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DOING BUSINESS IN FINLAND





COMPANY FORMATION IN FINLAND

MAIN FORMS OF COMPANY/BUSINESS IN FINLAND

Two fundamental types of legal form are available. Businesses can be run either by a natural person (ordinary partnership or individual enterprise) or by a legal person (public limited company, limited liability company or establishment).

The main forms of business in Finland are limited liability companies such as Oy/Oyj (private/public). You can set up general partnership companies like Ay/Ky if partners have a permanent residence inside the EU. A Finnish Branch of the foreign company is one option to carry out business in Finland.

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

All companies registered or controlled and which carry out business in Finland are subject to Finnish General Tax Liability for their income from the Finnish operations. Branches and permanent establishments have the same liabilities.

Finland applies the OECD Tax Treaty and is included in the EU regarding VAT and Parent/Subsidiary directives etc.

Companies must belong to the pre-payment register before starting their business activities. VAT, employer, etc. registers are relevant depending on the business activities.

The corporate tax rate is 20%. Branches and PEs are subject to the same tax rate. The taxable income of a general partnership company is taxed to partners instead of the company. Taxable income is split into earning income and capital income. Assessment is completed according to mutual tax treaties.

Dividends: Under Directive 90/435/EEC – the Parent-Subsidiary Directive – you do not have to withhold any tax on dividends if the beneficiary company owns at least 10 percent of your company and the beneficiary company is subject to corporate tax in its home country.

Dividends paid out of the EU are withheld according to mutual tax treaties.

LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

All companies must be registered in the Finnish Trade Register. Public information recorded to Trade Register files are:

- Business ID
- Domicile
- Articles of Association
- Share Capital
- Names and Addresses of the Board of Directors
- Managing Director
- Auditor(s)
- Financial Year
- Annual Financial Statement



The minimum share capital of a public limited company (Oyj) is 80.000 euros and private limited company (Oy) is 2.500 euros. The minimum share capital must be paid before the registration to a bank account in Finland or the EU. The share capital can be executed in kind as well. The auditor must confirm the payment. General partnership companies do not need any registered capital.

If a limited company loses its equity, the board of directors must send and register a notification to the Trade Register immediately.

The branches registered in the Trade Register, as well as permanent establishments (PE) in taxation, are taxed like limited companies for their income from Finnish sources.

Taxation is based on annual accounts. Losses can be carried forward over a maximum of ten years and carrying back is not allowed.

CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

All citizens and legal entities can set up a limited company. Foreigners outside the EU are required to have a permission from the Trade Register to set up a general partnership company.

All EU and EEA citizens are accepted to be members of the board and a managing director.

OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

According to the Finnish Audit Act, auditing is mandatory if more than one of the following is fulfilled:

- the total sum of balance sheet exceeds 100.000 euros
- net sales exceeds 200.000 euros, or
- on average, there are more than 3 employees



DOING BUSINESS IN THE PRINCIPALITY OF FINLAND:

DEFINITION OF A PERMANENT ESTABLISHMENT

In Finland, there can be two statuses of **permanent establishment**:

1. a Finnish Branch/Suomen sivuliike registered in the Trade Register
2. a permanent establishment in taxation, only in the Tax Authorities register (usually only for short period business activities)

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

1. A **branch** is a part of foreign legal entity registered in the Finnish Trade Register. A branch of a foreign trader is a part of a foreign organization that runs a continuous business or trade in Finland, from a permanent place of business, in the name and for the benefit of the foreign organization.
2. A **subsidiary** is a independent legal entity registered in the Finnish Trade Register. Minimum share capital is 2.500 / 80.000 euros (private/public). There must be at least one member of the board of directors. If less than 3 members, then there must be one deputy member. At least one member of the board of directors must have permanent residence in the EU. A Managing Director is not required according to the Limited Liability Companies Act, but can be elected.

TAX AND ACCOUNTING OBLIGATIONS

All entities are obligated to keep accounting according to the Finnish Accounting Act. The general accounting principles are: going concern, consistency, prudence, concept of continuity, accrual basis and separate value. The annual accounts give a true and fair view of the company`s financial position.

The business`s accounting period is normally 12 months and it does not have to be a calendar year. The financial statement must be completed within 4 months from the end of accounting period. The annual financial statement must be filed to the Trade Register within 2 months from the confirmation of financial statements by the General Meeting. Auditing will be completed according to the Finnish Audit Act.

