Tax guide for investors 2015

The tax guide offers information about the taxation of capital for individuals

PÖRSSISÄÄTIÖ
BÖRSSTIFTELSEN

Content

To the reader

The taxation details concerning investors have changed annually during the past years. However, no major reforms have, been made. From 2005 to 2011 the tax on capital income was levied at a flat rate of 28 %. After this, both the capital income tax rate and the taxable part of the dividends received from listed companies have been raised. Taxation on capital income has also become progressive, since capital income exceeding a certain higher level is taxed at a higher tax rate.

Taxation forms a central part of the operating environment of an investor and, the predictability of the operating environment is important. The changes in taxation reflect on the popularity of certain investment and insurance products. Even though the primary goal of an investor is to make profit, striving for a lower taxation should not be the only motivation when making investments. Also other costs than those arising from taxation should be taken into account when making investments.

The Finnish Foundation for Share Promotion has published a Tax Guide for Investors since 1988. Information regarding the tax year 2015 has been updated by tax specialists Mr. **Risto Walden** and Ms. **Niina Tuovinen** from Bilanssi Oy. Additionally we have received assistance with the English translation from tax partner Mr. Kai Wist from PricewaterhouseCoopers Oy. We are very grateful for their help.

Some changes have been made to the Tax Guide for 2015 due to the amendments in tax law which came into force as of beginning of 2015 and due to the changes in the interpretation of tax laws in the legal praxis. From the investor's point of view the major changes in 2015 are the amendments in capital income tax rates. Where in 2014 the tax on capital income was levied at a tax rate of 30 % up to 40,000 Euros and at a higher tax rate of 32 % for the exceeding amount, in 2015 the higher tax rate was raised to 33 % and the limit for applying the rate was reduced to 30,000 Euros.

You should note that this Guide describes the Finnish tax rules only concerning individuals who are resident in Finland. An individual is deemed to be resident in Finland if he has his main adobe in Finland or if he stays in Finland for a continuous period of more than six months. Individuals resident in Finland as well as resident corporate bodies and the estates of deceased persons are basically liable to tax in Finland 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 only (limited tax liability). Tax treaties may also limit the Finnish taxation right.

Even though this Guide is intended to be as up to date as possible you should be prepared to changes occurring in legislation or in the interpretations of the existing laws. It is recommended to follow possible changes from the mass media as well as from the Finnish Foundation for Share Promotion's website www.porssisaatio.fi.

In Helsinki on June 22, 2015
THE FINNISH FOUNDATION FOR SHARE PROMOTION
Sari Lounasmeri
Suomen Pörssisäätiö

The main principles of taxation of private individuals

The income received by private individuals is divided into earned income and capital income. The taxable income is calculated separately for both income streams. In final taxation the taxes payable from both income streams are calculated together, after which the taxes paid in advance are deducted in order to receive the amount of additional taxes payable or the refund.

Earned Income

Examples of earned income are salaries, fringe benefits, pensions, social benefits and part of the income received by entrepreneurs.

Earned income is subject to progressive state tax, municipal flat rate tax, church tax and sickness insurance contributions. The employer also withholds from the salary the pension insurance and unemployment insurance contributions which amounts are tax deductible. The state income tax rates are published in the end of this Guide.

Foreigners who are not members of the Finnish Evangelic Lutheran or Orthodox Church are not subject to church tax. Also, if a foreigner belongs to his/her home country social security scheme and can provide a Certificate of Coverage as proof, he/she avoids paying Finnish social security contributions.

Capital Income

Examples of capital income are interest income, dividend income from quoted and unquoted companies, capital gains, rental income, profits from mutual funds, profits from investment type of life insurances and part of the income received from private enterprises.

As of 2015 the tax on capital income is levied at a tax rate of 30 % as long as the taxable capital income does not exceed 30,000 Euros. For the exceeding part the tax is levied at a higher tax rate of 33 %. In 2013 the limit for applying the higher tax rate was 50,000 Euros and in 2014 it was 40,000 Euros, whereas the higher tax rate was 32 % both in 2013 and in 2014.

Only 85 % of dividends received from quoted companies are regarded as taxable capital income. The taxable part of the dividend income was increased in 2014 from 70 % to 85 %.

Own House

The profit from the sale of a house that has been used as your own or your family's home for a consecutive period of at least two years is tax-free. The exemption applies even if you do not acquire a new house or if you have rented out the house before or after you have lived in it for two years.

Deductions

There are certain tax deductions that may be made from earned income and capital income. All deductible interest costs are deducted from capital income. In case you do not have capital income or you have less capital income than capital income related costs you may deduct a part of the interest costs as capital income deficit from your earned income. The amount of the capital income deficit corresponds to the tax rate on capital income, i.e. 30 %.

Contributions made during the tax year to a long-term savings account (LTS-account) or to a voluntary pension insurance can be deducted as a specific capital income deficit from the taxes arising from either earned or capital income.

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Supplementing the tax return

Finnish tax authorities send to all taxpayers a tax proposal during March – April following the tax year. As capital income is concerned there is often a need to amend the tax proposal if all information is not shown on the tax proposal or if there is incorrect information to be corrected. The capital gains/losses from the sale of investment fund units are usually automatically calculated on the tax proposal. There is also a section in the tax form saying: “clarify the gains/losses from the following transfers”. Those transfers should be separately reported by using the tax authorities’ form 9 or 9A. As the tax authorities have no information of acquisition time and costs of the shares that have been owned for a long period the real acquisition costs should be reported. This is also important if the tax payer would like to take advantage of the so called presumed acquisition cost, which is 40 % of the sale price for securities owned over 10 years and 20 % otherwise.

Although the net wealth tax was abolished as of tax year 2006 the assets and loans need still to be reported. This enables the tax authorities to control among others reporting of the capital gains as well as donations. Assets are valued according to the Assets Valuation Act, as the values are needed for example for property taxation purposes as well as for corporate income tax purposes. Assets that need to be reported include for example shares; investments fund units and condominiums as well as real estates. However, the values of the aforementioned properties do not need to be calculated and reported by the tax payer.

Preserve receipts

Receipts are no longer attached to the tax return. However, the receipts need to be preserved for six years following the tax year unless the information on the original tax proposal is correct. Six years is also the time period during which the taxation may be corrected. The tax office asks for the receipts if needed.

The receipts in relation to acquisitions and improvement costs may be needed later when the amount of capital gain is calculated. It is recommendable to preserve the receipts for six years following the sale of property in question. Information and receipts may also be preserved electronically if the containing information may also be printed out when needed.

Persons owning securities (e.g. investment fund units or company shares) need to preserve in chronological order all the bank statements and treasury reports. Those documents have to include among others acquisition and sale dates as well as the acquisition and sale costs. If you change your stockbroker you should preserve the statements from the former broker as the new broker may enter as acquisition value of your securities the fair market value of the securities at the moment of transfer.

Supplementary advance tax payment/Residual taxes

In case you have received considerable capital gains during a tax year it is recommendable to pay a supplementary advance tax payment(s) before 31 January the year following the tax year so that the interest of the residual tax is avoided/minimized. The current interest (2014) of the residual tax is 0,5 % if the amount of residual tax is not more than 10,000 Euros. The interest is 2,5 % for the amount exceeding 10,000 Euros. The interest is payable as of 1 February the year following the tax year until the first due date of the residual tax, which is usually at the beginning of December the year following the tax year. After calculating the interest on the residual tax (as described above), a deduction of 20 Euros is made from that amount. Therefore, during the tax year 2013 interest on residual tax is charged in case the amount of the residual tax exceeds approximately 4,750 Euros. The interest on the residual tax is not tax deductible. In case you receive a tax refund the tax authorities will pay 0,5 % interest on the refundable amount. This interest income is not regarded as taxable income.

Taxation of the yield on investments

In this chapter we deal with the taxation of annual profits from investments. Capital gains are discussed separately later on in this Guide.

Most of the interest income is subject to a withholding tax at source and other investment income to capital income tax.

From capital income you may deduct all the costs relating to acquiring or maintaining this income as well as all deductible interest costs. Costs incurred for keeping securities entrusted are tax deductible for the part exceeding the own risk of 50 Euros. In case the costs are higher than the amount of capital income earned, you may deduct 30 % of the exceeding part from your earned income taxes. Deductions are more closely explained in chapter Interest Deductions.

Example:
Mr. Gore *has capital income for EUR 1,000 and capital income related costs for EUR 1,100. Thus his costs exceed the income with EUR 100. Under these circumstances Mr. Gore may deduct EUR 30 (30 % out of EUR 100) from his earned income taxes.*

Dividend Income from a Quoted Company
Of the dividend distributed by a quoted company to its shareholders 85 % is considered as taxable capital income and the remaining 15 % as tax-free capital income. The tax rate is 30 % for the taxable capital income amounting to 30,000 Euros and 33 % for the exceeding amount.

Assuming that the shareholder's taxable capital income does not exceed a total of 30,000 Euros during the tax year, the effective tax rate for dividends received from quoted companies is 25,5 %. In case the taxable capital income exceeds 30.000 Euros, the effective tax rate for the exceeding amount is 28,05 % (33 % from 85 %).

An advance tax is withheld at the time of the dividend payment. Should the final tax be higher, the remaining tax is paid later after receiving the tax assessment. Only 85 % of the dividend income is considered as taxable income when defining the total taxable capital income for the tax year.

Example:

	(EUR)
Dividend received from a quoted company	*1,000*
Taxable part	*850*
Tax (30 %)	***55***

Dividend Income from an Unquoted Company
In 2014 changes were also made to the taxation of dividends distributed by an unquoted company. The taxation of this dividend income still depends on the net assets of the dis-

tributing company and on the amount of the dividend distributed. The dividend is considered either as taxable capital income or as taxable earned income.

As taxable capital income of the distributed dividend is considered 25 % as long as the amount of the dividend corresponds to a 8 % annual profit calculated on the mathematical value of the share. However, this applies only to the dividend income amounting to a maximum of 150,000 Euros per shareholder per year.

Thus, 75 % of the above described dividend income is considered tax exempt. The mathematical value of the share is calculated by dividing the net asset value of the company in the fiscal year that ended prior to the year the dividend can be drawn out by the total amount of the shares. Of the part exceeding this amount 85 % is considered as taxable capital income and 15 % as tax exempt income.

If the amount of the dividend exceeds the 8 % annual profit, 75 % of the exceeding amount is considered as taxable earned income and 25 % as tax exempt income.

