This report provides helpful information on the current business environment in Finland. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.

Global Banking Service

Report on Finland

Contents

RBC Royal Bank®

Important to Know

Official language

- Finnish
- (Swedish)

Currency

- Euro (EUR)

Bank holidays

2010	
January	1, 6
April	2, 5
May	1, 13
June	25, 26
December	6, 25, 26

Source: www.goodbusinessday.com.

Types of Business Structure

Under Finnish law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established. If capital is provided in non-cash, it must be valued by an approved auditor.

Public limited liability company

Oyj (*Julkinen osakeyhtiö*). This is a company whose shares are not registered to their owners and are tradable on a public stock market. This requires a minimum paid up share capital of EUR 80,000.

Private limited liability company

Oy (*Osakeyhtiö*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum paid up share capital of EUR 2,500.

General partnership

Ay (*Avoin yhtiö*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital. Unless at least one partner (whether an individual or legal entity) is a resident of the European Economic Area (EEA)*, all partners will require a permit from the National Board of Patents and Registration (NBPR).

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Limited partnership

Ky (*Kommandiittiyhtiö*). In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital. Unless at least one general partner (whether an individual or legal entity) is an EEA resident, all general partners will require a permit from the NBPR.

Cooperatives

Cooperatives require a minimum of three founders, who may be individuals or companies. Cooperatives require no minimum share capital.

Other organizational types

Finnish companies are entitled to form unlimited liability European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. It is also permitted to perform these activities with entities outside the EU.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any EEA member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

Branches and representative offices

Non-Finnish companies are entitled to establish a branch in Finland. A branch's activities are subject to Finnish company law and it must prepare its own accounts in the same way as a Finnish resident company (except if the parent company prepares accounts according to EU standards). All Finnish branches of EEA resident companies must register with the Finnish Trade Registry; branches of non-EEA resident companies must also be licensed by the NBPR. They require no minimum share capital.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must be registered in Finland and incorporated under Finnish law.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (EUR) accounts outside Finland and foreign currency accounts both within and outside Finland.

Non-residents are permitted to hold local currency and foreign currency accounts in Finland.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- Account opening procedures require formal identification of the account holder, unless the account holder is a bank or institution from an EU/EEA member state or from a state whose money laundering regulations meet international standards.
- If it is likely that a customer is acting for another person, the identity of this person shall also be established by all available means. Beneficial owners must also be identified.
- All financial institutions and a number of non-financial institutions have to identify clients for transactions exceeding EUR 15,000.
- Customers conducting occasional wire transfers must be identified where the transfer of funds is made with cash and the individual amount exceeds EUR 1,000 or involves several linked transactions which exceed EUR 1,000.
- All cross-border movements of currency or monetary instruments of EUR 10,000 or more must be declared.

Supplied by BCL Burton Copeland (www.bcl.com). Data as at March 2009.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Financial and insurance services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet and electronic banking facilities, as well as via ATMs and by using SMS or WAP-enabled mobile telephone banking services. Card payments are commonly used for retail transactions, with debit cards much more popular than credit cards. Pre-authorized direct debits are used primarily by utility and insurance companies to collect domestic payments. Cheques are now used primarily for high-value company payments. Cheques are rarely used for retail transactions.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (EUR billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	0.6	0.6	0.0	30.0	26.0	– 13.3
Credit transfers	701.0	748.0	6.7	3,982.1	4,573.4	14.9
Direct debits	76.0	82.0	7.9	44.0	45.4	3.2
Debit cards	828.0	901.0	8.8	26.5	28.7	8.3
Credit cards	90.0	110.0	22.2	5.7	7.3	28.1
Total	**1,695.6**	**1,841.6**	**8.6**	**4,088.3**	**4,680.8**	**14.5**

Source: ECB Payment Statistics, September 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the European Union.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed (EUR-denominated)	Value dating rules	Cut-off time(s) in local East European Time (EET)
High-value and urgent domestic and intra-EEA payments	Real-time settlement, immediate finality	18:00 EET
Domestic cheques, bank drafts and express credit transfers	Settlement on same-day basis with end of day finality	16:30 EET
Non-urgent, low-value credit transfer, direct debits and card payments	Settlement up to two days	15.45 EET for afternoon clearing and 01:00 EET for overnight clearing
Non-urgent intra-EEA credit transfers – maximum value of EUR 50,000*	Settlement either same-day or next-day	12:00 EET for same-day settlement or 00:00 EET for overnight settlement

* SEPA credit transfers are not subject to a maximum value threshold.

