Tax Guide for Investors 2013

This guide contains
information on capital gains
taxation of private individuals

PÖRSSISÄÄTIÖ
BÖRSSTIFTELSEN

Contents

For the reader

Every investor aims to gain wealth. What matters are the take-home profits. Taxation is one of the essential costs of investment and taxation issues are most commonly discussed in the spring when checking the previous year's tax returns. However, investors should pay attention to possible tax consequences in advance. Tax legislation and any changes to it may affect the decisions an investor makes.

The Finnish Foundation for Share Promotion started publishing an annual tax guide in 1988. This guide for the year 2013 was updated by tax specialists Lic.Sc. (Econ.) Risto Walden and LL.M Niina Tuovinen from Bilanssi Oy. FFSP would like to thank them for their valuable input.

The guide for 2013 was updated taking into account the changes made to tax legislation as of the beginning of 2013, and the changes to the interpretation of tax legislation based on legal practice. From an investors' point of view, the most significant changes made in 2013 are the angel investor deduction for the years 2013 to 2015, the revocation of the tax exemption for amounts up to 8500 euros in investment insurance benefits in the taxation of gifts, and the increase in transfer tax applied to the sale of shares in housing associations and property companies from 1.6% to 2%, as of 01.03.2013. In addition to this, the taxation of large gifts and inheritances (over 1,000,000 euros) has increased, following a temporary amendment to the law, valid from 01.01.2013 to 31.12.2015. The age limit for withdrawals from new long-term savings accounts was raised to 68 years.

We strive to keep the guide up to date, however, we encourage our readers to prepare for any changes that the interpretation of the laws may cause. We recommend that you follow them on our website, www.porssisaatio.fi and in the media.

Helsinki, 15.06.2013

Sari Lounasmeri
President and CEO
The Finnish Foundation for
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The main principles of taxation of private individuals

The income streams of private individuals and estates of deceased persons are divided into earned income and capital income. The taxable income is calculated separately for both income streams. In order to calculate final taxation, the taxes payable for both income streams are tallied up, after which the taxes paid in advance for each income stream are deducted from the total amount in order to calculate the amount of additional taxes payable, or the refund due.

Earned income

Earned income includes salaries and wages, fringe benefits, pensions, social benefits, and a part of entrepreneurial and agricultural income. Earned income is subject to progressive state tax (see tax scales at the end of this guide), municipal flat rate tax, church tax, and daily benefit and health insurance contributions. In addition to this, the employer withholds pension insurance and unemployment insurance contributions from salaries and wages. These amounts are tax deductible.

Capital income

Capital income includes capital gains, rental income, profits from investment funds and investment type life insurances, certain interest income, income from wood trade, and a part of entrepreneurial and agricultural income. Long-time savings (LTS) and the profits derived from them, and a part of voluntary pension insurances are also taxable as capital income at the time of withdrawal.

As of the year 2012, taxable capital income is taxed at a rate of 30 per cent for capital income amounts up to 50,000 euros.

Any taxable capital income exceeding 50,000 euros is taxed at a rate of 32 per cent. 70% of dividends received from quoted companies are regarded as taxable capital income.

Own house or flat

The profit from the sale of a house or flat that you have used as your own, or your family's home for a period of 24 consecutive months during the period of ownership, is exempt from taxes. The exemption applies even if you do not acquire a new house or flat, or if you have rented it out before or after using it as your own or your family's home.

Deductions

Certain tax deductions are applied to earned income and capital income. All deductible interest costs are deducted in the first instance from capital income. However, if you do not have any capital income, or the amount of interest costs exceeds your capital income, a part of the interest can be deducted as credit for a deficit in capital income from your earned income.

Savings transferred to a long-term savings account, and voluntary pension insurance contributions are deductible from the capital income or earned income taxes as special credit for a deficit in capital income.

The main principles of taxation

Taxation of earned income

- salaries and wages
- taxable daily allowances
- fringe benefits
- pensions paid in Finland
- the part regarded as earned income from dividends from sources other than quoted companies
- the part of entrepreneurial income regarded as earned income
- pension partly paid from a voluntary pension insurance

Income taxes

- municipal tax
- state tax
- church tax
- daily benefit and health insurance contributions

Transfer tax

- 4 per cent when trading property
- 2 per cent when trading shares in housing associations and property companies
- trade of other unquoted securities 1,6 per cent

Taxation of capital income

- dividends from quoted companies
- profits from investment funds
- interest income not subject to tax withheld at source
- income from foreign investments
- capital gains
- income from wood trade
- rental income
- profits from investment type life insurance
- the part regarded as capital income from dividends from sources other than quoted companies
- the part of entrepreneurial income regarded as capital income
- pension partly paid from a voluntary pension insurance
- withdrawal from an LTS account

Tax

- tax on capital income: 30 per cent of taxable capital income up to 50,000 euros, 32 per cent for the part exceeding 50,000 euros

Tax withheld at source on interest income

- interest on domestic deposits and bonds

Tax

- tax withheld at source on interest income 30 per cent

Taxation of inheritance and gifts

- taxed at the point in time when the assets are transferred

Amending tax returns

The Finnish tax authorities send a Pre-Completed Tax Return form to all taxpayers. The tax returns must be checked for missing or incorrect information.

The form includes information on capital gains and losses from the sales of shares and investment fund units. The form may also include the following instruction: “clarification needed for the gains or losses from the following transactions.” These transactions must be declared to the tax authorities using form 9 or 9A.

The tax authorities may not have adequate information on the acquisition price or acquisition date of assets that have been in your possession for a long time. It is particularly important to report the acquisition date if you want to profit from the deemed acquisition cost of 40 per cent when selling assets that have been in your possession for over ten years.

Even though net wealth tax has been abolished, certain debts and assets still have to be reported, as the information enables the tax authorities to control the reporting of capital gains and donations, among other things. The assets are valued according to the Finnish act on the valuation assets for taxation purposes, and the information is needed for taxation of property and entrepreneurial income.

Assets that must be reported include shares, investment fund units, shares in co-operatives, flats, and properties. However, the values of the aforementioned assets do not need to be reported.

Keep receipts and notes

Receipts do not need to be attached to tax returns, however, receipts must be kept if there is incorrect or incomplete information on the Pre-Completed Tax Return form.

Receipts must be kept for six years after the end of the tax year, i.e. for the period of time during which taxation can be rectified. Information and receipts can be kept in electronic format, if they can be printed on paper when needed. If necessary, the tax authorities will ask for receipts.

Receipts of acquisition and improvement costs for assets may be needed for calculation of possible capital gain or loss amounts in the future. It is recommended that these receipts are kept for six years after the sale of the asset.

When earning income, taxpayers are required to keep notes. Therefore, keeping receipts alone will not suffice. The obligation to take notes applies for instance to securities trade, rental income, and agricultural and forestry income for which separate books are not kept. We recommend identifying income and costs in chronological order in your notes.

For investments in securities and investment funds, the book-entry account statements and fund reports received from the service provider are usually considered sufficient notes. They should list shares bought and sold, dividends received, and refunds of capital during the tax year. If you change your broker, it is recommended that you keep the statements prepared by the previous broker, because the new broker may enter the value at the time of the transfer as acquisition price.

Interest free payment time for residual tax

In the event that you receive considerable capital gains, please note that the interest free payment period for any residual tax ends on 31 January of the following tax year.

In 2013, the interest on residual tax is 0.5 per cent, if the residual tax amounts to a maximum of 10,000 euros, and 3 per cent for any amounts that exceed 10,000 euros. The interest is payable as of 1 February until the first due date of the residual tax. After calculating the interest on the residual tax, 20 euros will be deducted from the resulting amount of interest. Thus, interest will be applied to the residual tax of the tax year 2012 if the amount of residual tax exceeds approximately 4,750 euros. The interest on residual tax is not tax deductible. For tax refunds, the tax authorities will pay 0.5 per cent interest on the refundable amount. The interest on tax refunds is not taxable income.

Taxation of the yields of investments

Capital income tax is applied to the yields of investments, whereas interest income is subject to the tax withheld at source. The tax withheld at source is a final tax from which no deductions are possible. Costs that have arisen in connection with acquiring and keeping the income as well as any deductible interest costs, on the other hand, can be deducted from the capital income tax.

Costs incurred for keeping securities entrusted are tax deductible for the part exceeding the investor's own risk of 50 euros. If the costs exceed the capital income, 30 per cent of the amount of cost that exceeds the capital income is deductible from the taxes for earned income, as credit for a deficit in capital income. The limit on the maximum amount of credit for capital income deficit must be observed.

Example

Mike Moneymaker *has earned 1,000 euros in capital income, and incurred 1,100 euros of capital income related costs. Thus his deductible costs exceed income by 100 euros. Hence Mike is allowed to deduct 30 euros from his taxes payable*

Dividend income

30 per cent of the dividends received from quoted companies are tax exempt. The remaining 70 per cent is subject to capital income tax at a rate of 30 per cent for the portion up to 50,000 euros and 32 per cent for the part exceeding 50,000 euros.

A shareholder's dividend income is subject to a tax of 21 per cent (30 per cent of capital income tax for 70 per cent of the dividend income), assuming that the shareholder's taxable capital income during the tax year does not exceed 50,000 euros. If the amount of taxable capital income exceeds 50,000 euros, the amount exceeding 50,000 euros is subject to a tax of 22.4 per cent (in this case, 70 per cent of the capital income is subject to a tax of 32 per cent). An advance tax of 21 per cent is withheld from the dividend income when the dividends are paid out. If the tax rate applicable to the shareholder is higher, the remaining taxes are paid in with the final taxation. When calculating the total amount of capital income received during the tax year, only the taxable 70 per cent of the dividends is taken into account.

Example

Dividends received from a quoted company	*1,000 euros*
Taxable part	*700 euros*
Tax at 30%	**210 euros**

The taxation of dividends received from an unquoted company is based on the net assets of the company paying the dividend, and the amount of the dividend distributed. The dividends may be exempt from taxes or subject to taxation as earned income or capital income. The dividends are exempt from tax up to the amount that corresponds to a profit of 9% on the mathematical value of a share (the mathematical value of a share is the net assets of the accounting period that ended the year preceding the year when the dividend is payable, divided by the number of shares). However, only dividends up to 60,000 euros per recipient per year are exempt from tax. 70% of the amount exceeding 60,000 euros is taxable as capital income, and the remaining 30% is exempt from taxes.