Example:

The company's net asset value at the end of the fiscal year ending on December 31, 2014 is EUR 3,000,000. The company has 100 shares and thus the mathematical value of each share is EUR 30,000. ***Isabel Investor*** *owns 75 shares in the company, thus, the mathematical value of her shares amounts to a total of EUR 2,250,000. The company distributes a total of EUR 300,000 as dividend in 2014 from which Isabel's part is EUR 225,000. The taxation of the dividend income goes as follows:*

The 8 % mathematical value of the shares that Isabel owns is equal to EUR 180,000. As explained above, up to EUR 150,000 a portion of 25 %, corresponding to EUR 37,500, of the dividend income is considered as Isabel's capital income and 75 %, corresponding to EUR 112,500, as tax exempt. Of the part exceeding EUR 150,000, but only up to the 8 % mathematical value limit (i.e. EUR 30,000 = EUR 180,000 – EUR 150,000), 85 % and corresponding to EUR 25,500 is considered as taxable capital income (85 % x EUR 30,000 and 15 % corresponding to EUR 4,500, is considered tax exempt).

Of the dividend exceeding the 8 % profit (i.e. EUR 225,000 – EUR 180,000 = EUR 45,000)
75 % and corresponding to EUR 33,750 is considered as taxable earned income and the remaining EUR 11,250 is considered tax exempt.

Summary:	*EUR*
From a dividend income of EUR	*225,000:*
Tax exempt is a total of	*128,250*
Capital income is	*63,000*
Earned income is	*33,750*

Profits from investment funds

The proceeds from investment funds are taxable capital income. The tax is withheld when the payment is made. If the proceeds are not automatically included in the tax proposal the tax return should be amended and this information should be added.

Only profit funds pay annual profit. The profit in growth funds is added to the capital and no profit is distributed. Therefore, the profit from growth funds becomes taxable only when the individual sells his fund shares

Foreign Investments

An individual resident in Finland is subject to tax in Finland also for the profit from foreign investments. Property situated abroad as well as the capital income received abroad should be added to the tax proposal as the Finnish tax authorities do not automatically receive information of the foreign income and property, as they do from the Finnish ones. Finland will tax this income unless the applicable Double Tax Treaty prevents Finland from taxing this income.

Normally you get a credit in Finland for the taxes paid abroad upon providing proof of the taxes paid. As Finland does not automatically receive information of taxes collected in foreign jurisdictions, the investor should specifically claim for this credit in his/her tax return. The amount of tax that may be credited is determined in the Double Tax Treaties.

Interest income received abroad is taxable capital income regardless of whether the income is remitted to Finland or not. In many countries there is no withholding tax collected on interest income paid abroad. As foreign interest income is regarded as capital income you may deduct from this the costs related to acquiring this income. This is not possible when Finnish interest income is concerned as these are subject to withholding tax at source.

Dividend income received from foreign quoted companies is regarded either partially or fully as capital income in Finland (dividend received from a quoted company within the EU is taxed in the same way as the dividend received from a Finnish quoted company). In most of the Double Tax Treaties concluded by Finland it is stated that the withholding tax collected by the source country is 15 %. Such treaties we have for example with the Nordic Countries and Estonia.

The proceeds from foreign investment funds are taxable capital income in Finland. It depends on the legislation in the source country as well as on the applicable Double Tax Treaty whether a withholding tax is collected in the source country.

The gain received from a sale of foreign shares is taxable in Finland if the tax payer permanently lives in Finland.

Example:

Dividend *income received by Finnish resident individuals from Nordea is foreign dividends. Mr. Shareholder receives dividends from Nordea of EUR 1,000. Sweden withholds 15 % tax on this amount which tax is credited in Finland when Mr. Shareholder provides the tax authorities evidence of this withholding. Subsequently Finland will in year 2015 collect 25,5 % tax on the dividend.*

	EUR
The dividend income received by Mr. Shareholder	*1,000*
Swedish withholding tax	*-150*
Finnish tax	*-255*
Tax payable to Finland	*105*

Rental income
Net rental income is taxable as capital income. As the main principle is that expenses incurred in acquiring and maintaining income are deductible for the year in which they are paid you may deduct from your rental income among other things maintenance charges, annual repair costs and interest paid on the mortgage loan taken for acquiring the rented apartment. In case you rent a piece of real estate you may also deduct deprecations made from the building costs, the real estate insurance and the real estate tax.

Example:
Mr. George Bush *has received rental income from renting his piece of real estate. He has done some annual reparations and paid the electricity and water costs as well as for the insurances a total amount of EUR 2,400. The taxable income would be calculated as follows*

	EUR
Rental income	*5,000*
Annual repair costs	*–750*
Other expenses	*–2,400*
Deprecations	*–650*
Real estate tax	*–400*
Taxable rental income	**800**

Mrs. Gore *has received EUR 4,100 as rental income from her apartment. The maintenance charge is EUR 1,600 annually. She has paid EUR 600 interest costs for the mortgage loan taken for the apartment. The apartment has been painted during the year and the stove renewed, the costs of which amounted to EUR 1,300*

	EUR
Rental income	*4,100*
Annual repair costs	*–1,600*
Maintenance charge	*–1,300*
Taxable rental income	*1,200*
Interest costs	*–600*
Taxable capital income	*600*

Interest income

Interest income is either subject to withholding tax at source or taxable as capital income. The withholding tax is 30 %.

Interest income subject to withholding tax at source

The tax withheld at source is a final tax levied at a rate of 30 % on interest received by resident individuals from domestic bank deposits, bonds offered to the public for subscription, interest from convertible bonds and option loans and the profits received from index loans. Also profits on share based accounts (i.e. the interest paid to the account is dependent on the share price development) are subject to withholding tax at source. The tax withheld is final and therefore there is no obligation to enter this interest income in the tax return and no deductions can be made from this income. The payer of the interest, usually a bank, is liable to withhold the tax when paying the interest.

Nonresident individuals do not pay tax in Finland for interest income received from Finnish sources.

Interest compensation on bond loans

Interest income received from a debenture/bond loan is normally subject to withholding tax at source, but any interest credit received upon a sale is treated as capital income.

To the receiver of interest compensation the interest accrued until sale date is regarded as capital income. For the payer of the interest this is on the other hand a deductible cost. The broker informs the tax authorities who make the deduction ex officio.

Index loan

The taxation of an index loan depends on whether the loan is sold before the due date or maintained until the due date. In case it is sold before the due date the investor receives a capital gain or a loss. If the sale price is higher than the acquisition cost, there is a capital gain. Otherwise there is a loss.

Example 1:

Mrs. Index *invested in an index loan, the nominal value of which was EUR 20,000. As the market value of the loan was 110 % she paid EUR 22,000 for the loan. She decides to sell the loan for a market value of 150 %, i.e. EUR 30,000, and not wait for the due date of the loan.*

Her taxation would be the following:

	EUR
Sale price of the loan	*30,000*
Subscription price of the loan	*22,000*
Capital gain	*8,000*
Tax on capital gain 30 %	*2,400*
Net income	**5,600**

Example 2

Mr. Index *invested in an index loan, the nominal value of which was EUR 20,000 and the market value was 110 %, which means that he paid EUR 22.000 for the index loan. Mr. Index maintains the loan until its official payment date when the nominal value of the loan as well as its yield is paid back. When the loan is paid back its market value is 150 %, i.e. EUR 30,000, and tax at source at 30 % is withheld from the yield (EUR 10,000). As the acquisition value of the index loan was 10 % higher than the nominal value, the sale resulted in a capital loss of EUR 2,000 for Mr. Index. He may deduct the capital loss from other possible capital gains during the tax year or five years following the tax year. The tax benefit to be gained from the EUR 2,000 loss equals to EUR 600.*

Taxation of Mr. Index	*(EUR)*
Repayment of the loan	*20,000*
Sale price of the loan	
Acquisition price of the loan	*-22,000*
Capital loss	*-2,000*
Capital gain	
Yield of the loan	*10,000*
Tax on yield/capital gain (30 %)	*-3,000*
Cash yield	**5,000**
If possibility to deduct the capital loss	*600*
Final yield	**5,600**

Taxation of other interest income

All other interest income than the above mentioned is treated as capital income and should be reported on the annual tax return. Such interest income is among other things interest from foreign deposits and interest received from loans between two private individuals.

Insurance investment

There are two typical ways you can invest in insurances: either by contributing to a Finnish voluntary pension scheme or taking a savings life insurance (i.e. an investment insurance). Voluntary pension insurance is a long term savings instrument whereby one may complete his/hers statutory pension coverage. A savings life insurance is an insurance instrument taken for a fixed period of time. After the term of insurance is ended the insurance capital and the possible yield is paid out to the insured or beneficiary/beneficiaries.

Both the above mentioned insurance types are fiscally supported. Voluntary pension insurance contributions are under certain conditions tax deductible while savings life insurances may be used in inheritance and gift tax planning.

When the pension insurance savings are in due time paid out as a pension, the income is regarded either as taxable earned income or as taxable capital income. The yield received from a life savings insurance is again regarded as taxable capital income.

Both abovementioned insurance instruments usually include a life insurance element. Therefore in case the policy holder dies during the term of insurance the beneficiary/beneficiaries receive life insurance compensation from the insurance company.

The Taxation of Pension Insurance Benefits

The taxation of pension insurance benefits changed in the beginning of year 2010 when the Parliament broadened the tax benefits concerning pension savings to cover also other long term savings (LTS accounts, see the following chapter). The new rules concern mainly insurances taken on or after September 18, 2009. There are transition rules affecting insurances taken before this date. In these older insurances a requirement for the deductibility of the insurance payments was that the pensionable age was at least 62 years. In pension insurances taken before year 2005 the insurance payment could be made even earlier, but it is not anymore possible to make additional contributions to such an insurance without changing the rules. As concerns insurances taken before September 18, 2009 and having 62 as pensionable age, it is possible to make additional contributions until the end of year 2016.

In the new pension insurances the pensionable age is the same as in the law concerning the general pensionable age of employees. At the moment the age is 63, but in case the law changes also the pensionable age regarding pension insurances changes accordingly.

The Deductibility of Pension Insurance Contributions

Pension insurance contributions are deductible in taxation up to an amount of 5,000 Euros. The deduction is made from capital income. If the policy holder does not have enough capital income, a special capital income deficit is granted. This means that a portion corresponding to 30 % of the contributions not deductible from capital income is deducted from the earned income taxes. If the policy holder does not have enough earned income taxes from where the portion of the contributions could be deducted, then the remaining part of the deduction is transferred to be deducted from the earned income taxes of the spouse.

