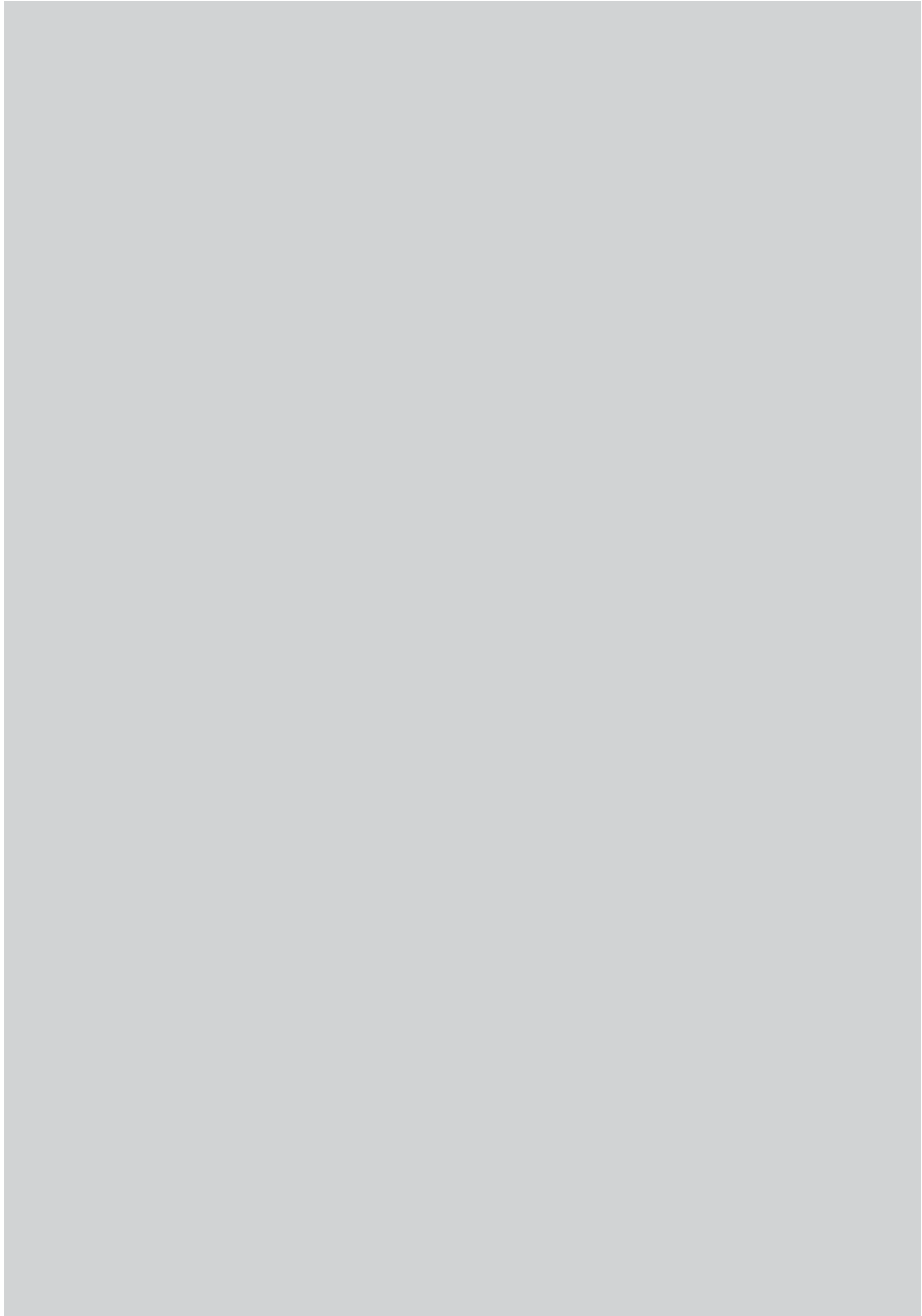


Tax aspects of doing business in Finland



Foreword

Tax Aspects of doing business in Finland serves as an introduction to the company law and some of the regulatory rules that it is essential to know when establishing or carrying on a business in Finland. In addition, it covers some of the main principles of the Finnish taxation system.

This publication is not intended to be comprehensive. Thus, no actions should be taken only on the basis of the information contained therein without consultation. More specific information is available on request from PricewaterhouseCoopers Helsinki Office.

At the time of this writing a working group nominated by the Ministry of Finance has taken a task to evaluate what possible changes to the Finnish tax legislation should be made. The working group chaired by Mr. Hetemäki has carried out several studies to investigate the effects of possible changes to the current tax system. Among other possible changes to the tax system the working group has presented options for possible changes in corporate income taxation and dividend taxation of individuals. These changes include a reduction of corporate income tax rate. Decisions from the Government with respect to the possible changes are expected at fall 2010.

Helsinki, March 2010

PricewaterhouseCoopers Oy



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The contents of this paper mainly reflect the laws in force as of March 2010.

Contents

Foreword	3
I Establishing a business in Finland	9
1. Limited liability company	9
1.1 Regulating acts	9
1.2 Foreigner as a shareholder	9
1.3 Stages of establishment	9
1.4 Registration	10
1.5 Share Capital	10
1.6 Transfer of shares	10
1.7 Registers kept by the company	10
1.8 Board of directors	11
1.9 Managing Director	11
1.10 The General Meeting of the Shareholders	11
1.11 Auditors	12
1.12 Dividend distribution	12
2. Branch	12
3. Other forms of business	13
4. Employment Law	13
4.1 Applicable employment legislation	13
4.1.1 Minimum terms to be applied to local employees	14
4.1.2 Collective employment regulations	15
4.1.3 Minimum terms concerning posted employees	16
4.2 Employer's obligations	16
4.3 Immigration	19
4.3.1 Non-EU/EEA citizens	19
4.3.2 EU-nationals	19
II Taxation	19
1. Corporate income tax	19
1.1 Taxable persons	19
1.2 Corporate income tax rate	19
1.3 Holding Company	19
1.4 Business source of income and personal source of income	19
1.5 Computing taxable income	20
1.6 Inventory	21
1.7 Assets and long-term expenses	21
1.8 Reserves	21
1.9 Losses	21
1.10 Dividends	22
1.10.1 Finnish-source dividends	22

1.10.2 Foreign-source dividends	22
1.10.3 Taxation of individual shareholders	23
1.11 Group taxation	23
1.12 Corporate restructuring	23
1.12.1 Merger	23
1.12.2 De-merger	24
1.12.3 Exchange of shares	24
1.12.4 Transfer of business assets	24
1.12.5 Liquidation	25
1.13 Transfer pricing	25
1.13.1 General	25
1.13.2 Statutory Transfer pricing documentation requirements	25
1.14 Thin capitalisation	26
1.15 Controlled foreign corporations	26
2. Capital tax	27
3. Tax administration and assessment	27
3.1 Pre-assessment	27
3.2 Tax return and assessment	27
3.3 Appeal	27
3.4 Advance ruling	27
3.5 Tax audit	27
4. Withholding tax	27
4.1 Dividends	27
4.2 Interest	28
4.3 Royalties	28
4.4 Tax rates	29
5. Transfer tax	31
6. Value Added Taxation	31
6.1 Introduction	31
6.2 Taxable persons	31
6.3 Taxable amount	31
6.4 VAT rates and application	32
6.5 Place of taxable transaction	32
6.5.1 Place of supply of goods	32
6.5.2 Place of supply of services	33
6.6 Exemptions	33
6.6.1 Exemptions with credit (zero-rate)	33
6.6.2 Exemptions without credit	33
6.7 VAT registration	34
6.7.1 VAT registration liability	34
6.7.2 Reverse charge rules	34

6.7.3 Voluntary VAT registration	34
6.7.4 Date of VAT registration	35
6.7.5 VAT group	35
6.8 Periodic tax returns and payment of VAT	35
6.9 VAT reclaims	35
6.9.1 VAT deduction	35
6.9.2 VAT refund to foreign businesses	36
6.10 Invoicing	36
6.11 Guidance and advance ruling	36
7. Individual taxation	37
7.1 The scope of Finnish individual income taxation	37
7.2 Taxation of Finnish resident individual	37
7.2.1 General	37
7.2.2 Exemption from taxation according to Finnish legislation	37
7.2.3 Foreign expert tax regime	37
7.3 Taxation of non-resident individual	37
7.3.1 General	37
7.3.2 Director's fees	38
7.3.3 Taxation of foreign artists and athletes	38
7.4 Taxation of earned income	38
7.4.1 General	38
7.4.2 Income tax payable on earned income	38
7.4.3 Benefits taxed as earned income	39
7.4.4 Tax exempt employee benefits	39
7.4.5 Deductions and allowances from income and taxes	40
7.4.6 Equity Incentive Schemes	40
7.5 Taxation of investment income	41
7.5.1 General	41
7.5.2 Capital gains/losses	41
7.5.3 Interest income	41
7.5.4 Dividend income	42
7.5.5 Rental income	42
7.5.6 Annual losses of earned income and investment income	42
7.6 Income reporting and tax assessment process	42
7.6.1 General about the tax assessment process	42
7.6.2 Collecting and paying of income taxes	42
7.6.3 Tax appeal process	43
7.7 Finnish social security	43
7.7.1 General information about the social security contributions	43
7.7.2 Pension Insurance exemption for foreign employees working in Finland	43
7.7.3 Compulsory social security contributions payable by the employer on salaries paid to employees	43
7.7.4 Compulsory social security contributions payable by the employee	44
7.7.5 Social security benefits	44
7.8 Elimination of double taxation	44
8 Immigration	45
8.1 Permits	45
8.2 Registration	45
9 Other taxes	45
9.1 Tax on real property	45
9.2 Inheritance and gift tax	45
Contact information	49



I Establishing a business in Finland

In general, business in Finland may be carried on by a private entrepreneur or in the form of a company. The forms of Finnish companies are: general partnership, limited partnership, company limited by shares (later referred to as “limited liability company”) and co-operative. A foreign company may also derive business in Finland through a branch.

Limited liability company is the most common vehicles for business in Finland. In 2006 about 44 percent of companies in Finland were limited liability companies. However, limited liability companies generated 90 percent of the total turnover and employed 84 percent of the total workforce of all companies in Finland.

Most foreign enterprises carry out their business in Finland through subsidiaries (i.e. limited liability companies) or branches. As a result, these forms of doing business are covered in more detail in the following chapters.

1. Limited liability company

1.1 Regulating acts

Limited liability companies are divided into private and public companies. The Companies Act applies to both forms of limited liability company. The main difference between the two is that the securities of a private limited liability company may not be publicly traded, as described in the Securities Market Act or a corresponding procedure. Furthermore, there are differences in, for example, minimum share capital and reporting requirements. In practice, even big companies (such as subsidiaries of listed companies) may be private limited liability companies if the shares are not publicly traded.

Hereafter the term limited liability company refers to both private and public companies unless otherwise stated.

1.2 Foreigner as a shareholder

Shareholders of a company do not need permission from the Finnish authorities for ownership of the shares.

1.3 Stages of establishment

To establish a limited liability company the following measures are required:

- 1) drafting and signing of the Memorandum of association;
- 2) payment of the share capital (This includes a certificate by the auditors on payment of the share capital. However, if the company is not going to be audited, auditor statement is required on possible contribution in kind, not on cash payment.); and
- 3) registration of the company.

1.4 Registration

Registration of the company is a prerequisite to its existence as a legally recognised entity.

Prior to registration the board of directors may represent the company only in matters concerning the formation of the company. The persons who have taken part in a measure or decision on behalf of the company are jointly and severally responsible for any obligation entered into prior to the registration.

The responsibility for an obligation arising from the memorandum of association is, however, passed on to the company after registration. Obligations arising from measures which are taken at most one year before signing of the Memorandum of association shall be transferred to the company upon registration. Consequently, at the registration of the company the persons who have acted on behalf of the company prior to the registration are not personally responsible for such decisions or measures which have been mentioned in the memorandum of association.

Only those shares that have been fully paid up shall be notified for registration. A subscription price paid in cash shall 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 into a comparable foreign account.

The subscription price may also be paid in full or in part with other assets which have financial value to the company (contribution in kind). If the payment of the subscription price may be paid with a contribution in kind it should be stated in the memorandum of association.

1.5 Share Capital

A private limited liability company must have a minimum share capital of €2,500 and a public limited liability company share capital of €80,000.

The share capital of a company is not required to be stated in the articles of association of a company. However, the share capital may be stated in the articles of association. The company may in its articles of association set a higher requirement for the share capital which then has to be complied with. The company may also set minimum and maximum share capital. In that case the share capital may be increased or decreased within those levels without changing the articles of association by a decision of the general meeting of shareholders. The board of directors may, under certain conditions, be authorised by the general meeting of shareholders to increase the share capital up to the amount of the maximum share capital.

A company may have different classes of shares. The different share classes may differ from each other, for example, in voting rights or the

I Establishing a business in Finland

1. Limited liability company

amount of dividend payable on the shares. In addition, a company may have preference shares which carry preferential rights over ordinary shares but which have voting rights only in certain circumstances under the Companies Act or Articles of Association.

1.6 Transfer of shares

As a general rule, shares are freely transferable. However, the articles of association may include a redemption clause and/or a consent clause. With a redemption clause it may be provided that a shareholder, the company or another person has the right to redeem shares due to be transferred to a new owner. Right to redeem does not apply if the shares are transferred from the company to a new owner. With a consent clause it may be required that a transfer of shares has to be approved by the company. The board of directors shall decide on the giving of the consent unless it is otherwise provided in the articles of association.

The transfer of a share in bearer form is made by signing a transfer form or alternatively by simple endorsement *au verso*.

1.7 Registers kept by the company

The Board of Directors should keep a register of all of the company's shares unless the company's shares have been incorporated in the book-entry system.

The share register must include all shares or share certificates in numerical order, the dates of issue and the name and the address of the shareholder. Where the company has different classes of shares, the class of each share and the differences in the rights and obligations given by the each share has to be noted in the register.

A separate register must be kept of all shareholders listed in alphabetical order. The register should include shareholders' names, addresses and the amounts of shares by each share class. If no share certificate has been issued on a share, also the pledges and other encumbrances on the share shall be entered into the share register.

The registers have to be kept at the company's head office and must be available to the public. Everyone has the right to receive copies of the registers against compensation for the expenses of the company.

The recipient of a share may not, before he/she has been entered into the share register or before he/she has reported and given proof of his/her title, exercise his/her shareholder's rights in respect of the company. (This does not, however, apply to a right exercised by presenting or delivering a share certificate or other certificate issued by the company.)

One feature of developed securities markets is the replacement of the administration of physical securities by a computerised book-entry system. Finland uses a completely paperless system in which physi-

cal securities certificates have been replaced by computerised book entries. The transfer to a book-entry system also meant public disclosure of the ownership of shares. Foreign investors may, however, register ownership in the name of a nominee, thus avoiding disclosure.

Finnish listed companies are required by law to transfer their shares to the book-entry securities system. Listed companies are companies whose shares have been admitted to public trading as referred to in the Finnish Securities Markets Act. However, the requirement does not apply to foreign companies. The transfer of other companies to the system is voluntary and requires the approval of the Central Securities Depository.

1.8 Board of directors

A limited liability company must have a Board of Directors, which is the highest ordinary body responsible for the administration of the company.

The Board of Directors represents the company and signs its trade name. The Articles of Association may stipulate that a member of the Board of Directors or the Managing Director shall have the right to sign the trade name or that the Board of Directors may grant this right to its member(s), to the Managing Director or to another person(s).

According to Finnish Companies Act a limited liability company shall have between one and five regular members in the board of directors. A company may have more or less than five board members if it has so stated in the articles of association. In the articles of association may be given the exact number of board members or minimum and maximum numbers. If the board of directors has less than three members, at least one deputy member has to be appointed.

The Board of Directors is normally elected by the general meeting of shareholders. The Articles of Association may provide, however, that one or more of the members of the Board, but less than half, are to be elected in a different manner.

A Board of Directors consisting of more than one member must have a chairman. The chairman should be elected by the Board of Directors unless otherwise stipulated in the Articles of Association or unless otherwise decided upon in the election of the Board of Directors.

At least one of the ordinary members as well as at least one of the deputy members of the Board of Directors should be resident within the EEA. The Trade Register may, however, grant an exemption to this requirement.

The company must have a representative residing in Finland if none of the members of the Board of Directors, the managing director nor the persons authorized to sign the company name reside in EEA. The representative is a person who is entitled to receive summons and other notifications on behalf of the trader. The representative's position

grants rights to passive representation not e.g. right to write the company name.

If a person without a Finnish personal identity code is reported for registration in the Finnish trade register, a certified copy of his or her passport for verifying the existence of the person is required.

1.9 Managing Director

A company may have a Managing Director when so stated in the articles of association or when the Board of Directors so decides.