If more than 9% of the mathematical value of the shares is distributed as dividends, 70% of the exceeding amount is taxable as capital income and the remaining 30% is tax exempt.

Example

The net assets of the accounting period ending on 31.12.2011 of a company amount to 1,000,000 euros. The total number of shares is 100, resulting in a mathematical value of 10,000 euros per share. ***Irene Investor*** *owns 75 shares in the company, and the total mathematical value of her shares is 750,000 euros. In 2012 the company distributes 100,000 euros of dividends, of which Irene Investor's share is 75,000 euros. The taxation of the dividends is divided as follows:*

9% of the mathematical value of the shares Irene owns is 67,500 euros. 60,000 euros of her dividend is considered tax free income. Of the part exceeding 60,000 euros, up to the portion of 9%, 70% of the mathematical value of the shares (7,500 euros) is taxable as capital income, i.e. (70% x 7,500 euros) 5,250 euros.

Of the portion exceeding the profit of 9%, i.e. 67,500 euros, (the exceeding portion being 7,500 euros in this case), 70% (5,250 euros) is taxable as earned income.

Summary

Dividend income of 75,000 euros:	*total*
tax free amount	*64,500 euros*
capital income	*5,250 euros*
earned income	*5,250 euros*

Profits from investment funds

Profits from investment funds are taxable as capital income. The tax is withheld when the profits are paid out. If the profits are not included in the Pre-Completed Tax Return form, the tax return must be amended.

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 only becomes taxable when the investor sells his or her fund units.

Foreign investments

The yields of foreign investments and the taxes paid for them must be reported in the tax return. They are not reported directly to the Finnish tax authorities like domestic income.

Any profits from foreign investments of individuals resident in Finland are taxable in Finland unless there is a double taxation treaty in force between Finland and the country in question, which prevents that. Any taxes paid to other countries will be compensated in Finland according to the legislation and the regulations of the double taxation treaty. In most cases, the compensation is subject to a report of the taxes paid to the other country. The compensation will be allocated to the taxes payable in Finland for the same income stream.

Any foreign interest income is taxable capital income regardless of whether the income is repatriated to Finland or not. In many countries, no tax is collected on interest paid to a foreign country. As foreign interest income is regarded as capital income, you may deduct from it the costs of acquiring the income. This is not possible in the case of domestic interest income in Finland as it is subject to tax withheld at source.

Dividend income received from foreign quoted companies is regarded as capital income in Finland, and it may be fully or partly taxable (dividends received from quoted companies within the EU are taxable in the same way as dividends received from quoted companies in Finland). For the majority of the double taxation treaties that Finland has entered into, the dividends are subject to a tax withheld at source of 15 per cent in the country of origin. Similarly, an individual resident liable to pay taxes in a country outside Finland is usually liable to pay tax withheld at source of 15 per cent for dividends received from Finland. Finland has such treaties in place with the Nordic Countries and Estonia, for example.

The yields from a foreign investment fund are taxable capital income in Finland. Profits paid from Finland to another country are usually subject to tax withheld at source. Whether a tax withheld at source applies depends on the legislation of the source country and the double taxation treaty between the source country and Finland, if applicable.

The profit received from the sale of foreign shares is taxable in Finland if the taxpayer is resident in Finland.

Example

Sam Shareholder *receives 1,000 euros of dividends from Nordea. Sweden withholds tax withheld at source of 15 per cent, which is then compensated in Finland when Mr Shareholder reports the tax withheld at source in his tax returns. The dividend income is taxable at 21 per cent in Finland.*

Finnish tax	*210 euros*
Swedish tax withheld at source	*-150 euros*
Tax payable in Finland	***60 euros***

Rental income
Maintenance fees, annual repair costs, depreciation of improvement costs, and depreciation of a furnished flat are deductible from rental income. For rented property, building depreciation, property insurance contributions, and tax on property are also deductible. Additionally, the interest on loans for acquiring the assets as well as the costs of withdrawing the loan, such as the banker's commission and handling charges, are also deductible.

Examples
Henry Houseowner *has received rental income from his property during the tax year. He has carried out annual repairs on his property and paid a total sum of 2,400 euros for electricity, heating, water, and insurance.*

Henry's taxable rental income

Rental income	*5,000 euros*
Annual repairs	*- 750 euros*
Other expenses	*- 2,400 euros*
Depreciation	*- 650 euros*
Tax on property	*- 400 euros*
Taxable rental income	***800 euros***

Hillary Houseowner *has received rental income of 4,100 euros per year from her flat. The annual maintenance fees amount to 1,600 euros. During the year, the flat has been repainted and the cooker has been replaced, resulting in total expenses of 1,300 euros. The interest she paid on the loan she had taken for the acquisition of the flat amounted to 600 euros.*

Hillary's taxable capital income

Rental income	*4,100 euros*
Maintenance fees	*- 1,600 euros*
Annual repairs	*- 1,300 euros*
Taxable rental income	*1,200 euros*
Interest on loan	*- 600 euros*
Taxable capital income	***600 euros***

Forest taxation
Forest owners are liable to pay taxes on income from wood trade. It is considered capital income subject to deductions.

Any expenses related to the trade, such as cutting and transportation costs, are deductible. Additionally, any expensed incurred during the tax year in connection with forest management, such as planting and fertilisation, are also deductible. A private forest owner is also entitled to deduct 60 per cent of the acquisition cost during the time that he or she owns the forest area, provided that the forest area was acquired in 1993 or later. The maximum amount of the forest deduction is 60 per cent of the income from wood trade during the tax year from the forest area that entitles the owner to the deduction. The lower limit of the forest deduction is 1,500 euros.

Forest owners are also entitled to make a 15 per cent provision for future liabilities and charges against the income from wood trade to cover expenses of future tree planting and such. Any unused portion of the provision must usually be entered as income during the following four years.

If the income from wood trade and other sales subject to value added tax exceed 8,500 euros during a calendar year, the forest owner must register for VAT.

Interest income

In taxation, interest income is regarded either as interest subject to tax withheld at source or interest taxable as capital income.

Interest income subject to tax withheld at source

Interest income subject to tax withheld at source includes interest on domestic bank deposits as well as interest on bonds including convertible bonds and option loans, and profits received from index loans. The profits received from share-based accounts where the interest paid to the account is dependent on the share price development are subject to tax withheld at source on interest. In addition to this, the index compensation paid on index loans is income subject to tax withheld at source.

Interest subject to tax withheld at source is not regarded as capital income. Tax withheld at source is a final tax. Interest income subject to tax withheld at source is not reported on tax returns, and the expenses incurred when acquiring the income are not deductible. The payer of the interest, usually a bank, is liable for withholding the tax when paying the interest.

Individuals residing permanently outside Finland are not liable to pay taxes in Finland for income subject to tax withheld at source from Finnish sources.

Interest compensation on bond loans

Normally, interest income received from a bond loan is regarded as income subject to tax withheld at source, whereas the interest compensation received upon a trade is subject to capital income tax.

For the recipient of the interest compensation, the interest accrued up until the date of sale is capital income. For the payer, on the other hand, it is a deductible expense that can be deducted from the capital income. If the payer does not have any capital income, 30 per cent of the interest is deductible as credit for a deficit in capital income from the taxes payable on earned income.

The broker levies an advance tax of 30 per cent from the recipient of the interest accrued until the date of sale. The broker also reports the payer's expenses to the tax authorities that make the deduction from capital income or earned income ex officio.

Index loan

The taxation of an index loan depends on whether the loan is sold before the due date or kept until the due date.

If it is sold before the due date, the transaction results in capital gain or loss for the investor. If the sale price is higher than the acquisition cost, there is capital gain, and if the sale price is lower than the acquisition cost, there is capital loss.

Example

Iris Index *invested in an index loan with a nominal value of 20,000 euros. As the market value of the loan was 110%, she paid 22,000 euros for the loan. Iris decided to sell the loan for a market value of 150%, i.e. 30,000 euros, instead of waiting for the due date of the loan.*

Taxation, loan sold before due date	
Sale price of the loan	*30,000 euros*
Subscription price of the loan	*-22,000 euros*
Capital gain	*8,000 euros*
Tax on capital gain 30%	*-2,400 euros*
Net profit	*5,600 euros*
Total profit	***5,600 euros***

On the due date of an index loan, the capital of the loan is repaid to the investor. The investor receives capital gain if he or she acquired the loan for a price lower than its nominal value (under 100%) and capital loss if he or she acquired it for a price higher than its nominal value (over 100%). If the value of the loan exceeds the nominal value (over 100%) on the due date, the investor receives an index compensation for the increase in value that exceeds the nominal value. The index compensation is subject to tax withheld at source on interest.

Example

Ian Index *invested in an index loan with a nominal value of 20,000 euros and a market value of 110%. He paid 22,000 euros for the loan. As the due date approached, the market value of the loan was 150%, i.e. 30,000 euros.*

Ian decided to keep the loan until the due date, when he would receive the capital of the loan repaid and the profit exceeding the nominal value of the loan. All profit exceeding the nominal value, i.e. 10,000 euros, is subject to tax withheld at source.

Since Ian had paid an above par value of 10% for the loan, the sale resulted in capital loss. He can deduct the capital loss from the capital gains he has received from his other investments either during the current tax year or in the following five tax years, in which case the capital loss of 2,000 euros generates 600 euros in tax benefits and the yield is improved by 600 euros.

Taxation, redemption on due date	
Repayment of the loan	*20,000 euros*
Subscription price of the loan	*-22,000 euros*
Capital loss	*-2,000 euros*
Yield of the loan	*10,000 euros*
Tax on the yield 30 %	*-3,000 euros*
Net profit	***5,000 euros***

Since Ian's capital loss is deductible, he will receive 600 euros of tax benefits.
The final yield is 5,600 euros.

