

---

# Doing Business in Finland

---

Edition No. 1 / April 2020



# Doing business in Finland



**MSI's guide on Doing Business in Finland provides current information about the financial, regulatory and legal considerations that could affect business dealings within Finland. For further assistance please contact our MSI member firms in Finland.**

## Country overview

### Population

Finland has a total population of approximately 5.5 million inhabitants.

### Government

Finland is a republic and currently Sauli Niinistö is the President of the Republic of Finland. The executive power is vested in the President and the government, who must have the confidence of parliament. Finland is divided into 310 self-governed municipalities.

### Languages

The national languages are Finnish and Swedish.

### Currency

The national currency is the Euro.

### Economic summary

GDP: €240 billion

Income per capita: €30,407 (2018)

Inflation: 1,0 % (2019)

### Main sectors of the economy

The services sector employs the largest number of workforce and accounts for almost 60% of the GDP. This sector generates a considerable amount of new businesses. Industry and agriculture also represent main sectors of the economy. Finland is also known for its ship building industry.

The main export industry is the technology industry and Finland is home to several technology start-ups. Many well-known technology companies have started their journey in Finland. The biggest start-up event of the year is Slush which gathers start-ups and investors from around the world.

### EU country/ Non-EU and its impact on businesses and investors

Finland is a member state of the European Union.

### Ease of doing business in Finland

Finland is an attractive base for doing business and for investment. Its well-educated work force is a contributor. In Finland, 88% of adults aged 25-64 have completed upper secondary education (OECD average 78%). Finland ranks at the top in education and skills and subjective well-being in the OECD's Better Life Index.

Finland is the third most gender equal country in the world according to the World Economic Forum's Report. The majority of Finland's government ministers are female and the current Prime Minister is one of the youngest country leaders in the world, Sanna Marin.

In addition to education and gender equality, Finland maintains a high ranking globally in terms of happiness and a low level of corruption. Finland is the happiest nation in the world according to the United Nation's World Happiness Report. Finland is the third least corrupt country in the world according to the Corruption Perceptions Index (2019). Further, in the 2020 edition of the report in which the European Chamber ranks and analyses 46 European countries according to their economic environment, Finland maintained its high ranking of fourth place. The ranking is the result of an analysis based on internationally recognized indexes of the World Bank and Transparency International.

## Setting up a business

There are several different choices of corporate structures if you want to start a business in Finland. The most common corporate entities are as follows:

### Legal types of business entities

1. Limited liability company
2. Public limited liability company
3. Cooperative Association
4. General partnership
5. Limited partnership
6. Non-profit organization
7. Branch of a foreign trader
8. Private entrepreneur

A typical and recommended company form for a foreign entity is a limited liability company, abbreviated as "Oy".

A limited liability company is a legal person distinct from its shareholders and thus the shareholders have no personal liability for the obligations of the company.

There are no restrictions based on the place of residence or registered office, or citizenship, when it comes to the right to own shares in a limited liability company. There are, however, some restrictions regarding the residency of the board members. If at least one board member is a resident of the EEA, no permit is needed. In other cases, a permit from the Finnish Trade Register is required. Further, the managing director must have a place of residence in the EEA, however, it is not mandatory to have a managing director.

There is no minimum amount for the initial share capital of a limited liability company.

Most companies must file a notification of their actual beneficial owners with the Finnish Trade Register. For example, all limited liability companies and co-operatives must file a notification.

### **Process of how to set up a business**

Every limited liability company is obliged to file a start-up notification with the Finnish Trade Register. Limited liability companies are formed upon registration. A limited liability company must be reported for registration within three months from the signing of the Memorandum of Association. If the company is not reported for registration within that period, the formation expires.

As part of the application process, the company name is registered, giving the company exclusive use of the registered trade name in Finland.

A foreign trader must submit a start-up notification concerning its branch to the Finnish Trade Register before the branch commences its operations in Finland. If the trader is from a country outside the EEA, it will also need a permit from the Finnish Patent and Registration Office for the establishment of the branch.

### **Financial year of taxes and financial accounts**

The financial year is 12 months. When business operations commence or terminate or the financial year end is changed, the financial year may be shortened or extended. However, the financial year may not exceed 18 months.

The financial year is equal to the calendar year. However, companies may choose a different financial year if they wish.

The financial period of the company should be stated either in the Memorandum of Association or in the Articles of Association.

### **Accounting and auditing**

Provisions on accounting are laid down in the Accounting Act and Accounting Decree, the development of which is the responsibility of the Ministry of

Economic Affairs and Employment. The Accounting Act is based on the Accounts Directive of the EU.

Audit requirements are set in the Auditing Act which came into effect in 2016. At the same time, the supervision of auditing was transferred from the Finland Chamber of Commerce to the Finnish Patent and Registration Office (PRH).

All companies, unless they are exempted based on size, are mandated to have an annual audit of financial statements. In accordance with the Auditing Act, an audit is required if two out of the following three criteria are met in both the last completed financial year and the financial year immediately preceding it:

- 1) the balance sheet total exceeds EUR 100,000;
- 2) the net sales exceed EUR 200,000; or
- 3) the average number of employees exceeds three.

Financial statements must be prepared no later than four months after the end of the financial year. The audit must be performed by an auditor authorized by the Finnish Patent and Registration Office when the above requirements are met.

Most businesses must file their annual financial statements for registration with the Finnish Patent and Registration Office no later than six months after the end of the financial year. All financial statements submitted to the Finnish Patent and Registration Office are public documents and can be purchased on its Information Service.

