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PRESSURE FOR CHANGE OF FINNISH TAXATION ON DIVIDENDS FROM NON-LISTED COMPANIES

The taxation system in Finland is schedular taxing earned income at a progressive rate and capital income at a flat rate. The gap between these rates being quite significant has accomplished pressure for changes of taxation on dividends.

Non-listed companies are limited companies which do not have shares listed in a stock exchange. Most limited companies match this description (in Finland we have 200 000 limited companies, 200 of which are publicly listed). Resident companies and residents in Finland are liable to tax on their worldwide income. Non-resident companies and non-resident individuals are, in principle, subject to taxes with respect to all income from Finnish sources.

Limited companies are regarded as separate taxable entities subject to a corporate tax of 26 %. Should a limited company pay a dividend to its shareholders, the dividend will be taxed as income of the shareholders in accordance with applicable laws and regulations.

If the entity receiving the dividend is a natural person, the dividend distributed by a non-listed company is tax exempt or partially taxable, depending on whether the value of the dividend is higher than the annual return calculated on the mathematical value of the net assets in the company.

Tax exemption for dividends distributed by a non-listed company applies to an amount to 9 % of the annual return, up to a maximum of 90 000 €. Of the amount of dividends that exceed 90 000 €, 70 % is taxed as capital income and 30 % is tax-exempt. Of the amount exceeding the annual return, 70 % is regarded as taxable earned income and 30 % as tax-exempt income.

The mathematical value used in calculation of annual returns is derived by dividing the net assets of the company by the number of shares of the company. Net assets are derived by subtracting the total debts of the company from its total assets.

Dividends received from a foreign non-listed company are also taxed as described above if the distributing corporation is a company referred to in Article 2 of the EU Parent-Subsidiary Directive (90/435/EEC) or if there is a double tax treaty in force between the country of residence of the company and Finland and if the treaty is applied to the dividend in question. In the case of foreign shares, the annual return for the shares is calculated on the market value of the given share at the end of the tax year preceeding the year in which the dividend was distributed. Dividends from corporations other than such non-listed foreign companies as mentioned above are regarded as fully taxable earned income.

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