The Managing Director is in charge of the executive management of the company in accordance with the instructions and orders given by the Board of Directors. The Managing Director shall also see to it that the accounts of the company are in compliance with the law and that the company's financial affairs have been arranged in a reliable manner. The Managing Director supplies the Board of Directors and the Members of the Board of Directors with the necessary information. The Managing Director shall sign the annual accounts together with the Board of Directors.

When it is not possible to wait for a decision of the Board of Directors without causing essential harm to the company's business operations the Managing Director is entitled to actions that are unusual or extensive to what is usually permitted to managing director without an authorisation from the Board of Directors.

The Managing Director is appointed by the Board of Directors. The Managing Director should be resident within the EEA, unless the Trade Register grants an exemption.

If a person without a Finnish personal identity code is reported for registration in the Finnish trade register, a certified copy of his or her passport for verifying the existence of the person is required.

1.10 The General Meeting of the Shareholders

The General Meeting of the Shareholders is the supreme governing body of the company. Each shareholder has the right to be present, the right to have a matter dealt with by the general meeting and the right to consult a legal counsel at the meeting.

The shareholders are allowed to exercise their voting rights through any other person by proxy. The meeting may be either the Ordinary General meeting of the Shareholders, the rules of which are laid down in the Companies Act and in the Articles of Association, or an Extraordinary General Meeting of the Shareholders that may be held at the request of the Board of Directors, the auditor or shareholders representing 10 percent of all shares or a lesser part of all shares if so provided in the Articles of Association.

The notice to convene a General Meeting of the Shareholders must be sent not less than 7 days and no more than 2 months prior to the

actual date of the meeting. However, in a public company the notice may be delivered three months before the date of the meeting. In addition, a company, which is subject to public trading, must send the notice to convene a General Meeting of the Shareholders not less than 3 weeks prior to the meeting.

The Ordinary General Meeting of the Shareholders should be held within 6 months of the end of each financial period. The annual accounts and the audit report should be presented at the meeting.

At the Ordinary General Meeting the decisions shall be made on the following issues:

- 1) Adoption of the financial statements. In a parent company this means also the adoption of the consolidated financial statements in case they have been prepared (exceptions to obligation to prepare consolidated accounts are stated in the Finnish Accounting Act).
- 2) The use of the profit shown on the balance sheet.
- 3) The discharge of the Members of the Board of Directors, the Members of the Supervisory Board and the Managing Director from liability. (The discharge from liability applies only to the relationship between the management and the company and with it the general meeting gives up company's right to claim compensations from the management.)
- 4) The appointment of the Members of the Board of Directors and the Members of the Supervisory Board, unless it is otherwise provided in this Act or in the Articles of Association on their term or appointment.
- 5) The other matters that according to the Articles of Association are to be decided by the Ordinary General Meeting.

1.11 Auditors

A limited liability company should in most cases have one or several auditors, as provided by the Articles of Association. An auditor is elected at the Ordinary General Meeting of the Shareholders. Local Chambers of Commerce and the Central Chamber of Commerce authorise auditors after they have passed the auditor examination. 'KHT auditor' is an auditor approved by the Auditing Board of the Central Chamber of Commerce, and a KHT firm is an audit firm approved by the same body.

There is no obligation to appoint an auditor for a company if no more than one of the following conditions were met in two latest completed financial years:

- 1) the balance sheet total exceeds €100 000;
- 2) net sales or comparable revenue exceeds €200 000; or
- 3) the average number of employees exceeds three.

However, an auditor shall always be appointed for a company whose principal activities consist of the owning and holding of securi-

ties and which exercises significant influence over the operating and financial policies of another entity that is obliged to keep accounting records. It may also be stated in the articles of association that an auditor is appointed.

If only one auditor is appointed for the company and it is not an audit firm, at least one deputy auditor shall be appointed.

At least one of the auditors has to be a KHT auditor or a KHT firm if the company is subject to public trading or if at least two of the following conditions were met by the corporation or the foundation in the past completed financial year:

- 1) the balance sheet total exceeds €25,000,000;
- 2) net sales or comparable revenue exceeds €50,000,000; or
- 3) the average number of employees exceeds 300.

1.12 Dividend distribution

A company may not distribute its assets if it is known or should be known that the company is insolvent or that the distribution will cause the insolvency of the company. The distribution of assets shall be based on the latest adopted financial statements. However, the company shall leave undistributed the amount of assets that may be stated in the Articles of Association.

2. Branch

A branch of a foreign trader is a part of a foreign organization or foundation that carries on a continuous business or trade in Finland, from a permanent place of business located in this country, in the name and for the benefit of the foreign organization or foundation.

- The branch has to be registered in the Trade Register before starting operations. A foreign entity can establish a branch in Finland. However, if the trader opening the branch is from a country outside the European Economic Area (EEA), it will also need a permit from the National Board of Patents and Registration for the establishment of the branch.

The statutory notice to the Trade Register has to include such information as:

- the company name and domicile of the branch (the company name of the branch must include the company name of the foreign trader together with a supplement showing that a branch is concerned);
- the postal address of the branch;
- the accounting period;
- the company name and legal form of the foreign trader;
- the register in which the foreign trader opening the branch has been entered in his home state and the number of the trader in that register;

- the type of activity carried on by the branch;
- personal data on each person authorized to sign the company name of the branch and an account of how the company name must be signed;
- the persons authorized to represent the trader as a statutory body or as members of such body and their personal data.
- the personal details of a representative of the branch.

The representative of the branch is a person who is entitled to receive summons and other notifications on behalf of the trader. If the trader is a foreign corporate body or foundation that is founded under the legislation of a country belonging to the EEA and has its domicile, its central administration or head office in a country belonging to the EEA, the representative must be resident in the EEA. In other cases, the representative must be domiciled in Finland.

The following documents have to be enclosed with the application to the Trade Register:

- evidence of the establishment of the branch;
- evidence of the appointment of a representative for the branch;
- indication of the persons authorised to represent the foreign trader and of granting the right to sign the company name as well as the manner in which the company name must be signed;
- an extract from the register in which the foreign trader has been entered in its home state or other evidence of its existence;
- a Finnish or Swedish-language copy or a legally valid translation of the memorandum of association, articles of association, rules or other corresponding documents of the foreign trader;
- if the organization or foundation establishing the branch is from outside the EEA, an account thereof that a permission to establish a branch has been obtained from the National Board of Patents and Registration of Finland;
- if a person is reported for entry in the Register who has no Finnish personal identity code, the notification must be accompanied by a proof of the existence of the person.

All documents attached to the notification shall be in Finnish or Swedish. If a document in some other language is attached to the notification, it must be accompanied by a Finnish or Swedish translation. In practice, Trade Register has been quite flexible in the translation requirements, and in many cases documents for example in some English have been processed without translations. There is, however, no standing rule of the issue, so it needs to be discussed case by case.

According to the Act on Taxation Procedure the representative of the branch is ultimately liable to the tax imposed on the *foreign entity resident outside EEA*. If the branch does not pay the taxes imposed to it, the taxes may be debited to the representative.

3. Other forms of business

Foreign individuals and legal persons may also form a partnership in Finland. A natural person resident within the EU/EEA and a legal person which has its statutory place of residence, central administration or main establishment in an EEA country may become a partner of a general partnership or a general, or silent, partner of a limited partnership without permission being required. On application the National Board of Patents and Registration may grant permits to persons coming from outside the EEA to serve in managerial and other duties of responsibility in businesses.

4. Employment Law

4.1 Applicable employment legislation

In case the employee performs his/her tasks in Finland, the Finnish employment legislation governs. The most relevant Finnish statute on labor and employment is the Employment Contract Act. Other relevant statutes applicable to most employment relationships are Co-operation in Undertakings Act, Working Hours Act, Annual Leave Act as well as the Safety at Work Act.

As a general rule, the Finnish labor law does not categorize employees. The main labor law legislation is of general application and there are no special rules regarding workers, clerks or directors. However, the Employment Contract Act and Working Hours Act do not apply to managing directors.

Insofar as labor laws can be superseded, provisions may also be set out in collective agreements or in employment contracts. However, the law is binding as concerns provisions relating to health, safety at work, parental leaves, working hours, social security and vacations.

4.1.1 Minimum terms to be applied to local employees

a) Contracts

According to the Finnish Employment Contract Act, an employment contract may be concluded in any form, i.e., orally, in writing, electronically or based on custom and practice. However, it is a normal practice for employees in Finland to have written employment contracts.

An employment contract not concluded for a specified period is deemed to be concluded for an indefinite period. A contract of employment may in certain circumstances only be made for a specified period. The reason for the fixed-term employment shall be determined in the employment contract.

If a probationary period of a maximum of four months is desired, this must be stated in the employment contract.

b) Wages and salaries

According to the Employment Contract Act the employee is entitled to a reasonable and customary remuneration. However, the collective agreements stipulate the minimum salary requirements. Otherwise the parties of the employment contract are allowed to agree on the remuneration freely regardless of the position of the employee.

c) Working hours

Maximum regular working hours are eight hours per day and 40 hours per week according to the Finnish Hours of Work Act. However, collective agreements set exceptions for this rule. In practice many employers apply a 37,5 hours working week.

Daily overtime is the term for work done in excess of eight hours a day. The maximum amount of daily overtime permitted is 20 hours in two weeks. Weekly overtime is the term for work done in excess of 40 hours a week (16 hours at maximum). An employee's consent and an employer's request are required for overtime work.

An employee is entitled to a compensation for overtime in accordance with specific rates. Most collective agreements also stipulate separate rates of extra pay for evening and night work. The provisions regarding the working hours are binding and the employer is liable to keep record on the actual hours worked.

d) Holidays

Every employee has a right to annual paid vacation. The provisions regarding annual vacation are binding.

The employee earns 2,5 days vacation every month in which the employee works at least 14 days, except in the first year of employment when the employee earns only two days for every month of employment. The maximum amount of annual vacation is 30 days. As Saturdays are regarded as vacation days (Sundays not) the employee is therefore entitled to five weeks vacation at maximum. According to the Finnish Annual Leave Act the holiday year runs from 1 April to 31 March (i.e. vacation days are earned during this period). The employer shall keep record of the annual vacation days.

e) Sickness

An employee is entitled to receive his/her normal salary for nine work days absence due to injury or illness. More generous payments may be required under a collective agreement or agreed with the employer.

If the sickness absence lasts for more than nine days the employee has a right to receive statutory sickness allowance from the Social Security Institution. Sickness allowance entitlement lasts for a maximum of 300 weekdays.

Employers regardless of their nationality are liable to provide their employees working in Finland with preventive health care, and may if

they wish also arrange medical treatment and other health services. According to the Safety at Work Act, the employer has to take into account everything as regards the working conditions, employee's age, gender, working skills and other conditions that are regarded reasonably necessary in order to protect the employee from exposure to accidents or risks to his or her health.

f) Maternity and parental leave

The provisions concerning the maternity and parental leave are binding. The length of the maternity leave is 105 weekdays (Sundays excluded). The leave begins no later than 30 weekdays before and ends 75 weekdays after the estimated calculatory day of the birth. The mother is entitled to a maternity allowance during maternity leave from the Social Security Institution.

Parental leave begins after the maternity leave and lasts for 158 weekdays. In the case of multiple births, the period of parental leave is increased by 60 weekdays for each child. A parental allowance is paid during the parental leave by the Social Security Institution.

The employer has no legal duty to pay any remuneration for the time of the maternity and parental leave.

g) Paternity leave

A father is entitled to paternity leave at the same time as the mother has maternity leave. The length of the paternity leave is 18 weekdays. In addition, the father is entitled to a paternity month, which he can have in the end of the parental leave. A paternity allowance is payable to the employee by the Social Security Institution.

h) Temporary childcare leave

If a child under 10 suddenly falls ill, one of the parents is entitled to an unpaid temporary child care leave of, at most, four workdays if both of the parents of the child work outside the home.

i) Equality

The Employment Contract Act puts employers under a statutory duty to abstain from discriminating against employees (including ethnic origin, religion, sex, age, political leanings or trade union memberships). This prohibition applies also to the employee hiring process.

Discrimination based on gender is prohibited by the Act on Equality between Women and Men.

j) Termination of employment

Employer and employee are free to agree on the length of the notice period, but it must not exceed six months and must not be longer for the employee than for the employer.

According to the Employment Contract Act the notice period the employer must observe (unless otherwise agreed) varies between fourteen days and six months. The notice period the employee (unless

otherwise agreed) must observe varies between fourteen days and one month.

An employment agreement entered into for a fixed period may be terminated only if both parties have agreed upon this possibility.

An employment relationship may only be terminated on the basis of an objective and weighty reason (individual or economical and productional reason).

k) Redundancy

Termination of employment is possible if work has been reduced for economic, productional or comparable reasons essentially and permanently (for more than 90 days) and if the employee may not, in regard to his skills and capacities, reasonably be placed in or trained for new tasks. When evaluating whether there is other work available, also positions in other companies belonging to the same group of companies and in other locations within the country may have to be taken into consideration.

If the employer within nine months after termination needs manpower for similar work, it must inquire at the local labor office whether any such former employees are seeking work through the office. If the answer is in the affirmative, work must be offered in the first place to these persons.

l) Rescission

Irrespective of whether an employment contract has been concluded for a specified or unspecified period, a party can rescind it with a justified and especially weighty reason. A rescission takes effect immediately. A reason is defined as any omission or behavior of one of the parties or any change of conditions affecting the risks of a party such that it cannot reasonably be demanded that the other party continues the employment relationship.

4.1.2 Collective employment regulations

a) Employee representation

In any workplace with at least ten employees, the employer must allow the employees and their trade unions to use an appropriate space free of charge for meetings and organizational tasks in connection with employment matters. Such meetings shall be concluded outside working hours and without interfering with the operation of the undertaking. If the employer has no appropriate space available he is under no obligation to procure premises for the purpose.

An employer and its employees must co-operate in labor protection matters. At each work place, the employer must appoint a labor protection supervisor. At any work place where at least 10 employees are regularly employed, the employees must elect a labor protection representative from their own number for a period of two calendar years

to represent them in the work place as well as in relations with the labor protection authorities.

At a work place where at least 20 employees are regularly employed there must be a labor protection committee for furtherance of the safety and health at work.

The employer shall establish an occupational health and safety action programme in the workplace, which includes information on risks and ways of minimizing them as well as how occupational safety and health has been organized. The action programme is based on a risk assessment.

b) Co-operation in Undertakings

The Co-operation in Undertakings Act is a binding act, which stipulates proceedings that apply to private work places with, regularly, have at least 20 employees. A wide range of matters are subject to “co-operation”, including matters having an essential influence on the position of the personnel, and essential changes in the functioning of the enterprise or a part thereof and the influence of such changes in the number, position or tasks of personnel.

The co-operation procedure consists of consultation and information. In cases of transfer of business or termination of employment the co-operation procedure is more strenuous.

Before a decision is taken on a matter mentioned in the Co-operation Act, the employer must discuss the grounds, effects and alternatives of the measures with the employees or personnel representatives concerned and give them the information necessary for the handling of the matter. However, after the required consultation, the decision rests with the employer.

c) Collective agreements

Because the Finnish labor market is highly organized, there are numerous collective agreements embracing fields of employment. The collective agreements lay down specific rules substituting or supplementing labor and employment law and set limits upon private contracting. On the one hand the purpose of the collective agreements is to guarantee that all employees working in the same sector are treated equally but on another hand the purpose is to guarantee the industrial peace and prevent illegal strikes.

The Employment Contract Act extends the scope and applicability of certain collective agreements. If a national collective agreement is regarded as “generally binding” in the field concerned, its terms shall be applied as minimum conditions by all employers in the sector. A collective agreement is deemed as generally binding if the employers bound by the agreement employ (approximately) one half of the employees in the field concerned. The general applicability of national general collective agreements results only in duties for the employer

and rights for the employee. A special board (Board confirming the general applicability of the collective agreements) determines which collective agreements are regarded as national general collective agreements. The board publishes an official and binding list.

The collective agreements determine for example the minimum salaries to be paid to the employees working in the field concerned or in more detail how the working hours and safety at work shall be arranged. In case the agreement is national and general its terms shall be applied as minimum conditions by all employers and the employer is not allowed deviate from them. Therefore, the employees cannot for example be paid less than the minimum wage given in the collective agreement and the same terms apply equally to posted foreign employees, assignees as well as to the local Finnish and foreign employees working in Finland.

4.1.3 Minimum terms concerning posted employees

a) Applicable provisions

The Finnish Act on Posted Employees applies to foreign employees who usually perform their tasks in another country than in Finland and who a foreign employer company has temporarily assigned to work in Finland for a limited period of time (for more than eight days). This Act contains provisions on the minimum terms to be applied on the assignment in Finland regardless of what the parties of the assignment have agreed upon the governing law. Thus, in case the Finnish provisions concerning the working hours, annual vacation, young workers, salary for the sickness period, working during the maternity leave, entitlement to salary during family leaves, safety at work and occupational healthcare at the work place are more beneficial for the employee than the provisions agreed upon in the assignment contract, the Finnish provisions shall automatically apply as minimum terms.