The pension insurance could be taken and contributions paid by the policy holder or his/her spouse. The contributions made are always deducted from the capital income of the policy holder, regardless of who of the spouses pay the contributions. Deductions can be made from the tax year in which the policy holder turns 18. Deductions are not granted anymore after the policy holder has started receiving pension payments from the insurance or from the LTS account. In pension insurances taken before September 18, 2009 the part of the insurance payment covering life insurance is not deductible. However, regarding pension insurances taken after the start of year 2010 such payments are deductible, but only to the extent the life insurance does not exceed the amount of pension savings.

Example:
Peter Pensioner *contributes EUR 1,000 annually to a voluntary pension insurance scheme. The tax deductibility of the contributions reduces his taxes with EUR 300 annually (30 % of EUR 1,000). The tax benefit is the same regardless of whether the deduction is allocated to his capital income or as a capital income deficit to his earned income taxes.*

The Taxation of the Pension Payments

The pension payable is taxable income, but the taxation differs depending on when the insurance has been taken. The main rule is that the pension is taxed as earned income or capital income depending on how the contributions made have been deducted.

From the start of year 2005 the deductions have been made from capital income and accordingly the pension accrued from there on is taxable as capital income. The pension accrued before year 2005 is again taxed as earned income.

The pension payments made on the basis of insurances taken on or after September 18, 2009 are regarded as taxable capital income. The pension savings should be paid out to the policy holder within 10 years. In case withdrawals are started after the age of 63, the maximum time for collecting the payments is reduced with two years for each year of withdrawal deferral. However, the duration of receiving pension payments should be at least six years.

Based on the rules these new insurances the pension savings should be withdrawn evenly during the whole period. It means that in year one the policy holder can receive one tenths of his/her savings, the next year one ninths, the following year one eights and so on. In older pension insurances the amount of the withdrawal has not been determined. In these the pension should be collected at least every six months and within a period of two years.

Collecting the Pension Insurance Benefit as a Lump Sum

In exceptional cases the pension savings could be collected as a lump sum payment. This is possible in case the policy holder has been unemployed for a period of at least one year, is permanently disabled to work, has a divorce or his/her spouse dies.

The insurance company withholds tax from the lump sum payment in accordance with whether the pension is regarded as capital income or earned income.

The pension savings are not taxed in case they are transferred into another pension insurance or into a LT-savings account.

The Taxation of the Savings Life Insurances

There are two types of savings life insurances: traditional savings life insurances and investment insurances. The investments made to these kinds of insurances are not tax deductible and any yield received is taxable capital income in the year that the insurance agreement ends. However, transfers between investments during the life time of the insurance are not regarded as taxable events.

If the capital and profit has been agreed to be paid to a close relative, the profit is subject to capital gains tax and the paid in capital is subject to gift tax.

Until 2012 the capital received from the insurance by one of the close relatives was considered tax free up to 8,500 Euros. This tax relief was abolished in 2013 which means that gratuitously received capital is nowadays considered as a gift. However, a close relative can receive a tax free gift up to a value of 3,999 Euros. This kind of an insurance gift can be given to the same beneficiary tax-free once every three years.

You should also note that when a savings life insurance is taken you should also nominate beneficiary/beneficiaries for the savings as well as for the life insurance. The life insurance payment is tax exempt when paid to close relatives up to an amount of 35,000 Euros. The exceeding part is subject to inheritance tax. However, please note that in case your spouse is the beneficiary, he/she may always receive 50 % of the payment tax free, i.e. even if it exceeds 35,000 Euros.

If the beneficiary of the life insurance is not a close relative (mentioned above) the saved life insurance part is subject to inheritance taxation. To the extent the payment exceeds the paid in life insurance, the difference is subject to capital income tax only.

The Taxation of a LTS-account

The long term savings accounts (LTS-accounts) are a new way of saving for retirement and enjoying tax benefits for doing so. The government supports long term saving by providing tax deductions. Previously such deductions were provided only to pension insurance savings.

Pension saving through a LTS-account is time restricted. Though the savings are owned by the account holder, they may not be withdrawn before the official retirement age. The savings can also not be used as a security for a loan without tax consequences.

Only cash can be transferred to a savings account, not e.g. an existing book-entry account or share investments. Similarly, only cash can be withdrawn from the savings account.

The assets on a savings account may be invested in shares quoted on a stock exchange, investment funds, bonds and bank accounts. Options and warrants may be used only to a restricted extent for the purpose of protection from the value decrease of the assets.

It is possible to change between the different investment vehicles during the life time of the savings account without any tax consequences. However, the banks and other institutions providing LTS-accounts may restrict the choice of investment vehicles. The holder of the account may change the provider or invest the savings in a pension insurance also without tax consequences.

The savings are taxed only when withdrawn. Tax is payable both on the capital as well as the yield on the capital.

The Tax Deductibility of the Savings

It is possible to deduct annually up to 5,000 Euros of the amounts transferred to a LTS-account. It is not tax efficient to transfer more as also the capital, e.g. the transferred amounts, are taxable at withdrawal.

The deduction is made from capital income, e.g. from dividends and capital gains. As the capital income tax rate is 30 %, the benefit may be up to 1,500 Euros. In case the amount of taxable capital income exceeds 30.000 Euros, the benefit may be up to 1,650 Euros corresponding to 33 % of 5,000 Euros.

A deduction may be made both for amounts transferred by the account holder or his/her spouse. For example savings made by parents for the benefit of their children are not deductible.

In case the account holder does not have capital income or the amount of capital income is not sufficient for the deduction of the savings made, the deduction is made from earned income as a so called compensation for capital income deficit. In this case 30 % of the amount not deducted from capital income is deducted from earned income taxes. In case the spouse entitled to make the deduction cannot utilize the whole deduction, the remaining part is automatically transferred to be deducted in the taxation of the other spouse. On the basis of the amounts saved it is not possible to have a loss that could be rolled over to be deducted in future years.

Example:

Samuel Saver *has decided to transfer EUR 3,000 annually to a LTS-account and to be invested in shares. The tax deductibility of these savings decreases his taxes with EUR 900 annually (30 % of EUR 3,000). The savings is the same whether the deduction is made from capital income or as a compensation for capital income deficit from earned income.*

Pat Pensioner *decides to start saving before retiring in 20 years time. She makes a ball park calculation in order to find out what her tax savings during the saving time would be.*

	Ordinary saving (EUR)	***LTS-account saving (EUR)***
Annual savings	*3,500*	*5,000*
		(EUR 3,500 + tax subsidy EUR 1,500)
Savings after 20 years	*70,000*	*100,000*
Assumed 5 % annual interest	*51,520*	*73,600*
Capital at the end of savings period	*121,520*	*173,600*

The yield is tax free

The profits generated to the LTS-account during its lifetime are not taxable. They are paid gross to the account and may be reinvested.

Also dividend income paid to the LTS-account is tax free. Foreign dividends are an exception as foreign withholding taxes are not credited to the account.

Expenses and losses

Expenses affecting the account and losses related to investments made are not deductible costs. Before choosing the service provider it is important to clarify the amount of costs charged for managing the account, as costs affect the overall profitability of the account and also seemingly small annual costs have a bigger impact in the long run.

The costs vary depending on what investments are chosen as for example there are costs attached to buying and selling shares and fund units. Additional costs may occur when opening the account, for administration of the account and when withdrawing money from the account.

Taxation of the withdrawals

When money is withdrawn from the account after reaching the pensionable age, the withdrawals are subject to capital income tax. Both the capital and the yield on the capital are taxable, whereas normally only the yield on an investment is taxable.

In practice the tax advantage of the LTS-account is the deferral of the taxable moment: you receive tax deductions during the savings time but the saved amount and the yield is taxed when withdrawn. Only in the end of the savings period you know how advantageous the savings scheme has been because only then you know what is the yield on the capital and the tax benefits.

As the duration of saving through a LTS-account is often more than 10 years, there is also a risk of changes in the legislation during that time. For example the capital income tax rate is currently 30 or 33% but it may be something totally different in 20 years time.

Example:
Sandy Saver *made ball park calculations for her 20 years investments using an assumed 5 % annual value increase. On a LTS-account her savings would have grown up to EUR 173,600 compared to normal bank account saving ending up to EUR 121,520.*

She also calculates and takes into account the tax aspects: when using a LTS-account the total amount will be taxed with a capital income tax rate as in other circumstances she would pay tax only on the profit.

	Normal bank account	***LTS-account***
	(EUR)	*(EUR)*
Sandy's annual savings	*3,500*	*5,000*
		(EUR 3,600+tax benefit of EUR 1,400)
Savings after 20 years	*70,000*	*100,000*
Assumed 5 % annual increase	*+51,520*	*+73,600*
Total savings at the end of savings period	*121,520*	*173,600*
Taxable income	*51,520*	*173,600*
Tax (30 %)	*15,456*	*52,080*
After tax savings	***106,064***	***121,520***

Since the savings can be withdrawn in instalments, the total annual amount of which does not exceed 30,000 Euros, the tax is calculated with a tax rate of 30 % also in this example. When saving with a normal bank account, the withdrawals can be planned in the same way so that the taxable amount does not exceed 30,000 Euros per year.

Timing of the withdrawals

You may withdraw money from the LTS-account only when you have reached the pensionable age. The account holders who have started saving on a LTS-account before January 1, 2013 may start withdrawals at the age of 63 at the earliest, whereas account holders who have started saving after that cannot start withdrawals before they reach the pensionable age of 68. The withdrawals must be made during a period of at least 10 years.

Shortly before reaching the pensionable age it may be useful to cut down the proportional share of investments on securities on your LTS-account to avoid the possible negative impact on capital which a decline in market rates could cause.

Example:
The market value of the LTS-savings of ***Peter Pensioner*** *was EUR 30,000 when he reached the pensionable age of 68. He started the withdrawals immediately. In the first year he could withdraw an amount of EUR 3,000 and therefore sold investment fund units for a corresponding amount.*

In the second year the value of his savings had dropped with 10 % and was EUR 24,300. Now he could withdraw one ninths of his savings, i.e. EUR 2,700.

In the third year the value of his savings had risen with 10 % and thus the value of his savings was EUR 23,760. Now he could withdraw one eights of his savings, i.e. EUR 2,970.