#### Sources:

*The Accounting Act (1336/1997) and the Auditing Act (1141/2015) – translations in English are available on the Finlex Data Bank website <https://www.finlex.fi/en/> The Finnish Patent and Registration Office website <https://www.prh.fi/en/index.html>*

## **Taxation**

The tax system in Finland is relatively straightforward in terms of predictability and ease of handling taxes. Up-to-date information is available on-line on the website of the Finnish Tax Administration ([www.vero.fi](http://www.vero.fi)) with detailed guidance available in English (in addition to Finnish and Swedish).

Note that the tax rates cited below are valid in April 2020 (up-to-date rates are published on the website).

From a business perspective, the most relevant taxes are as follows:

### **VAT**

VAT is paid on the sales of goods and services. The standard VAT rate is 24%. Reduced VAT rates apply to certain goods and services, for example, food (14%) and books (10%).

Companies that are registered for VAT must regularly file VAT returns.

### **Corporate Income Tax**

The legal form of the corporate entity of your company will determine its income tax obligations. The income tax rate for limited liability companies and other corporate entities is 20%. Corporate income taxes are levied as prepayments during the financial year. Advance tax payments are collected in two or more instalments during the financial year depending on the total amount to be paid. Limited companies must submit their tax declarations within four months of the closure of the financial year.

The income of partnerships and self-employed individuals is divided into capital income and earned income (see income tax below).

### **Income tax**

Resident taxpayers are individuals whose home is in Finland or who stay in Finland for longer than 6 months. Earned income (e.g. wages and salaries) is subject to state income tax, municipal income tax and the health insurance contribution. The state income tax is assessed using a progressive scale. Income tax is paid as you earn the

related income with a final tax assessment on an annual basis.

### **Transfer Tax**

When you buy real estate, shares in a housing company or other stocks in Finland (e.g. shares of a business enterprise), you must pay transfer tax. As the buyer, you are required to calculate and pay the transfer tax. Transfer tax on most shares is 1.6%, except 4% on real estate and buildings and 2% on shares in a housing company or a real estate company. Note that if the shares you bought are listed on the stock exchange and you bought them on the exchange, you generally do not have to pay transfer tax or file the tax return.

### **Registration procedures**

All routine procedures with the Finnish Tax Administration for private persons (as taxpayers) and companies are documented clearly and processed in a timely manner. Communication with the tax office, including the necessary forms, can be handled electronically or in paper form. Generally, the Finnish Tax Administration supports and encourages the use of on-line services for its taxpayers. Instructions are available in English and many of the relevant forms can be completed in English.

## **HR/ Labour Law**

### **Employment law**

An employment agreement may be agreed for an indefinite or fixed period. Fixed-term contracts require a justified reason in order to be valid. Unless explicitly stated otherwise in the employment agreement, the labour law applies as the default and for example, vacations are earned according to the law.

The collective bargaining agreements (TES in Finnish) are industry-specific labour market partner agreements that specify certain working conditions, for example, minimum salary, etc. If the relevant industry has a collective bargaining agreement, the employers must follow that agreement along with the labour law.

### **Social security**

The Finnish social security system covers those who live in Finland on a permanent basis and those who work in Finland. All employees are part of the statutory occupational health care. The employer is responsible for the costs of the statutory occupational health care but over 50% of the costs are reimbursed by the Social Insurance Institution of Finland (KELA). The social costs for the employer account for up to 20-25% of the employee's salary. These costs are mandatory.

### **Pension**

Employees are involved in an earnings-related pension system where the pension is earned by the paid work and entrepreneurial activities. The employers have to arrange pension insurance for their employees and post the total contribution to the pension provider. Employers and employees finance the pension jointly. The employer collects their employee's contribution from their salary and then transfers this and their own share of the insurance fee to the pension institution. The pension amount for an employee depends on the number of years/months worked and the amount of salary.

### **Payroll**

When starting a business and employing staff, the company must register with the tax authorities. Withholding tax and insurance and pension payments are paid monthly to the tax authorities by the employer. The amount varies between employees.

### **Visa and work permits**

Citizens of an EU Member State can stay and work freely in Finland for up to three months. If the stay is longer than three months, EU-citizens must register their right of residence at the Finnish Immigration Service.

People from outside the EU need a residence permit if they intend to work in Finland.

## **References**

Further information is available on the following websites:

**Finlex Data Bank** - an online database of up-to-date legislative and other judicial information of Finland. Finlex is owned by Finland's Ministry of Justice. English translations of the Accounting Act (1336/1997), the Auditing Act (1141/2015) and the Limited liability Companies Act (624/2006) are available on this website.  
<https://www.finlex.fi/en/>

**The Finnish Patent and Registration Office** (including the Trade Register)  
<https://www.prh.fi/en/index.html>

**The Finnish Tax Administration** ([www.vero.fi](http://www.vero.fi)) with guidance in English at <https://www.vero.fi/en/businesses-and-corporations/>

**The Social Insurance Institution of Finland** (KELA)  
<https://www.kela.fi/web/en>

## Contact us

---

The information provided in this guide cannot be exhaustive and we recommend anyone considering doing business in Finland should seek professional advice from our member firms before making any business or investment decision.

### Contact our member firms in Finland to discuss your requirements:

#### Accounting member

**Greenstep Oy**  
[www.greenstep.fi](http://www.greenstep.fi)

**Tore Teir**  
tore.teir@greenstep.fi  
+358 40 760 4909

Keilaranta 5  
02150 Espoo

#### Legal member

**Lukander Ruohola HTO**  
[www.lrhto.fi](http://www.lrhto.fi)

**Jarkko Ruohola**  
jarkko.ruohola@lrhto.fi  
+358 10320 8441

Eteläesplanadi 22 A  
00130 Helsinki

MSI Global Alliance  
10 Queen Street Place  
London EC4R 1AG  
United Kingdom

[www.msiglobal.org](http://www.msiglobal.org)