Taxation is based on the annual accounts. Tax rate is 20%. A tax return must be submitted within 4 months from the end of accounting period. All companies must apply pre-payment of registration before starting their business and pay corporate tax in advance. The assessment of the period is completed in 10 months from the end of the accounting period.

REGISTRATION FORMALITIES

1. Branch

The foreign trader must submit a Start-up Notification concerning its branch to the Trade Register before the branch starts its operations. If the trader is from a country outside the European Economic Area (EEA), it will also need a permit from the Finnish Patent and Registration Office (PRH) for the establishment of the branch.

The notification is signed by either the representative of the branch or the person authorised to sign the company name of the branch.



The personal details of a representative are referred to in section 6(3) of the Act on the Right to Carry on a Trade. The representative is a person who is entitled to receive summons and other notifications on behalf of the trader.

The following details must be given in Start-up Notification: the name of the branch, must include the foreign trader`s company name, showing that a branch is concerned, the postal address in Finland, the line of business carried out in the branch, the foreign trader`s name and the register in which the trader has entered the opening of the branch in his home state, personal data on each person authorized to sign the company name of the branch etc. according to the Finnish Trade Register`s regulations.

To set up a branch takes approximately 1 - 2 weeks.

2. Subsidiary

The foreign trader must submit a Start-up Notification concerning its subsidiary to the Trade Register before the subsidiary starts its operations. There are no restrictions regarding the founder.

The following details are given in the Start-up Notification: the original memorandum of association, articles of association in which, name of the company, domicile, share capital, nominal value or not of the share, members of the board of directors, managing director (if elected), auditor, etc according to the Finnish Trade Register`s regulation.

To set up a subsidiary takes approximately 1 - 2 weeks.



HOW TO HIRE MY FIRST EMPLOYEE IN FINLAND

MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

Main legal steps to hire a first employee in Finland are as follows:

- company registration to employer register
- determine whether the employee has a work/residence permit
- sign an employment contract
- sign a pension premium and other social security contracts
- check which collective agreement (if relevant) is to be used for the work
- sign the health care contract
- start the payroll calculation
- give instructions regarding occupational safety
- etc.

DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

At least the following must be taken into consideration:

Form and duration of employment contract

An employment contract may be oral, written or electronic. An employment contract is valid indefinitely unless it has, for a justified reason, been made for a specific fixed term.

Trial period

The employer and the employee may agree on a trial period of a maximum of four months starting from the beginning of the work.

Information on principal terms of work

The information shall include at least:

- 1) the domicile or business location of the employer and the employee;
- 2) the date of commencement of the work;
- 3) the grounds for concluding a fixed-term contract and the date of termination of the contract, or its estimated date of termination (873/2012)
- 4) the trial period;
- 5) the place where the work is to be performed or, if the employee has no primary fixed workplace, an explanation of the principles according to which the employee will work in various work locations;
- 6) the employee's principal duties;
- 7) the collective agreement applicable to the work;
- 8) the grounds for the determination of pay and other remuneration, and the pay period;
- 9) the regular working hours;
- 10) the manner of determining annual holiday;
- 11) the period of notice or the grounds for determining it;
- 12) in the case of work performed abroad for a minimum period one month, the duration of the work, the currency in which the monetary pay is to be paid, the monetary remunerations and fringe benefits applicable abroad, and the terms for the repatriation of the employee.



Some very important aspects in an employment relationship:

- The employer shall observe at least the provisions of a national collective agreement considered representative in the sector in question (generally applicable collective agreement) on the terms and working conditions of the employment relationship that concern the work the employee performs or nearest comparable work.
- The employer shall not terminate an indefinitely valid employment contract without proper and weighty reason.
- Unless otherwise agreed, the notice periods to be observed by the employer are the following if the employment relationship has continued uninterrupted:
 - 1) 14 days, if the employment relationship has continued for up to one year;
 - 2) one month, if the employment relationship has continued for more than one year but no more than four years;
 - 3) two months, if the employment relationship has continued for more than four years but no more than eight years;
 - 4) four months, if the employment relationship has continued for more than eight years but no more than 12 years;
 - 5) six months, if the employment relationship has continued for more than 12 years.
- The employer is entitled to lay off an employee if:
 - 1) the employer has a financial or production-related reason for terminating the employment contract or
 - 2) the work or the employer's potential for offering work have diminished temporarily and the employer cannot reasonably provide the employee with other suitable work or training corresponding to its needs.
- etc. according to the Finnish Employment Contract Act.

CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

To know the distinction between an employee and a self-employed individual is important not only for tax purposes, but also for other reasons. If an employer/employee relationship exists, the employer takes care of the social security contributions, statutory pension and other insurance contributions. Furthermore, the employer usually has to pay wages during sick days, vacations and holidays. The employer has to follow the Working Hours Act.

Payments made to the self-employed only cover the work that was done according to an invoice presented by the self-employed. The billing may be based on a total service fee. As an alternative, the billing may be based on the quantity of hours worked. The charge per hour of a self-employed individual is usually higher, because he/she pays his/her own social security contributions. Self-employed individuals cover their pension and other insurance themselves as well.



HOW TO READ FINANCIAL STATEMENTS IN FINLAND

PROFIT AND LOSS ACCOUNT

NET TURNOVER

Variation in stocks of finished goods
and work in progress
Work performed by the undertaking for
its own purpose and capitalized
Other operating income

Raw materials and services

Raw materials and consumables
Purchases during the financial year
Variation in inventories

External services

Staff expenses

Wages and salaries
Social security expenses
Pension expenses
Other social security expenses

Depreciation and reduction in value

Depreciation according to plan
Group goodwill amortization
Reduction in consolidation difference
Reduction in value of goods held as non-current assets
Exceptional reduction in value of current assets

Other operating charges

Share of results of associated companies

OPERATING PROFIT (LOSS)

Financial income and expenses

Income from group undertakings
Share of results of associated companies
Income from other participating interests
Other interest and financial income
Reduction in value of investments held as
non-current assets
Reduction in value of current assets securities
Interest and other financial expenses

PROFIT (LOSS) BEFORE APPROPRIATIONS AND TAXES



Appropriations

Change in depreciation reserve
Change in tax-based reserves
Group contribution

Income taxes

Taxes during accounting period
Other taxes

PROFIT (LOSS) FOR THE FINANCIAL YEAR



BALANCE SHEET

ASSETS

NON-CURRENT ASSETS

Intangible assets

- Development expenses
- Intangible rights
- Goodwill
- Goodwill on consolidation
- Other capitalized long-term expenses
- Advance payments

Tangible assets

- Land and waters
 - Own
 - Right of tenancy
- Buildings
 - Own
 - Right or tenancy
- Machinery and equipment
- Other tangible assets
 - Advance payments and construction in progress

Investments

- Holdings in group undertakings
- Receivables from group undertakings
- Participating interests
 - Receivables from participating interest undertakings
- Other shares and similar rights of ownership
- Other receivables

CURRENT ASSETS

Inventories

- Raw materials and consumables
- Work in progress
- Finished products/Goods
- Other inventories
- Advance payments

Debtors

- Trade debtors
- Amounts owed by group undertakings
 - Amounts owed by participating interest undertakings
- Loan receivables
- Deferred tax assets



Other debtors
Subscribed capital unpaid
Prepayments and accrued income

Securities

Holdings in group undertakings
Other shares and similar rights of ownership
Other securities

Cash in hand and at banks

ASSETS TOTAL

LIABILITIES

CAPITAL AND RESERVES

Subscribed capital
Share premium account
Revaluation reserve
Other reserves
Reserve of free invested equity
Legal reserve
Reserve provided for by the articles of association
The fair value reserve
Other reserves

Retained earnings (loss)
Profit (loss) for the financial year

MINORITY SHARE

TAX RESERVES

Depreciation reserve
Tax-based reserves

PROVISIONS

Provisions for pensions
Provisions for taxation
Other provisions

CONSOLIDATION DIFFERENCE



CREDITORS

- Debentures
- Convertible debentures
- Loans from credit institutions
- Pension loans
- Advances received
- Loans from pension institutions
- Bills of exchange payable
- Amounts owed to group undertakings
 - Amounts owed to participating interest undertakings
 - Other creditors
- Accruals and deferred income

LIABILITIES TOTAL