

DAŇOVÝ SYSTÉM VE FINSKU

FINNISH TAX SYSTEM

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Abstrakt

Podle finské ústavy má právo uložit daň stát (centrální vláda), municipality a místní komunity Evangelicko-luteránské církve. Oblast daní spadá pod pravomoc ministerstva financí. Zde jsou také navrhovány daňové zákony, které jsou posléze schvalovány v Parlamentu. Daně ve Finsku jsou ukládány na základě rozhodnutí vlády, municipalit (místních vlád), Institutu soc. zabezpečení a různých sociálních fondů s více než 40 názvy. Platby místním komunitám Evangelicko-luteránské církve nejsou považovány za daně ve statistikách OECD.

Klíčová slova

Daň, daň z příjmu, DPH, církevní daň, municipální daň

Abstract

According to the Finnish Constitution, the right of taxation lies with the State (central government), the municipalities (communes) and the local communities of the Evangelical-Lutheran and Orthodox Churches. Taxation in Finland is organized under the jurisdiction of the Ministry of Finance. Tax laws regulating taxation are drafted in the Ministry of Finance and followingly approved in the Parliament. Taxes in Finland are levied on behalf of the Government, the municipalities (local government), the Social Insurance Institution and various social security funds under some forty different headings. Payments to the local communities of the Evangelical-Lutheran and Orthodox Churches are not classified as taxes in the OECD's statistics¹.

Key words

Tax, Income Tax, VAT, Church Tax, Municipal Tax

¹ Ministry of Finance: Taxation in Finland 2005, Ministry of Finance ,2006, 196 p., ISBN 951-804-541-0

Introduction

In Finland the income of subjects is divided into the earned income and the capital income. The first one is the income from salaries, pensions and social security benefits. The rental income and proceeds from the sale of property are subject to taxation as capital gains. The capital gains and the earned income are taxed in different ways: the capital income is taxed according to a fixed tax rate of 29% and the earned income according to a progressive tax scale. Corporations are taxed according to a fixed income tax percentage. All taxpayers have the right to deduct any expenses incurred in acquiring or maintaining their income.

Taxation of income

The Income Tax Act (1992) is a general act regulating all types of income. However, the net income from agriculture and business profits and income from professional activities are determined, for the purposes of income taxation, under the provisions of the Act on the Taxation of Farm Income (1967) and the Act on the Taxation of Business Profits and Income from Professional Activities (1968).

The income tax.

This tax is paid to both municipalities (municipal tax) and the State (state income tax)².

State income taxes

State income taxes are levied on the earned income and investment income of individuals and the estates of deceased persons. The tax on earned income is levied according to a progressive tax scale decided annually by Parliament. The rates of tax for the year 2005 were as follows:³

Taxable income	Basic tax amount	Rates
12.000 — 15.400	8	10.5%

² Nerudová, D.: Harmonizace daňových systémů zemí Evropské unie. Praha: Aspi, a.s. 2005, ISBN 80-7357142-0, p. 101

³ Ministry of Finance: Taxation in Finland 2005, Ministry of Finance, 2006, 196 p., ISBN 951-804-541-0, p. 17

15.400 — 20.500	365	15.0%
20.500 — 32.100	1.130	20.5%
32.100 — 56.900	3.508	26.5%
56.900 —	10.080	33.5%

The state income tax on investment income is levied at flat rate of 28%.

Taxpayers

Unlimited and limited tax liability

Individuals resident in Finland as well as resident corporate bodies and the estates of deceased persons are liable to tax on their entire income, whether derived from Finland or abroad (unlimited tax liability). Non resident individuals and corporate bodies are liable to tax on their income derived from Finland (limited tax liability)⁴. Interest derived from Finnish bonds, debentures and other mass instruments of debt, or from loans from abroad which are not considered as capital investment assimilated to the debtor's own capital, as well as interest from deposits in banks or other financial institutions and from foreign trade credit accounts are exempt from income tax on the basis of internal legislation. If a person who is not resident in Finland, or a foreign corporate body or a partnership as a permanent establishment in Finland for conducting business, that person, corporate body or partnership is liable to income tax for all income attributable to that permanent establishment, whether derived from Finland or from abroad.

Residents and non-residents

An individual is deemed to be resident in Finland if he has his main abode in Finland or if he stays in Finland for a continuous period of more than six months. This rule implies that a person can be regarded as resident in Finland for part of the year and non-resident for the rest of the year. The stay in Finland may be regarded as continuous in spite of a temporary absence from the country.

⁴ *Ministry of Finance: Taxation in Finland 2005*, Ministry of Finance ,2006, 196 p., ISBN 951-804-541-0, p. 21

A resident national who has left Finland (and surrendered his place of main abode here, if any) is, however, considered to be resident in Finland even if he is not physically present in Finland for a continuous period of more than six months within any period of time until three years have elapsed from the end of the year in which he left the country, unless he can produce evidence that he has not maintained substantial ties with Finland during the tax year in question (the three year rule). Unless there is evidence to the contrary, a Finnish national is not deemed to be resident in Finland after the end of the three-year period.