The Act on Posted Employees contains also a provision concerning the minimum salaries stating that the assignees shall be paid a reasonable and customary remuneration unless the provisions of the collective agreement, which has national applicability, does not otherwise state.

b) Representative in Finland

The Act on Posted Employees also sets a liability for the foreign companies who send assignees to Finland to appoint a representative in Finland in case the foreign company does not have a permanent place of business in Finland. The Finnish client companies or principals are liable to take care of that the foreign company appoints the representative.

The representative shall represent the foreign company in trial proceedings and receives the official documents sent by the Finnish

authorities. The foreign company shall give in written form information on the employees' personal details, terms of each worker's residence permits, working hours, wage bookkeeping and the terms of the employment and assignment in Finland. The representative is liable to record the data for a minimum period of two years.

4.2 Employer's obligations

Finland follows the principles of the EU agreement on social security. Furthermore, there are Finnish internal mandatory legislation concerning social security. Thus, the basic principle is that the employers are obliged to take out the Finnish statutory employment-related insurances for their employees when the work is partly or wholly performed in Finland.

The statutory employment related insurances and the costs to the employer and the employee are the same for foreign and native employees and employers and consist of the following insurances:

Employer

- Employment pension insurance
- Accident insurance
- Unemployment insurance
- Group-life insurance
- Employers social security charge

Employee

- Employment pension insurance
- Unemployment insurance
- Sickness insurance

Employees holding a valid certificate (E101, A1 or certificate of coverage) stating that they are covered by their home country social security system are exempt from the Finnish social security insurance premiums. The exemption applies also to the employer companies.

Furthermore, as of the beginning of year 2009 foreign employees coming from third countries (e.g. outside EU/EEA or countries with whom Finland has not concluded a totalisation agreement) are exempt from the Finnish employment pension insurance in case their employer is foreign and if they stay in Finland for less than two years.

4.3 Immigration

4.3.1 Non-EU/EEA citizens

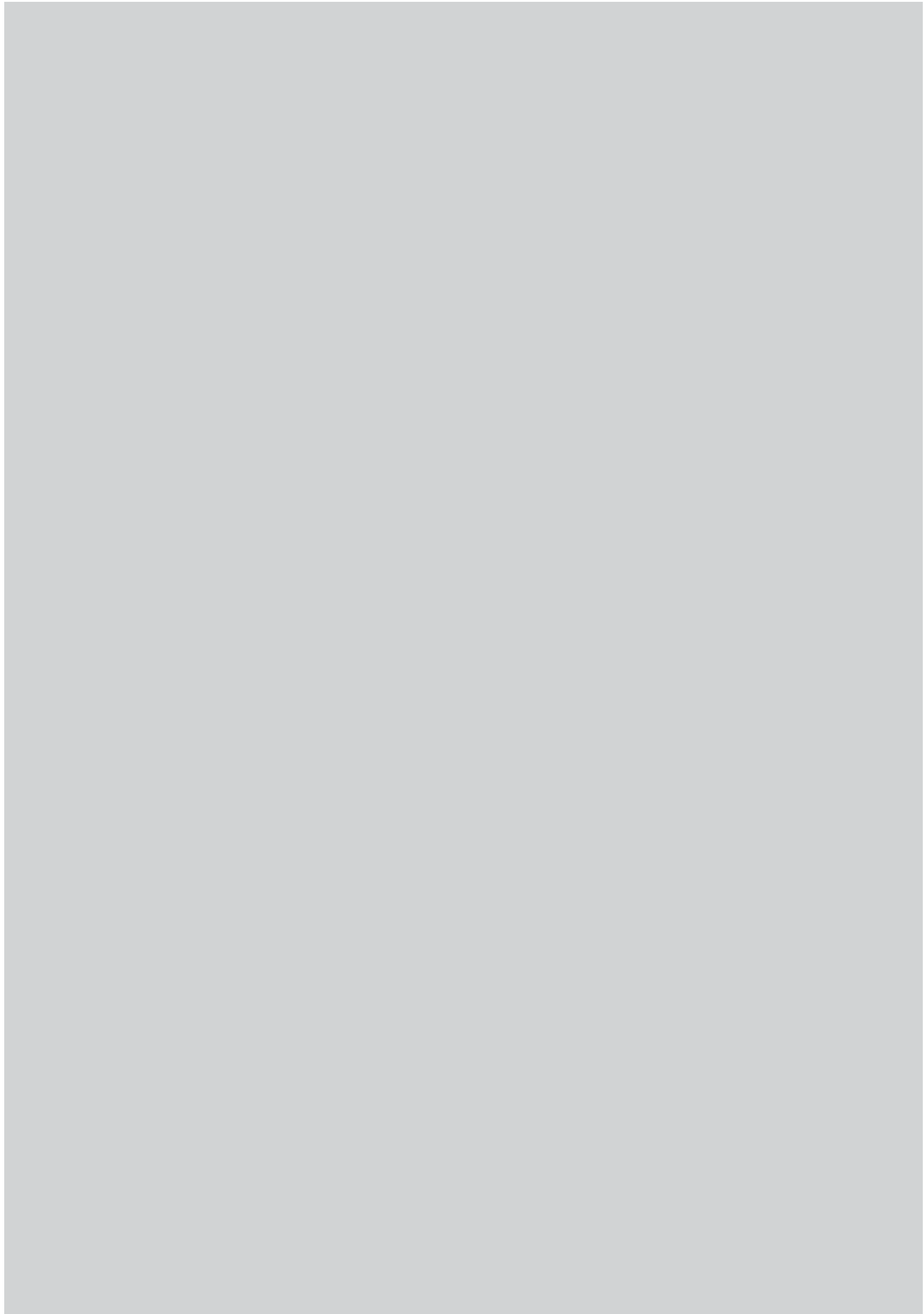
Non-EEA/EU nationals who plan to stay and work in Finland must obtain a residence permit and a worker's residence permit before entering Finland. Just holding a visa does not entitle to work in Finland. The employer and the company who use the services of the posted employees are liable to check that the foreign individuals always hold valid permits.

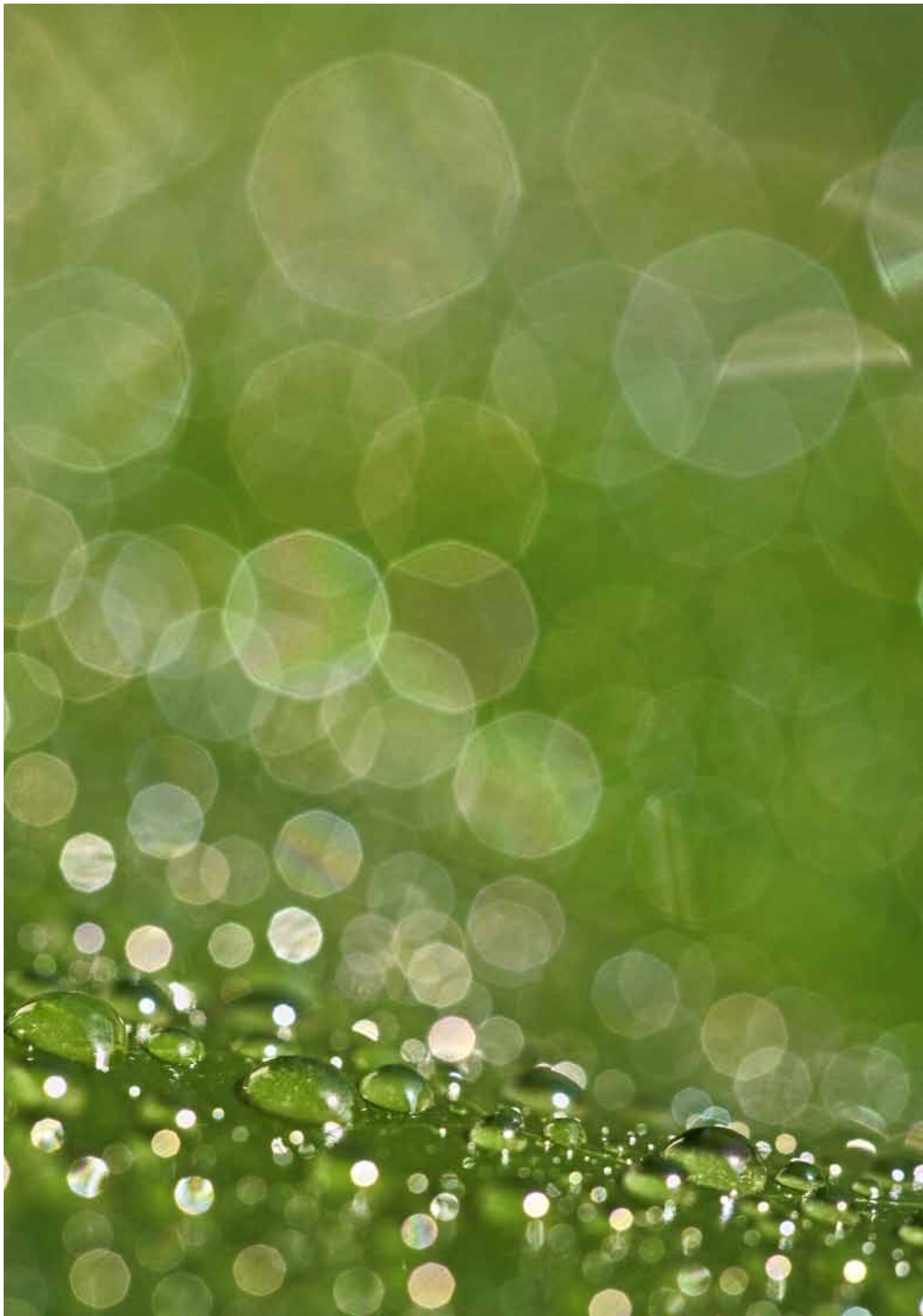
The permit applications must be filed with the Finnish embassy or consulate in the country of residence. The first temporary permits are normally valid for one year. It is, however, possible to renew the permits while staying in Finland. Permanent residence permit can be obtained after having stayed in Finland for four years at minimum.

The accompanying family members need their own residence permits and it is recommendable to file the applications concerning all family members at the same time.

4.3.2 EU-nationals

EU-nationals and the citizens of Switzerland and Lichtenstein and their accompanying family members do not need residence permits or worker's residence permits. However, they are liable to register themselves at the local police office if they plan to stay in Finland for more than three months. The citizens of the Nordic countries do not need permits to enter and stay in Finland either and they do not have a liability to register themselves at the local police.





II Taxation

1. Corporate income tax

1.1 Taxable persons

All Finnish resident companies and Finnish branches/Permanent Establishments ("PE") of non-resident companies are subject to corporate income tax. A company is considered to be resident in Finland, if it is registered or otherwise established in Finland. Partnerships are not regarded as separate taxable entities. Instead, the amount of taxable income is first calculated at the level of the partnership, and then the taxable income is attributed to the partners according to each partner's share in the partnership's total income.

1.2 Corporate income tax rate

Corporate profits are taxed at a flat rate of 26%. A branch/PE of non-resident company is taxed at the same rate.

1.3 Holding Company

There are no special taxation provisions in respect of holding companies. However, there are some differences in computing taxable income depending on whether the holding company is regarded as carrying on business activities or 'other activities'. For example, a holding company within a group is typically regarded as carrying on business activity provided that the group companies are engaged in business activities. If the sole purpose of a holding company is to passively own and hold shares, the activities of the holding company will usually not be regarded as constituting business activities. The distinction between the activity types has relevance for example in relation to the possibilities to level out profits and losses between group companies.

1.4 Business source of income and personal source of income

Under the Finnish taxation system, a company may have income from three different sources (often referred to as 'baskets'): business income, personal source income (also known as the 'other source' income) or agricultural income. Income from business and professional activities falls into 'business source' income, while income from non-business activity is 'personal income'. Typically personal income is passive income derived for example from investments. As an example, rental income from real estate let to non-related companies is usually regarded as 'personal source' income. The same can apply to dividend received from Stock Exchange quoted companies, where the recipient of the dividend is a passive holding company as mentioned in Section 1.3. Farming and forestry income are as a main rule treated as agricultural source income.

There are a few differences in the method of computing taxable income depending on the source to which the income belongs, for example deductibility of capital losses. In addition, the provisions on possibilities to level out profits between group companies only applies to profits from the business income tax source. However, the most significant effect of allocating a company's income to the various sources of income is that costs from one source are not deductible from the income of another source. In addition, a loss in respect of one income source of a corporate body cannot be set off against profit in another source.

1.5 Computing taxable income

Resident companies are liable to pay taxes on their worldwide income after deduction of business expenses. In general, taxable business income includes all income derived from a company's business activity and capital gains, though there are some exemptions to this broad concept of taxable income. The most significant exemptions relate to dividends (some dividends are, however, taxable, see section 1.10. below) and capital gains from selling fixed asset shares (for details on exemptions, see below).

In general, all expenses incurred with the purpose of acquiring or maintaining taxable income are deductible for tax purposes. Furthermore, expenses are generally tax deductible when the liability to pay those costs has realized.

The Business Income Tax Act (BITA) includes detailed provisions for computing taxable income. The provisions of BITA include individual set of provisions to determine tax deductible expenses and taxable income. However, Finnish Generally Accepted Accounting Principles (GAAP) are fairly in line with the provisions of BITA and therefore, Finnish GAAP establishes the basis for taxation. The most significant differences between the computation of income under tax laws and accounting occur in the areas presented below. (However, the differences between computation of taxable income and accounting expand if a company prepared its financial statements under International Financial Reporting Standards (IFRS)).

a) non-taxable income:

- capital contributions by shareholders
- dividends are generally tax-exempt (for more detail, see 1.10 below)
- distributions from partnerships which do not exceed the partners' share of the taxable income of the partnership (see 1.1)
- capital gains from selling fixed asset shares belonging to business source of income, if

II Taxation

1. Corporate income tax

- 1) the shares have been continuously owned for at least one year in a period of time that has ended not more than one year before the sale, and
- 2) the ownership share in the company whose shares are sold is at least 10%, and
- 3) the company whose shares are sold is a resident in Finland or in another EU-member state or in a tax treaty country, and
- 4) the company whose shares are sold is not a real estate company, or a company, whose activities consist mainly of owning or holding real estates, and
- 5) the company selling the shares is not an investment company (as defined by BITA)

Rules concerning tax exempt capital gains are applicable to limited liability companies, cooperative associations, savings-banks and mutual insurance companies provided that the above mentioned criterias are met. There are, however, exceptions to the above-mentioned main rule concerning depreciation/write-downs previously made to the acquisition cost of the transferred shares and losses, which are incurred on a sale of shares between group companies.

- liquidation gains (requirements broadly similar to those regarding tax-exempt capital gains from sale of fixed asset shares)

b) expenses not deductible for income tax purposes include:

- income taxes (and interest and punitive payments in respect of late payment of tax)
- one half of entertainment expenses
- expenses incurred in the course of acquiring or maintaining tax-exempt income
- fines, parking tickets and similar expenses
- losses incurred on the fixed asset shares if the profit would have been tax-exempt (see above)
- liquidation losses in most cases
- group support expenses such as economic support provided to a subsidiary (group contributions are deductible if statutory requirements are met) and other expenses paid on the behalf of another group company

c) timing differences:

- certain non-realised expenses have to be deducted for accounting purposes and entered on the balance sheet as obligatory reserves, but these are not deductible for tax pur-

poses until the obligation to pay the underlying cost arises (i.e. the company receives a corresponding performance)

- credit losses, other than in respect of trade receivables, are not deductible until the loss is final (please note that write-downs on intra-group receivables are not deductible as a main rule).
- tax legislation includes complete provisions on maximum annual depreciation of fixed assets, but for accounting purposes these are depreciated according to their economic lifetime

1.6 Inventory

Inventory is valued at the lowest of direct acquisition cost on a first-in first-out (FIFO) basis, replacement cost or net sales value at the last day of the accounting year.

A taxpayer is also entitled to add a proportional amount of essential overhead expenses to the acquisition cost of inventory assets, if the same procedure is applied for accounting purposes.

1.7 Assets and long-term expenses

The depreciable cost of a fixed asset is its acquisition cost. The taxpayer is entitled to add a proportional amount of interest costs and other overhead expenses to the acquisition cost of fixed assets, provided that the same procedure is applied for accounting purposes.

Depreciation for tax purposes is not allowed for fixed assets, which are not subject to wear and tear, such as land, securities and participations in other companies and partnerships.