Lump sum withdrawal in special circumstances

Under special circumstances the LTS-account savings may be withdrawn before retirement age and without punitive tax consequences. Such circumstances are an unemployment which has lasted at least one year, full or part incapacity for work, divorce or the death of the spouse. Under these circumstances the LTS-account savings may be withdrawn as a lump sum and the withdrawn amount will be taxed as capital income.

In case amounts otherwise are withdrawn from the account before reaching the pensionable age, the tax benefits received during the saving time are cut by raising the taxes on the withdrawals. A capital income tax increased with 50 % is levied on premature withdrawals. The same tax consequences occur if the savings are withdrawn under a period of six years.

The taxation when the holder of the savings account dies

When the holder of the account dies the assets on the account are transferred to the estate of the deceased or to the beneficiary. The value of the savings at the time of death is first taxed as capital income of the estate or the beneficiary. Then inheritance tax is levied on the remaining amount. Depending on the amount of savings and other assets in the estate, the inheritance tax is between 0-20 % in the first tax class which covers i.e. children and parents of the deceased. For more information regarding tax classes, please see the inheritance tax tables at the end of this guide. To avoid double taxation, the tax levied on the account savings on income taxation is later deducted from the value of the inherited assets.

Unlike in savings life insurances, inherited LTS-savings are not considered tax exempt up to 35,000 Euros even if the heirs are close relatives or the estate of the deceased.

Example:

*When **Peter Saver** died, he had EUR 30,000 of LTS-account savings, which his son Stan inherited. When the savings where withdrawn they were first subject to capital income tax of 30 %, after which the remaining amount was EUR 21,000. As Peter did not have any other property, Stan paid additionally inheritance tax on the net savings an amount of EUR 180.*

Capital gains taxation

Capital gain

The capital gains tax is 30 % when selling securities or other assets up to 30,000 Euros and 33 % for the exceeding amount. This is regardless of how long you have owned it or how you have acquired it. However, if the total gain is less than 1,000 Euros it is treated as tax exempt.

The gain is reported in the tax return as capital income. The gain from each transaction is calculated separately. After making the allowable deductions the whole net gain is taxable capital income.

If the aggregate sale prices received for other assets than normal home furniture do not exceed 1,000 Euros in a tax year, the gain is tax free. In case the sale price exceeds 1,000 Euros, capital gains tax is payable. Gains received from the sale of normal home furniture is tax free up to 5,000 Euros in a tax year.

When you sell your own house, which you have owned and lived in for at least two consecutive years, the gain is tax exempt. In case you have owned it and/or lived in it for less than two years, the gain will be subject to the above-mentioned tax rates.

An exchange within the same investment fund from profit to growth shares or vice versa is tax free but a transfer between different funds is not.

Deemed acquisition cost

There are two ways you can calculate the deductible acquisition cost: either use the actual acquisition cost or a so called deemed acquisition cost depending on which method gives you a more favorable result.

If you have owned the securities sold for at least 10 years you are entitled to use as deemed acquisition cost 40 % of the sale price. In case you have owned them for less than 10 years, the deemed acquisition cost is 20 %. No other costs such as broker fees are deductible in this case. When using the deemed acquisition cost the only thing you need to be able to prove to the tax authorities is the actual acquisition time. When you have securities on a book-entry account and sell securities we apply the first in first out - principle (FIFO) unless you can provide written proof stating otherwise. For example having securities on different book-entry accounts or defining sold fund shares based on the subscription number provides proof of a different selling order.

The rules concerning the acquisition order changed as of the beginning of year 2008. The acquisition time of a new share that has been subscribed based on previously owned shares is the same as the acquisition time of the previously owned shares.

As a private individual may deduct as deemed acquisition cost 20 % of the sale price in case the ownership has lasted for less than 10 years, the taxable gain amount to 80 % of the sale price. As the tax is 30 % of this 80 % the tax is in practice 24 % of the sale price and 26,4 for the amount exceeding 30,000 Euros (33 % x 80 % = 26,4 %). Similarly, if the security has been owned for at least 10 years and the 40 % deemed acquisition cost is used, the tax amounts 30 % x 60 % being equal to 18 % of the sale price and 19,8 % for the amount exceeding 30,000 Euros (33 % x 60 % = 19,8 %).

Actual acquisition cost

If the actual acquisition costs together with costs relating to the sale transaction are higher than the deemed acquisition cost, you may use the actual costs. Deductible costs are among other things broker fees and transfer taxes paid. When selling inherited securities or securities received as a gift you may use as acquisition cost the taxable value used at inheritance or gift taxation. Also in this case you are entitled to use the deemed acquisition cost if it is more beneficial to you.

Example:

Mr. Bush *bought in year 1984 shares for which he paid EUR 16,000 including expenses. He sold them for a price of EUR 100,000. He noted that it is more beneficial for him to use the deemed acquisition cost of 40 % than the real acquisition cost. His taxable gain was therefore EUR 60,000 and the taxes EUR 18,900 (30% up to EUR 30,000 amounting to EUR 9,000 and 33 % for the exceeding amount, amounting to EUR 9,900, making a total of EUR 18,900).*

	(EUR) Actual acquisition cost	*(EUR) Deemed acquisition cost*
Sales price	*100,000*	*100,000*
Actual purchase price	*- 15,850*	
Broker's fee	*- 150*	
Deemed acquisition cost		*- 40,000*
Capital gain	***84,000***	***60,000***

Mrs. Bush *bought in year 1989 a house for EUR 60,000. The transfer tax was EUR 3,600. She sold her house for EUR 84,000 and the sale costs included an agent fee of EUR 2,500. Thus, she had a profit of EUR 17,900 and the taxes amounted to EUR 5,370. In this case it was more advantageous to use the real acquisition costs than the deemed acquisition cost.*

Capital gains from foreign investments

An individual who is resident and treaty resident in Finland is liable to pay tax in Finland also on capital gains made abroad. The gain is calculated in the same way as gains made in Finland and the tax is 30 or 33 %.

Finland has agreements on avoidance of double taxation with several countries. Normally these treaties include stipulations according to which it is the individual's country of residence that is entitled to tax capital gains made when selling securities.

As concerns sale of real estate often also the state where the real estate is situated has a right to tax the gain made on the sale. Also in some countries condominium shares are treated in the same way as real estate. In such situations the individual has to pay tax also in this other country but Finland will give a credit for these taxes against Finnish taxes on the same gain. It is advisable to check the specific treaty rules applicable between Finland and the country where the assets are situated in order to determine how the taxation right is divided between these countries.

The deductibility of a capital loss
The losses made on the sale of securities may be deducted from the gains from similar transactions during the same tax year and the five following tax years. This means e.g. that the losses that are generated during a tax year 2010 may be deducted from the gains received during 2010-2015. As the tax legislation changed in 2010 it must be pointed out that in case the losses have been generated during a tax year 2009 or earlier they can only be deducted from the gains received during the same year and the three following years.

Capital losses may not be deducted from other capital income. You can also not transfer the deduction to your spouse.

You are liable to declare the loss in the tax return of the year in which the loss occurred. Losses are deducted in the same order as they have occurred, i.e. losses from older years are deducted before new losses. However, if the acquisition costs of the securities or other assets, excluding normal home furniture, sold during the year are not higher than 1,000 Euros, the capital loss may not be deducted at all.

Example:
Mr. Investor *has bought shares in Company A for EUR 200 and in Company B for EUR 850. The share value of Company B has come down to EUR 200. In case he sells only the Company B shares, he may not deduct the loss of EUR 650. That is why it is worth selling also the A shares. As the acquisition cost for the shares sold in the tax year exceeds in total EUR 1,000, Mr. Investor may deduct the capital loss generated.*

Expiring of options as well as permanent loss in the value of the share in e.g. company liquidation are also treated as capital loss.

The losses from selling your own house or car are generally not tax deductible. However, in case the gain from the sale of the house would not be tax exempt, the loss would be deductible. In other words, if you sell your house before you have owned it and lived in it for a consecutive period of at least two years, you may deduct the loss.

When the value of an investment insurance has decreased the re-purchase price of the insurance may be lower than the original investment made. Such losses are not tax deductible.

The rules for capital gains/losses apply to the sale of bonds. Therefore, if an investor pays a price exceeding the par value for of his bond he is able to deduct the excess price as a capital loss only when the bond expires or he sells the bond in question.

Example:

During tax year 2013 ***Mr. Inheritor*** *sold a cottage that he had inherited for EUR 67,000. In the inheritance taxation the value used for the cottage was EUR 75,000. In addition he paid to the real estate broker a fee of EUR 2,600. He had no capital gains in that year and he informed the tax authorities of the capital loss of EUR 10,600 made.*

The following year ***Mr. Investor*** *made a capital gain of EUR 5,000 from his securities deals. The tax authorities deducted from this gain the losses made in the previous year and thus no capital gains tax was payable. Mr. Investor still has capital losses of EUR 5,600 which he may utilize during the next four years in case he made a capital gain.*

Calculating the capital gain in specific situations

In case the securities have been acquired through other means than an ordinary purchase transaction, the determination of the acquisition time and the acquisition cost may differ from what has been said above.

Some companies have refunded share capital to the shareholders. In taxation the refund is regarded as a reduction of the acquisition price.

Capital gains taxation on gifts

As the acquisition cost for assets received as a gift you may deduct the value that was the base for gift taxation or the deemed acquisition cost. This is assuming that the sale occurs not earlier than at least one year after receiving the gift.

When you sell assets received as a gift within one year from the donation the acquisition cost is either the original acquisition cost of the donator or the deemed 20 % acquisition cost. This way the receiver of the gift pays tax also on the value increase that has occurred before the donation.

The receiver has paid gift tax he/she may apply for a reduction of it. The value that is the basis for the gift taxation is reduced with the amount of capital gains tax that the receiver would have paid in case he/she had sold the gift for the gift tax value.

If an asset is sold for a price 25 % lower than the fair market value of the asset, the transfer is considered to be a gift-like sale. Consequently, the difference between the market value and the sale price of the asset is subject to gift tax.

Example:

Mr. Gifted *received units of an investment fund from his grandmother. In gift taxation the value of the units was EUR 15,000. Mr. Gifted sold the units after two years for the price of EUR 17,000 (no sale costs). The capital gain amounted to EUR 2,000 of which he paid taxes EUR 600.*

Mr. Talented *buys stocks from his father. The fair market value of the stocks is EUR 100,000 but Mr. Talented pays only EUR 20,000 to his father. The difference (EUR*

80,000) is regarded as a gift to Mr. Talented and, therefore, he is liable to pay EUR 8,970 gift tax. The father had paid EUR 50,000 for the stocks. When calculating the capital gain for the father, the acquisition price of the stocks is calculated in proportion 20,000/100,000, so one fifth of the real acquisition price is taken into account. This way the acquisition price amounts to EUR 10,000. From the EUR 20,000 that the father receives from his son, he receives a capital gain of EUR 10,000 of which he pays capital income tax EUR 3,000 (30 %).