Taxation of other interests

Other than the aforementioned, interest income is regarded as capital income that must be reported in tax returns. This income includes interest received from foreign bank deposits and interest received from bonds on secondary markets or interest on a loan between two private individuals.

Taxation of insurance investments

Insurance investments can be contributions to a Finnish voluntary pension insurance scheme or investment insurances. Pension insurances are long-time saving plans that supplement the statutory pension coverage. Investment type life insurance or investment insurance, on the other hand, is a fixed-term insurance. After the insurance term, the capital and possible yields of the insurance are paid out to the insured or his or her nominated beneficiaries.

Under certain conditions, voluntary pension insurance contributions are tax deductible.

When the pension insurance savings are paid out as pension in due time, the income is regarded as taxable earned income or as taxable capital income. Profit from investment type life insurance, on the other hand, is taxable as capital income.

In most cases, insurance investments include a life insurance element. In this case, the saved capital is paid to the beneficiaries as insurance compensation (indemnity payable on death).

Taxation of pension insurance

The taxation of pension insurance was revised as of the beginning of the year 2010 when the parliament extended the taxation benefits of pension insurance to cover other long-term savings (refer to the following chapter "Taxation of long-term savings accounts") as well. The new regulations largely apply to insurance policies taken out on or after 18.09.2009. Transitional provisions are applied to insurance policies taken out before that.

In the case of older insurance policies (taken out before 18.09.2009), the tax deductibility of the contributions requires a minimum retirement age of 62 years. In the case of insurance policies taken out before 2005, the age at which the withdrawals can be started may also be lower, but such an insurance scheme does not allow further contributions to be paid without changing the terms of the insurance. Contributions to insurances taken out before 18.09.2009 with a minimum retirement age of 62 years are allowed until the end of 2016.

The retirement age applied to newer pension insurance policies (taken out on or after 18.09.2009) is tied to the general retirement age, in accordance with employment pension legislation. At the moment, the general retirement age is 63 years. However, any changes will also change the retirement age applied to pension insurance under current regulations.

Tax deductibility of contributions

Contributions to the pension insurance are tax deductible. The maximum deductible amount is 5,000 euros.

The contributions are deducted from capital income. If the taxpayer does not have any capital income or the amount deductible exceeds the capital income, the taxpayer is entitled to a special credit for a deficit in capital income.

In such cases, 30 per cent of the amount of the contributions that cannot be deducted from capital income is deducted from the taxes payable for earned income. If the taxes payable for earned income are less than the amount deductible from them, the amount deductible that cannot be deducted will be deducted from the spouse's taxes payable for earned income.

The insurance can be taken and the contributions can be paid by the policy holder or his or her spouse. The contributions are deductible from the policy holder's capital income regardless of who pays the contributions.

The contributions to a voluntary pension insurance scheme are first deductible in the taxation of the year during which the policy holder turns 18. The contributions are no longer deductible after the policy holder has started collecting pension from the voluntary pension insurance or withdrawing money from a long-term savings account.

Contributions to the life insurance included in older pension insurance policies (taken out before 18.09.2009) are not deductible.

The life insurance element included in pension insurance schemes taken out after the beginning of the year 2010, on the other hand, is tax deductible. However, contributions to the life insurance element are only deductible to the extent that the life insurance benefit does not exceed the savings in the pension insurance.

Example

Sally Santander *contributes 1,000 euros a year to a voluntary pension insurance scheme. The tax deduction reduces her taxes payable by 300 euros a year (30% of 1,000 euros). The tax benefit is the same regardless of whether the deduction is allocated to her capital income or to her taxes payable for earned income as a credit for a deficit in her capital income.*

Taxation of pension payments

The pension payable from the pension insurance is taxable income. However, the taxation depends on when the insurance policy was taken. As a general rule, the pension payments are taxable as either earned or capital income depending on the method of deduction applied to the contributions.

As of 2005, contributions have been deducted from capital income, and accordingly, the pension payable from the insurance is taxable as capital income. Pension accrued before 2005 is taxable as earned income.

In the case of newer pension insurance policies (taken out on 18.09.2009 or later), the pension payable is regarded as capital income. The pension savings shall be paid out to the policy holder within 10 years. If withdrawals are started later than at the age of 63 years, the maximum time for collecting the payments is reduced by two years for each year of delay in starting withdrawals. The minimum duration for receiving pension payments is six years.

The new policy also requires that pension payments are made regularly and in even instalments during the payment period. This means that 1/10 of the savings are paid out during the first year, 1/9 of the remaining savings during the second year, 1/8 of the remaining savings during the third year, and so on. Payment instalment amounts are not regulated in older pension insurance policies (taken out before 18.09.2009). These policies require that the pension is paid out at least once in six months within two years of reaching the retirement age.

Collecting the pension insurance benefit as a lump sum

In exceptional cases, it is possible to collect the pension savings capital as a lump sum. This is possible if the policy holder has been unemployed for a period of at least a year, is permanently incapable of work, gets divorced, or his or her spouse dies.

The insurance company withholds the advance tax from the lump sum payment, taking into account whether the amount payable as specified in the policy is taxable as earned income or capital income. The amount payable may be considerably lower than the specified capital saved in the insurance.

The transfer does not have any tax consequences if the capital is transferred to another pension insurance company or a long-term savings account.

Taxation of investment insurance

Contributions to investment and savings life insurance are not tax deductible. The profits that a savings life insurance yields are taxable. The profits from investment insurance are taxable when the term of the insurance ends and the insurance benefit is paid out. The final increase in value is taxable in the tax year during which the term of the insurance ends. However, the capital gain is not taxable if the savings are transferred from one investment object to another within the scheme during the term of the insurance.

When the insurance benefit is paid out to the policy holder, the profits are regarded as taxable capital income. If the beneficiary is the policy holder's next of kin, the profit is regarded as taxable capital income, and the savings capital is taxable as a gift.

Until 2012, a maximum of 8,500 euros of the savings capital was tax exempt for the next of kin for a period of three years. This tax benefit was revoked as of the beginning of the year 2013. Consequently, the gratuitous transfer of the tax benefit is regarded as a gift. According to the general provision regarding the taxation of gifts, the gift can be tax exempt if its value is less than 4,000 euros and the beneficiary has not received any other gifts from the same person within three years.

Taxation of indemnities payable on death

Indemnities payable on death included in pension insurance
Life insurance is included in a pension insurance scheme if the amount of the insurance benefit is linked to the saved amount in the pension insurance or the amounts of the contributions.

Before the year 2010, the contributions to life insurance were not tax deductible. The life insurance contributions of life insurance included in voluntary individual pension insurance schemes taken out on 18.09.2009 or later are tax deductible up to 5,000 euros (up to a total of 5,000 euros in pension insurance and long-term savings accounts). At the same time, taxation as earned income and inheritance of the insurance benefits was modified.

In taxation of earned income, the insurance benefit of life insurance is taxable up to the amount of the pension insurance savings. Any part exceeding that sum is tax exempt in the taxation of earned income, if the beneficiary is either the next of kin or the estate of the policy holder. The policy holder's spouse, inheritors in the generation above or below, adopted children or their direct heirs, foster children, or the spouse's children are regarded as next of kin in this respect. For any other beneficiary, the whole indemnity paid at the death of the policy holder is regarded as taxable income.

In addition to this, the indemnity paid on death is taxable as inheritance up to the amount of the pension insurance savings. If the indemnity paid on death exceeds the amount of the savings and the beneficiary is the policy holder's next of kin or estate, the part of the indemnity exceeding the savings is tax exempt from the taxation of inheritance, up to the sum of 35,000 euros per beneficiary. If the beneficiary is the policy holder's widow, a half of the total indemnities received by the widow, or a minimum of 35,000 euros, are exempt from inheritance tax. If the beneficiary of the indemnity paid on death is not the policy holder's next of kin or estate, the amount of indemnity exceeding the amount of the savings is exempt from inheritance tax.

In order to avoid double taxation, the income tax imposed on the amount of savings is deducted from the value of the inherited assets in the taxation of the inheritance.

Since contributions to insurance policies taken out before 18.09.2009 are not tax deductible, the benefits are not regarded as taxable income if the beneficiary is the policy holder's next of kin or estate. The benefit is taxable as inheritance, however. The freely disposable portions (35,000 euros, and in case of the spouse, half the amount, with a minimum of 35,000 euros) are calculated from the amount exceeding the savings. If the beneficiary is not the policy holder's next of kin or estate, the indemnity is regarded as capital income, and the net amount of the savings is also taxable as inheritance. The amount exceeding the savings is exempt from inheritance tax.

Example
*When **Irwin Insurer** died, his daughter and only inheritor, Irene, received an indemnity payable on death of 65,000 euros. Since the new regulations applied to Irwin's pension insurance policy, the indemnity was regarded as taxable income. In addition, the net amount (indemnity minus income tax) is also taxable as inheritance. If the indemnity payable on death exceeds the savings amount, the exceeding part is only taxable as inheritance insofar as it exceeds 35,000 euros.*

Life insurance not included in pension insurance
The indemnities payable on death from savings life insurances and term life insurances are not regarded as taxable income if the beneficiary is the policy holder's next of kin or estate. The part of the indemnity exceeding 35,000 euros is taxable as inheritance (half of the amount in case of the spouse). Indemnities paid to people other than next of kin are considered capital income.

Taxation of long-term savings accounts

Long-term saving accounts are a new form of pension funding that entitle the holder to tax benefits. The state supports long-term saving with tax benefits that were previously only applied to pension insurance policies (see chapter “Taxation of insurance investments”).

Long-term saving involves time restrictions. The savings in a long-term savings account are the account holder’s assets, but they cannot be withdrawn or used until the account holder has reached the statutory retirement age. In addition, the use of the savings in a long-term savings account as a collateral for a loan will result in increased taxes payable.

Only cash can be deposited in long-term savings accounts. Depositing existing book-entry accounts or equity investments is not allowed. Accordingly, only cash can be withdrawn from a long-term savings account in due time.

The savings in a long-term savings account can be invested in the shares of quoted companies, in investment funds, in bonds, or in deposits. Certain restrictions apply to investing in derivative instruments such as options and warrants that protect the savings from decrease in value.