Machinery and equipment are treated as one item for tax depreciation purposes, i.e. the acquisition costs are pooled. The total pool of acquisition costs consists of the remaining pooled acquisition costs of these assets at the beginning of the year, increased by the acquisition costs of items acquired during the year and reduced by the sales prices of assets that have been disposed of. The maximum annual depreciation is 25% from the remaining balance (i.e. declining balance method).

Machinery and equipment with a maximum acquisition price of €850 may be expensed during the tax year of acquisition. However, such deductions together may not exceed €2,500 per tax year.

Short-life items such as tools and other assets with a maximum useful life of up to three years may be expensed in the year of acquisition.

Buildings and other constructions are depreciated for tax purposes using the declining balance method. Each building is depreciated separately. Maximum rates of depreciation depend on the use of the building. The rate is:

- 4% if the building is used as a residential building or office;
- 7% if the building is used as a shop, warehouse, factory or workshop;
- 20% for tanks for storage of liquid fuel, acids and other similar storage buildings, light constructions of wood or other comparable material and for buildings, or constructions, or parts of buildings and constructions, used exclusively for research and development.

Constructions such as bridges, railways, dams and docks are depreciated using the straight-line method over their estimated useful lives with the maximum period being 40 years.

The acquisition costs of natural resources, like mines, gravel and sand pits, may be depreciated by the amount of natural resources used.

The cost of patents and other intangibles may be depreciated on a straight-line basis over the economic lifetime of the asset, subject to a maximum depreciation period of 10 years.

The acquisition cost of goodwill, (i.e. the price paid for goodwill) and other long term expenses may be depreciated on a straight-line basis over the economic lifetime of the asset, subject to a minimum depreciation period of 3 years and a maximum of 10 years.

1.8 Reserves

In general costs are not tax deductible until they are realised and therefore provisions for eventual upcoming payments are accepted as tax deductible costs only where tax legislation specifically allows that.

Normally bad debt provisions are not tax-deductible. An exception is in respect of banks, credit institutions, pension insurance companies and insurance companies, for whom bad debt provisions to certain amounts are tax-deductible.

Companies engaged in construction, ship building or in activities in the metal and engineering industry are entitled to form tax-deductible reserves with respect to certain guarantee commitments.

1.9 Losses

Losses may be carried forward and offset against taxable profits accrued from the same source of income (e.g. the business income source in the case of a loss in respect of business activities) for ten subsequent years.

In case more than half of the shares or partnership interests in a legal entity (including limited liability companies, co-operatives and partnership) change ownership due to any reason other than inheritance or bequest during or after the tax year from which a loss is recorded, the legal entity in principle forfeits its right to carry forward the loss. The

tax office may, however, grant permission for carrying forward losses despite of the change in ownership provided there is a special reason for this and that the loss is vital for the legal entity to continue its activities.

In respect of the above change of ownership test, indirect changes in ownership are also taken into account if such a change in ownership takes place in a company, or a partnership, which owns at least 20% of the shares in the loss-making company. These shares in the loss-making company are deemed to have been transferred. For the purposes of the application of these rules transactions between current shareholders are also taken into account.

In the case of a merger and demerger, the recipient corporate body, or its shareholders or these parties together, must have held more than 50% of the shares of the merging/demergering company from the beginning of the loss year in order for the loss to transfer in the merger/demerger to the recipient company/companies. The right of the recipient company/companies to carry forward these transferred losses is subject to the above-mentioned main rules.

Losses cannot be carried back.

1.10 Dividends

The taxation of dividends was reformed by Corporate Tax Reform 2005 which entered into force on 1 January 2005. The imputation system applied until then was abolished and a classical tax system of partial participation exemption was introduced.

1.10.1 Finnish-source dividends

For Finnish Resident Recipients

The main principle is that dividends received by a company are tax-exempt. There are three main exceptions. In the first two cases 75% of the total amount of dividend is taxable (the remaining 25% is tax-exempt). In the third case, the dividend is fully taxable:

- (1) Dividends from shares belonging to investment assets (only credit and pension institutions and insurance companies may have investment assets).
- (2) Dividends received by non-listed companies from publicly listed companies. However, if non-listed company directly holds at least 10% of the listed company's share capital the dividend is tax-exempt.
- (3) Dividends from shareholdings that are not part of business assets, where the recipient is a corporate body that is not a limited liability company, co-operative, savings-bank or mutual insurance company.

II Taxation

1. Corporate income tax

For non-Finnish Resident Recipients

Following the implementation of the provisions of the EC Parent-Subsidiary Directive dividends paid to foreign company are tax-exempt in Finland if the recipient shareholder is an EU-resident corporate body which holds at least 10% of the distributing company's capital. Otherwise the dividends may be subject to withholding tax of 19,5 - 28%. Tax treaties, however, often provide for reduced rates or exemptions for dividend distributions (typically in tax treaty situation tax rates of 0% - 5% for direct investment dividends and 15% for portfolio dividends apply).

New withholding tax rules on Finnish source dividends were enforced as of 1.1.2009. The purpose of the new rules is to equalize the taxation of intra-Finnish dividend distributions with comparable cross-border distributions for companies resident in EU/EEA countries. I.e. in case intra-Finnish dividend would be tax-exempt, there should not be withholding tax on cross-border dividend either.

1.10.2 Foreign-source dividends

EU-Source

The main principle is that dividends received from EU-resident companies (that is companies that are mentioned in EC Parent-Subsidiary Directive) are tax-exempt. There are three main exceptions. In the first two cases 75% of the total amount of dividend is taxable (the remaining 25% is tax-exempt). In third case the dividend is fully taxable:

- (1) Dividends from shares belonging to investment assets (only credit- and pension institutions and insurance companies may have investment assets). However, if the receiving company holds directly at least 10% of the capital of a non-Finnish resident distributing company and the distributing company is mentioned in the EC Parent-Subsidiary -directive, the dividend is tax-exempt.
- (2) Dividends received by non-listed companies from publicly listed companies. However, if non-listed company directly holds at least 10% of the listed company's share capital the dividend is tax-exempt.
- (3) Dividends from shareholdings that are not part of business assets where the recipient is a corporate body that is not a limited liability company, co-operative, savings-bank or mutual insurance company.

Non-EU Source

Dividends from non-EU sources can be divided into two categories: (1) tax treaty, and (2) non-tax treaty sourced. Dividends received from companies resident in tax treaty countries are, on the basis of domestic tax law, 75% taxable, but in practice, on the basis of tax treaties, in most cases tax exempt. Tax exemption on the basis of a tax treaty

depends usually on a shareholding threshold (10% requirement) or on the tax treatment in comparable intra-Finnish dividend distribution. In cases where the dividend is received from a company not resident in an EU- or tax treaty country, the dividend is fully taxable.

1.10.3 Taxation of individual shareholders

Dividends from publicly listed companies (from EU-member state or tax treaty state) are 70% taxable capital income and 30% tax-exempt. The flat tax rate for the capital income portion is 28%. If the dividend is received from a company resident in a non-tax treaty state, the dividend is considered as earned income and taxed wholly under progressive tax rates.

Dividends from non-listed companies can be partly tax-exempt, partly capital income and partly earned income. The amount of fully tax-exempt dividend is at maximum 9% of the mathematical value of shares (calculated according to the Act on Valuation of Assets in Taxation), but not more than €90,000 annually. If the dividend is more than €90,000 but does not exceed the 9% limit, the amount that exceeds €90,000 is 70% taxable capital income and 30% tax-exempt. If the amount of dividend exceeds the 9% limit, the excess portion is 70% taxable earned income and 30% tax-exempt. The tax exempt amount of €90,000 is cumulative for the tax payer (individual shareholder) such that all dividends shareholder receives from different companies are calculated together for purposes of determining the €90,000 tax-exempt thresholds.

1.11 Group taxation

In Finland it is not possible to file consolidated tax returns as such. However, via "group contributions" group companies may even out their taxable profits and losses. A group contribution is tax deductible for the payer and taxable income for the recipient provided that:

- 1) there exists for the whole tax year an ownership structure between the contributing company and the receiving company whereby a Finnish company (parent company) owns directly or indirectly at least 90% of the share capital of another Finnish company (subsidiary);
- 2) both companies are limited liability companies or co-operatives that are engaged in business and are not financial, insurance or pension institutions;
- 3) the accounting year of the paying and receiving companies ends on the same date;
- 4) the contribution is recorded in the annual statutory accounts of both companies involved and must affect their annual net income;
- 5) the contribution is not considered a capital investment; and

- 6) the contribution does not exceed the amount of the contributing company's taxable business profit.

A group contribution may be given by a parent company to a subsidiary, by subsidiary to a parent company or pass between two Finnish subsidiaries.

When the ownership percentage is calculated, passive (non-business) group companies can also be taken into account. Based on case law, the above-mentioned ownership chain can also be traced via foreign limited liability companies (and co-operatives), provided that there is a tax treaty in force between Finland and the joint (ultimate) parent company via which the ownership chain is traced.

Subject to these conditions a group contribution is included in the allowable expenses of the company paying the contribution and in the taxable income of the receiving company for the tax year during which it has been given and received. The decision to give a group contribution has to be taken before the financial year-end, though it can be in a form that the group contribution will not exceed certain monetary amount.

The European Court of Justice decision C-446/03, Marks & Spencer, had no direct impact on the Finnish group contribution regime. Also the European Court of Justice decision C-231/05, AA Oy specifically considered the Finnish group contribution regime, concluding that the Finnish system does not violate the principles of EU law. However, it is possible that the decisions in these cases could lead to some amendments to Finnish tax legislation in the future.

1.12 Corporate restructuring

The provisions of the EC Merger Directive 90/434/EEC have in general been incorporated into Finnish legislation. This means that Finland has harmonised tax provisions concerning cross-border mergers, demergers, transfers of assets and exchanges of shares in accordance with the Directive. In practice, these rules are currently applicable only to domestic transactions since cross-border mergers or divisions are not possible according to the current companies' legislation.

1.12.1 Merger

In a merger:

- 1) one or more companies, by dissolving without going into liquidation, transfer all their assets and liabilities to a recipient company and the shareholders of the merging company receive as consideration for their shares newly issued shares in the recipient company (universal succession). Also, a cash payment can be used as consideration but it may not exceed 10% of the nominal value of the new shares issued by the recipient company or, in the absence of a

nominal value, 10% of the paid-in capital relating to the new shares issued by the recipient company; or

- 2) the merging company, by dissolving without going into liquidation, transfers all its assets and liabilities at the book values to a recipient company holding all the shares representing the capital of the merging company.

The merging company is not deemed to dissolve for income tax purposes. Assets and liabilities are taken over by the recipient company at their book value and for tax purposes at their residual tax value. After the merger, the recipient company deducts the expenses and costs of the merging company as they would have been deducted in the merging company. The profit or loss arising from a merger is not taxable or deductible.

In the case of a merger, the recipient corporate body, or its shareholders or these parties together, must have held more than 50% of the shares of the merging company in order for the loss to transfer in the merger to the recipient company. The right of the recipient company to carry forward these transferred losses is subject to the main rules noted in Chapter 1.9. The same rules apply to any unutilised tax credits the merging company/companies may have.

The recipient company and the transferring companies are treated as separate taxpayers until the finalization of the merger is registered on the Trade Register.

The conversion of shares of the merging company into the shares of the recipient company is not regarded as a taxable event for the shareholders. However, the transfer of shares is deemed to be taxable to the extent cash compensation has been received.

1.12.2 De-merger

A de-merger (or division) means a transaction where

- 1) a company, by de-mergering without going into liquidation, transfers all its assets and liabilities at book values to two, or more, companies or
- 2) a company, without being dissolved, transfers one or more of its branch of activity at book values to one or more companies, leaving at least one branch of activity in the transferring company (partial division). The shareholders of the transferring company should receive the same proportion of newly issued shares in each recipient company as they owned in the transferring company. A cash payment can also be used as consideration, but it may not exceed 10% of the nominal value of the new shares issued by the recipient company or, in the absence of a nominal value, 10% of the paid-in capital relating to the new shares issued by the recipient company.

II Taxation

1. Corporate income tax

The transferring company is not deemed to dissolve for income tax purposes. Assets and liabilities are taken over by the recipient companies at their book value and for tax purposes at their residual tax value. After the division, the recipient companies deduct the expenses and costs of the transferring company as they would have been deducted in the transferring company.

In the case of a division, the recipient corporate body, or its shareholders or these parties together, must have held more than 50% of the shares of the transferring company in order for the loss of the transferring company to transfer in the division to the recipient companies. The right of the recipient companies to carry forward these transferred losses is subject to the main rules noted in Chapter 1.9. The same rules apply to any unutilised tax credits the transferring company may have.

The exchange of shares of the transferring company into the shares of the recipient companies is not regarded as a taxable event for the shareholders. However, the transfer of shares is deemed to be taxable to the extent that cash compensation has been paid.

1.12.3 Exchange of shares

Provisions concerning the exchange of shares can be applied in a situation where a company (issuing company) acquires a proportion of shares of another company and the acquiring company raises its share capital and issues new shares to the shareholders of the other company as compensation. The issuing company has to obtain more than half of the voting stock in the acquired company after the exchange of shares or if the issuing company already holds the majority of the voting stock in the acquired company, obtains more shares of the acquired company. Cash compensation can be used as consideration, but it may not exceed 10% of the nominal value of the new shares issued by the recipient company.

The exchange of shares is not treated as a taxable transaction for the shareholders. However, the transaction is deemed to be a taxable event to the extent cash compensation has been used.

Since the exchange of shares is not regarded as a disposal for income tax purposes for the shareholders, the acquisition cost of the shares received in exchange, is the same as the residual tax value of the shares transferred.

However, if a person receiving new shares becomes resident abroad under the provisions of Finnish national legislation, or a double taxation agreement, within three years from the end of the tax year in which the exchange took place, the exempted amount is regarded as taxable income for the tax year in which the person becomes resident abroad.

1.12.4 Transfer of business assets

A transfer of business assets is considered a non-taxable transaction if

certain requirements are fulfilled. It is required that the assets, liabilities and reserves relating to a certain business of a company can be transferred to another company at their book values. In addition, requirements include that the company which receives the business assets pays compensation by increasing its share capital and by issuing new shares to the transferring company. The compensation must consist only of newly issued shares in the receiving company and, therefore, no cash compensation is allowed.

The transferred assets, liabilities and reserves have to form an independent business unit, i.e. a branch of activity. All the assets and liabilities of a company, which, from an organisational point of view, constitute an independent business, can be regarded as an independent business unit. Essentially, an independent business unit should be capable of functioning on stand-alone basis.

For the transferring company the transfer price for tax purposes is deemed to be the residual acquisition cost of the transferred assets, provided that the transfer has been carried out using book values. For the recipient company the tax-deductible acquisition cost is equal to this transfer price of the assets. Goodwill relating to the transferred business unit can only be treated as a separate asset item in the recipient company for tax and accounting purposes if it had been recorded on the balance sheet of the transferring company.

A transfer tax is levied on the transfer of shares at the rate of 1.6% and on real estate at the rate of 4% of fair market value. However, the transfer tax is not levied on the transfer price of any other assets. The tax office will refund the tax on application, if the assets are transferred to a new company, which has been established to continue the activities of the transferring company.

1.12.5 Liquidation

The liquidation of a company may occur voluntarily, either as a result of a decision made by the company's shareholders or as a result of a requirement in the company's articles of association. Liquidation may occur by law if:

- 1) the company does not have a qualified board of directors registered at the Trade Register or a managing director as required by law; or
- 2) under the Companies Act, certain conditions exist that require the company to be liquidate

When a company is liquidated its remaining assets after the payment of debts are distributed to the shareholders. The distribution of assets is deemed as a disposal of assets at fair market value. This may generate a capital gain or a capital loss in the liquidated company.

The shareholder is deemed to have exchanged his shares in the liquidated company for the assets received. In the event the fair mar-

ket value of the assets exceeds the acquisition cost of the shares, the difference is considered as a capital gain. On the other hand if the fair market value of the assets is less than the acquisition cost of the shares the difference creates a liquidation loss. The distribution of assets in most cases is a non-taxable event for the shareholder, (i.e. a gain is tax-exempt and a loss non-deductible). The tax treatment of the liquidation proceeds is similar to the tax treatment of sale of shares. Thus, if it was possible to sell the shares in tax-exempt way, the liquidation gain would also be tax-exempt and the loss non-deductible. However, it should be noted that the one year holding period is not taken into account for this purpose and that, thus, liquidation loss can be non-deductible even if the shares had been owned for a period of less than one year. Please see Section 1.4 for details.

1.13 Transfer pricing

1.13.1 General

The Finnish tax legislation follows the OECD Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations. The legislation sets an arm's length principle, which must be applied in transactions between related parties. The arm's length principle means that the terms and conditions used in the transactions between related parties should correspond to those that would have been imposed on transactions between unrelated parties.

Tax authorities monitor that taxable profits are not transferred cross border within a group by applying prices, which would not be applied by non related parties.