Inheritance

When an inheritor sells inherited assets, the taxable value confirmed in inheritance taxation is used as an acquisition cost when calculating the capital gain. For the near relatives, the inheritance tax is preferable than the income tax on capital. However, in case the inheritor sells inherited assets right after the distribution of an estate, the acquisition cost equals to the value on the date of death. Same applies in case the inheritor sells inherited assets, which she/he has owned less than a year.

Foreign capital gains

An individual resident in Finland is liable to pay capital gains tax in Finland also on any capital gains made through the sale of foreign assets. Foreigners resident in Finland may, however, escape this tax in case they can show that based on the applicable Double Tax Treaty (DTT) they are treaty resident in their home country and thus taxable on their world-wide income in their home country.

The capital gains tax is calculated in the same way as for assets in Finland and the tax on the gain is 30 or 33 %.

As concerns real estates, often the country where the real estate is situated also has a taxation right. In many DTT's shares in housing companies are treated in the same way as real estate. The taxation right of each country should be carefully checked from the applicable DTT. The taxes payable abroad are generally credited in Finland.

Capital gain and share issues

The sale of shares acquired on the basis of original old shares changed in 2005: The acquisition price of the original old shares and new shares is divided with the amount of the total number of shares. Also a deemed acquisition cost may be used. The new rules apply on share issues registered in the Trade Register in year 2005 or later.

The acquisition cost for shares received through a scrip issue is calculated by dividing the original acquisition costs by the total number of shares (original shares and new shares).

If the share issue has been registered before 2005 the acquisition cost is calculated in the old way: The acquisition cost is the actual acquisition cost of the new shares or the deemed acquisition cost. The acquisition cost for shares received through a scrip issue is zero and you may deduct the deemed acquisition cost from the sale proceeds. The time frame for determining the deemed acquisition cost (20 %/40 %) for the new shares is, however, calculated from the date the original shares were acquired. If the shareholder subscribes more shares than he/she would be entitled to on the basis of the scrip issue, the acquisition time for these extra shares is calculated from the time they were subscribed.

Subscription rights attached to old shares have no acquisition cost and thus only a deemed acquisition cost may be deducted from the sale price when such subscription rights are sold.

Examples:

Mrs. Investor *has 100 old shares in Company A. She has acquired them for EUR 20 per share, total acquisition price being EUR 2,000. In year 2005 she receives in a scrip issue 10 more shares after which she has 110 shares. The original acquisition price is divided by 110 and thus the acquisition price per share is EUR 18,18.*

Mrs. Investor has 100 old share in Company B. The acquisition cost is EUR 10,000. Company B organizes in year 2005 a new subscription in which old share owners may subscribe for the price of EUR 50 one new share for each old share owned. Mrs. Investor subscribes the new shares offered and thus her ownership increases to 200 shares. The total acquisition cost for both the old and new shares is EUR 15,000. When this amount is divided by total amount of shares owned, the acquisition price per share becomes EUR 75.

Mr. Gore *owned shares in Company A. Attached to these shares were a number of subscription rights that he decided to sell for a price of EUR 4 per subscription right.*

While calculating the amount of his capital gain, Mr. Gore can only deduct the deemed acquisition cost from the sales price of the subscription rights. As Mr. Gore has owned the shares for less than 10 years, the deemed acquisition cost equals to 20 % of the sales price, which in this particular case will be EUR 0,8 per subscription right. The amount of Mr. Gore's capital gain will then be EUR 3,2 per subscription price.

Mr. Bush *participated in Sonera's share issue in 2001. The terms of the share issue state that for every two old shares one is entitled to subscribe for one new share. Mr. Bush has 200 old shares that he subscribed at the same time when Sonera listed to the stock exchange in 1998 for a price of FIM 45 per share. Now Mr. Bush used all his subscription rights and subscribed for 100 new shares for a price of EUR 2,7 per share.*

When Mr. Bush eventually sells the subscribed shares and calculates the amount of the realized capital gain he has to make a choice. He can either deduct from the sales price the actual acquisition price, which in this case is EUR 2,7 per share, or deduct the deemed acquisition cost. When Sonera merged with Telia Mr. Bush received on the basis of the subscribed shares 151 shares of the new TeliaSonera. The actual acquisition cost of TeliaSonera shares is calculated by dividing the original acquisition cost EUR 270 by 151. This way the actual acquisition cost of one TeliaSonera share would be EUR 1,789. If Mr. Bush chooses to deduct the deemed acquisition cost, the acquisition time of the new *shares acquired in year 2001 is deemed to be the acquisition time of the original shares i.e. year 1998.*

When acquiring shares on the same company in several different installments one has to calculate the acquisition cost for each installment separately.

***Mr. Shareholder** had bought shares of a quoted company A in two installments, first 150 shares for a price of EUR 1,500 and then 50 shares for a price of EUR 375. In year 2005 Company A arranged a scrip issue. In that scrip issue Mr. Shareholder received 100 new shares (for free) on the basis of his 200 old shares. After selling all his shares Mr. Shareholder started to calculate his capital gain and, therefore, he needed to calculate separately the actual acquisition cost for both installments.*

	Old Shares	Old shares	New shares received from the scrip issue	Old + New shares	Old + New shares
	Acquisitions price (EUR)	Amount of shares	Amount of shares	Shares in total	Acquisition price (EUR)
I installment	1500,00	150	75	225	1 500/225=6,66
II Installment	375,00	50	25	75	375/75=5,00

Since the first in first out - principle (FIFO) is the approach applied in Finnish taxation, the actual acquisition costs for Mr. Shareholder's shares acquired in the first installment were EUR 6,66 per share (225 shares' part) and in the second installment EUR 5,00 per share (75 shares' part).

A split divides the acquisition cost

When a company makes a share split and splits the value of the share, the amount of outstanding shares changes. The acquisition price per share is received when the original acquisition cost is divided with the amount of new existing shares. If, for example you receive for one old share an additional share the original acquisition price is divided by two. The acquisition time of the shares received in a share split is deemed to be the acquisition time of the original old shares.

Example:

***Mrs. Bush** bought in March 1998 an amount of 100 Nokia shares for a price of EUR 5,70 per share, i.e. total acquisition cost of EUR 570. In April Nokia announced that the nom-*

inal value will be split using a ratio 2:1, after which Mrs. Bush had 200 shares. Next year a new split with the same ration was announced and the share ownership of Mrs. Bush then increased to 400 shares. In year 2000 the ratio used was 4:1. After this Mrs. Bush has 1600 shares with an acquisition cost of EUR 570, i.e. EUR 0,36 per share.

Share exchange and redemption

When the shares have been acquired through company reorganization in a share exchange, the acquisition time and acquisition price of the new shares is the same as for the old shares. If the shareholder receives cash compensation in addition to new shares in exchange for the old ones, this cash exchange is subject to capital gains tax in the year of receipt.

Example:

In year 1994 ***Mr. Shareholder*** *subscribed 3,000 shares in the share issue of Company A for a price of FIM 6,40 per share, in total FIM 19,200. When Company A and Company B where merged in year 1995, the shares of Company A where exchanged to shares in Company B with a ratio 3:1. Thus, Mr. Shareholder received 1,000 shares in Company B. In year 1999 Mr. Shareholder accepted an exchange offer made by Company C belonging to the same group of companies as Company B. According to the exchange offer he received 1.02 shares in Company C for one share in Company B. Thus he received 1,020 shares in Company C.*

There were no tax consequences attached to the merger or the share exchange. When Mr. Shareholder sells his shares in Company C they are deemed to be acquired in year 1994 and the acquisition price per share is FIM 18,82 i.e. EUR 3,17.

Shares as dividend in kind

The acquisition price of shares received as dividend in kind is the fair market value of these shares when received. The acquisitions price of the shares is the fair market value of the shares regardless of the fact that a part of the dividend income is regarded as tax-exempt. The acquisition time is also the time they are received.

Example:

Company D gave as a dividend in kind shares in its subsidiary Company E. The value of the Company E share was at the time of dividend payment EUR 18,35. When Company E and Company F were merged in 1999 and formed Company G, you received 1,08917 shares in Company G as exchange of each share in Company E.

Mrs. Shareholder *had originally 100 Company E shares and now she has 108 Company G shares. In addition she was at the time of the merger paid cash as fraction of shares was not used. The total acquisition cost of the shares was EUR 1,835, equaling EUR 16,99 per share.*

Bonus shares

When privatizing state owned companies private individuals have been offered bonus shares. In taxation this is treated as a price reduction and the original acquisition price should be divided with the new amount of shares in order to receive the price per share.

Example:

Mr. Shareholder *subscribed in year 1995 an amount of 1,000 shares of Company A for a price of FIM 78 per share. After keeping these shares for a year, each shareholder received one bonus share for each 10 shares owned. Thus Mr. Shareholder increased his share ownership to 1,100 shares. When Company B and A merged into Company C, Mr. Shareholder received for each share in Company A 5,5 shares in Company C. After the merger he owned 6,050 shares.*

Mr. Shareholder decided to sell a part of his shares and wondered about the capital gains taxation. The shares were acquired in 1995 when he subscribed for the Company A shares. The acquisition cost for whole lot was FIM 78,000. When this acquisition cost is divided by the number of shares subscribed and later on received, you get an acquisition cost per share of FIM 12,89, i.e. EUR 2,17.

During the spring 2005 Mr. Shareholder had 1,000 shares of a company D. Mr. Shareholder received a cash dividend of EUR 0,58 per share. Additionally he received 250 shares of a company E the value of which was EUR 15 per share, EUR 3,750 in total. The total amount of Mr. Shareholder's dividend received was EUR 580 + EUR 3,750 = EUR 4,330 of which he paid taxes. The acquisition time of those shares that Mr. Shareholder received as dividend in kind was April 2005 and the acquisition cost was EUR 15 per share.

Shares received in company spin-offs (diffusion)

Spin-off is a procedure in which part of an existing company is separated to form a separate, publicly quoted company. Usually the shareholders of the company from which the new company is formed are entitled to receive shares of the new company. Receiving shares in the new company does not trigger tax consequences for the shareholders. When the shareholders finally sell the shares of the new company, the acquisition time of these shares will be the day they acquired the original shares on the basis of which they received the new shares. The original purchase price will be divided according to the total number of the shares. The division ratio should be checked from the companies in question.