The investment objects of long-term savings accounts can be changed during the saving period without any tax consequences. Banks and other providers of long-term savings accounts, however, may restrict the available investment objects for such accounts.

The account holder may transfer the savings to an account from another service provider or into a voluntary pension insurance policy provided by an insurance company. If the new policy fulfils the statutory requirements, the transfer will not be regarded as taxable withdrawal of the savings.

The savings in a long-term savings account are only taxable when they are withdrawn. Both the saved capital and the accrued profit are taxable.

Tax deductibility of the savings

The savings deposited in a long-term savings account are tax deductible. The maximum deductible amount is 5,000 euros. Since the saved capital is taxable at the time of withdrawal, 5,000 euros per year is the maximum amount it pays to save in a long-term savings account.

The tax deduction is allocated initially to capital income such as dividends and capital gain.

With a tax rate of 30 per cent on capital income, the maximum tax benefit is 1,500 euros. Only long-term savings contributions made by the account holder or his/her spouse are tax deductible. Savings made by parents for their children, for example, are not deductible.

However, if you do not have any capital income or the amount of the contributions exceeds the capital income, the contributions are deducted as credit for a deficit in capital income from the tax payable on earned income. In this case, 30 per cent of the contributions that could not be deducted are deducted from the tax on earned income.

If the earned income of the person entitled to the assets is not large enough for the credit for the deficit in capital income, the credit will be allocated to his or her spouse ex officio. Losses on account of contributions to long-term savings accounts cannot be confirmed.

Examples

Stephen Saver *has decided to deposit 3,000 euros a year into his long-term savings account for investments in shares. The tax deduction reduces his taxes payable by 900 euros a year (30% of 3,000 euros). The tax benefit is the same regardless of whether the deduction is allocated to his capital income or to his taxes payable on earned income as credit towards a deficit in his capital income.*

Sally Saver *has decided to start saving for a pension she will begin claiming in 20 years, by investing in shares or funds. Sally makes approximate calculations to find out the tax benefits long-term saving will give her during the term of the saving policy.*

	Free saving	***Long-term savings account***
Annual savings	*3,500 euros*	*5,000 euros*
	(3,500 euros + tax benefits of 1 500 euros)	
Savings after 20 years	*70,000 euros*	*100,000 euros*
Expected annual yield 5%	*+51,520 euros*	*73,600 euros*
Capital at the end of the investment period	***121,520 euros***	***173,600 euros***

(Example continues in the “Taxation of withdrawals” section)

Tax exemption of the yields

During the saving period, the yields of long-term saving are not taxable. The gross amount of yields is deposited in the long-term savings account, and the account holder may choose to reinvest them.

This means that the interest income, coupon rates of bonds, index compensations, and capital gain from the sales of shares and investment fund units are tax exempt during the saving period.

The dividends from quoted companies paid into long-term savings accounts during the saving period are also tax exempt. Dividends paid by foreign companies are an exception as the tax paid on dividends in other countries is not compensated.

Example

Sheila Scheduler invests 3,000 euros in the shares in company X. Since the value of the shares doubles within less than a year, Sheila decides to sell the shares and reinvest the profit.

If she trades the shares within a long-term savings account during the saving period, the profit from the shares is not taxable and she can reinvest 6,000 euros. If she invests in the shares directly, her capital gain of 3,000 euros from the trade is taxable at a rate of 30% (900 euros), leaving her 5,100 euros for reinvestment.

Expenses and losses

The expenses and investment related losses of long-term savings accounts are not tax deductible.

When selecting a service provider for a long-term savings account, it is important to check the expenses thoroughly. After all, even minor annual expenses accrue and become more significant in the long run. The investment objects have an effect on the expenses of investment in long-term saving as well, as trade in shares and investment fund units is subject to charges.

Setting up and managing a long-term savings account as well as withdrawal of assets may also be subject to additional charges.

Taxation of withdrawals

When withdrawing savings from a long-term savings account after reaching retirement age, the assets are taxable as capital income. Both the saved capital and the profits are taxable, whereas normally an investor only pays taxes for the profits of investments and interest income.

The tax benefit of a long-term savings account can be described as tax deferral: tax deductions are granted during the saving period, but both the saved capital and the profits are taxable when they are withdrawn after reaching retirement age. Thus, the actual tax benefit will only be revealed at the end of the saving period when the profits from savings and tax benefits are known.

Since pension funding may involve several decades of saving, saving in long-term savings accounts involves a risk of changes in legislation. At the moment, capital income is taxable at the rate of 30 to 32 per cent, but the rate may be very different in 20 years' time.

Example

Sally Saver *made approximate calculations for 20 year long investments at an expected annual yield of 5%. With a long-term savings account, the value of her saved capital would have risen to 173,600 euros, otherwise to 121,520 euros. Sally also considers the taxation of her savings: With a long-term savings account, the saved capital would be taxable as capital income whereas normally only her capital gain would be taxable capital income.*

	Free saving	Long-term savings account
Annual savings	3,500 euros	5,000 euros
		(3,500 euros + tax benefits of 1 500 euros)
Savings after 20 years	70,000 euros	100,000 euros
Expected annual yield 5%	+51,520 euros	+ 73,600 euros
Capital at the end of the investment period	121,520 euros	173,600 euros
Taxable income	capital gain only	the whole capital
	51,520 euros	173,600 euros
Tax 30%	-15,456 euros	-52,080
Savings after taxes	**106,064 euros**	**121,520 euros**

In the example, the tax rate of 30% was used because the savings in a long-term savings account must be withdrawn in instalments that, using the figures in the example, do not exceed 50,000 euros a year. When withdrawing the profits of free saving, withdrawals can be planned to keep the taxable portion below 50,000 euros a year.

Withdrawal instalments

The savings in a long-term savings account can only be withdrawn after reaching retirement age. For long-term savings accounts set up after 01.01.2013, the minimum age for withdrawing savings from a long-term savings account is 68 years, for long-term savings accounts set up earlier, the minimum age is 63 years. The period over which the savings are withdrawn must be at least ten years.

When approaching the retirement age, you should consider decreasing the amount of money invested in securities to reduce the risk of decline in prices affecting the final capital that can be withdrawn.

Example

*When **Paul Pensionsaver** turned 63, the market value of his investments in funds was 30,000 euros. In accordance with the policy, Paul started withdrawing the funds from the account.*

During the first year, he was allowed to withdraw 1/10 of his savings from the account. Thus he sold 3,000 euros' worth of investment fund units.

In the second year, the market value of his remaining long-term savings had decreased by 10% to 24,300 euros. This time, Paul was entitled to 1/9 of his savings and sold 2,700 euros' worth of investment fund units.

During the third year, the market value of the fund investments in his account had increased by 10% to an approximate market value of 23,760 euros. Paul was allowed to withdraw 1/8 of the funds, which was about 2,970 euros.

Withdrawal as lump sum in exceptional cases
In exceptional cases, savings in a long-term savings account can be withdrawn before the statutory retirement age has been reached, without increasing taxes payable. Such exceptional cases include a period of unemployment of a year, total or partial incapability for work, divorce, or the death of the account holder's spouse.

In these exceptional cases, it is possible to withdraw the long-term savings as a lump sum. The saved capital and the profits are taxable as capital income.

If the savings are withdrawn from a long-term savings account before reaching the retirement age for any other reason, the tax benefit from the deductions during the saving period is cancelled by increasing taxation on the withdrawals. Premature withdrawals are taxable as capital income, with the rate increased by 50 per cent. The same increase is applied to the taxation if the savings are withdrawn over a period of less than six years.

Taxation in case of the account holder's death
When the long-term savings account holder dies, any savings in the account are transferred to the estate or the beneficiary in accordance with a will. First, the savings are taxable as the estate or the beneficiary's capital income at the value of the day of the death. Then the remaining amount after taxes is taxable as inheritance.

Depending on the total amount of savings and other inherited assets, the tax rate on inheritance is 0 to 16 per cent (according to the temporary law in force from 01.01.2013 to 31.12.2015, the maximum tax marginal on inheritance is 19%) if the inheritors are the account holder's children. In order to avoid double taxation, the income tax imposed on the amount of savings is deducted from the value of the inherited assets for taxation of the inheritance. The 35,000 euro relief is not applicable to the assets within a long-term savings policy, even if the beneficiary is the account holder's next of kin or estate.

Example
*When **Samuel Saver** died, he left 50,000 euros of long-term savings to his son Sean. At the time of withdrawal, the savings were subject to tax on capital income (30%), reducing the amount to 35,000 euros. Since this was the only asset Sean inherited from Samuel, inheritance tax of 1,150 euros was imposed on Samuel's savings.*

Taxation of capital gains and losses

Capital gain or loss is generated when you sell assets. Capital gain is generated when the sale price of the assets is higher than the acquisition price. Selling assets for a lower price than they were acquired for results in capital loss.

Capital gains calculation

Capital gains are reported as capital income on tax returns. The capital gains received from each single transaction are calculated separately. The residual amount of profit after deductions is taxable as capital income.

Capital gain is subject to the same tax regulations as any other type of capital income. Capital gain and other capital income are tallied up, and the taxable portion of up to 50,000 euros is subject to a tax rate of 30 per cent. The tax rate for the part exceeding 50,000 euros is 32 per cent. Capital gain received from selling an apartment or a house that you have owned and in which you have lived continuously for a period of two years is not taxable. Swapping the profit units of an investment fund for the growth units of the same fund and vice versa is tax exempt, whereas transferring the assets to another investment fund with the same or a different service provider is not. The profits received from selling conventional household effects that you or your family have used is tax exempt, insofar as the capital gain received from such sales during a tax year does not exceed 5,000 euros.

If the total sale price of securities and other assets during the tax year does not exceed 1,000 euros, the profits are exempt from tax, regardless of the amount of capital gain the investor has received. When applying the regulation, the sales of such assets that are tax exempt according to other provisions, such as the sale of a flat or a house, conventional household effects, or other comparable assets intended for personal use, are not taken into account.