1.13.2 Statutory Transfer pricing documentation requirements

General

With effect for accounting periods starting on 1 January 2007 and thereafter, Finland has had statutory Transfer Pricing documentation requirements.

Documentation requirements do not apply to small and medium sized groups with less than 250 employees that either feature turnover of no more than €50 million or a balance sheet of no more than €43 million. Thresholds are calculated at group level.

Purpose of the Transfer Pricing Documentation

The purpose of the Transfer Pricing documentation is to identify cross border transactions with related parties and to demonstrate that such transactions are following the arm's length principle. Transfer Pricing documentation should cover all related party transactions, e.g. sales of goods and services, right to use of intangible property, financing, leasing, cost sharing arrangements etc.

Timing

Documentation should be submitted to the tax authorities within 60 days of a request, but not earlier than 6 months from the end of the accounting period. Any additional information requests should be responded to within 90 days of a request. Transfer pricing documentation can be requested, e.g. in connection with a tax audit target evaluation, during the course of a tax audit, or in connection with an annual assessment.

Documentation Penalty

If the required documentation is not submitted on time, or the documentation is either incomplete or incorrect, a penalty of up to €25,000 can be imposed. The penalty relates to negligence and can be imposed regardless of the arm's length nature of the pricing. Several defaults may result in penalties exceeding €25,000.

Transfer Pricing Adjustment and Penalty

If the arm's length requirement is not followed, tax authorities can adjust the taxable income of the company (Transfer Pricing adjustment). A Transfer Pricing adjustment may result in a separate punitive tax surcharge of a maximum of 30% on the adjusted amount of income as well as penalty interest.

Content of the documentation

The statutory Transfer Pricing documentation has to contain the following information:

1. Description of the business;
2. Description of related party relationships;
3. Details of controlled transactions;
4. Functional analysis;
5. Comparability analysis including information on comparables if available;
6. Description of the pricing method and its application.

The information related to the sections 4-6 is not required to be documented if the aggregate value of all transactions between two related parties does not exceed €500,000 per year (at arm's length level).

In addition, a list of relevant agreements should be included. In addition, a list of cost-allocation agreements, APAs and advance rulings, as well as any rulings issued by the tax authorities to the other party of the transaction, should also be included.

Tax return disclosures

From 2007 onwards, taxpayers are required to disclose on their annual tax return whether or not they have had related party transactions during the tax year in question and whether or not they are obliged to maintain transfer pricing documentation.

II Taxation

2. Capital tax

3. Tax administration and assessment

1.14 Thin capitalisation

No special provisions on thin capitalisation exist in current legislation. However, the tax authorities may apply the general anti-avoidance provision and the provisions on hidden profit distribution to reclassify interest paid as a dividend in case it is established that terms of the debt financing do not meet the arm's length terms. In such a case the amount paid would not be deductible for tax purposes.

Finnish tax authorities have not prepared any guidance on the acceptable ratio of debt to equity. However, the Supreme Administrative Court has given few rulings where the question of the acceptable ratio has been dealt with. Thus in practice, each case should be determined based on its own facts and circumstances.

In spring 2009 the Ministry of Finance announced its intention to enact limitations to interest deductions rules. To date no official proposal exists of the content of such rules to come.

1.15 Controlled foreign corporations

Controlled foreign corporations (CFC) legislation has been in force in Finland since 1995. A Finnish shareholder resident for tax purposes in Finland can be taxed on income of a foreign entity (for example a company or trust), even though profits have not been distributed from the foreign entity to the Finnish shareholders. CFC legislation is not applied to corporations carrying out industrial activities, similar production activities or ship-owning activities in a foreign country, or selling or marketing activities directly serving the above-mentioned industrial or production activities or ship-owning in the foreign country. Corporations resident in a country with which Finland has a double taxation treaty are outside the scope of CFC legislation provided the tax rate in the country of residence does not substantially differ from tax rates in Finland and the company does not benefit from any special tax incentives. For that purpose the Finnish Ministry of Finance publishes a "black list" on tax treaty countries where the general taxation is considered to be too low. In addition, in some cases under certain circumstances, non-artificial establishment into the foreign country may also prevent Finnish CFC taxation.

The provisions of the legislation will be applied only if the actual taxation in the foreign country is less than three-fifths of the corresponding taxation in Finland and the foreign entity is controlled by Finnish residents; that is, Finnish residents own a total of at least 50% of the share capital or at least 50% of the voting power in the foreign entity. The taxable income of the foreign entity can be allocated only to a Finnish shareholder that owns directly or indirectly more than 25% of the share capital of the foreign entity or whose proportion of the total return of the foreign entity is at least 25%.

A Permanent Establishment may also be considered as a CFC for Finnish tax purposes. If the country of the company exempts profits of foreign PE, the PE is evaluated as independent company and CFC rules may be applicable under same conditions.

2. Capital tax

Net wealth taxation was abolished in Finland effective from 1 January 2006.

3. Tax administration and assessment

3.1 Pre-assessment

Pre-assessed taxes (advance tax payments) are based on the prior year's assessment and generally collected monthly. The tax authorities inform the company of the amount and timing of advance tax payments

The intention is that the advance tax payments correspond as closely as possible to the taxpayers' final tax liability for the entire tax year. Consequently, the taxpayer may apply for a new advance tax assessment where the original pre-assessment is considered too high. If, on the other hand, the amount paid is insufficient, a company must make a supplementary payment of tax within 4 months of the end of the accounting year in order to avoid interest. Such interest is non tax-deductible.

3.2 Tax return and assessment

The tax year is the accounting period or periods that end during the calendar year.

A limited liability company has to file its tax return within 4 months from the end of its accounting period. A tax office may grant an extension on the basis of a written application, which has to be filed before the statutory due date for submitting the tax return. An extension may be granted only for valid reason.

The assessment of a fiscal year is finalised ten months after the end of the accounting period.

3.3 Appeal

A taxpayer dissatisfied with the ordinary assessment has the right to demand correction from the local assessment adjustment board, which is the first instance of appeal in every tax office. According to general rules, the demand must be made before the end of the fifth year following the assessment year.

An appeal against the decision of the assessment adjustment board may be made to the administrative court. As a general rule, the appeal period is five years from the beginning of the year following the assessment year or at least 60 days from the date on which the taxpayer received the decision of the local assessment adjustment board.

Appeals against the decisions of the provincial administrative court must be made within 60 days to the Supreme Administrative Court if the court grants permission on the basis of the criteria set down by law.

3.4 Advance ruling

Taxpayers may apply to the Central Tax Board and tax offices for advance rulings. Rulings given by the Central Tax Board are issued on matters that are either considered to be important on a general level or have significant economic importance to the taxpayer. It is possible to apply for advance rulings also on valuation issues. Rulings are normally issued within two or three months from the filing date.

3.5 Tax audit

Finnish tax legislation does not have any special provision on how often the taxation of persons carrying on a trade in Finland shall be audited for tax purposes. However, in practice the tax authorities aim to inspect major companies every five years. The taxpayer is liable to submit its accounting records and any other documents, which the tax auditors may request for inspection.

4. Withholding tax

4.1 Dividends

Following the implementation of the provisions of the EC Parent-Subsidiary Directive dividends paid to foreign company are tax-exempt in Finland if the recipient shareholder is an EU-resident corporate body which holds at least 10% of the distributing company's capital. Otherwise the dividends may be subject to withholding tax of 19,5 - 28%. Tax treaties, however, often provide for reduced rates or exemptions for dividend distributions (typically in tax treaty situation tax rates of 0% - 5% for direct investment dividends and 15% for portfolio dividends apply).

New withholding tax rules on Finnish source dividends were enforced as of 1.1.2009. The purpose of the new rules is to equalize the taxation of intra-Finnish dividend distributions with comparable cross-border distributions for companies resident in EU/EEA countries. I.e. if intra-Finnish dividend would be tax-exempt, no withholding tax should be levied on cross-border dividend either.

4.2 Interest

Non-residents do not usually pay tax on their interest income derived from Finland. Interest is tax-exempt when paid on:

- bonds, debenture and other such debts;
- deposits on bank accounts;
- accounts originating from international trade; or
- debt which is not equivalent to equity.

Accordingly, in practice, Finland does not apply a withholding tax on interest as such.

4.3 Royalties

Royalties are subject to withholding tax at 28%, unless a Tax Treaty provides a lower rate or an exemption.

4.4 Tax rates

As stated above, according to internal tax legislation, a withholding tax of 19,5 - 28% may be levied on dividends, royalties and interest payments. However, under domestic law interest paid to non-residents is withholding tax-exempt in almost all cases.

Summary withholding tax rates of 2008 were as follows:

	Dividend (portfolio)	Dividend (direct investment)*	Royalty**
*) The recipient is a company whose share in the company making the payment amounts is at least the percentage indicated in parentheses			
**) Note that there is no tax on royalties between associated companies as meant in EC Directive 2003/49/EC			
Argentina	15	10 (25%)	15 [18]
Armenia	15	5 (25%)	10 [6]
Australia	15	5 (10%) [6, 14]	5
Austria	10	0 (15%) or 0(10%)[14]	5
Azerbaijan	10	5 (25%) [22]	5 [4]
Barbados	15 [5]	5 (10%) [14]	5 [1, 5]
Belgium	15	0 (15%)	5 [1]
Bosnia-Herzegovina	15	5 (25%)	10
Brazil	10	10	15 [2]
Bulgaria	10	0 (15%)	5 [1]
Canada	15	5 (10%) [14]	10 [1]
China	10	10	10 [9]
Croatia	15	5 (25%)	10
Cyprus	28	0 (15%)	28
Czech Republic	15	0 (15%)	10 [1, 16]
Denmark	15	0 (10%)	0
Egypt	10	10	25
Estonia	15	0 (15%)	10 [12]
France	0	0	0
Germany	15	0 (15%)	5 [1]
Greece	13	0 (15%)	10 [1]
Hungary	15	0 (15%)	5 [1]
Iceland	15	0 (10%)	0
India	15	15	20 [6]
Indonesia	15	10 (25%)	15 [4]
Ireland	0 [5]	0 (15%) or 0 (10%) [14]	0 [5]
Israel	15	5 (10%)	10
Italy	15	0 (15%)	5 [1]
Japan	15	10 (25%) [8]	10
Kyrgyzstan	15	5 (25%)	5
Latvia	15	0 (15%)	10 [12]

	Dividend (portfolio)	Dividend (direct investment)*	Royalty**
Lithuania	15	0 (15%)	10 [12]
Luxembourg	15 [10]	0 (15%) [10]	5 [1, 10]
Macedonia	15	0 (10%) [14]	0
Malaysia	15	5 (10%)	5
Malta	15	0 (15%) or 5(10%)	0
Mexico	0	0	10
Montenegro	15	5(25%)	10
Morocco	15	15	10
The Netherlands	15	0 (5%)	0
New Zealand	15	15	10
Norway	15	0 (10%)	0
Pakistan	20 [20]	12 (25%)	10
The Philippines	28	15 (10%) [14]	25 [3]
Poland	15	0 (15%)	10 [1]
Portugal	15	0 (15%)	10
Republic of Korea	15	10 (25%)	10
Romania	5	0 (15%)	5 [19]
Russia	12	5 (30%) [7]	0
Serbia	15	5 (25%)	10
Singapore	10 [15]	5 (10%) [14,15]	5 [15]
Slovakia	15	0 (15%)	10 [1, 16]
Slovenia	15	0 (15%)	5
South Africa	15	5 (10%)	0
Spain	15	0 (15%)	5
Sri Lanka	15	15	10
Sweden	15	0 (10%)	0
Switzerland	10	0 (20%)	0
Tanzania	20	20	20
Thailand	28	20 (25%) [13]	15
Turkey	20	15 (25%)	10
Ukraine	15	5 (20%)	10 [17]
United Arab Emirates	0	0	0
United Kingdom	0 [5]	0	0 [5]
United States	15[21]	5 (10%) [14]	5 [1,21]
Uzbekistan	15	5 (10%) [14]	10 [6]
Vietnam	15	10 (25%) or 5 (70%)	10
Zambia	15	5 (25%)	15 [1, 11]

II Taxation

4. Withholding tax

- [1] Tax is not levied on literary, scientific or artistic royalties (for film royalties see text of treaty)
- [2] Tax 10% on use of films, literary, scientific or artistic works and 25% on use of trademark or royalties paid for Usufruct
- [3] Tax 15% on films, tapes used in television or radio broadcasts, use of copyright of literary, artistic or scientific works or royalty paid for usufruct
- [4] Tax 10% on literary, scientific, artistic and film royalties
- [5] Tax for individual is 28% if income is tax-exempt in the country of residence
- [6] A lower tax in certain cases, as for India see article V in protocol 1997
- [7] Foreign capital > USD 100,000 when dividend becomes due and payable
- [8] The condition of ownership must have been met no later than 6 months before the end of the accounting period in which the dividend is declared; the 25% is calculated on the voting stock
- [9] Tax 7% on industrial, scientific and commercial royalties
- [10] Tax 28% if the recipient is a special holding company
- [11] Tax 5% on royalties from films and tapes
- [12] Tax 5% on royalties paid for the use of industrial, commercial or scientific equipment
- [13] Tax 15% if the payer also an industrial enterprise
- [14] The 10% is calculated on the total voting stock
- [15] Tax 28% on an unremitted amount, if free from tax in Singapore
- [16] Tax 1% for finance lease of equipment, 5% for operating lease of equipment and computer software
- [17] Tax 5% for the use of secret process or for know-how, no tax for computer software or patent
- [18] Tax 10% on industrial royalty, 5% on artistic royalties and 3% on royalties to news agency
- [19] Tax 5% on royalties paid for the use of industrial, commercial or scientific equipment or computer software
- [20] Tax 15% if recipient is a company
- [21] Tax is not levied on royalties and, subject to some restrictions, dividends
- [22] Tax 5%, if ownership more than 25% and interest in a company is more than €200,000. Otherwise tax 10%

No Finnish tax treaty is applicable, for example, to the following areas: Bahamas, Bahrain, Bermuda, Cayman Islands, Channel Islands, Gibraltar, Greenland, Grenada, Guernsey, Hong Kong, Isle of Man, Jan Mayen, Macao, Mauritius, Samoa, Jersey, Liberia, Monaco, Netherlands Antilles, Panama, San Marino, the Spitsbergen (including Bear Island), Virgin Islands.

5. Transfer tax

As a general rule 1.6% transfer tax is levied on the transfer of securities. Transfer tax is payable within two months from the acquisition of shares and payable by the buyer. Securities transferred through the stock exchange as well as the transfer of certain options and forward contracts are exempted.

A 4% transfer tax is levied on the transfer of real estate (including buildings). The tax must be paid at the latest when applying for registration of the deed and title to the acquired real estate, which must be done within six months of concluding the transfer contract. If the registration has not been applied for, or an application is not necessary, the tax must be paid within six months of concluding the transfer contract.

6. Value Added Taxation

6.1 Introduction

With effect as of June 1, 1994 Finland adopted the value-added tax, replacing the partly cumulative turnover tax. Later the Finnish VAT legislation has been amended to conform with the EU VAT rules.

6.2 Taxable persons

A taxable person is any person who carries out taxable activities in a business in Finland. The following is subject to VAT:

- Entrepreneurs that in the course of their business supply taxable goods and services in Finland
- All those who import goods

There are certain exceptions to these main rules. For example small businesses, non-profit organizations, religious communities and disabled persons under certain conditions are exempted from VAT.

6.3 Taxable amount

VAT is levied on the sales price of taxable goods and services, excluding the VAT itself. The taxable value includes all surcharges and other taxes except VAT. On the other hand, the taxable person may deduct for example bad debts (relating to receivables for which VAT has already been paid) and discounts as well as certain other correction items subsequent to delivery.

In the case of imported goods, VAT is levied on the value of goods for customs purposes, plus the customs duty. The taxable value of

goods, which have been sent abroad to be repaired, completed or otherwise processed is the value added abroad, including the transportation expenses. However, in this case special procedures have to be followed.

6.4 VAT rates and application

The standard rate of VAT is 22% in Finland. A reduced rate of 12% is applied to food and animal feed, excluding restaurant services, live animals, drinking water, alcoholic beverages and tobacco products. A reduced rate of 8% is applied e.g. to:

- medicines;
- books;
- sports facilities;
- admissions to movie-theatre performances as well as cultural and entertainment events;
- passenger transport services;
- accommodation services;
- hairdressing services and
- small repair services.

As of 1.7.2010 VAT rate of food increases from 12% to 13% and VAT rate of restaurant services decreases from 22% to 13%. In addition, general VAT rate increases from 22% to 23% and reduced VAT rate of 8% increases to 9%.

6.5 Place of taxable transaction

The supply of goods or services is subject to VAT in Finland only if the supply takes place in Finland.