Central Bank Reporting

The Suomen Pankki (Bank of Finland) collates balance of payments statistics from the responses to questionnaires issued to resident companies.

The Suomen Pankki currently asks about 500 resident companies to complete monthly questionnaires asking for information on foreign assets and liabilities. Other resident companies are asked to provide this information on a quarterly or (more commonly) an annual basis.

Only those companies contacted by the Suomen Pankki are required to report this information.

Exchange Arrangements and Controls

Finland applies no currency exchange controls.

Cash and Liquidity Management

Managing cash on both a domestic and regional (Scandinavian*) basis is relatively straightforward, although there are a few restrictions.

*Scandinavian countries include Denmark, Finland, Norway and Sweden.

Physical Cash Concentration

Physical cash concentration is available from large Scandinavian and international banks. Residents and non-residents can participate in the same domestic cash concentration structure, although each entity participating in a structure must be a limited liability company.

A number of banks offer cross-border physical cash concentration, especially within Scandinavia, although the merging of interest statements is not permitted. Pools can be denominated in local currency (EUR), and cross-currency cash pools are also available. Legal advice should be sought as there are restrictions on inter-company loans to some non-resident entities.

Notional Cash Pooling

Notional cash pooling is permitted but, because banks are not allowed to offset credit and debit balances, Finnish and other Scandinavian banks tend to offer interest optimization products instead. These can include resident and non-resident accounts.

Some banks offer cross-border, cross-currency interest optimization schemes, especially within Scandinavia.

Short-term Investment

Bank instruments

Interest-bearing current accounts are available. Banks offer time deposits, with terms of under a month the most popular. Banks also issue fixed rate certificates of deposit (CDs).

Non-bank instruments

Some Finnish companies issue commercial paper (CP), although investors have access to the wide euro commercial paper (ECP) market as well. In both cases, the maximum maturity of the paper is one year, although paper is usually issued for shorter periods.

The Finnish government issues Treasury bills for periods from overnight up to one year. These are denominated in both EUR and USD.

Finnish companies have access to European-based, as well as to domestic, money market funds. Money market funds tend to be more popular with smaller companies.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are all available in Finland to both resident and non-resident companies. Banks will usually charge a margin over Euribor (Euro Interbank Offered Rate) for EUR-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Larger companies issue commercial paper into the ECP market. Issues into the ECP market require a rating. Paper can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

Taxation

Corporate Taxation

- The rate of corporate income tax is 26%. Dividends paid between resident companies are generally exempt. Shipping companies may elect to be subject to a tonnage tax. General and limited partnerships are transparent for tax purposes, the relevant share of profits being taxable on the partners. However, tax losses of a partnership do not flow through to the partners, but are offset against partnership profits in subsequent years before allocation of net profits to the partners.
- Companies resident in Finland are liable to tax on their worldwide income.
- Non-resident companies are taxed at the general corporate tax rate (with the exception of certain types of income liable to withholding tax) on all Finnish-sourced income or all worldwide income attributable to their Finnish permanent establishment.

Advance Tax Ruling Availability

- A resident or non-resident taxpayer may apply for a binding advance ruling, subject to a charge, from the provincial tax offices or from the Central Tax Board.
- The Central Tax Board issues binding advance rulings on matters that are considered to be important or that may set a precedent, or on those of significant value to the taxpayer.

Withholding Tax (subject to tax treaties and other exemptions)

- There are no withholding taxes on domestic payments between companies. A withholding tax of 28% is imposed on the gross amount of all dividends and royalties paid to non-resident companies, unless a tax treaty providing a lower rate exists between Finland and the country of the parent company.
- Further, there are no withholding taxes on dividends paid to non-resident companies in cases where the respective dividend would be tax exempt if paid to a resident company. The said tax exemption applies to dividends paid to companies resident in the EEA (excluding Liechtenstein) and on a condition that the withholding tax imposed cannot de facto be fully credited in the country of residence of the receiving company.

- In addition to the above, EU-based non-Finnish recipients may be able to avoid withholding tax on dividends under the EU Parent–Subsidiary Directive if the relevant conditions are met.
- Interest paid to non-resident companies is generally not subject to Finnish withholding tax, except for interest on permanent loans granted in lieu of capital contribution, to which a rate of 28% applies on the gross amount (unless an applicable tax treaty allows a lower rate).