Example

Sheila Student *received shares worth 800 euros for her graduation. She needed some cash and decided to make use of the tax exemption on small sales, selling 800 euros' worth of shares. Since Sheila did not sell any other securities or assets during the tax year, her sales were not subject to tax.*

There are two ways to calculate the capital gain: you can deduct either the actual acquisition cost or the deemed acquisition cost from the sales price. The time for which you have owned the assets and the method of acquisition affect the way the taxable profit is determined

Deemed acquisition cost

As a private individual, you can calculate the capital gain using the deemed acquisition cost instead of the actual acquisition price. In this case, the acquisition time of the asset is reported to tax authorities, and the deemed acquisition cost is determined according to the time for which the asset was in your possession.

The deemed acquisition cost of assets that have been in your possession for at least 10 years is 40 per cent of the sales price, and the deemed acquisition cost of assets that have been in your possession for less than 10 years is 20 per cent of the sale price.

Thus, the taxable capital gain received from assets that have been in your possession for less than 10 years is 80 per cent of the sale price. At the tax rate of 30 per cent, the tax on the capital gain is 30 per cent of 80 per cent, i.e. 24 per cent of the sale price of the asset.

Similarly, when calculated based on a deemed acquisition cost of 40 per cent, the tax on capital gain received from assets that have been in your possession for over 10 years is 30 per cent of 60 per cent, i.e. 18 per cent of the sale price of the asset.

If the deemed acquisition cost is applied to the taxation, the cost of acquiring or selling the asset cannot be deducted from the sale price of the asset.

If you have a book-entry account with securities or investment fund units acquired at different points of time, the first-in-first-out (FIFO) principle will be applied to the sales unless you can provide written proof that the assets were sold in a different order. Having securities on different book-entry accounts is regarded as proof of selling other securities than the ones you have acquired first.

The regulations governing the sales order changed as of the beginning of 2008. The acquisition time of a new share that has been subscribed based on a previously owned share is deemed to be the same as that of the previously owned share. When determining the acquisition order of a share subscribed in new issue and a previously owned share, the ordinary share is deemed to have been acquired before the share subscribed based on the ordinary share. Since the ordinary share and the new share subscribed based on the ordinary share are deemed to have been acquired at the same time for taxation, the deemed acquisition cost for both shares shall be the same. The shares sold from numbered investment fund units can be identified using the subscription numbers.

Actual acquisition cost

If the actual acquisition price and the cost of buying and selling the asset exceeds the deemed acquisition cost of 20 or 40 per cent, it is recommended that the actual acquisition cost is used to calculate the capital gain for taxation. Deductible expenses include commissions and transfer taxes, for example.

The acquisition cost of a gift or an inherited asset is the taxable value used in the taxation of the gift or inherited assets. The deemed acquisition cost can also be applied to the sale of a gift in case it is a more profitable option than the taxable value of the gift or inheritance.

Examples

*Over ten years ago, **Sam Shareholder** acquired some shares for the price of 16,000 euros including expenses. He sold them for 100,000 euros. For Sam, the deemed acquisition cost of 40 per cent turned out to be a more beneficial option than the actual acquisition cost. Thus, his capital gain was 60,000 euros, and the tax paid on the capital gain was 18,200 euros (30 per cent for the sum of 50,000 euros, i.e. 15,000 euros, and 32 per cent for the remaining 10,000 euros, i.e. 3,200 euros.)*

	Actual acquisition cost (EUR)	*Deemed acquisition cost (EUR)*
Sale price	*100,000*	*100,000*
Acquisition price	*-15,850*	
Commission	*-150*	
Deemed acquisition cost		*-40,000*
Capital gain	***84,000***	***60,000***

*Over ten years ago, **Helen Houseowner** acquired some property for the price of 60,000 euros, and paid 3,600 euros in transfer tax. Later, Helen sold the house for 84,000 euros. She paid a commission of 2,500 euros, and received 17,900 euros in capital gain. The tax payable is 5,370 euros. In this case, deducting the actual costs gave a more beneficial result than using the deemed acquisition cost.*

Deductibility of capital loss

Capital losses resulting from the sale of assets are tax deductible from capital gains. As of 2010, capital losses can be deducted in the taxation of the tax year during which the capital losses were generated and during the following five years. Thus, capital losses generated in 2010 can be deducted from capital gains generated in 2010 to 2015. Any capital losses generated in 2009 or earlier must be deducted in the tax year they were generated or during the following three years.

Capital losses cannot be deducted from other types of capital income, and capital losses cannot be deducted from the spouse's capital gains.

Capital losses are reported in the tax returns of the year the capital losses were generated. The oldest capital losses are deducted first.

However, if the total acquisition costs and sale prices of assets sold during the tax year do not exceed 1,000 euros, the capital losses are not deductible at all. Tax exempt items such as a flat or house used as the owner's permanent home for a period of two years, or conventional household effects, are not taken into account when calculating the amount of sales.

As a general rule, the capital loss resulting from the sale of a flat or a house or conventional household effects is not tax deductible. The capital loss resulting from the sale of a flat or house is only deductible if the owner has not owned the flat or house and lived in it for a period of at least two years.

The expiry of an option and the permanent loss of value of a security as a result of insolvency, for example, are also regarded as capital loss. The capital loss is deemed to have been generated in the tax year during which the loss of value can be regarded as permanent. The requirement of permanence may already be fulfilled in the year of the adjudication in bankruptcy if it can be proved that there will not be any dividends in the bankruptcy estate to be distributed among the shareholders. The capital loss resulting from an investment insurance's repurchase price being lower than the invested amount is not deductible.

The regulations governing capital gains and losses are applied to the trade in bonds. If an investor pays an above par value for a bond, the capital loss resulting from the above par value is only deductible when the bond matures or the investor sells it.

Examples

Simon Stock *has acquired 200 euros' worth of shares in company A and 850 euros' worth of shares in company B. The value of company B's shares has fallen to 200 euros.*

If Simon only sells the shares in company B, he will not be able to deduct the resulting capital loss of 650 euros. Therefore, it is advisable for him to sell the shares in company A as well. Since the total acquisition cost of the shares he has sold during the tax year exceeds 1,000 euros, the capital loss resulting from the sale of the company B shares is deductible.

In 2010, ***Isaac Inheritor*** *sold the cottage he had inherited for 67,000 euros, whereas the value of the cottage in taxation of his inheritance was 75,000 euros. He paid a commission of 2,600 euros to the estate agent. He did not receive any capital gains that year. Isaac reported the capital loss of 10,600 euros in his tax returns.*

The following year Isaac received a capital gain of 5,000 euros from selling shares. The capital losses from the previous year are deducted from the capital gain, and Isaac is not liable to pay any taxes on the capital gain. The remaining 5,600 euros of capital loss can be deducted from any capital gains he receives in the following four years.

Peter Persistent *owns shares in the company A, which was declared bankrupt in 2010. The acquisition cost of the shares was 1,200 euros including expenses. Following a report on the matter, the capital loss was acknowledged as permanent in 2010, resulting in a capital loss of 1,200 euros for Peter that year.*

Peter sells some of his shares in company B in 2012 and receives 4,000 euros of capital gain. The capital loss of 1,200 euros is deducted from the capital gain in 2012, resulting in capital gain of 2,800 euros for Peter Persistent.

Capital gains calculation in special cases

Certain special rules apply to capital gain calculation. If stocks are received or acquired using methods other than conventional trading, special rules may apply to the determination of acquisition date and cost.

Gift

In case of assets received as a gift, the taxable value of the gift used in gift taxation or the deemed acquisition cost is deductible as acquisition cost.

However, if assets received as a gift are sold within less than a year of receiving them, the acquisition cost paid by the donor, or a deemed acquisition cost of 20 per cent, is used as acquisition price. Thus the receiver of the gift selling it within less than a year of receiving it will pay tax on the increase of value accrued during the time the gift was in the possession of the donor. The aim of the regulation is to prevent the evasion of the tax on capital gain by means of donating the asset before selling it. If the receiver of the gift has paid tax on the gift, he or she can apply for rectification. The value of the gift is rectified by deducting the tax paid on capital gain income taxation from the value of the asset. However, the maximum deductible amount is the amount of tax that would have been imposed on the capital gain if the sale price had been the taxable amount used in gift taxation.

Example

Gary Gifted *received investment fund units worth 15,000 euros in gift taxation from his grandmother. After two years, Gary sold the units for 17,000 euros without any additional expenses. He received 2,000 euros of capital gain, and was taxed 600 euros.*

Erica Example *gave her daughter* ***Tina*** *a gift of some shares that were currently making loss. Erica had acquired the shares for 10,000 euros, and their value on the date of donation was 8,000 euros.*
Tina has to pay a tax on the gift, calculated from the value on the date of donation, i.e. 8,000 euros, resulting in a tax on the gift of 380 euros.

After the value of the shares has risen to 9,000 euros, Tina decides to sell the shares within less than a year of the date of donation. The price Erica originally paid for the shares (10,000 euros) is regarded as the acquisition cost, resulting in 1,000 euros of capital loss for Tina (10,000-9,000).

If Tina receives capital gain during the same year or during the following five years, she can deduct the capital loss from it. The tax benefit of the loss is 300 euros (30 per cent).

*In April 2011, **Gemma Gifted** received shares worth 85,000 euros from her father, who had paid 15,000 euros for the shares. The shares were subject to 8,860 euros of gift tax. In January 2012, Gemma sold the shares for 100,000 euros. Her capital gain after the deduction of the deemed acquisition cost of 20 per cent was 80,000 euros, which is subject to 24,600 euros of tax on capital gain.*

Sale price	*100,000 euros*
*(The price paid by the father**	*-15,000 euros)*
Deemed acquisition cost	*-20,000 euros*
Capital gain	*80,000 euros*
Tax 30% x 50,000 + 32% x 30,000 =	*24,600 euros*

**not applied because the deemed acquisition cost is higher*

***Gemma Gifted** applied for rectification to her tax paid on the gift. The taxation of the gift can be rectified by deducting either the tax payable for the capital gain from the taxable value of the gift, i.e. 85,000 euros, or the amount of tax that would have been imposed on her gift if the taxable value of the gift had been used as sale price. If the sale price had been the taxable value of the gift, 85,000 euros, the capital gain using the deemed acquisition cost of 20% would have been:*

85,000 - (20% x 85,000) = 68,000
0.30 x 50,000 + 0.32 x 18,000 = 20,760 euros.