In addition, a Finnish national who takes up position at a Finnish diplomatic mission, consular post or special mission and who is not resident in the foreign country in question at the time when he commences the period of service, is deemed to be resident in Finland. Non-residents employed on board Finnish ships or aircraft are liable to tax only on wage income derived from work done on board and work done temporarily elsewhere for the ship or aircraft by the employer's order, pension income which is directly or indirectly based on such wage income, as well as income derived from Finland. Foreign ships and aircraft leased with only a minor crew or without any crew (bare boat leasing) by a Finnish employer are considered to be Finnish for tax purposes.

The Income Tax Act does not contain provisions explaining the meaning of "residence" with regard to corporate bodies but according to present practice a corporate body is regarded as resident in Finland if it is registered (incorporated) here or otherwise established under Finnish law. A general or limited partnership registered in Finland or otherwise established under Finnish commercial law is, following the same principle as applied in the case of corporate bodies, regarded as resident. The Income Tax Act contains express rules only on the residence of undistributed estates of deceased persons which are regarded as residents in Finland if the deceased was resident here at the time of death. A person who is resident in Finland for only a part of the year is taxed as a resident on income attributable to that part of the year and as a non resident on income attributable to the rest of the year.

Married persons

Married persons are taxed separately both on earned income and investment income. If spouses run a business or a farm together, profits from the business or income from the farm is apportioned to earned income and investment income. In such cases (excluding forestry

income), both types of income are apportioned between the spouses. The apportionment of the earned income is determined on the basis of the labour contributed and of investment income on the basis of their shares in the net assets belonging to the business or farm. Both types of income are apportioned equally if no other evidence is presented.

Individuals living together in free union are, for the purposes of income taxation, considered as spouses if they have been married to each other previously or if they have had or are having a child together. As a general rule, deductions granted to each spouse are the same as those granted to single persons, although in areas such as interest and pension insurance deductions the marital status of the taxpayer may have a bearing on the taxation.

Minors

Minors, i.e. children under the age of seventeen, are taxed on their own income, separately from their parents.

Corporate bodies

The following entities are considered to be corporate bodies and as such separate taxable entities: the State and its institutions, the municipalities, joint municipal authorities, religious communities, limited companies, co operative societies, savings banks, investment funds, associations, mutual insurance companies, foundations, foreign estates of deceased persons, institutions or any other similar legal persons.

Communal tax

The communal (municipal income) tax is levied at flat rates on the earned income of individuals and the estates of deceased persons. Each municipal council sets the tax rate annually in advance for the following year on the basis of the municipal budget. For 2005 the rate varied between 16 and 21%⁵, the average being 18.30%.

⁵ Nerudová, D.: Harmonizace daňových systémů zemí Evropské unie. Praha: Aspi, a.s. 2005, ISBN 80-7357142-0, p. 102

Church tax

Individuals who are members of either the Evangelical Lutheran Church or the Orthodox Church pay the church tax. Local communities of these churches levy the church tax on the earned income of individuals and estates of deceased persons. Church tax is imposed at rates, which are set annually in advance for the following year in each community by the local ecclesiastical council and vary between 1 and 2.5%, the average rate for 2005 being 1.32%⁶. The church tax is levied on the same taxable income as determined for communal tax purposes.

Corporate income tax

Corporate income tax is levied at a flat rate of 26%. The following entities are considered to be corporate bodies and as such separate taxable entities: the State and its institutions, the municipalities, joint municipal authorities, religious communities, limited companies, co-operative societies, savings banks, investment funds, associations, mutual insurance companies, foundations, foreign estates of deceased persons, institutions or any other similar legal persons.

Value added tax

Value-added tax (VAT) is a general multi-stage, non-cumulative tax on consumption. VAT is a broad-based tax on most goods and services; it is levied at each stage in the production and distribution of goods and services; the accumulation of the tax is prevented by means of a deduction system. When a person liable to tax purchases taxable goods or services, the supplying enterprise charges VAT. The person liable to tax may deduct the tax paid by him on purchases (input tax) from the tax charged for his taxable supplies (output) tax. The difference between the output tax and the input tax is paid to the State. The final tax is borne by the consumer.

