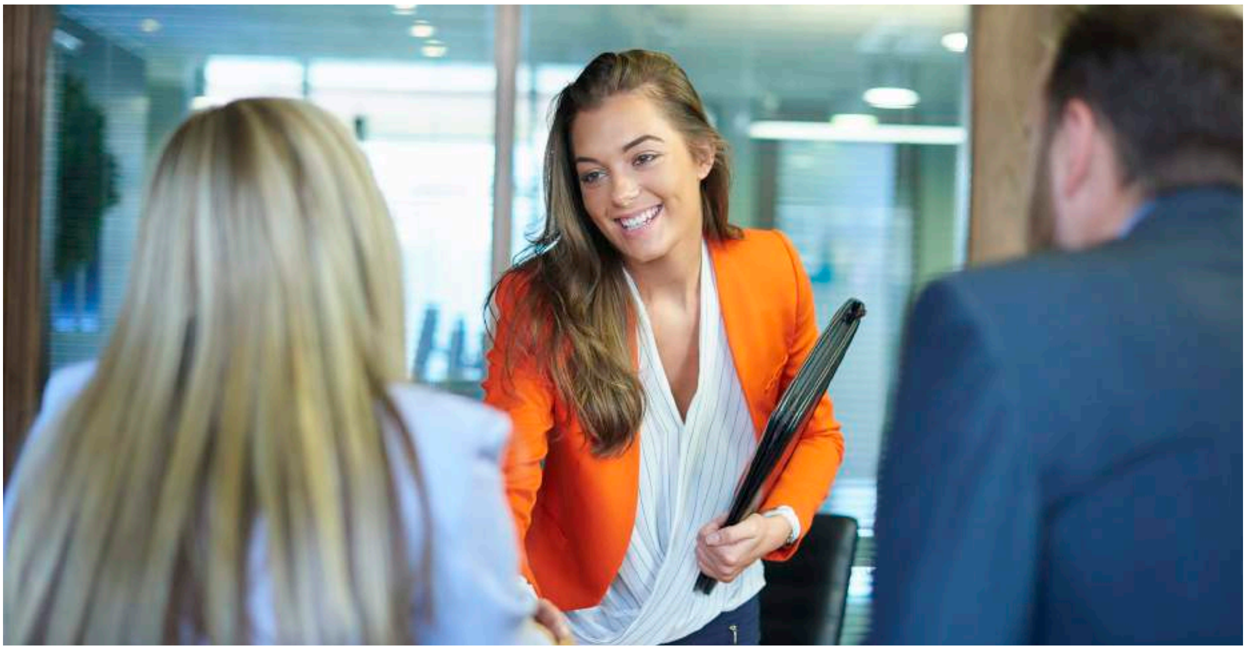
The citizens of a member state of the European Economic Area (EEA) are entitled to move to another member state to work or to seek work. The free movement of workers is a basic right, which implies the right to work in some other EEA country on the same conditions that are applied to the host country's own citizens.

Work in another EU country gives the citizens of the Union right to reside in the country in question. If you stay in Finland for over three months without a break, you should register your right of residence at the Finnish Immigration Service.

The decision concerning the approval of a worker is made by the employment office. A positive decision is made if no worker is available on the Finnish labour market within a reasonable time for the vacancy, and if the terms of employment are in compliance with Finnish laws and collective agreements.

The Transition Period Act includes several exceptions. The admittance to the labour market of those citizens of the new member countries who reside in Finland on a basis other than work is not restricted. These citizens include. tradesmen, the family members of workers, and students. Neither does the Transition Period Act apply to people who have resided and worked in Finland for more than 12 months, nor to those foreigners who would be entitled to gainful employment, if they were citizens of third countries. Due to the Treaty of Accession, the Transition Period Act does not apply to labour moving within the scope of the freedom of supply of services. Such are workers temporarily sent for work in Finland and employed by foreign employers. Yet, most of the provisions of the Aliens Act on the supervision of terms of employment and the employers' obligations also apply to exceptional situations in compliance with the Transition Period Act.

The citizens of countries outside the EEA need a worker's residence permit to work in Finland. The permit is either temporary or continuous. The permit includes the partial decision of the employment office and the residence permit decision of the Directorate of Immigration or the city police department of the population register district.



The application for the worker's residence permit can be made by either the worker or by the employer. The application can be submitted either to the Finnish mission, the employment office or the city police department of the population register district.

The Aliens Act defines more specifically the tasks, branches and positions related to the right to work without a worker's residence permit.

If the person concerned has a permit other than a worker's residence permit, e.g. based on family ties or for humanitarian reasons, it often includes an unlimited or limited right to work. Additional information is available on the pages of the Directorate of Immigration.

Taxation of foreign employees staying in Finland for six months or less is collected by their Finnish employer at 35%. This is based on their gross income and they cannot claim any deductions. The employer will also withhold social security payments (approx. 7%) unless the person has the certificate E 101/A1 of a posted employee. For posted employees, social security insurance is sorted in country of origin. They are then not required to submit an income tax return in Finland.