Since the amount of the actual capital gain was higher (24,600 euros), 20,760 euros are deducted from the value of the gift.

Rectification of the tax on the gift	
Taxable value of the gift	*85,000*
Tax on the capital gain	*-20,760*
New value of the gift	*64,240*
Tax on the gift	*6,156*
Paid tax on the gift	*-8,860*
Refund	***2,704***

According to Gemma's application, her taxes payable on the gift are rectified by deducting the amount of the tax paid on the capital gain as calculated above (20,760 euros) from the value of the gift (85,000 euros). The new tax on the gift calculated from the remainder of 64,240 euros is 6,156 euros. The difference between the tax of 8,860 euros that Gemma had paid on the gift and the rectified tax is refunded to her, i.e. a sum of 2,704 euros.

If the sale price is 75 per cent or less of the market value of the asset, the sale will be considered to include a gift. In this case, the seller may receive taxable gain even if he or she did not receive any nominal gain. This is due to the fact that in case of a sale that is considered to include a gift, only a part of the actual acquisition cost is deductible.

Example

Matthew Moneypenny *buys shares worth 100,000 euros from his father for 20,000 euros. He pays tax of 8,210 euros on the gift worth 80,000 euros. His father had earlier acquired the shares for 50,000 euros. For his father's taxation, the acquisition cost is calculated as 20,000/100,000, i.e. 1/5 of the acquisition cost. This results in an acquisition cost of 10,000 euros. Matthew's father receives a capital gain of 10,000 euros from the sum of 20,000 euros that Matthew paid him, and will be liable for 3,000 euros in taxes for the capital gain.*

Inheritance

When an inheritor sells inherited assets, the taxable value confirmed in inheritance taxation is used as the acquisition cost for the calculation of the capital gain. For the next of kin, the tax payable on inheritance is lower than tax on capital income.

In case the inheritor sells the inherited assets immediately after the distribution of the estate, the acquisition cost equals to the value of the asset at the date of death (the value applicable for inheritance taxation). The same applies if the inheritor sells inherited assets that he or she inherited less than a year ago.

Example

Isaac Inheritor *inherited investment fund units worth 25,000 euros at the date of death from his grandfather. The value of the investment fund units had risen slightly by the date of the estate inventory, however, the investment fund units are recorded at the rate of the date of death on the deed of estate inventory. Accordingly, the value of the units is confirmed as 25,000 euros in inheritance taxation according to the deed.*

After two years, Isaac sells the investment fund units he had inherited for 30,000 euros. He receives 5,000 euros of capital gain, and will be taxed 1,500 euros for capital gain.

Foreign capital gains

An individual resident in Finland is liable to pay tax in Finland on foreign capital gains. The amount of tax payable is calculated using the same method as for capital gain generated in Finland, i.e. the tax rate is either 30 or 32 per cent of the capital gain.

To avoid double taxation, Finland has signed double taxation treaties with many countries. In most cases the treaties guarantee that capital gains are only taxable in the seller's country of residence, i.e. Finland will collect taxes from individuals resident in Finland. Accordingly, a Finnish citizen resident in a country outside Finland normally pays the tax in his or her country of residence.

In case of capital gain received from the sale of property, the capital gain is usually also taxable in the country where the property is located. Many treaties treat shares in housing associations as they would a piece of property. The taxes payable in countries outside Finland are usually credited in Finland. The taxation rights of each country should always be checked carefully in the double taxation treaty between Finland and the country in which the property is located.

Capital gain and share issues

The acquisition cost of new shares subscribed in a new issue (rights issue) based on previously owned shares, is calculated by dividing the total acquisition cost of the previously owned and new shares by the total number of previously owned and new shares. The deemed acquisition cost may also be used when calculating capital gain.

In case of shares acquired in a scrip issue, the acquisition price of the shares is calculated by dividing the acquisition cost of the previously acquired shares by the total number of new and previously acquired shares.

However, in case of shares acquired in issues registered before the year 2005, the actual subscription price of the shares is regarded as the acquisition cost. Alternatively, the deemed acquisition cost can be deducted. For shares received free of charge, the acquisition cost is zero, and the deemed acquisition cost is deductible from their sale price.

The acquisition cost of previously owned shares is not taken into account when calculating the acquisition cost of warrant bonds, options, convertible bonds, or subscription rights subscribed for on the basis of the previously owned shares.

The deemed acquisition cost of shares acquired in share issues depends on the acquisition date of the previously acquired shares. If a shareholder subscribes for more shares than he or she would be entitled to on the basis of the subscription rights, the acquisition date of the extra shares is calculated from the date the new shares were subscribed.

Example

Isabel Investor *has 100 old shares in company A. She acquired them for 20 euros per share, the total acquisition price being 2,000 euros. In 2005 she received 10 more shares in a scrip issue and thus owns 110 shares in the company. The acquisition price of 2,000 euros she paid for the previously acquired shares is divided by 110, resulting in an acquisition cost of 18.18 euros per share.*

Isabel Investor owns 100 shares in company B. She acquired them for 10,000 euros. In 2005, company B organises a rights issue where shareholders are entitled to subscribe for a new share at the price of 50 euros for each share they own in the company. Isabel subscribes for the new shares offered and thus the number of shares she has in the company increases to 200. The total acquisition cost of the previously acquired and new shares is 15,000 euros. When this amount is divided by the total number of shares, the resulting acquisition price is 75 euros per share after the rights issue.

*In spring 2012, **Eric Emission** owned shares in Outokumpu. He decided to sell the subscription rights attached to the shares for a price of 4 euros each. When calculating the resulting capital gain, Eric can only use the deemed acquisition cost when calculating the acquisition cost of the subscription rights. Eric had owned the shares for less than 10 years so the deemed acquisition cost is 20 per cent, i.e. 0.80 euros per subscription right. Thus, the capital gain per subscription right is 3.20 euros.*

***Timothy Talkative** participated in Sonera's share issue in 2001. The terms of the share issue stated that two previously acquired shares entitled the owner to subscribe for one new share.*

Timothy owned 200 shares in Sonera. He had acquired them in 1998 when Sonera first went public for FIM (Finnish Markka) 45 each. Timothy subscribed for the 100 new shares in Sonera that he was entitled to and paid 2.70 euros each. When Timothy eventually sells the shares in the future, he will have to decide whether he calculates the capital gain resulting from the sale of the shares according to the actual acquisition cost or the deemed acquisition cost.

The actual acquisition cost of the shares Timothy subscribed for in the share issue is the price of 2.70 euros each that he paid for the shares. When Sonera merged with Telia, Timothy received 151 shares on the basis of the shares subscribed for in the share issue. The actual acquisition cost of the shares is calculated by dividing the acquisition cost of 270 euros by 151. This results in an actual acquisition cost of 1.789 euros per share. If he decides to apply the deemed acquisition cost, the acquisition date of the shares subscribed for in the share issue in 2001 is deemed to be the acquisition date of the original shares in 1998 that entitled him to subscribe for the shares.

When shares in one company have been acquired in several batches, the acquisition cost of each batch has to be calculated separately.

Example

***Sam Shareholder** has acquired shares in company Y in two batches; the first 150 shares at a price of 1,500 euros and then 50 shares for a price of 375 euros. In the scrip issue in 2005, he received 100 new shares for free on the basis of the 200 shares he already owned. After selling all the shares, Sam started calculating his capital gain. This required him to calculate the acquisition cost of both batches separately.*

	Original acquisition cost (EUR)	number	New shares from the scrip issue	total	acquisition cost (EUR)
1st batch	1,500	150	75	225	1,500/225=6,66
2nd batch	375	50	25	75	375/75=5,00

As a general rule, it is assumed in taxation that the shares that were acquired first are sold first, according to the FIFO principle. Thus, the acquisition cost of Sam's first batch of shares was 6.66 euros per share, and the acquisition cost of his second batch was 5 euros per share.

Split

When a company splits the value of its share, the number of shares changes. The acquisition cost is calculated by dividing the original acquisition cost by the new number of the shares. In taxation, the acquisition date of the shares received in the share split is the acquisition date of the original shares.

Example

*In March 1998, **Edie Ericson** acquired 100 shares in Nokia at a rate of 5.70 euros per share, the total acquisition cost amounted to 570 euros. In April, Nokia announced a split of the nominal value of the share at a ratio of 1:2. After the split, the number of Edie's shares in Nokia was 200. The following year, a new split at the same ratio was announced, increasing the number of shares Edie owned to 400. In 2000, the split ratio used was 1:4. As a result, Edie owns 1,600 shares in Nokia. With a total acquisition price of 570 euros, the acquisition price per share is 0.36 euros.*

Share exchange and redemption

For shares acquired through a share exchange that is a part of a company reorganisation according to tax legislation, the acquisition date and acquisition cost of the shares is deemed to be that of the original shares. If the shareholder receives cash compensation instead of or in addition to new shares, the cash portion is subject to tax on capital gain in the year of receipt.

In case of any other type of share exchange, the share exchange is taxable as a sale for both parties. The market value of the shares at the date of exchange is deemed to be the sale price.

Example

*In the new issue of Kansallis-Osake-Pankki (KOP) in November 1994, **Richard Rockerduck** subscribed for 3,000 shares at FIM 6.40 each, i.e. he paid a total of FIM 19,200 for the shares. In the merger of KOP and SYP in 1995, the shares were exchanged for shares in Merita at a ratio of 3:1. Richard thus received 1,000 shares in Merita. In 1999, he accepted an exchange offer by Nordbanken Holding to trade one share in Merita for 1.02 shares in Nordbanken. Richard received 1,020 shares in Nordbanken, which later became Nordea. The merger and the share exchange did not result in any tax consequences for Richard.*

When he decides to sell his shares in Nordea, their acquisition date will be 14.11.1994 and the acquisition cost FIM 18.82, i.e. 3.17 euros per share.