Example:

Mr. White *had a number of shares in Company D. In year 2001 Company D was divided into two separate companies. For one share in Company D the shareholders were entitled to receive one share in the new Company D and one share in the detached company W. In this example the original purchase price of the old D share is divided between the new* *shares according to the following formula: 71,6 % of the original purchase price is deemed to relate to the new D share and 28,4 % to the new W share. As Mr. White had paid EUR 12 for each of the old D shares, the purchase price of the new D share is deemed to be EUR 8,59 and the purchase price of the new W share EUR 3,41.*

***Mr. Black** had 100 shares of a Company A when the Company A divided into two separate companies (diffusion). He had paid EUR 6,90 per share of his original shares of Company A. For his original shares Mr. Black was entitled to receive 100 shares of a new Company A and 100 shares of a new Company B. After the diffusion the value of each Company A share that Mr. Black owns is EUR 4,45 and Company B share EUR 2,45, because in this case 64,5 % of the net assets of the original Company A were transferred into the new Company A and 35,5 % of the net assets were transferred into the new Company B.*

Repayment of Capital

Instead of distributing dividends a company may repay capital to the shareholders. The taxation of repayment of capital changed as from the beginning of 2014. If the distributing company is a quoted company, the repayments of capital paid from the unrestricted equity are always taxed in the same way as dividend income. If the distributing company is an unquoted company and if the company repays the capital investment to the shareholder within ten years of making the investment and the shareholder can present a reliable proof of the time of investment, the repayment of capital is treated as a taxable transfer. Otherwise the repayment of capital is taxed according to the rules regarding taxation of dividend income. If an unquoted company repays capital investments which are made before the new provisions came into force (January 1, 2014), the new provisions are applied only to the repayments made after January 1, 2016.

In case the repayment of capital is treated as a taxable transfer and the repayment of capital per share is bigger than the original acquisition cost of the share in question the difference creates a taxable capital gain. However, in case the repayment of capital per share is less than the acquisition cost, the repayment of capital is deducted from the acquisition cost and taxable capital gain is not created at this point. Accordingly shareholder's original acquisition cost per share is reduced with the amount of repayment of capital. When the shareholder later on decides to sell the shares, the taxation actualizes. Due to the repayment of capital the capital gain is bigger or the capital loss is smaller than it otherwise would be and the difference equals to the amount of the repayment of capital.

Example:

***Mr. Capital** invested a share capital of EUR 2,500 to the company he established. In addition to that he made another investment of EUR 10,000 which was recorded to the unrestricted equity reserves of the company. Thus, the acquisition price of his shares amounted to EUR 12,500. The company decides to distribute EUR 5,000 as repayment* *of capital from the unrestricted equity reserves. Provided that the capital investment has been made before January 1, 2014 and the repayment is made before December 31, 2015, or provided that the shareholder can reliably prove that the repayment comprises the capital investment he has made within the last 10 years to the company, the repayment of capital does not constitute a taxable capital gain. The remaining acquisition price of the shares is EUR 7,500.*

Other situations

Convertible bonds and option loans

Convertible debentures may be exchanged into shares. The exchange itself does not trigger capital gains taxation. When the shares received are sold their acquisition time and acquisition cost are the same as the subscription price and subscription time of the convertible debenture.

To an option loan is attached option certificates, which allow you to subscribe to new shares of the company under certain conditions. The loan certificate and option certificate may be sold separately. In such a situation the acquisition price of the loan certificate is deemed to be the fair market value of the loan when issued. As the option certificate is used you may use the deemed acquisition cost. The shares subscribed on the basis of the option certificate are deemed to be acquired at the time the option certificate was received.

Options received as a customer

When a company gives options free of charge to its customers for the purpose of acquiring company shares, the acquisition price of the option right is deemed to be 0. When the shares that have been subscribed by using the options are sold, the purchase price of the shares is the price that was paid for the shares and the acquisition time is the time the shares were bindingly acquired.

Stock option benefits

An employment related stock option benefit, i.e. a right to subscribe shares in the employing company for a reduced price is taxed as earned income. The tax is payable in the year you exercise your stock option. When you subscribe the shares of the company in question, it is regarded as an exercise of your stock option. If the stock option was granted to you before you moved to Finland and you exercise it while in Finland, you may claim that only the portion of the benefit attributable to the days spent in Finland on assignment should be taxed in Finland. The taxable portion is calculated by comparing foreign and Finnish working time between the period from grant to vesting. The stock option benefit is added to your other earned income in the year of exercise and the withholding is based on your marginal tax rate.

Emission of shares to the personnel of a company

The right of the personnel to subscribe shares in the employing company in a price lower than the market price is taxed as employee's earned income if the discount is more than 10 % of the market price of the share. The benefit is, however, taxed regardless of the price if the majority of the personnel does not enjoy the same right to subscribe shares in a lower price.

Options and forward agreements

A gain realized when trading with options and forward agreements is taxable capital gain. You cannot use a deemed acquisition cost with forward agreements. From the sale price you may deduct the original acquisition cost as well as the sale costs.

Warrants

A warrant is a security comparable to an option and which gives you a right to buy or sell shares subject to the warrant. Its duration is longer than the one of an option. It is likely that the calculation of a capital gain or loss is done in the same way as with other securities, i.e. you either use the actual acquisition cost or a deemed acquisition cost. The acquisition cost is deemed to be the price paid for the warrant plus sale and acquisition costs.

Interest deductions and capital income deficit

You may deduct your interest expenses mainly from capital income. The deductible interest expenses have to relate to loans taken for acquiring your own home (mortgage loan), acquisition of taxable earned income or capital income or study loan. In 2015 you can deduct 65 % of the interest you have paid on your mortgage loan. As loans taken to acquire capital income are treated for example loans taken to acquire shares, a rented apartment or forest. Even the expenses relating to these loans are deductible though the expenses related to mortgage loans and study loans are not.

The interest costs of loans taken to acquire your second home, for example summer cottage, or of expenditure related loans are not deductible. The same applies to loans taken to acquire tax exempt income or interest income from an account subject to tax withholding e.g. interests relating to an index-linked bond. The interest relating to a loan taken for contributing to a voluntary individual pension insurance is not tax deductible, but in the present tax practice it is unclear whether the interest paid on a loan that has been acquired for the purpose of investing in an investment insurance is deductible or not.

Example:

Mrs. Moneypenny *calculates her capital income taxes. She has no employment income but has received as dividends EUR 1,000 and as profits from investment funds EUR 500. The interest costs on her mortgage loan were EUR 2,530 and the expenses for her book-entry account EUR 82.*

In order to calculate her capital income taxes she needs to calculate the amount of the taxable dividend and then deduct the costs. The taxable part of the dividend is 85% x EUR 1,000 = EUR 850.

	EUR
Received dividend	*1,500.00*
Taxable dividend	*850*
Profit from the fund	*500.00*
Total capital income	*1,350*
Deductions:	
Interest costs (65 % of EUR 2,530)	*–1,644.50*
Other expenses	*- 82.00*
Own responsibility 50,00	
Taxable capital income	*-326.50*

Capital income deficit

You may deduct interest expenses from earned income taxes only in case you have no capital income or the capital income related costs are bigger than the capital income received. In this case we talk about a capital income deficit.

An individual may deduct from his/her earned income taxes 30 % of this deficit, however, not more than 1,400 Euros annually. The maximum amount is reached with interest expenses of 4,666.60 Euros. Both spouses are entitled to claim a deficit.

In case the deficit is bigger than the amount that you can deduct in the given tax year, you have a loss which is deductible from capital income during the ten following tax years. Also note that the part of the deficit that you cannot utilize is transferable to your spouse.

A capital loss may only be deducted from the capital gains received during the same tax year and five following years. It should also be noted that investments made to the voluntary pension scheme or to the LTS-account do not create a capital loss even though the amount invested would be bigger than the received amount.

In case of interest expenses relating to a loan taken for acquiring your first home you should note that the deductible capital income deficit is 32 % instead of 30 %, however, with a ceiling of 1,400 Euros. This deficit is deductible in the year the house was acquired and the nine following years.

Maximum Amounts of Deductible Capital Income Deficit:	EUR
Private individual	1,400
An individual with one child	1,800
An individual with several children	2,200
Spouses	2,800
Spouses with one child	3,200
Spouses with several children	3,600

Example:
Mr. Bush *has interest expenses for an amount of EUR 3,000. He also has dividend income of an amount of EUR 3,000 and the taxable amount of this dividend is 85 % x EUR 3,000 = EUR 2,550. The amount of deficit is EUR 3,000 – EUR 2,550 = EUR 450. The earned income deficit is 30 % x EUR 450 = EUR 135. Mr. Bush may deduct the whole earned income deficit from his earned income taxes.*

Deduction of Investments made in Startup Companies (“Business Angel Deduction”)

The so called “Business Angel Deduction” allows individuals who make minority investments in unquoted companies to deduct a part of the investment he/she has made from his/her capital income. A natural person who has unlimited tax liability in Finland is entitled to the deduction based on the new share capital he/she has invested in a joint-stock company during the period 2013-2015.

The investor may from his/her capital income deduct 50% of the new share capital he/she has invested in the target company during the tax year. The maximum deductible amount per target company is 75,000 Euros per tax year whereas a minimum deductible investment is 5,000 Euros. Investments smaller than that cannot be deducted at all. The maximum deductible amount of investments made to several target companies per year is 150,000 Euros.

In case the investor cannot deduct the whole deductible amount in the tax year the investment is made, the remaining amount can be deducted from capital income during the three following years. The deduction is, however, not taken into account when calculating the capital income deficit and capital income loss.

Since the Business Angel Deduction concerns only minority investments, the invested capital should represent less than 50 % of the share capital of the target company after the investment is made. The company in which the investment is made cannot be one whose shares the investor or his/her close relative directly or indirectly owns or have directly or indirectly owned during the tax year or during the three previous years. This limitation, however, applies only to the first investment.

According to the law the target company must be a joint-stock company or a from its legal form similar company with share capital within the European Economic Area and which is subject to income tax. The target company must be an unquoted company and it must have a permanent establishment in Finland. Additionally, the company must be a small company which mainly carries on a business other than credit institution's activities, insurance business, real estate business, investment activities or trading in securities and it cannot be engaged with shipbuilding, coal or steal industry. At the time of the investment the target company cannot have been registered to a Finnish trade register or equivalent foreign register for a longer period than six years.