6.5.1 Place of supply of goods

General provision

Where the supply of goods does not involve their removal from or to Finland, they are treated as supplied in Finland and otherwise are treated as supplied outside Finland. Consequently, if a foreign company supplies goods to its Finnish subsidiary, the supply is subject to VAT in Finland if the goods remain in Finland. However, because of the reverse charge rules the foreign companies usually do not have to register for VAT purposes in Finland on the basis of this kind of supplies.

In addition to the above-mentioned general provision the Finnish VAT Act includes several special provisions regarding the place of supply of goods, some of which are explained below.

Supply of goods with installation or assembly

Goods are also treated as supplied in Finland if the supply involves their installation or assembly in Finland. On the other hand, goods are treated as supplied outside Finland if the supply involves their installation or assembly outside Finland.

Consequently, if a foreign company supplies goods to its Finnish subsidiary and undertakes the installation or the assembly of the goods in Finland, the supply is deemed to take place in Finland. In this case the supply is subject to Finnish VAT, but on the basis of the reverse charge rules foreign companies are not usually liable to register for VAT purposes in Finland in this kind of cases.

If a Finnish subsidiary of a foreign company supplies goods to its parent company and undertakes the installation or the assembly of the goods for example in another EU Member State, the supply is deemed to take place outside Finland. In this case the supply is not subject to Finnish VAT.

Intra-Community supply of goods and intra-Community acquisition of goods

The supply of goods carried out by a VAT registered trader in one EU Member State to a VAT registered trader in another EU Member State will, with some exceptions, qualify as an intra-Community supply. A VAT registered Finnish trader may zero-rate the supply of goods to a customer in another EU Member State if

- the customer is registered for VAT purposes in another EU Member State;
- the goods are dispatched or transported from one EU Member State to another EU Member State;
- the customer's VAT registration number is mentioned on the sales invoice and
- the supplier retains the proof of transport.

However, the intra-Community acquisition of goods is subject to VAT in the EU Member State of arrival of the goods.

If a Finnish VAT registered subsidiary of a foreign company supplies goods to its parent company registered for VAT purposes in another EU Member State and the goods are transported from Finland to another EU Member State, the subsidiary is not liable to pay Finnish VAT on the supply. In this case the subsidiary is considered to make an intra-Community supply of goods subject to VAT 0% to the parent company.

On the other hand, if a Finnish VAT registered subsidiary of a foreign company purchases goods from its parent company registered for VAT purposes in another EU Member State and the goods are transported from another EU Member State to Finland, the subsidiary is liable to pay

Finnish VAT on the intra-Community acquisition of goods. If the subsidiary is entitled to full deduction, the VAT payable on the intra-Community acquisition is deductible in the same VAT period. Consequently, in that case the VAT due does not have to be paid in practice.

Transfer of own goods

Transfers of own goods for VAT purposes between different EU Member States are also treated as intra-Community supplies and acquisitions.

Consequently, if for example a foreign company transfers goods to its Finnish branch from another EU Member State to Finland, the company is considered to make an intra-Community acquisition in Finland. In this case the company is liable to account for Finnish VAT on the intra-Community acquisition. If the company or the branch is not registered for VAT purposes in Finland, the company is liable to register for VAT purposes in Finland. However, on the basis of the simplified procedures applicable for example to consignment stocks, the foreign company might avoid the liability to register for VAT purposes in Finland.

6.5.2 Place of supply of services

General provision

As mentioned above VAT is levied only on taxable transactions, which take place in Finland. There are several provisions in the Finnish VAT Act according to which the place of supply of services is determined. According to the general provision of the Finnish VAT Act the services are sold in Finland if the purchaser has a fixed establishment in Finland to which the service is supplied. When the service is not supplied to a fixed establishment, the service is deemed to be supplied in Finland if the purchaser has his domicile in Finland. However, there are exceptions to this general provision like services connected to immovable property.

Supply of intangible services

Intangible services are taxed under the main rule and are deemed to take place in Finland if the purchaser has a fixed establishment in Finland to which the service is supplied. In case the service is not supplied to a fixed establishment, the supply is deemed to take place in Finland if the purchaser has his domicile in Finland.

The mentioned provisions apply for example to services of consultants, engineers, lawyers, accountants, transfers and assignments of licenses and patents, data processing, supply of information and other similar services. In the Finnish tax practise also management services have been considered as intangible services.

Consequently, if a foreign company invoices a management fee to

its Finnish subsidiary, the supply of the management services is usually considered to take place in Finland. In this case the Finnish subsidiary is liable to pay Finnish VAT on the management fees invoiced by the foreign parent company on the basis of the reverse charge rules.

On the other hand, if the Finnish subsidiary of a foreign company supplies management services to the foreign parent company, which does not have a fixed establishment in Finland, the supply is not considered to take place in Finland. In this case the supply is not subject to Finnish VAT.

Furthermore, it should be noted that a foreign company and its Finnish branch are considered to be the same legal entity. Consequently, the management services charged between a foreign company and its Finnish branch are not subject to VAT in Finland, because the supplies are considered to be made within the same legal entity.

Services connected to immovable property

Services connected to immovable property are sold in Finland if the property is located in Finland. As services connected to immovable property are considered for example services of estate agents and experts, accommodation services, access rights to immovable property and construction services.

6.6 Exemptions

6.6.1 Exemptions with credit (zero-rate)

VAT is not levied on goods that are consumed abroad. Therefore, the exportation and intra-Community supplies of goods are zero-rated.

Zero-rate is also applicable to subscribed newspapers and periodicals. Also ships that are over 10 metres long and for other than pleasure purposes are zero-rated.

Input VAT related to the zero-rated supplies of goods or services is deductible to the supplier.

It should be noted that the supply or other transfer of goods in connection with the transfer of a business or part thereof is not considered as a supply in Finland and thus, not subject to VAT. In this case, the transfer of business or assets must be made to the transferor's successor who then uses the transferred goods for the purpose qualifying for VAT deduction. The transferee must be VAT registered at the time of the transfer. If the conditions are not met, the transfer is subject to VAT.

6.6.2 Exemptions without credit

According to the Finnish VAT Act, certain supplies are exempt from VAT. The supplier of exempt goods or services does not have the right to deduct input VAT on goods and services purchased for these transactions.

For example the following activities are exempt from VAT:

- Supplies by persons with annual turnover not exceeding € 8,500;
- Services supplied by authors, artists and other public performers;
- Certain financial and banking services;
- Social welfare services, health care and medical treatment, insurance services;
- Certain educational services;
- Lottery tickets and
- The grant and transfer of the right to use immovable property or dwelling.

6.7 VAT registration

6.7.1 VAT registration liability

As a rule, supplies of goods and services in the form of business operations are subject to VAT in Finland. Furthermore, VAT is imposed on imports and intra-Community acquisitions of goods in Finland.

Non-resident suppliers of goods and services have an obligation to register for VAT purposes in Finland and charge Finnish VAT if they have a fixed establishment here. If non-resident suppliers make intra-Community acquisitions or intra-Community supplies in Finland they are subject to notification duty. A VAT registration liability will also be created if a foreign company supplies goods or services in Finland to which the reverse charge rules do not apply.

Non-resident parties liable to register for VAT purposes in Finland do not have to appoint a VAT representative. A VAT registration is a direct VAT registration, i.e. a company is registered in its own name.

According to the Finnish VAT Act, fixed establishment means a permanent place of business in which the company conducts its operations either wholly or in part. According to the National Board of Taxes, place of business means for example a plant, a room or equivalent used in the company's business operations. A place of business can also be located in the premises of another company. If a foreign company does not have personnel or other persons under the authority of the company in Finland or such personnel or other persons do not conduct operations in Finland, the company is not considered to have a fixed establishment in Finland. It is of no significance whether the persons in question have the authority to make contracts in the name of the foreign company.

Building and installation projects, either individual projects or several successive ones, which last longer than nine months are considered to form a fixed establishment.

VAT registration alone does not constitute a permanent establishment for corporate income taxation in Finland.

6.7.2 Reverse charge rules

As mentioned above, foreign suppliers have an obligation to register for VAT purposes in Finland and charge Finnish VAT if they have a fixed establishment here. If a foreign supplier is not registered for VAT purposes voluntarily in Finland and it does not have a fixed establishment in Finland, as a rule the reverse charge mechanism applies to the supplies made by the foreign supplier in Finland. When the reverse charge rules apply, Finnish customers are liable to pay the Finnish VAT due on the supplies on behalf of the foreign supplier. Consequently, if the reverse charge rules apply, the foreign supplier does not have to register for VAT purposes in Finland.

The reverse charge rules do not apply in the following situations:

- the customer of a foreign supplier is a non-resident company without a fixed establishment in Finland and the customer is not VAT registered either;
- the customer is a private individual;
- the distance selling of goods (threshold is set at € 35,000);
- the supply of passenger transport;
- the supply of training, scientific services, cultural, entertainment or sports events or similar kind of services, including services related directly to the arrangement.

If the reverse charge rules do not apply to the supplies of goods or services by a foreign company in Finland, the foreign company has to register for VAT purposes in Finland.

Recipients of goods or services subject to reverse charge must account for output VAT on the goods or services as VAT payable on the periodic tax return. However, subject to the normal rules, the VAT is also deductible as input VAT on the same tax return. Consequently, if the VAT is deductible the recipient does not have to pay the VAT in practice.

6.7.3 Voluntary VAT registration

The reverse charge rule is not mandatory in Finland. Non-resident parties that are not obliged to register for VAT purposes in Finland are entitled to register for VAT purposes on a voluntary basis, provided that they make taxable supplies of goods or services in Finland.

In case of voluntary registration of a non-resident business from a non-EU country, which has not concluded an agreement on administrative assistance in indirect tax matters with Finland, the non-resident business is obliged to appoint a fiscal representative in Finland to comply with the administrative obligation arising from the registration. The fiscal representative is not liable for the VAT due.

The VAT representatives have to be approved by the regional tax office. They are liable to keep records of the non-resident's business operations, but they are not responsible for payment of VAT levied on

the non-resident parties registered for VAT purposes in Finland.

6.7.4 Date of VAT registration

In the case of a voluntary registration the applicant is entered in the VAT register at the earliest on the day on which the application has arrived at the regional tax office. However, in case of a mandatory registration the VAT registration can also take place retroactively.

If a foreign company is liable to register for VAT purposes in Finland and it carries out business transactions subject to VAT in Finland before the VAT registration, it should be noted that the company is liable for the payment of the VAT due even though it has not yet been registered for VAT purposes in Finland. If the VAT is overdue due to the late or lack of registration, the company has to pay late payment interest and tax increase.

6.7.5 VAT group

The group registration is limited to such groupings of entrepreneurs, which include entrepreneurs who mainly supply tax-exempt financial or insurance services. The group can include several financially, economically and organisationally closely related companies involved in financial or insurance activities. In addition, the group can include companies over which a company (or companies) involved in financial or insurance activities exercises either direct or indirect control. A company is considered to exercise control over another company when it controls the majority of the voting rights or is entitled to appoint the majority of the members of the board of directors or corresponding body and this majority is based on ownership, membership, articles of association, deed of partnership or similar rules or other arrangement.

The group registration may take place upon application of the companies concerned. Consequently, the tax authorities cannot on their own initiative treat companies as a group.

6.8 Periodic tax returns and payment of VAT

The tax account system applies to the self-initiated taxes e.g. VAT and employers' contributions. In the tax account system information needed for the taxation is collected in a periodic tax return. Frequency of reporting varies from one month to year. The periodic tax return covers the supplies made during the period in question.

The goods supplied and the services rendered to customers during the last period of the accounting year have to be included in the last periodic tax return for the year even if they have not been invoiced yet. However, if a customer has paid for the supply in advance, the VAT on the advance payment has to be included in the periodic tax return filed for the period during which the payment was received.

VAT on intra-Community acquisitions of goods is included in the periodic tax return of the period that includes the month following the month of the arrival of goods in Finland. However, if the supplier receives an invoice during the same month as the goods have arrived, the VAT on the acquisition shall be reported in the periodic tax return of the period that includes the month of arrival.

The amount of zero-rated intra-Community supplies of goods is reported in the periodic tax return of the period that includes the month following the month of dispatch or transfer of the goods. However, if the customer is invoiced during the month of dispatch or transfer, the intra-Community supplies are reported in the periodic tax return for the period that includes the month of dispatch or transfer.

There is only one single due date for all tax payments per reporting period for self-initiated taxes. If the frequency of reporting is one month, the due date for paying and reporting of VAT is the 12th day of the second month following the month in question if the periodic tax return is filed electronically. In case the periodic tax return is filed in paper form, the filing date is the 7th day of the second month following the month in question.

Example

The VAT regarding January 2010 is reported in the periodic tax return on 12th of March 2010 in case the periodic tax return is filed electronically or on 8th (7th is Sunday) of March 2010 in case the periodic tax return is filed in paper form.

The above-mentioned obligations regarding reporting and payments of VAT due are the same whether the taxable person in question is a foreign company, a Finnish branch of a foreign company or a Finnish subsidiary of a foreign company.

EC Sales Lists

In addition, a taxpayer involved in intra-Community supply of goods or supply of services to taxable persons in other EU member states are obliged to file EC Sales Lists. The EC Sales List is filed monthly.

6.9 VAT reclaims

6.9.1 VAT deduction

If a foreign company is registered for VAT purposes in Finland, the company is entitled to deduct the input VAT in its periodic tax return in Finland. The deduction is allowed on the condition that the goods or services are used in the taxable business activity of the company. However, there are certain purchases, which are not eligible for deduction even though the purchases have been made for the business activity of the company.

For example the following supplies are specifically denied input VAT deduction:

- those for any kind of private consumption;
- entertainment and representation costs;
- motorcycles and passenger cars if the motorcycle or the car is used also for private motoring.

6.9.2 VAT refund to foreign businesses

If a foreign company does not have a permanent establishment and is not liable to register for VAT purposes in Finland, the company can apply for a refund of the Finnish input VAT. The company can apply for a refund of the Finnish VAT included in the purchase prices of goods or services bought by the company in Finland. However, it should be noted that the restrictions related to the right to deduction apply also to the VAT refunds to foreign businesses.

If the foreign company applying for a VAT refund is established in other EU Member State, the refund application should be submitted electronically to the Tax Authority of the Member State in which the applicant is established. If the foreign company applying for a VAT refund is established outside the EU, the refund application must be made on a form approved by the National Board of Taxes. The application has to be submitted to the Uusimaa Regional Tax Office. The application must cover a period of at least three consecutive months within one calendar year and at most one calendar year. An application relating to the end of the year may cover a period of less than three months.

A foreign company registered for VAT purposes in Finland cannot apply for a refund of VAT to foreign businesses. If a foreign company has a branch in Finland, neither the branch nor the foreign company is entitled to apply for a refund of VAT in Finland, because the branch and the company are considered to be the same legal entity. If a Finnish subsidiary of a foreign company is registered for VAT purposes in Finland, the foreign company is entitled to apply for a refund of VAT to foreign businesses in Finland.

6.10 Invoicing

The VAT invoices must include the following information:

1. date of issue of the invoice
2. sequential identifying number
3. VAT identification number used by the supplier (or the business identity code)
4. VAT identification number used by the customer, if the customer is liable to account for VAT or in case of intra-Community supplies
5. full name and address of supplier and customer
6. quantity and nature of the goods supplied or the extent and nature of the services rendered

II Taxation

7. Individual taxation

7. date on which the supply of goods or of services was made or completed and date of advance payment, if it can be established and it is other than the date of issue of the invoice
8. taxable amount per VAT rate, or exemption, the unit price excluding VAT and any discounts given, unless these are included in the unit price
9. VAT rate applied
10. total amount of VAT chargeable expressed in Euros
11. when the supply is exempt or zero-rated; reference to the exemption
12. if an invoice alters an invoice previously issued, the new invoice must refer specifically and clearly to the initial invoice

Electronic invoicing is allowed provided that the customer agrees to receive invoices electronically and the authenticity of the origin and integrity of the invoices is guaranteed.

6.11 Guidance and advance ruling

Tax offices give guidance in matters relating to value added taxation. The tax office is bound by a guidance issued in written and thus, a debiting decision or a reassessment of tax cannot be carried out against the guidance when it has been complied with by the taxpayer.

Taxpayers may apply for advance ruling on issues regarding value added tax at the Central Tax Board and at tax offices. Rulings given by the Central Tax Board are issued only on matters that are considered important on a general level or when there is some other special reason for issuing an advance ruling.

7. Individual taxation

7.1 The scope of Finnish individual income taxation

Finnish legislation distinguishes between full tax liability and limited tax liability. In principle, an individual who is resident in Finland is liable to tax on his worldwide income. In addition to taxes, an individual belonging to the Finnish social security system is liable to pay Finnish social security contributions. An individual with limited tax liability is subject to Finnish income tax on income arising from sources in Finland.