Shares as dividend in kind
The acquisition cost of shares received as dividend in kind is the market value of the shares at the date of reception. The entire market value is regarded as acquisition cost regardless of the fact that part of dividend income is tax exempt. The acquisition date of the shares is the date they were received.

Examples
To quote Tikkurila as a separate entity in the stock market, Kemira paid its dividends in kind in the spring 2010 in shares in Tikkurila. Four shares in Kemira yielded one share in Tikkurila. In addition, Kemira paid 0.27 euros per share of dividend in cash. For taxation, the acquisition cost of a share in Tikkurila was the trading volume weighted average price on the first trading day (30.03.2010), which was 15.80 euros.

***Claire Chemist** owned 1,000 shares in Kemira and received 250 shares in Tikkurila and 270 euros of dividend in cash. She was liable for total tax on dividend income of 827.12 euros (for the shares in Tikkurila, 250 x 15.80 x 19.6% = 774.20, and for the cash dividend, 270 x 19.6% = 52.92).*

The advance tax of the tax on dividend income takes up the whole amount of Claire's dividend in cash, and the remaining 557.12 euros will be collected as residual tax in final taxation.

When Claire eventually sells her shares in Tikkurila, their acquisition date will be 30.03.2010 and acquisition price 15.80 euros each. This does not affect the acquisition price and date of the shares in Kemira that Claire owns.

In May 1997, UPM-Kymmene paid a part of its dividends in shares in Rauma. In the distribution of dividend, the value of a share in Rauma was 18.35 euros (FIM 109.11). At the time of the merger between Rauma and Valmet in 1999, the shares were converted into shares in Metso. One share in Rauma was exchanged for 1.08917 shares in Metso.

***Phyllis Pheasant** owned 100 shares in Rauma. After the merger, she had 108 shares in Metso. In addition, she received compensation in cash because the number of shares did not result in an exact whole number. The total acquisition price of the shares was 1,835 euros, i.e. 16.99 euros per share.*

Shares as bonus
When privatising state owned companies, private individuals have been offered bonus shares. In taxation, this is treated as price reduction and the original acquisition price is divided by the new number of shares.

Example
***Eileen Energetic** subscribed for 1,000 shares in Neste for the price of FIM 78 each in 1995. After having kept these shares for a year, each shareholder received one share*

as a bonus for every 10 shares he or she owned. The number of shares Eileen owned increased to 1,100. When Neste merged with Imatran Voima, Eileen received 5.5 shares in Fortum for each share in Neste that she owned. After the merger, she owned a total of 6,050 shares.

Eileen decided that she would sell a part of her shares and started thinking about the taxation of the capital gain she would receive from the sale. The acquisition date is 1995, when she subscribed for the shares in Neste. The total acquisition cost of the shares she owned was the sum of FIM 78,000 that she paid for the shares in Neste. When this acquisition cost is divided by the total number of the subscribed shares and the shares she had received later, the resulting acquisition price of a share is FIM 12.89, i.e. 2.17 euros.

In spring 2005, Eileen Energetic owned 1,000 shares in Fortum. She received a dividend in cash of 0.58 euros per share. In addition, she received 250 shares in Neste Oil, worth 15 euros each, 3,750 euros in total.

The total taxable dividend Eileen received was 4,330 euros (580 + 3,750). Later, when Eileen sells the shares in Neste Oil that she received as dividend in kind, their acquisition date will be April 2005 and acquisition cost 15 euros per share.

Shares received in connection with a company spin-offs

A spin-off is a procedure in which an existing company is divided in two or more separate companies. Usually, the shareholders of the company from which the new company is separated are entitled to receive shares in the new company.

If the spin-off is carried out in accordance with tax legislation, receiving shares in the new company does not result in tax consequences for the shareholders. For taxation of capital gain, the acquisition date of the shares in both companies is the acquisition date of the shares in the company from which the new company was separated. The original acquisition cost is divided among the shares in both companies. In most cases, the companies send their shareholders a letter explaining the division ratio. This letter should be kept for taxation purposes.

Examples

Woody Woodpecker *owned shares in Lassila & Tikanoja when the company was divided in two in 2001. The shareholders received one new share in Lassila & Tikanoja and one share in J.W. Suominen Yhtymä for each share they owned in Lassila & Tikanoja.*

The acquisition cost of the old shares in Lassila & Tikanoja was divided into the acquisition cost of the new shares at a ratio of 71.6% of the original acquisition cost to the new share in Lassila & Tikanoja and 28.4% of the original acquisition cost to the share in J.W. Suominen Yhtymä, as proposed in the spin-off plan.
Woody had paid 12 euros a share for the original shares. The acquisition cost of his new shares in Lassila & Tikanoja is 8.59 euros and the acquisition cost of his shares in J.W. Suominen Yhtymä is 3.41 euros.

At the time of the division of Kone into two separate companies, ***Harry Hardhat*** *owned 100 shares in Kone. He had acquired the shares for 6.90 euros each.*

For his original shares in Kone, Harry received 100 new shares in Kone and 100 shares in Cargotec. It was decided that 64.5 per cent of the original acquisition price would be regarded as the acquisition cost of the new shares in Kone and 35.5 per cent as the acquisition cost of the shares in Cargotec. Hence, after the spin-off, the acquisition price of Harry's new shares in Kone was 4.45 euros and the acquisition price of his shares in Cargotec was 2.45 euros each.

Repayment of capital

Instead of distributing dividend, a quoted company may repay capital to the shareholders. For taxation, the repayment of capital is treated as a taxable transfer. The repayment of capital is not subject to advance tax.

If the repayment per share is higher than the original acquisition cost of the share in question, the amount exceeding the acquisition cost is regarded as capital gain. If the repayment is lower than the acquisition cost, the repayment is deducted from the acquisition cost and capital gain will not be generated at this point.

In this case, the shareholder's acquisition cost of the share is reduced by the amount repaid. When the shares are eventually sold, the resulting capital gain increases or the capital loss decreases by the amount repaid, in comparison to what it would be without the repayment.

Examples

***Phil Pharmacist** owned 200 A shares in Orion that he had acquired for 11.20 euros each. On 07.04.2010, Orion distributed dividend of 1.00 euro per share and repaid 0.10 euros worth of capital per share.*

The dividend income Phil received amounted to 200 euros, and he was liable to pay 39.20 euros (19.6%) for it in taxes. The capital repayment decreased his original acquisition cost of the shares by 0.10 euros to 11.10 euros each. The capital repayment will only have an effect on the taxation of the capital gain or loss Phil receives when he eventually sells the shares.

*In spring 2006, **Charlie Chatter** acquired 1,000 shares in the telecommunications company Elisa, for a total sum of 18,150 euros. On 01.04.2008, Elisa repaid 1.80 euros of capital per share to the shareholders.*

Later, Charlie sold his shares in Elisa for a total sum of 17,500 euros. At this point, the capital repayment increased his taxable capital gain and taxes payable.

Sale price	*17,500 euros*
Capital repayment	*1,800 euros*
Acquisition cost	*-18,150 euros*
Taxable capital gain	***1,150 euros***

Convertible bonds and option loans

Convertible bonds are exchangeable for shares according to the terms of the loan. The exchange does not result in capital gains taxation. When selling the shares, the subscription date of the convertible bond is regarded as the acquisition date, and the total subscription cost of the convertible bond and the share is the acquisition price.

The option certificates attached to an option loan entitle the owner to subscribe for new shares in the company under certain conditions. The loan certificate and the option certificates can be sold separately. In this case, the market value of the loan at the date of issue is regarded as the acquisition cost of the loan certificate. The deemed acquisition cost may also be applied to the option certificate. The acquisition date of the shares acquired on the basis of the option certificates is the acquisition date of the option certificate.

Options received as a customer

When a company gives options to its customers that entitle them to acquire shares in the company like Stockmann has done, the acquisition cost of the options is 0.

When selling the shares subscribed for on the basis of the options, the acquisition price is the price paid for the shares, and the acquisition date is the date of the binding subscription for the shares

Stock option benefits

An employment-related stock option benefit, i.e. the right to subscribe for or to receive shares for a reduced price is taxable as earned income. The tax is payable in the year you exercise your stock option or sell it. Exercising a stock option means subscribing for the shares the option entitles you to. The stock option benefit is added to your other earned income, and the amount of tax payable depends on the applicable marginal tax rate.

Private share issue for employees

If the employees of a company are entitled to subscribe for shares in the company for a reduced price, the benefit is taxable as earned income if the price reduction exceeds 10% of the market value of the share. The benefit is taxable regardless of the percentage unless the benefit is offered to the majority of the employees.

Options and forward agreements

Profits from the trade in stock options and forward agreements are taxable as capital income. However, the deemed acquisition cost is not deductible in case of selling forward agreements. The acquisition price and expenses that have arisen in connection with buying and selling a forward agreement are deductible from the sale price of forward agreements.

Warrants

Capital gains or losses received from selling warrants are taxable the same way as other securities, i.e. based on actual gain or deemed acquisition cost. The acquisition price of warrants is the price paid for them plus any expenses that have arisen in connection with buying or selling the warrants.

If warrants are used for trading shares, the acquisition cost of the warrant is most likely allocated to the acquisition cost of the shares. However, there is no established practice for the calculation of the acquisition cost of the shares.

Interest deductions and credit for a deficit in capital income

Interest deductions are allocated to capital income. The interest on loans for acquiring a home or for acquiring earned or capital income, and the interest on student loans, count as deductible interest. The interest on mortgages or home loans is only partially deductible (85% in 2012, 80% in 2013, and 75% as of 2014). Loans for acquiring income include loans taken for acquiring shares, flats to be rented out, or forest. The expenses relating to these loans are deductible whereas the expenses relating to home and student loans are not. The interest costs of a loan for buying a holiday home or second home for your own use, and the interest on other personal loans are not tax deductible. This also applies to the interest on loans taken for acquiring tax exempt income or income subject to the tax withheld at source, such as interest on index loans. The interest on a loan taken for voluntary pension insurance is not tax deductible. The interest on a loan invested in investment insurance will most likely be regarded as deductible interest on a loan for acquiring income.