Since the amount which is deducted as a Business Angel Deduction will be deducted from the acquisition cost of the shares when the shares are later on sold, the deduction is not a final deduction. In case the target company is dissolved, turning over of the shares in return for the allotment is comparable to the sale of the shares. In gratuitous transfers the amount which is deducted as a Business Angel Deduction is regarded as your capital income in the tax year during which the shares are transferred or the company closes its business.

Taxation of gifts and inheritance taxation

The state collects tax on gifts and on assets received through inheritance in accordance with the inheritance and gift tax rate table. The tax is levied on individuals resident in Finland regardless of where the assets are situated.

According to the current tax legislation, gifts with a value of less than 4,000 Euros are tax-exempt. However, the value of the gifts given in the last three years are combined and the tax is payable on the aggregate value. When donating assets you should make clear in the deed of donation that it is not a question of inheritance advance because inheritance advances are without any time limit aggregated with the value of the assets of the deceased and because of progressive inheritance tax rates this increases the total amount of taxes payable. Both spouses may give separately gifts to their descendants.

Inheritances with a value of less than 20,000 Euros are tax exempt. In taxation of gifts and inheritances there are two tax classes applied and the tax rate varies according to the class applied to the gift or inheritance in question. The tax rates in the first tax class were lowered in year 2009. The first tax class includes married spouses, children, grandchildren, parents and grandparents. The second tax class includes all other relatives and non-related persons. The gift and inheritance tax rates can be found below.

When securities are donated the gift tax value is based on their fair market value. When selling securities or real estate to a price lower than the fair market value you should note that to the extent the price is less than ¾ of the fair market value, the transaction is deemed to include a taxable gift. There is no gift tax collected in change-of-generation transactions if the purchase price is at least 50 % of the fair market value and the gift includes a business or part of it, or at least 10 % of the shares in the company doing business.

When donating assets it is good to remember that it is often not wise to sell the assets donated before one year has elapsed from the donation.

Gift tax return

The beneficiary has to file a gift tax return to the tax office in the municipality where the donator lives within three months from receiving the gift. Filing forms may be acquired from the tax offices and under the internet address www.vero.fi. No gift tax return has to be filed in case the value of the gift is less than 4,000 Euros, unless you have received several gifts from the same donator during the last three years and the combined value of these exceeds 4,000 Euros.

When securities are donated it is worth filing a gift tax return even if the value of the gift is less than 4,000 Euros. This is because this way you get a gift tax value for these securities and this value may be higher than the deemed acquisition cost when you one day sell these securities. If no gift tax return is filed you may deduct the fair market value if this can be confirmed without doubt.

In case a donation is made between family members, the donation needs to be reported to the local register office (maistraatti) so that it would be binding in relation to the donor's debtors. This does not however concern normal every day gifts.

Proprietary rights

A proprietary right received through a gift or inheritance is not subject to inheritance or gift taxation. See more about proprietary rights below.

Tax planning

The taxes have a significant effect on the yield of investments. For tax purposes it is important to keep all the receipts relating for example to the securities transactions made and to repairs made to houses. By using tax planning you may be able to increase the amount of gain. Tax evasion is forbidden.

You may lower capital gains taxes through selling investment assets, for example shares of which the value has decreased.

The interest cost on loans taken for acquiring investment income are deductible and the related costs may be deducted from capital income.

If you are planning to sell shares it is worth clarifying when the company will distribute its dividends. This inquiry might well be worthwhile as the amount of tax of the possible capital gain may be bigger than the dividend income. You get the highest possible acquisition price if you buy shares just before the dividends are distributed and you receive the lowest possible sale price if you sell your shares just after the dividends have been paid.

Timing of the sale

In taxation the timing of buying and selling is crucial as it has an influence on how the capital gains or losses are calculated. For taxation purposes one is obliged to retain the documents of which the acquisition time and cost can be verified. Bank statements of share tradings, emissions, mergers etc. should also be retained. In case one owns apartments or estates the documents/invoices of reparation and renovation costs may be needed.

Selling at a loss

Usually an investor does not want to sell at a loss, but sometimes it is inevitable. In those cases the good news is that the losses made e.g. on the sale of securities may be deducted from the gains from similar transactions. A good rule is that selling at a loss is cost-effective in case you receive taxable gain from some other transaction.

Example:

Daniela Designer *sold during a tax year 2010 shares of a Company X that she had owned a bit over a year. The share price had fell down 25 % and Daniela received only EUR 3,750 when selling her shares. Daniela was not able to use the capital loss of EUR 1,250 as she received no capital gains during the same tax year.*

Daniela still owns the shares of Company Y that she had purchased the year before last. Company Y's share price has risen 40 % so Daniela decides to sell those shares and use the old still unused capital losses. Daniela sells the shares of Company Y and receives selling price of EUR 5,600 in total. Daniela's capital gain of the transaction is EUR 1,600. When the old capital loss of EUR 1,250 is deducted from the capital gain now received, Daniela's capital gain decreases to EUR 350 (EUR 1,600 – EUR 1,250). Now Daniela pays income tax on capital of EUR 98 in total (30 % of EUR 350) as without the old capital losses the amount of tax would have been EUR 448 (30 % of EUR 1,600).

Back and forth trading
Sometimes it may be appropriate for the shareholder to make back and forth stock trades, which means that one purchases and sells the same shares within a short period of time. By selling at a loss and buying back the shares of the same company one may e.g. decrease the acquisition price of those shares. Again the capital loss resulted from selling at a loss is tax deductible from capital gains received from other share transactions. However, round-trip trading needs to be done openly in stock exchange business or otherwise the tax authorities may render the transactions as tax avoidance. The aforementioned is also a reason why there must be couple of days between the selling and buying. This little break between the transactions assures that the stock markets have openly been able to influence to the price of a share between the selling and buying.

Distribution of dividend
Timing is worth considering in case share transactions are made close the time of dividend distribution. The differences of tax on capital gains and tax on dividend income are presented below:

1. The tax levied on dividend income is not less than 25,5 % (30 % of 85 %)
2. The tax on capital gain received from the sale of the share with 30 % tax rate is either:
   a. Calculated with 40 % deemed acquisition cost (when the share has been owned for at least 10 years) = 18 % (30 % of 60 %)
   b. Calculated with 20% deemed acquisition cost (when the share has been owned for less than 10 years) = 24 % (30 % of 80 %)
   c. Calculated by using the original acquisition price = 30 %

The distribution of dividend usually lowers the price of the share with the amount that equals the amount of dividend. Therefore, a person may have the highest possible acquisitions price in case purchasing the shares just before the dividend is distributed. Consequently, one of the three tax burdens presented above applies to the capital gain received from the sale of the shares. On the other hand, the sale price may be at its lowest if the shares are sold right after the dividend distribution. In this case the capital gain declines with the amount of the dividend but the dividend income is taxed with 25,5 %.

Gifts made in small parts
Elderly wealthy individuals may want to transfer some of their assets to their children. When doing this it should be remembered that you may donate assets in so small portions that no gift tax is payable or then the gift tax is small. Gifts amounting to a value of less than 4,000 Euros are tax free. However, there is a three year rule according to which gifts given to the same person within three years are aggregated. This three year period is calculated from the actual donation date. The timing of these gifts is worth making so that

the donee does not need to sell the assets received before one year has elapsed from the donation.

Example:
In the first gift tax class you pay gift tax EUR 1,470 for a donation of EUR 20,000 but only EUR 180 for a donation of EUR 5,000. When giving four donations of EUR 5,000 the gift tax is reduced down to EUR 720. There should however be an at least three yearlong gap between each donation.

A legacy directly to the grand children
When you donate assets or bequeath them to your grandchildren, you save the inheritance or gift tax of the generation in between. The inheritors may also renounce the inheritance for the benefit of their descendants. The total amount of inheritance tax is then decreased also because the number of inheritors increases.

By drawing up a will you can bequeath your assets to anyone you like. When the amount of inheritance of a beneficiary is below 20,000 Euros the beneficiary is not liable to pay any inheritance tax no matter of the relation between the testator and the beneficiary of the will.

The capital gains tax payable by a decedent's estate on the sale of the house used as own home may be decreased through a partition of the joint estate of spouses. This way the house is transferred to the surviving spouse before the sale. Otherwise the tax free part of the sale price of the house used as the family's own home covers only the part owned by the surviving spouse. This is unless the inheritors have after the death of the other spouse lived in the house for at least two years.

Example:
Mr. Gores *estate constituted of assets worth EUR 300,000. He had a daughter and a son which both had to pay inheritance tax EUR 16,500 for their share (EUR 150,000) of the estate.*

The daughter decides to renounce the inheritance for the benefit of her three children. Therefore, she does not have to pay inheritance tax. Each child has a share amounting to EUR 50,000. The tax is EUR 2,800 per child and in total EUR 8,400.

Proprietary right
It is possible to reduce the gift tax or inheritance tax through proprietary rights. The inheritance tax payable by the children can be considerably reduced when the spouses make a will according to which the surviving spouse may keep the joint assets in his/her possession during his/her lifetime. Also securities may be donated so that the donator maintains a right of possession as well as a right to the yield from the securities.

A right of possession and/or right to the yield maintained in the deed of donation reduces the gift tax payable by the receiver. The reduction is bigger the younger the donator is. However, it should be noted that normally in this situation the donator is still taxed for the yield of the property.

The annual value of a proprietary right is calculated as a percentage of the fair market value. It depends on the type of asset concerned. The annual yield on a house is normally 5 % and on a summer cottage 3 %. The value of a lifelong proprietary right depends on the donator's age according to the following table:

The age of the donator	The number with which the annual yield is multiplied
Below 44	12
44 – 52	11
53 – 58	10
59 – 63	9
64 – 68	8
69 – 72	7
73 – 76	6
77 – 81	5
82 – 86	4
87 – 91	3
92 or more	2

Example:

Mr. and Mrs. Bush *donate their summer cottage to their three children but maintain a lifelong proprietary right to it. The fair market value of the summer cottage is EUR 60,000. Both spouses are 55 years of age. The annual yield value is 3% and the age based multiplier is 10. Thus a 30 % deduction can be made and the gift tax is calculated on an amount of EUR 42,000. As each child receives as a gift from both his mother and father EUR 7,000, the gift tax payable amounts to 2 x EUR 340 = EUR 680 per child. The tax benefit due to the proprietary right amounts to EUR 480 for each beneficiary.*

When the proprietary right terminates as a result of the death of the donator, the owner of the assets receives full ownership to the assets without tax consequences. If the donator of the proprietary right renounces the proprietary right during his/her life, the value of the proprietary right is considered as a taxable gift from the donator to the owner of the asset. The value of the gift is assessed based on the deemed life time of the proprietary right waived by the donator. The tax benefit of the proprietary right is usually forfeited if the asset is sold or the proprietary right annulled during the life of the donator.