The tax year is equal to the calendar year i.e. runs from 1 January to 31 December. Income is taxable income in the year in which it is paid to the individual's account or the individual otherwise has received control over it. Income for Finnish purposes is categorized either as earned income or as investment income.

7.2 Taxation of Finnish resident individual

7.2.1 General

An individual is considered to be resident in Finland if he/she has permanent home and habitual abode in Finland or if he/she stays in Finland continuously for more than six months. The six-month period is not tied to a calendar year and a temporary absence does not break the continuity. An individual may be regarded as resident in Finland for part of the year and non-resident for the rest of the year.

A Finnish national is, however, deemed to be resident in Finland even if he/she is not present in Finland for a continuous period of more than six months until three calendar years have elapsed from the end of the year in which the person left the country, unless the person can prove that he/she has not maintained substantial ties with Finland during the tax year (the so called three-year-rule). After the three-year period the burden of proof is reversed and the tax authorities have to prove that the individual still has substantial ties to Finland in order to regard him/her as resident.

An individual who is deemed to be resident in Finland may, at the same time, be considered resident in another country under its domestic legislation. If there is a tax treaty between Finland and that country, there are provisions in the treaty to determine in which country an individual - in the case of dual residence - shall be considered resident and how double taxation is to be eliminated. If there is no treaty between Finland and that country the double taxation is eliminated according to Finnish domestic legislation.

7.2.2 Exemption from taxation according to Finnish legislation

Resident individuals are subject to tax in respect of worldwide income. All income received by the taxpayer in money or in kind is subject to tax unless there is an explicit provision to the contrary. Income is taxable for the year in which it has been drawn by the taxpayer, in which it has been paid to the taxpayer's account and in which the taxpayer has received the income or the income is at his/her disposal.

The Finnish six-month rule is an exception to the worldwide taxability. According to this rule salary income received by a resident individual from working abroad for at least six months is basically tax exempt. However, if the employee remains in Finnish social security, the social security contributions are payable.

On average, for each full month of the working abroad, the employee may visit Finland at the maximum for six days without forfeiting the exemption. Moreover, if a double tax treaty exists between Finland and the host country, the treaty must give the host country a right to tax the salary income earned there. Otherwise the salary income is subject to normal progressive income taxes in Finland, even if the

employment period abroad exceeds six months. However, the exemption contains force major clauses which may become applicable. The six-month rule is not applicable to persons employed by the State, the Finnish trade association or persons working on board Finnish ships or aircraft.

7.2.3 Foreign expert tax regime

Foreign employees, who become residents at the commencement of working in Finland and who are either teachers or researchers in non-profit organizations, or alternatively specialists earning at least 5,800 euros in cash per month for the entire period of validity of the regime, are eligible to be taxed at a flat rate of 35% on the salary subject to the regime, rather than at progressive rates provided that the work is performed in Finland for the benefit of a Finnish employer. The 35% tax is final tax and no deductions can be made from the salary taxed under the regime. The employer withholds the tax from the employee's salary.

An application for the regime must be made within 90 days from commencing to work in Finland, and the period of validity is up to 48 months. After this period the salary is subject to normal progressive tax rates. Finnish nationals, or employees who had been residents in Finland during any period in the five calendar years preceding the commencement of working in Finland, are not eligible for the regime.

7.3 Taxation of non-resident individual

7.3.1 General

A non-resident individual occasionally working in Finland can be taxed on Finnish-source income only. Non-residents are taxed at flat rates in accordance with the Non-residents' Tax Act. Unless a lower tax rate is provided for in a tax treaty, the tax at source rate is 28% on dividends, interest payments and royalties, and 35% e.g. on income from employment.

In general no deductions are allowed except a standard deduction of 510 euros per month or, if the income is accrued from a time period of less than one month, 17 euros per day is deducted from the income subject to the 35% e.g. tax withholding. In some cases it is possible to pay tax-exempt daily allowances and reimbursements of expenses to an employee. In the case of students and trainees, special deductions may be granted.

If the individual's pay from Finland constitutes 75% or more of his/her total annual gross earned income, and he/she is a resident of an EU/EEA country, the individual can after the income year in Finland claim that he/she should be taxed according to the same regulation as residents and not according to tax-at-source taxation. This would mean e.g. progressive income tax burden instead of the flat 35 percent

tax-at-source. The claim can be made by filling the Finnish income tax return. It is required that the individual encloses a certificate from the tax authority of his/her home country showing his/her total annual gross income.

Any income not subject to withholding of final tax at source is subject to income tax assessment. Examples of such income are rental income, capital gains, and pension. The income of a non-resident individual is divided into capital income and earned income in the same way as the income of a resident individual.

7.3.2 Director's fees

Directors' fees paid by a Finnish company are always considered taxable income in Finland, regardless of whether the Board meetings are held in Finland or not.

7.3.3 Taxation of foreign artists and athletes

For non-resident artists and athletes the tax rate is flat 15% irrespective of whether the fee is paid as salary or other income or whether the fee is paid to the individual, a foreign agency or some other foreign corporation. No deductions can be made. However, daily allowance within the limits determined annually by National Board of Taxes and reimbursements of travel and accommodation costs can be paid tax exempt in addition to the fee. Artists and athletes originating from the United States are under certain conditions entitled to exemption from Finnish taxation according to provisions of the double tax treaty between Finland and the USA.

7.4 Taxation of earned income

7.4.1 General

Income is categorized either as earned income or as investment (capital) income. Investment income is defined as proceeds from capital, capital gains from disposals of assets, and other income on assets. The income can be accrued from three sources: business, agriculture and personal income (source of income). Costs related to each income source may be deducted only from its own source. The taxable income of each income source is calculated separately. The most typical capital income types are interest and rental income, dividends from companies listed on the Helsinki Stock Exchange, distributions by investment funds and benefits from life insurance policies. Also, income from forestry is considered as capital income.

Earned income is defined as any income other than capital income. Thus, employment income, a portion of the business income, income from agriculture, and dividend income that is not capital income is considered to be taxed as earned income.

Married persons are taxed separately on their income and the mari-

II Taxation

7. Individual Taxation

tal status has only an effect to the taxation of an individual in some exceptional circumstances.

7.4.2 Income tax payable on earned income

Earned income is taxed according to the progressive tax rates. The progressive income tax consists of three different parts that are presented below:

1) State tax (2010)

Taxable income over (EUR)	Taxable income not over (EUR)	Tax on lower limit (EUR)	Tax in excess (%)
15 200	22 600	8	6.5%
22 600	36 800	489	17.5%
36 800	66 400	2 974	21.5%
66 400		9 338	30.0%

2) Municipal tax (2010)

Municipal tax rate varies between 16.25% and 21% depending on the municipal in question (for example 17.5% in Helsinki), levied on taxable earned income. The average rate of all municipals is 18.50%.

3) Church tax (2009)

Church tax rate varies between 1% and 2.25% (for example 1% in Helsinki), and it is only payable by the individuals that are members of the Finnish parishes.

7.4.3 Benefits taxed as earned income

All income derived from employment is taxable earned income regardless whether it is paid in cash or as a benefit in kind. Benefits in kind may include, for example, lunch provided by the employer, luncheon vouchers, housing, a company car and a telephone. The value of these benefits is determined annually by the National Board of Taxes. If the value of the benefit is not determined directly in tax legislation or by the National Board of Taxes, the value of the benefit is deemed to be its fair market value.

Housing benefit

The taxable value of a housing benefit depends on where the house is located, when it was completed and the size of the house. For example, the monthly taxable value of an employer-provided flat of 100 square meters in the Helsinki region would be 855 euros to 1060 euros, depending on the construction completion year of the house.

Luncheon vouchers

During 1 January 2010 to 30 June 2010, employer-provided meals are valued at €5.70 per meal if the employer's direct costs including VAT

for providing this benefit are at least €5.70 but not more than €9.50. If direct costs including VAT are less than €5.70 or more than €9.50, the valuation of this benefit is based on actual costs including VAT.

During 1 July 2010 to 31 December 2010, employer-provided meals are valued at €5.30 per meal if the employer's direct costs including VAT for providing this benefit are at least €5.30 but not more than €8.80. If direct costs including VAT are less than €5.30 or more than €8.80, the valuation of this benefit will be based on actual costs including VAT.

Company car benefit

The car benefit depends on whether the employee has unlimited or limited company car benefit. In a case of unlimited company car benefit, the employer pays all expenses of the car; whereas in a case of limited company car benefit, the employee pays at least the fuel costs. In a free use of car case, the employer pays all expenses of the car; whereas in a use of car case, the employee pays at least the fuel costs. The calculation of the taxable value depends on the year the car was first taken into use. Basically the taxable value of the benefit is based on the list retail price of the car in the beginning of the month during which it was taken into use with a deduction of 3,400 euros (later referred to as the "price").

For example, for cars taken into use between years 2008 and 2010, the monthly value of the benefit of a free use of car is the lesser of 1.4% of the price plus 270 euros or 0.18 euros per kilometre. The monthly benefit of a use of car is the lesser of 1.4% of the price plus 105 euros or 0.07 euros per kilometre. However, applying the kilometre values requires the use of a driver's logbook.

Phone benefit

The value of the benefit resulting from an employer-provided telephone at an employee's home (a stationary, fixed telephone line) is 20 euros per month. This value covers the expenses arising from telephone calls. The value of an employer-provided mobile (cellular) phone is 20 euros per month. This value covers the expenses arising from telephone calls, SMS or text messages and multimedia messages.

Employer provided insurances

If the employer takes out a life insurance policy for an employee, the insurance payments are basically considered as taxable income of the employee. However, if the insurance contains only assurance payable at death, the payments basically do not constitute taxable income.

Premiums paid by an employer to a Finnish (or EEA) individual voluntary pension scheme are considered as taxable income for the employee to the extent the pension contributions exceed an annual limit of 8,500 euros per employee. However, employer provided collective supplementary pension arrangement basically does not create

taxable benefit for the employee. However, as the tax rules concerning voluntary pension arrangements are complicated it is strongly recommendable to seek professional advice in respect of supplementary pension arrangements – both for employer provided arrangements and voluntary pension insurances taken out by the individual him/herself.

7.4.4 Tax exempt employee benefits

In principle all benefits are taxable. However, some benefits are prescribed by law as tax exempt. The following benefits are tax free if considered as customary and reasonable and they are available for all employees:

- A general health care service program provided by the employer;
- Staff discounts on goods or services produced or sold by the employer;
- Anniversary presents or other small gifts that are not in money or in a comparable form;
- Benefit from recreational or leisure-time activities arranged by the employer;
- Benefit of free or reduced tickets available to all employees of transport enterprises; and
- Under certain circumstances, nursing provided by an employer to an employee's sick child;
- If the employee needs web connection at home due to work tasks, even the private use of the connection does not create taxable benefit.

7.4.5 Deductions and allowances from income and taxes

As a basic rule, costs related to acquiring income are deductible from gross income. All residents are entitled to a standard deduction of 620 euros (at the maximum) from the amount of taxable salary and similar earned income. There are certain other standard deductions applicable in state and/or municipal taxation depending on the type and size of income. In addition the Income Tax Act lists certain itemized deductions and allowances of which the most common are listed below:

- Travelling expenses from home to work and back using the cheapest means of transport (i.e. bus or train). Expenses in excess of 600 euros are deductible up to 7,000 euros;
- Membership fees paid to trade unions and unemployment funds;
- Employee obligatory pension and unemployment insurance premiums. There are no specific articles regarding the tax deductibility of obligatory foreign social security contributions. Therefore each case has to be investigated separately;
- Voluntary pension insurance premiums paid to a Finnish insurance company (including a Finnish branch of a foreign insurance com-

pany) or insurance company located within the European Economic Area (EEA). Such premiums may be deductible from capital income under certain conditions and limitations. If the amount of other deductible items from capital income and voluntary pension insurance premiums exceed the amount of capital income, a capital income deficit is established. Up to a certain limit, a credit on capital income deficit may be credited against income taxes payable on earned income. Also, if an individual who has not been resident in Finland for the five years preceding his or her move to Finland pays premiums in a foreign voluntary pension scheme that is taken out at least one year before the individual moved to Finland, he/she is entitled to a deduction for the annual premiums paid during the year of arrival and the three following years. Deductibility of the foreign premiums is subject to the same rules that apply to domestic premiums;

- The above mentioned deduction based on voluntary pension insurance premiums is extended to apply to long-term savings of certain types as of 2010;
- Interest expenses relating to acquisition or renovation of an individual's or his/her family's permanent home, study loans guaranteed by the Finnish State or the government of the Province of Åland or an EEA state, and loans related to the acquisition of taxable income are deductible from capital income without limitations. However, if the capital income does not cover the interest expenses, a capital income deficit is established. Up to a certain limit, the capital income deficit may be credited against taxes payable on earned income.

Many deductions and allowances have been abolished during the past few years. Non-deductible expenses include those incurred in acquiring or maintaining tax-exempt income, as well as expenses related to a taxpayer's living costs, i.e., medical costs, rent and expenses for household management, and child care. However, it is possible under certain conditions to deduct from taxes expenses for repairing an individual's house (permanent or leisure time home), and installation and consulting at an individual's home related to it and entertainment equipments (e.g. TV, digibox), nursing provided in an individual's house (household deduction). The household deduction may be allowed after the allowable costs exceed 100 euros. The maximum deduction from taxes is 3,000 euros per year.

7.4.6 Equity Incentive Schemes

Income derived from equity (i.e. share) incentive schemes is taxed as employment income. The taxation is based on the tax legislation as well

as to tax practice and guidance issued by the Finnish tax authorities. Due to the complexity of the taxation of income derived from incentive schemes and specifically the determining whether the taxable benefit is subject to employee and employer social security contributions, it is strongly recommended to seek professional advice on the tax treatment of individual plans.

The Finnish tax authorities accept the application of time apportionment to the equity incentives under certain conditions. If tax is applied, if tax is applied, only part of the incentive that regarded as Finnish-source income i.e. accrued from work performed in Finland is taxed in Finland.

Newly issued shares

An employment related right to subscribe new shares of a company at a price below market value is treated as taxable earned income to the extent the discount is more than 10% of the market value of the shares of the subject company. However, if only a minority of the staff is entitled to this right, the whole difference between the fair market value of the shares and the subscription price is taxable earned income. There are specific rules in determining the fair market value of this share benefit and thus the taxable value of the share issue offered to the employees.

If existing shares are used in a stock purchase plan, the aforementioned 10% tax-free discount is not available even though a majority of the staff would be entitled to participate in the plan.

Share option plans

Taxable earned income also includes the benefit from an employment-related right to obtain or subscribe shares in a company for a price below their current value under convertible bonds, option loan, option warrant or other comparable arrangement (employment-related option).

The value of the benefit is deemed to consist of the fair market value of the shares at the moment of exercising the employment-related option less the total price paid for the shares and the employment-related option. The income is deemed to be taxable earned income for the year in which the employment-related option is exercised. The employment-related option benefit is realised at the date when the employee exercises his right although the actual shares would be delivered to him at a later date.

Transfer of an employment-related option is regarded as exercise. In such a situation, the value of the benefit is deemed to consist of the transfer price of the employment-related option. However, if the option is transferred to the inner circle of the employee or donated, the transfer is not considered as an exercise of the option and the benefit which arises in later exercise of the options is taxed as earned income of the original receiver of the options.

7.5 Taxation of investment income

7.5.1 General

Investment income is, as mentioned earlier, defined as the proceeds from capital, capital gains from disposals of assets, and other income accrued from assets. The income can be accrued from three sources: business, agriculture and personal income (source of income). Costs related to each income source may basically be deducted only from its own source. The taxable income of each income source is calculated separately.

7.5.2 Capital gains/losses

Capital gains are subject to flat 28% capital income tax. In calculating the taxable capital gain, the acquisition costs (including the original cost of purchase plus improvement expenses) and transfer costs are deducted from the sales price.

However, an individual is always entitled to deduct a minimum amount of 20% of the sales price as deemed acquisition cost, regardless of the original acquisition cost. Furthermore, if the property has been owned for at least ten years, the amount of deemed acquisition cost is 40%. If the deemed acquisition cost is used to calculate the amount of capital gain, neither the actual acquisition price nor actual costs are deductible.

If the property is acquired by inheritance, will or gift, then the individual may deduct from the sales price either the value used for inheritance or gift tax purposes or the standard deduction explained above. A gain upon the disposal of a dwelling is tax exempt if the dwelling has been owned and at the same time used by the taxpayer or his family as their permanent home continuously for at least two years at any time during the ownership.

Capital losses may be offset only against capital gains in the year concerned. In other words capital loss can not be deducted from other capital income. Any unused capital loss may be carried forward three years following the year the loss was realised.