In Finland, VAT replaced the Sales Tax at the beginning of June 1994. As a member of the European Union, Finland has subsequently harmonised its VAT system entirely with the EU rules by amending the VAT Act. The amendments mainly concern the rules of trade between

⁶ *Ministry of Finance: Taxation in Finland 2005*, Ministry of Finance ,2006, 196 p., ISBN 951-804-541-0, p. 18

the EU Member States the extension of the scope of VAT and the abolition of the special scheme for foodstuffs. Following new EU legislation, the rules concerning intra-Community trade were amended at the beginning of 1997. At the same time, certain other amendments relating, among others, to the scheme for marginal taxation of second-hand goods were introduced. The structure and levels of the reduced VAT rates were reformed from the beginning of 1998. A special scheme for investment gold was introduced at the beginning of 2000. Two years later, at the beginning of 2002, amendments due to the introduction euro were made. In 2003 followed amendments concerning the taxation of works of art and at the beginning of July in that same year amendments required by the EU-Directive concerning VAT treatment of electronically supplied services. At the beginning of 2004 amendments required by the EU-Directive on invoicing came into force, and also at the same time graduated tax relief related to the exemption threshold applicable to small enterprises was taken into use. At the beginning of 2005 amendments required by the EU-Directive on the place of supply of gas and electricity came into force⁷.

To summarize, VAT is a consumption tax which is paid with the acquisition of merchandise or services. Entrepreneurs collect VAT according to their sales and pay it to the state monthly. The general rate of VAT in Finland is 22%⁸.

The following supplies of goods and services are exempted from VAT:

- hospital and medical care undertaken by publicly administered hospitals and recognised private hospitals or other similar institutions, and the provision of medical care in the exercise of the medical professions;
- social welfare services;
- educational services which are provided in accordance with the law or which are subsidised from State funds in accordance with the law;
- financial services and transactions concerning securities (excluding consultation and safety-deposit services);
- insurance services and services performed by insurance brokers and insurance agents;
- transactions concerning bank notes and coins used as legal tender (excluding collectors' items);

⁷ *Ministry of Finance: Taxation in Finland 2005*, Ministry of Finance, 2006, ISBN 951-804-541-0, p. 97

⁸ *Nerudová, D.: Harmonizace daňových systémů zemí Evropské unie*. Praha: Aspi, a.s. 2005, ISBN 80-7357142-0, p. 104

- lotteries and money games;
- the services of performing artistes, the sale of performances intended to be sold to arrangers and the transfer of copyright to literary and artistic works;
- real property, including building land;
- certain transactions carried out by blind persons;
- interpretation services for deaf persons;
- cemetery services rendered by a public cemetery;
- uncultivated berries and mushrooms sold by the person who picked them.

Road traffic taxes and other traffic taxes

Motor vehicles and fuel used for road traffic are subject to the following taxes:

Road traffic taxes applicable to motor vehicles registered in Finland:

- car tax on passenger cars, delivery vans and motorcycles (Car Tax Act of 29 December 1994);
- vehicle tax on diesel driven vehicles (tax on the propelling force; Act on Vehicle Tax of 30 December 2003);
- vehicle tax on passenger cars and vans (basic tax; Act on Vehicle Tax of 30 December 2003).
- excise duty on fuel
- VAT on the sales value of vehicles and fuel, levied at the standard rate of 22 per cent; fuel fee (Act on Fuel Fee of 30 December 2003).

Municipal tax on real property

A municipal tax on real property is levied on all real property situated in Finland unless a particular statutory exemption applies. The revenue goes to the municipality in which the property is situated. The most important exemptions are water areas, forests and agricultural land. Other exemptions are almost exclusively of an administrative or technical nature having little economic significance. Diplomatic and consular property is exempt from the tax to the extent provided for in international agreements. The tax is payable by those who own taxable property at the beginning of the calendar year. In the case of residential housing companies and other corporations that are the legal owners of their properties, it is the company or

corporate body, which is liable for the tax. The tax due is determined by the taxable value of each property and by the tax rates set annually by each municipality. For the most part, the tax is based on the values assessed for the wealth tax. Municipal councils determine annually the applicable tax rates within statutory limits.

Councils have to set at least two tax rates: a general tax rate and a rate for buildings used primarily as permanent residences. The general rate may vary between 0.5 and 1.0% whereas the rate for permanent residences may vary between 0.22 and 0.5%. Moreover, the council can decide that a special tax rate, which is no more than 0.6 percentage units higher than the rate for permanent residences, is applied to buildings used as second residences (i.e. summer residences) and that a rate that may vary between 1.0 and 3.0% is applied to vacant lots. The council can also decide upon separate tax rates to be applied to power plants; this rate cannot exceed 1.4%, with the exception of nuclear power plants for which the maximum rate is 2.2%. In the case of nonprofit-making organisations' buildings, the rate may be less than 0.2 (down to zero)% if the building is mainly used for public or nonprofit-making purposes.

Conclusion

This paper can be regarded as only a short view into the Finnish tax system. This system does not seem to be complicated, on the other side, the structure is much wider than in the Czech tax system. I would like to stress the role of the church in Finland which has led to the establishing of the Church tax and also the position of municipalities in a tax field is much stronger than in the Czech republic.

Literature:

[1] Ministry of Finance: *Taxation in Finland 2005*, Ministry of Finance, 2006, 196 p., ISBN 951-804-541-0

[2] Nerudová, D.: *Harmonizace daňových systémů zemí Evropské unie*. Praha: Aspi, a.s. 2005, p. 236, ISBN 80-7357142-0

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