Example:

After the age of 65 ***Mrs. Bush*** *terminates her visits to the summer cottage she holds a proprietary right to. The children decide to sell the summer cottage for a price of EUR 180,000. In addition to capital gain taxes the children are liable to pay gift tax according to the value of the proprietary right at the time of the selling of the summer cottage. Each of the three children pays gift tax EUR 932. Therefore the gift taxes amount to more than the keeping of the proprietary right lowered the gift tax burden originally.*

The 2015 tax rates

Individuals resident in Finland are basically liable to pay tax on their worldwide income. The rates of state income tax on earned income in year 2015 are as follows:

Taxable income (EUR)	Basic tax amount (EUR)	Rate (%)
16,500 – 24,700	8	6,5
24,700 – 40,300	541	17,5
40,300 – 71,400	3,271	21,5
71,400 90,000	9,957.50	29,75
90,000 –	15,491	31,75

The municipal tax varies between 16,5 % and 22,5 %.

The church tax varies between 1,0 and 2,2 %. It is not collected from individuals that do not belong to the Finnish churches.

A salary earner has in year 2015 to pay 5,7 % on his gross income as pension insurance contributions. However, those that are 53 years or older are liable to pay 7,2 %. The unemployment insurance contribution payable is 0,65 %. These contributions are tax deductible.

The sickness insurance contribution is 2,1 % and it is partly deductible.
The sickness insurance contribution for pensioners is 1,49 %.

The inheritance tax rates 2015
Inheritors and donees are divided into two tax classes accordingly:

First class
The tax is levied according to the first class tax rates when there is one of the following relationships between the beneficiary (correspondingly the receiver) and the deceased (correspondingly the donor): spouse, child including the child of the surviving spouse, adopted child, father, mother, adoptive parents and their child or an adopted child or in some cases also the fiancée.

Second class
The tax is levied according to the second class tax rates in case of other relatives and all non-related persons.

Inheritance tax rate in the first tax class

Taxable inheritance (EUR)	Basic tax amount on the lower limit (EUR)	Rate on the amount exceeding the lower limit (%)
20,000 – 40,000	100	8
40,000 – 60,000	1,700	11
60,000 – 200,000	3,900	14
200,000 – 1,000,000	23,500	17
1,000,000 –	159,500	20

From taxable inheritance can be deducted:
- spousal deduction 60,000 Euros
- under 18 years old deduction 40,000 Euros

Inheritance tax rate in the second tax class

Taxable inheritance (EUR)	Basic tax amount on the lower limit (EUR)	Rate on the amount exceeding the lower limit (%)
20,000 – 40,000	100	21
40,000 – 60,000	4,300	27
60,000 – 1,000,000	9,700	33
1,000,000 –	319,900	36

The gift tax rates 2015
Gift tax rate in the first tax class

Taxable gift (EUR)	Basic tax amount on the lower limit (EUR)	Rate on the amount exceeding the lower limit (%)
4,000 – 17,000	100	7
17,000 – 50,000	1,140	11
50,000 – 200,000	4,770	14
200,000 – 1,000,000	25,770	17
1,000,000 –	161,770	20

Gift tax rate in the second tax class

Taxable gift (EUR)	Basic tax amount on the lower limit (EUR)	Rate on the amount exceeding the lower limit (%)
4,000 – 17,000	100	21
17,000 – 50,000	2,830	27
50,000 – 1,000,000	11,740	33
1,000,000	325,240	20

The new lower limit of 1,000,000 Euros on the gift tax rate came into force on January 1, 2013 and is applicable during the period January 1, 2014 – December 31, 2015.

Glossary

Above par value A part of bond's value that exceeds the nominal value. **(Ylikurssi)**

Acquisition cost A deduction made from the sale price which covers, for example, the acquisition price, other costs arising from the acquisition and selling of the item and transfer tax. **(Hankintameno)**

An individual resident in Finland An individual is deemed to be resident in Finland in case he/she has his main abode in Finland or continuously spends here more than six months. A Finnish national is basically deemed to be resident even if he moves abroad until three years have elapsed since the end of the year when he/she moved. **(Suomessa yleisesti verovelvollinen henkilö)**

Bonds and debentures loan Bonds are launched into the domestic or international capital markets either in bearer or registered form. Bonds are targeted to institutional or retail investors. **(Joukkovelkakirjalaina)**

Book entry The shareowner retains full ownership of his shares without having to hold a paper certificate. **(Arvo-osuus)**

Book-entry account Investors personal account which shows his ownership of the shares entered into the book-entry system. **(Arvo-osuustili)**

Capital gain The difference between the acquisition price of the acquisition costs of the asset. **(Luovutusvoitto)**

Capital income Income from capital, gains from the disposal of assets (capital gains) and other income deriving as a yield from investments. **(Pääomatulot)**

Convertible bond/debenture A bond or debenture issued by a limited liability company which may be exchanged into shares of the company according to the loan agreement. **(Vaihtovelkakirja)**

Deemed acquisition cost The capital gain may be calculated by using the real acquisition cost or the deemed acquisition cost. The deemed acquisition cost is 20% or 40% of the sales price depending on the length of ownership. **(Hankintameno-olettama)**

Deposit bound on shares A fixed-term deposit, a profit of which is bound to the price development of the chosen shares. **(Osaketalletus)**

Dividend The annual profit share distributed a company to its shareholders. **(Osinko)**

EEA European Economic Area which covers the member states of the EU as well as Iceland, Norway and Liechtenstein. **(ETA-alue)**

Emission Share or bond issue, a public share issue or sale of a bond to the public. **(Emissio)**

Fair market value Market price. **(Käypä hinta)**

FIFO-principle First in, first out –principle, if the order in which different assets of the same type of property are acquired cannot be resolved, the property is deemed to be sold in the order it was acquired. **(FIFO-periaate)**

Forward contract A commitment to buy or sell the target of the forward contract at a given time and price. The target may for example be a share. **(Termiini)**

Investment fund A fund which consists of shares and securities and is owned by the individuals and companies that have invested in this fund. **(Sijoitusrahasto)**

Issue of shares A share capital increase of a company made by issuing new shares. **(Osakeanti)**

Legacy A will in which the deceased disposes of a certain item or a lump sum for the benefit of a certain person. The receiver of the legacy is not a member of the estate of the deceased only by virtue of the legacy. **(Legaatti)**

Listed company The company is listed on the lists of the Helsinki Stock Exchange and the shares are traded on the stock exchange. **(Listayhtiö)**

LTS-account An account for long term retirement savings. When the investment to LTS-account is made it is supported by providing tax deductions. Savings and yields are taxed when the withdrawal is eventually made at pensionable age.

LTS-savings The profits generated to the LTS-account and onward to the deposits, stocks, funds and/or interest instruments.

Marginal tax The amount of tax payable on additional income. **(Marginaalivero)**

Mathematical value of a share The net wealth of a company divided with the amount of shares. **(Osakkeen matemaattinen arvo)**

Net earned income Earned income of which allowable deductions have been made. **(Puhdas ansiotulo)**

Option An agreement which contains a right but no obligation to buy or sell the target of the option at a given time and a given price. The target may for example be a share. **(Optio)**

Option loan A debenture loan including share subscription rights (option certificates). **(Optiolaina)**

Premium A price difference, an additional price payable for a comparable security, the price payable to the drawer of an option. **(Preemio)**

Profit share The share of the profit distributed annually by an investment fund to its owners. **(Tuotto-osuus)**

Progression A taxation system where the amount of tax payable on additional income increases at the same time as income increases. **(Progressio)**

Quoted company A company the shares of which are traded on a Stock Exchange. **(Pörssiyhtiö)**

Redemption price For example the price payable to the owner of a share in an investment fund. **(Lunastushinta)**

Residual tax The tax payable after deducting the taxes withheld and the prepayments of taxes made. **(Jäännösvero)**

Scrip issue A share issue with no cost to the shareholder. **(Rahastoanti)**

Separate assessment of spouses in taxation Spouses are taxed separately **(Erillisverotus)**

Share A share in the share capital of a company. The share gives you a voting right, a right to receive a part of the profit of the company as well as a privilege to subscribe new shares at a share issue. **(Osake)**

Share issue A new share issue made by a company so that the new shares are subject to charge. **(Uusmerkintä)**

Share or bond issue A public share issue or sale of a bond to the public. **(Liikkeeseenlasku)**

Stamp duty See transfer tax **(Leimavero)**

Subscription The acquisition of shares and bonds in share or bond issues. **(Merkintä)**

Subscription price The price payable at a share or bond issue. **(Merkintähinta)**

Subscription right The right attached to a share to buy new shares of the company. **(Merkintäoikeus)**

Tax at source The final tax withheld at source, for example on dividends paid to non-resident investors. **(Lähdevero)**

Tax credit for capital income deficit An individual may deduct this deficit from his earned income taxes. The credit is 30 % of the deficit. **(Alijäämähyvitys)**

Tax rate The amount of taxes collected on the taxable income. **(Verokanta)**

Tax scale The scale including the progressive state tax rates. **(Veroasteikko)**

Taxable value The value of the asset for wealth tax purposes. **(Verotusarvo)**

Transfer tax State tax levied in accordance with real estate and securities trade. The transfer tax replaced the so-called stamp duty. **(Varainsiirtovero)**

Unquoted Company A company which is not listed on the Helsinki Stock Exchange and shares of which are not traded on the stock exchange. **(Noteeraamaton yhtiö)**

Warrant A security, which entitles to buy or sell shares in a given company for a given price and at a given time or to receive a corresponding cash payment. The terms and regulations of the warrant may be found in the prospectus prepared by the drawer of the warrant. These may be traded on the stock exchange during the life time of the warrant. (Warrantti)

Withholding tax on interest income Final tax withheld on domestic bank deposits and bonds. **(Korkotulon lähdevero)**

When writing this guide, we have strived to observe all the laws and regulations in force at the time of writing. We have also exercised utmost care in editing the guide. However, the Finnish Foundation for Share Promotion cannot accept any liability for any investments decisions made on the basis of this guide.

Tax guide for investors 2015

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