Capital gains received are not taxable if total amount of sales prices of all sold items (excluding items otherwise exempt from capital gains tax) during the calendar year does not exceed 1,000 euros. The capital losses are not deductible if the total amount of acquisition costs of all sold items (excluding items otherwise exempt from capital gains tax) during the calendar year does not exceed 1,000 euros.

7.5.3 Interest income

Interest income is regarded as capital income. The tax on interest income is normally withheld at source. Interest on domestic bank deposits and various bonds are subject to a final tax source of 28%. The bank takes care of the withholding and submits the withheld funds to the tax authorities.

The interest paid on loans or deposits by someone other than a bank or an issuer of bonds marketed to the public is taxed at the capital income tax rate of 28%. This income has to be declared in the individual's tax return.

Interest arising from foreign sources is fully taxable capital income in Finland. Normally taxes withheld in the source country are credited in Finland on the basis of the relevant tax treaty or domestic legislation.

7.5.4 Dividend income

70% of dividends received according to publicly quoted shares are taxed as capital income and 30% of the aforementioned dividends are tax exempt. Dividends according to non-quoted shares are divided into capital income and earned income parts according to the shares' mathematical (corrected net asset) or market value (foreign shares) at the end of the fiscal year preceding the tax year.

9% of the aforementioned value is regarded as capital income and the rest as earned income. However, 90,000 euros of the capital income part per year per individual is tax exempt and 70% of the rest of the capital income part is subject to the flat tax rate of 28% and 30% is tax exempt. From the earned income part 70% is subject to the normal tax rates applicable to earned income and 30% is tax exempt.

The aforementioned rules apply also to foreign dividends if the company distributing the dividends is a company mentioned in article 2 of the Directive 90/435/EEC on the common system of taxation applicable in the case of parent companies and subsidiaries of different member states or Finland and the company's state of residence have concluded a double tax treaty that is applicable to the dividends. Otherwise foreign dividends received by a resident individual are taxed as earned income without any exemptions.

Distributions of profits by foreign investment funds are treated in Finland as taxable capital income, if not otherwise stated in a tax treaty.

7.5.5 Rental income

Rental income is taxed as capital income. Costs incurred in acquiring and maintaining the income are deductible.

7.5.6 Annual losses of earned income and investment income

Losses are separated by category; thus, the losses of earned income and investment income are calculated and deducted separately. If, for one category of income, the amount of deductions exceed the income, the difference is considered a loss for that category of income. Losses can not be carried back but can be carried forward and deducted from income in the same category during the following ten tax years.

Also, in the case of negative investment income (i.e. investment income deficit), a deficit credit of 28% for the deficit is allowed against

income tax otherwise payable on earned income. The maximum credit for a single individual is 1,400 euros. The credit is 2,800 euros for couples and is increased by 400 euros for one child and by 800 euros for two or more children. Any investment income deficit not credited according to the above mentioned credit method is confirmed as loss from investment income and carried forward. As concern capital losses please see section 7.5.2 above.

7.6 Income reporting and tax assessment process

7.6.1 General about the tax assessment process

Income tax is assessed for a calendar year (tax year). Individuals registered with the tax authorities will receive a pre-completed tax return form. The completed tax return must be submitted to the authorities around middle May in the year following the tax year. The pre-completed tax return is based on the information that the tax authorities have received directly from the payers of income. If there is nothing to add or correct on the pre-completed tax return, the taxpayer does not have to file a tax return.

The individual tax assessment is completed by 31 October in the year following the tax year. During August – October of the assessment year the tax authorities send a tax assessment statement to individual taxpayers whose pre-completed tax return have been amended.

As a basic rule a non-resident individual is not liable to file a tax return. However, if he/she has income that is subject to an income tax assessment (instead of tax at source being collected) in Finland, then a tax return shall be filed.

A punitive tax increase is levied if the taxpayer, for instance, neglects to file a tax return, does not give further information on request or intentionally gives incorrect or insufficient information. The punitive tax increase may be up to 30% of the amount of income added to the taxable amount.

7.6.2 Collecting and paying of income taxes

Taxes are normally collected during the year, either by withholding or by preassessment, and the tax collected is credited against final tax liability within the final tax assessment.

Taxes on earned income are usually withheld by the employer. The employer must also report paid salaries and withheld taxes in monthly payroll tax returns and annual notification of paid salaries and withheld taxes.

Certain taxable income items are subject to preassessment. Preassessments are based on a taxpayer's taxable income in the latest completed assessment, or on the taxpayer's own application for preassessment. Preassessed taxes are due in two to eleven instalments during

the tax year depending on the amount due.

Taxes collected and/or paid in excess of final taxes are refunded in December after the assessment. Interest is paid on the refund (0.5% in 2010).

If, on the other hand, the final amount of income tax exceeds the taxes collected and/or paid residual tax will be payable in two instalments, in December in the year of the assessment and February of the following year.

The tax authorities collect interest on residual tax. The interest on residual tax may be avoided wholly by paying the taxes voluntarily as supplementary advance tax payment by the end of January following the tax year. Otherwise, interest is calculated on residual tax starting from February 1 of the assessment year until the first due date of residual tax payment in the beginning of December. The interest payable on residual tax up to 10 000 euros amount to 0.5% (2010). The interest payable on residual tax exceeding 10 000 euros amount to 3.0% (2010). However, in practise as the first 20 euros of interest is not collected no interest is payable if the amount of residual tax is approximately 4 800 euros or less (2010).

7.6.3 Tax appeal process

A taxpayer who is dissatisfied with the assessment may appeal to the assessment adjustment board of his/her regional tax office within five years after the end of the assessment year. However, it should be noted that the assessed income tax shall be paid on time even if an appeal is submitted though it is possible to apply for extension with interest until the appeal is clear. The decision of the assessment adjustment board can be appealed to the provincial administrative court also within five years from the end of the assessment year. The decision of the administrative court may be challenged as a final appeal to the Supreme Administrative Court within 60 days from receiving the decision of the lower court, but only if the Supreme Administrative Court grants a permission to appeal.

7.7 Finnish social security

7.7.1 General information about the social security contributions

The basic requirement for being covered by the Finnish residence based social security and receiving the benefits is that the individual lives in Finland. A person is considered to be living in Finland if his or her home and residence proper are here and if he/she lives in Finland for at least 50% of the time on regular basis. However, if EU regulation 883/2004 or a social security treaty stipulate otherwise, they are appli-

cable. An immigrant can be regarded as living in Finland from the time of his or her immigration if his or her purpose is to stay in Finland permanently and provided, that he or she has a one-year residence permit (if required).

There is no cap for the employer or employee social security related contributions. However, under certain circumstances certain compensation and benefits, even though are taxable as earned income, may be exempted from other social security related contributions than the employees' contribution for medical care insurance. The main exemptions concern stock option benefits (as a rule) and other share incentive benefits (if specific conditions are met). As the rules concerning the liability to pay different social security contributions are complicated it is strongly recommendable to seek professional advice in respect of social security related exemptions.

7.7.2 Pension Insurance exemption for foreign employees working in Finland

As of January 1st 2009 new exemption has been introduced to the employers' pension insurance obligation for foreign employers working in Finland. This new legislation concerns employers who reside outside European Union, ETA, Switzerland or those countries that Finland has a social security treaty with. The exemption is applied to assignments that start after the enforcement date.

The foreign employer that is sending employees to work in Finland for a period of two years or less will be exempted of the obligation to take pension insurance to the expatriates under the Finnish law of employee's pension (Työntekijän eläkelaki). The exemption is automatic and therefore no application process is required. The obligation will remain if the Finnish social security legislation becomes applicable due to European Union (EC) social security norms or social security treaty or if the employee is under Finnish social security system immediately before the start of an assignment in Finland.

If the assignment is planned to last longer than two years or if the assignment is prolonged during the employee's stay in Finland so that it exceeds the time limit, the employer can apply for an extension to the exemption from the pension insurance obligation for up to five years from the start of the assignment. In order to apply for the extension the employer has to prove that the pension insurance for the said expatriate has been duly taken care of outside Finland during the assignment. If the assignment in Finland lasts for longer than five years, the employee must have pension insurance in Finland according to the normal Finnish pension insurance legislation after the exemption time (two years or through application five years) has elapsed.

7.7.3 Compulsory social security contributions payable by the employer on salaries paid to employees

The employer's social security charge:

The private employer's social security charge rate is 2.23%. A foreign employer is not liable to pay employer's social security charge if it does not have a permanent establishment or residence in Finland.

Unlike other employers social security contributions the employers's social security charge is paid to the regional tax office. The other contributions are paid to the appropriate insurance companies.

Statutory pension insurance contribution:

16.9% of gross salaries (on average).

Unemployment insurance contribution:

0.75% / 2.95% of salaries exceeding 1 846 500 euros.

Group life insurance premium:

0.07% of salaries (on average).

Accident insurance premium:

0.3%–7.5% of salaries (depends on the branch).

All the above contributions are deductible for corporate tax purposes.

7.7.4 Compulsory social security contributions payable by the employee

Statutory pension insurance contribution:

4.5% / 5.7% of gross salary.

Employees 53 years of age and over are liable to pay 5.7% of gross salary.

Unemployment insurance contribution:

0.40% of gross salary.

All the above contributions are deductible for individual tax purposes. They are collected at the same time as income tax withholdings, but are remitted to the appropriate insurance companies (instead of the regional tax office) together with the employer pension and unemployment insurance contributions.

Sickness insurance contribution:

The employee sickness insurance contribution (2.40%) consists of two parts, daily allowance payment 0.93% and medical care payment 1.47%. Only the daily allowance insurance contribution is tax deductible for the employee. Unlike other employee social security contributions the sickness insurance contribution (2.40%) is included in the

withholding tax rate of the employee's personal withholding tax card and, thus, withheld and remitted to the tax authorities together with the withheld income taxes and is finally settled in the final assessment.

7.7.5 Social security benefits

The Finnish social security benefits include, among others:

- Finnish health care and hospital services
- Sickness allowance
- Maternity and child-care clinics services
- Unemployment benefits
- Maternity grant
- Maternity, paternity and parenthood allowances
- Child benefits
- Municipal day care for children
- Child home care allowance
- Services for the elderly
- Disability, occupational and/or state pension

7.8 Elimination of double taxation

Double income taxation due to the foreign source income is eliminated in Finland in accordance with domestic tax provisions and tax treaty provisions.

The elimination of double taxation is regulated by the Act on Elimination of International Double Taxation. The Act is applicable to elimination both under a double tax treaty and also in situations where there is no treaty.

According to the act, the basic method used is the credit method. In this method the amount of taxes paid to the foreign state paid for the same income and over the same time period is deducted from the Finnish taxes payable. However, the amount of the Finnish taxes payable is the maximum of the credit.

In order to avoid double taxation, Finland has concluded double taxation treaties. Although the treaties vary in several points, most of these treaties are based on the OECD Model Treaty. According to most treaties the credit method is used as the primary method of double taxation elimination. However, also exemption with progression method is to be applied according to some older treaties.

It should be noted, that even though the treaties may provide relief in double taxation situations the treaty provisions do not answer the questions relating to interpretation of Finnish domestic regulations or the fiscal effects on application of the treaties. Therefore the application of the treaty provisions may not be very straightforward and so the application may not lead in all cases to full elimination of double taxation.

II Taxation

8. Immigration

9. Other taxes

Finland has income tax treaties in force on January 1st 2010 with the following countries:

Argentina, Australia, Armenia, Austria, Azerbaijan, Barbados, Belarus, Belgium, Bosnia and Herzegovina, Brazil, Bulgaria, Canada, People's Republic of China, Croatia, Czech Republic, Egypt, Estonia, France, Georgia, Germany, Greece, Guernsey, Hungary, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Japan, Jersey, Kirgizstan, the Republic of Korea, Latvia, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Moldova, Montenegro, Morocco, the Netherlands, New Zealand, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Serbia, Singapore, Sweden, Norway, Denmark, Iceland, Slovak Republic, Slovenia, South Africa, Spain, Sri Lanka, Switzerland, Tanzania, Thailand, Turkey, Ukraine, United Arab Emirates, the United Kingdom, the United States, Uzbekistan, Vietnam and Zambia.

8 Immigration

8.1 Permits

A citizen of a Nordic country may enter Finland and work here without a permit of any kind.

If the individual is an EU/EEA national, then he/she does not need a worker's residence permit. The individual is entitled to live, seek employment, and work in Finland for up to three months from the date of arrival without a residence permit. If the stay lasts longer than three months, he/she must register his/her right to reside in Finland within three months from arrival at a local police office. For an application, one shall need a passport or identity card, photo and employment contract, or another document relating to your employment.

A national of any other country planning to work in Finland basically needs both a worker's residence permit and a residence permit. The individual must file his permit applications with the Finnish embassy or consulate in his/her country of residence.

Finnish labour laws including regulations on wages, working time, annual holiday and work safety, applies to all persons working in Finland, regardless of their nationality. In Finland it is customary to use a written employment contract, which specifies the rights and obligations as an employee and the rights and obligations of the employer.

8.2 Registration

When an individual moves to Finland, he/she has to make a "Notifica-

tion of move" no later than a week after your arrival. A new notification is required every time when moving within Finland and also when leaving the country permanently. However, if the stay in Finland lasts for less than a year, there is no liability to file the aforementioned notification.

When moving from another Nordic country, then the individual needs, in addition to a Finnish notification of move, an Inter-Nordic Migration Form from the municipal authorities of the country you move from. The Inter-Nordic Migration Form is forwarded to the local register office in the place of residence in Finland.

When the individual's name is entered in the population information system, he/she will be given a Finnish personal identity code. The population information system forwards the information to, among others, the Social Insurance Institution (KELA) and the tax authorities. If the individual is entitled to Finnish social security based on habitation, he/she will receive a Health Insurance Card ("KELA-kortti") from the local KELA-office. In case there is no liability to file the notification of move due to the fact that the stay in Finland is less than a year, the personal identity code can be obtained from the tax authorities.

9 Other taxes

9.1 Tax on real property

Tax on real property is payable on real estate situated in Finland. The most important exemptions are for forest and agricultural land. The tax is payable by those who own the taxable property at the beginning of the calendar year. Tax is calculated on the taxable value of the real property. In general, the rate may vary between 0.32% and 3.0% of the taxable value. Municipalities will annually decide within allowed limits what percentage is used in each municipality.

The municipality may impose a separate real estate tax on a vacant plot if the plot is situated in a town plan area and it is not in residential use or under construction. The tax rate on a vacant plot may vary between 1% and 3%.

9.2 Inheritance and gift tax

Inheritance tax is levied according to the Act on Inheritance and Gift Tax to a person who receives immovable or movable property through inheritance or will if the deceased, the inheritor, or the beneficiary was resident in Finland at the time of death. Immovable property located in

Finland and shares of a company, the assets of which consist mostly of immovable property, are always subject to inheritance taxation in Finland.

Gift tax is levied to a person who receives immovable or movable property as a donation if the donor or the beneficiary is resident in Finland at the time of donation. Immovable property situated in Finland and shares of a company, the assets of which consist mostly of immovable property, are always subject to gift taxation in Finland. The taxable amount of gifts is calculated cumulatively in three-year periods. This means that if gifts received from the same person are € 4,000 or more in a three-year period, the donee will be liable to pay gift tax.

The tax is levied on both resident and non-resident beneficiaries. The taxable value of the inheritance, gift or bequest is based on the fair market value of the property at the date of death/donation. The tax rate applicable to the inheritance or to the gift depends on the beneficiary's relationship to the deceased or donor.

Inheritance tax for tax class 1 (close relatives determined in the Act on Inheritance and Gift Tax):

Taxable portion of the inheritance in EUR	Amount of tax in lower limit	Percentage on excess
20 000–40 000	100	7%
40 000–60 000	1 500	10%
60 000–00 000	3 500	13%

Inheritance tax for tax class 2 (other relatives and strangers):

Taxable portion of the inheritance in EUR	Amount of tax in lower limit in EUR	Percentage on excess
20 000–40 000	100	20%
40 000–60 000	4 100	26%
60 000–	9 300	32%

Gift tax for tax class 1 (close relatives determined in the Act on Inheritance and Gift Tax):

Taxable portion of the gift in EUR	Amount of tax in lower limit in EUR	Percentage on excess
4 000–17 000	100	7%
17 000–50 000	1 010	10%
50 000–00 000	4 310	13%

Gift tax for tax class 2 (other relatives and strangers):

Taxable portion of the gift in EUR	Amount of tax in lower limit in EUR	Percentage on excess
4 000–17 000	100	20%
17 000–50 000	2 700	26%
50 000–00 000	11 280	32%

Finland has concluded inheritance tax treaties with the below-mentioned countries; Nordic countries (applies also to gifts), France, The Netherlands, Switzerland, The USA. The treaties stipulate how the right to tax inheritances (and gifts) is allocated between the treaty countries and how the double taxation is eliminated. Also the Finnish rules include provisions of elimination of double taxation to be applied in non-treaty cases.



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