Capital Gains Tax

- In principle, capital gains received by a Finnish company are taxable as ordinary business income at a rate of 26%.
- Capital gains on the sale of shares that belong to a corporate taxpayer's business income tax source are exempt (and correspondingly a capital loss is not tax deductible), provided that:
  - the shares form part of the company's fixed assets (i.e., typically shares of operating companies in group structures);
  - the company has owned at least 10% of the share capital in the entity directly and continuously for at least a year and the transfer does not take place more than one year after a company's ownership in the entity falls under the 10% threshold;
  - the shares are not in a real estate company, a venture capital company or a limited liability company where the business activities principally consist of governing or owning real estate; and
  - the company in which shares are sold is resident in Finland or qualifies for the benefits of the EC Parent–Subsidiary Directive or is a tax treaty subject under a tax treaty between Finland and the state of residence of the company.
- Foreign-sourced capital gains (other than those mentioned above) made by a Finnish company are taxable in Finland. Double taxation relief may be available for the foreign tax paid. A non-resident is not liable to Finnish tax on capital gains derived from the sale of shares in a Finnish company (with minor exceptions, related mainly to real estate companies), unless the non-resident company has a permanent establishment in Finland.
- Gains on the sale of a company's premises may be rolled over into a new building or a share in a new building provided the new building is purchased in the same or following two tax years.

Thin Capitalization

- Finland does not have any formal thin capitalization rules or debt / equity ratios.
- There are no official guidelines to determine whether a company's equity is adequate for taxation purposes; each case needs to be reviewed on its own merits.
- New provisions are expected in 2010 or 2011.

Transfer Pricing

- Finland follows Organisation for Economic Co-Operation and Development (OECD) guidelines, and generally all OECD approved methods may be applied.
- Finland's transfer pricing rules apply arm's length pricing to all transactions, including the purchase / sale of inventory and the provision of services and financial facilities, such as the making of loans and the giving of guarantees.
- New provisions requiring transfer pricing documentation took effect for tax years starting on or after January 1, 2007. In general, the documentation obligation applies to Finnish companies which have transactions with foreign group companies. The documentation requirements also apply to transactions between a permanent establishment in Finland and its foreign head office.
- Small and medium-sized enterprises are exempted from the documentation obligation under certain conditions. To qualify for the exemption, enterprises must meet the following requirements:
  - the number of employees must be less than 250; and
  - the balance sheet total must not exceed EUR 43 million or the turnover must not exceed EUR 50 million.
- When considering the fulfilment of the above limits, both the Finnish entity / branch itself and all its associated companies are taken into account.
- Transactions between Finnish entities need not be documented, but these may still be subject to transfer pricing adjustments.

VAT

- VAT is levied on the commercial sale of goods and services, on imports and on the intra-EU acquisition of goods, provided by both resident and non-resident companies. However, special simplification rules may apply in the case of a foreign supplier.
- The standard VAT rate on goods and services is 22%. Reduced rates of 12% (e.g., on certain foodstuffs and animal feed) and 8% (e.g., on medicine, books, works of art, passenger transportation, accommodation services, certain types of entertainment, hairdressing and certain shoemaker services) also exist. Export sales, intra-EU supplies of goods, certain international supplies of services, newspaper and magazine subscriptions for at least a month, and certain vessels and aircraft are zero-rated for VAT.
- VAT-exempt goods and services include the sale, renting and leasing of immovable property, health and medical care, social welfare services, statutory education, financial and insurance services, transactions related to bank notes and coins used as legal tender, certain copyrights, and lotteries and gambling. The transfer of a business as a going concern is out of the scope of VAT.
- No VAT is levied on businesses with an annual turnover of less than EUR 8,500 during a calendar year unless the company has applied for voluntary VAT registration. The threshold does not apply to foreign entities that do not have a fixed establishment in Finland.
- Two or more entrepreneurs who mainly sell financial or insurance services and who are domiciled or have a fixed establishment in Finland may, under certain conditions, opt for a group registration, i.e., to be considered a single entity liable for VAT.

Payroll and Social Security Taxes

- Various insurance and social security contributions are payable by the employer at a rate of 22–28% of the employee's gross salary.
- Employees' social security contributions are payable at a rate of approximately 6.5% of the employee's gross salary.
- Employees' holiday salaries and bonuses are subject to social security contributions. Statutory annual holiday is usually five weeks in industries where holiday salaries are paid. Employees often receive holiday bonuses, which in most cases are 50% of holiday salary.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 1, 2009.

Report prepared July 2009.

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