If a person stays in Finland only for six months or less, and a company from another country than Finland is paying his salary, he will not have to pay tax on his wages in Finland.

If the person stays in Finland for longer than six months, he will be paying tax on his salaries in Finland. It does not make a difference if his employer is Finnish or foreign or if he receives a part of his salary from a Finnish employer and another part from a foreign employer.

Under the following circumstances Finland will not tax the wages of a person with a non-Finnish employer:

- The stay in Finland is fewer than 183 days during the calendar year.
- The employer does not have a permanent establishment in Finland with wages of the person in its bookkeeping and accounting.
- The spouse and children of the person still live in the family home in the worker's country of residence which is one the following countries: Belgium, China, Croatia, Egypt, France, Germany, Greece, Hungary, India, Italy, Japan, Canada, Republic of Korea, Luxembourg, Malaysia, Morocco, Philippines, Portugal, Poland, Serbia and Montenegro, Spain, Switzerland, Turkey or Zambia.

Finnish income tax includes state tax, municipal (local) tax, and church tax. Claims can be made for deductions on work-related costs, to pay interest on a loan for one's permanent owner-occupied home, and for travel expenses to country of origin if one's spouse and children have remained there (calculated according to the cheapest means of transportation). Deductions merely based on family circumstances are not possible. Premiums for obligatory pension and unemployment insurance are deductible. One may also deduct voluntary pension insurance contributions, if the insurance company is established in the European Union, and subject to other restrictions.

Payroll taxes

When paying salary in Finland the employer makes a tax withdrawal from the payment to the employee, according to the information on the tax notice of the employee.

Tax returns on income and net wealth are filed annually in May, the following year. However, instead of a traditional tax return, many taxpayers receive a tax proposal. The tax proposal is a pre-completed and pre-populated form filled with information received directly from the payers of income and from other sources of information. If one does not wish to add anything or correct the tax proposal in any way, one does not have to file a separate tax return at all. The assessment will be completed by the end of October of the year following the tax year.

Withholding Taxes

Withholding taxes for dividends, interest and royalties and are regulated by the various tax treaties.

Interest paid to non-residents is usually exempt from taxation in Finland.

Dividends paid abroad by Finnish so called direct investment companies (usually 10-20% or larger ownership) are often tax exempt.

The tax royalties paid abroad varies between 0 to 25%.

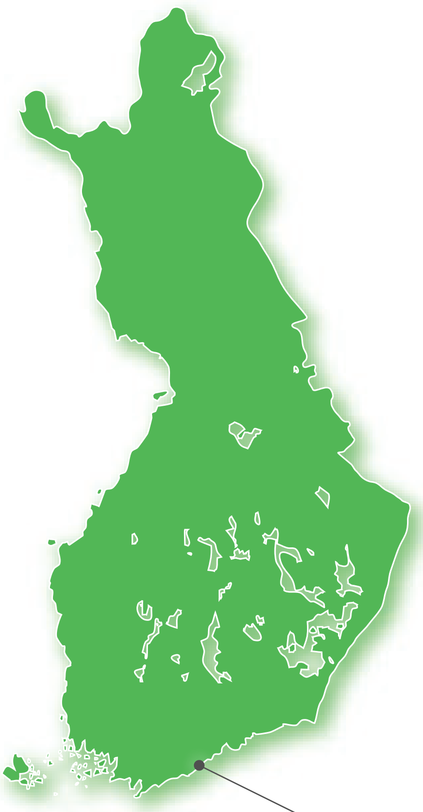
Appendix I, Double Taxation Treaties

OECD Member Countries		Other Countries	
Australia	South Korea	Argentina	Kyrgystan
Austria	Spain	Armenia	Latvia
Belgium	Sweden	Aruba	Lithuania
Canada	Switzerland	Azerbaizhan	Macedonia
Czech Republic	Turkey	Barbados	Malaysia
Denmark & Faroe Islands	United Kingdom	Belarus	Malta
Estonia		Bermuda	Mexico
France		Bosnia-Hertsegovina	Moldova
Germany		Brazil	Montenegro
Greece		British Virgin Islands	Morocco
Hungary		Bulgaria	Netherlands Antilles
Iceland		Cayman Islands	New Zealand
Ireland		China	Pakistan
Israel		Croatia	Philippines
Italy		Cyprus	Romania
Japan		Egypt	Russian Federation
Luxembourg		Georgia	Serbia
Mexico		Guernsey	Singapore
Netherlands		Indonesia	Sri Lanka
Norway		India	South Africa
Poland		Isle of Man	Tajikistan
Portugal		Jersey	Tanzania
Slovakia		Kazakhstan	Thailand
Slovenia		Kosovo	

This document is provided by DFK Finland Oy as a general overview of matters to be considered when setting up an overseas business in Finland. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.

If you are setting up a business in Finland, the members of DFK International can help you to achieve this efficiently. You will receive practical advice on business issues, tailored to meet your objectives, from experienced business advisers.

For further information on the services available from the DFK member firms in Finland please contact:



Helsinki

DFK Finland Oy Ab

Tom Lindblom
tom.lindblom@dfk.fi
+35 (0)8960 4204

www.dfk.fi