Example

Mary Moneypenny *wanted to calculate the tax payable on her capital income for the tax year 2012. She did not receive any earned income but she had received 1,500 euros' worth of dividend from a quoted company and 500 euros of profit from an investment fund. The interest on her home loan was 2,530 euros and the expenses in connection with her book-entry account 82 euros.*

To estimate her tax payable on capital income Mary will have to calculate the taxable portion of the dividend and deduct the expenses from the result. The taxable portion of the dividend is 70% x 1,500 euros, i.e. 1,050 euros.

Taxable dividend income	*1,050 euros*
Profit from the fund	*500 euros*
Total capital income	*1,550 euros*
Interest (85% of 2,530 euros)	*-2,150.50 euros*
Other expenses	*-82 euros*
Own risk	*50 euros*
Deficit in capital income	*-632,50 euros*

Credit for a deficit in capital income

Deductions allocated to capital income exceeding the amount of capital income result in a deficit in capital income. An individual living alone can deduct 30 per cent, up to a maximum of 1,400 euros, from his or her tax payable on earned income.

Both spouses are entitled to credit for deficit in capital income. For one person, the maximum amount is reached if the deficit amounts to 4,666.60 euros. The portion of the credit for a deficit in capital income that cannot be deducted from the individual's taxes can be credited to his or her spouse.

If the amount of deficit exceeds the amount deductible in the tax year, the deficit is regarded as loss and it is deductible from the capital income during the following ten years.

However, capital loss is only deductible from capital gain, and it can only be deducted in the tax year of the event and the following five years. Losses on account of contributions to pension insurance or long-term savings accounts cannot be confirmed even if they exceed the maximum deductible amount. The credit for a deficit in capital income resulting from the interest on a home loan for first-time buyers is 32 per cent in the year the home is taken into use and the following nine years.

Maximum amounts of credit for a deficit in capital income (EUR)

Single person	1,400
Adult with 1 child	1,800
Adult with several children	2,200
Spouses	2,800
Spouses with 1 child	3,200
Spouses with several children	3,600

Example

Matthew Moneypenny *has 3,000 euros of deductible interest costs and 3,000 euros of dividend income, taxable dividend income amounting to 70% x 3,000 euros, i.e. 2,100 euros. This results in 3,000 euros - 2,100 euros, i.e. 900 euros of deficit in capital income. The credit for a deficit in capital income is 30 % x 900 euros, i.e. 270 euros. The whole amount of credit in capital income is deductible from his tax payable on earned income.*

Angel investor deduction

An angel investor is a private individual who invests in unquoted companies as minority share holder. A natural person liable to pay taxes in Finland is entitled to an additional deduction in the tax years 2013 to 2015 on the basis of his or her investment in new share capital of a limited company. The deduction is subject to the conditions determined in the law governing tax reliefs. The law is in force as of 15 May 2013 (Ministry of Finance Decree No. 341/2013).

The investor is entitled to deduct an amount that corresponds to 50 per cent of the new share capital he or she has invested in the company during the tax year from his or her capital income. The maximum amount deductible on the basis of investments in one company is 75,000 per tax year. The deduction will not be granted if the deductible amount is less than 5,000 euros. The maximum amount deductible on the basis of investments in multiple companies is 150,000 per tax year.

If the investor is unable to deduct the deductible amount in the tax year during which the sum was invested, the non-deductible amount can be deducted from the investor's capital income during the following three years as capital gain is generated. The deduction is not taken into account in the calculation of the credit for a deficit in capital income or the loss of the capital income stream.

To be deductible, the amount of investment must correspond to less than 50 per cent of the share capital of the company after the investment. The investor or anyone in his or her closest circle of acquaintances must not own or have owned, directly or indirectly, any shares of the target company during the tax year or three years preceding the tax year during which the investment is made. The limit does not apply to the investor for any subsequent investments after the first angel investment in the company.

According to the legislation, the target company must be an unquoted limited company or a corresponding financial company registered in the European Economic Area, liable for income tax and with a fixed office in Finland. Several additional conditions are applied, such as the requirement that the company is a small company mainly practising business that is not that of a credit institute or insurance activity, property business, investment business or trade in securities. The target company must not engage in shipbuilding or coal and steel business. The company must have been registered in the Finnish Trade Register or a corresponding foreign register for no more than six years before the date of the investment.

The deduction is not a final deduction; when selling the shares and calculating the capital gain, the amount deducted from the investor's taxation will be deducted from the acquisition cost of the shares. The same applies to giving up the shares for a dividend if the target company is dissolved. In case of gratuitous transfer, the portion deducted from the investor's taxation is regarded as capital income in the year during which the shares are transferred or the company quits its business activities.

Taxation of gifts and inheritance

The state collects tax on gifts and inheritances according to the gift and inheritance tax rate table (see tax scales at the end of this guide). As a rule, the tax is levied on individuals resident in Finland regardless of where the assets are located.

The minimum taxable values are 4,000 euros for a gift, and 20,000 euros for an inheritance. Two tax brackets with different tax scales are applied to taxation of gifts and inheritance. The spouse and inheritors a generation above or below the deceased belong in tax bracket I. Other relatives and unrelated persons belong in tax bracket II.

Gifts given within three years are tallied up, and the total amount is taxable.

For tax reasons, it is recommended to make it clear in the deed of donation that the donated assets are not intended as an advance portion of inheritance. Advance portions of inheritance are tallied up with the inherited amount without a time limit, causing the tax payable for the final inheritance to increase due to the progression in the tax scales. Both spouses can separately donate assets to their children and their offspring or to any other person. The taxable value of donated securities is based on the market value of the securities.

A transaction is deemed to include a taxable gift if the sale price or other remuneration received is 75% of the market value or less. If the price reduction exceeds the maximum allowed amount of 25%, the difference between the sale price and the market value is taxable as gift.

When donating assets, it is advisable not to sell the assets received as a gift until at least a year has passed since the date of donation. After a year of ownership, the acquisition cost, i.e. the value of the asset on the date of donation, is deductible from the sale price. In the case of shares that were acquired a long time ago, this may result in a considerable tax benefit.

If the receiver of the gift sells the shares before he or she has owned them for at least a year, either the acquisition cost the donor paid or the deemed acquisition cost of 20 per cent will be regarded as the deductible acquisition price. Thus the receiver of the gift will pay tax on the increase in value during the time in which the donor has had ownership of the gift. (See chapter “Capital gains calculation in special cases” for examples on the valuation of gifts).

Gift tax return form

Within three months of receiving a gift, the receiver must file a gift tax return form to the tax authorities in the donor’s place of residence. The forms are available at tax offices and online at www.vero.fi. If the value of the gift is less than 4,000 euros, it is tax exempt and does not need to be reported. However, it is mandatory to submit a gift tax return if the total value of the gifts received from a single donor exceeds 4,000 euros.

In some cases, it may be beneficial for the receiver of a gift to report tax exempt gifts to the tax authorities: If the assets received are reported, the value of the gift is confirmed in gift taxation.

If a gift has not been reported, the deductibility of the market value from the sale price requires unequivocal proof of the market value. The market value of stocks and investment fund units, for example, can be proved unequivocally retrospectively.

A donation within the family should be reported to the local registrar's office to make sure it binds the creditors of the donor. The obligation to report gifts does not apply to conventional gifts.

Proprietary rights

Proprietary rights received as a gift or from a will are not taxable as inheritance or gifts. Proprietary rights may reduce the amounts of tax payable on inheritance and gifts (see the following chapter).

Tax planning

Taxation will affect the final profit received from an investment. Therefore tax planning will help increase the net amount received after tax.

It is recommended that taxation is planned beforehand with the help of an expert. Despite the large number of fixed rules in taxation, it all boils down to interpretation of the relevant laws.

The role of taxation in making investment decisions should be marginal. From a solely taxation focused point of view, it would be best to acquire shares for a high price and then sell them for a low price to keep the tax on capital gain as low as possible. However, most investors are not looking to pay high prices and sell the same assets for a low price.

It is also important to keep in mind that tax evasion is illegal. Tax evasion includes any artificial arrangements with the sole purpose of evading or minimising taxes.

Timing of transactions

In taxation, the points in time when assets are acquired and sold play a decisive role, as they affect the way the resulting capital gain or loss is calculated.

For tax purposes, it is important to keep any receipts that document the acquisition date and cost of assets. It is also advisable to keep book-entry account statements for trades in securities, share issues, and changes in the number of shares as well as information regarding mergers. Receipts relating to maintenance and repair work carried out on investment flats and properties may also be needed.

Selling at a loss

As a rule, an investor does not want to sell at a loss, but sometimes it is inevitable. The good news is that for taxation, capital losses are deductible from the capital gains.

A good rule of thumb for selling at a loss, is to only sell at loss when you have received capital gain from selling other assets.

Example

In 2010, ***David Designer*** *sold some of his shares in company X that he had owned for just over a year, after their price had plummeted by 25 per cent to 3,750 euros. He cannot deduct the capital loss of 1,250 euros in taxation because he did not receive any capital gain during the tax year.*

David still owns some shares in company Y that he acquired the year before last. Since the rate of company Y has gone up by 40 per cent, David decides to sell the shares and make use of the deductibility of the previous loss.

He sold the shares in Y for the price of 5,600 euros and received 1,600 euros of capital gain.

After deducting his capital loss from the sale of the shares in X, David's remaining capital gain is only 350 euros (1,600 - 1,250). The tax payable on the capital gain is

105 euros (30% of 350 euros), whereas the tax payable without the capital loss would have amounted to 480 euros (30% of 1,600 euros).

Back and forth trading
It may be beneficial for a person investing in shares to trade the shares in one company back and forth even if just within a short time frame. For example, selling at a loss and buying back the shares can help reduce the acquisition cost of the shares.

The resulting capital loss is also deductible from the capital gain received from selling other assets. However, to avoid the tax authorities treating back and forth trading as tax evasion, the transactions should be made openly on the stock exchange. For this reason, the transactions should also be a few days apart to let the markets affect the rate of the shares openly.

Distribution of dividend
Since the tax on capital gain on shares not qualifying for the deemed acquisition cost of 40% is higher than the tax on dividend income, timing is worth considering when trading shares at the time of distribution of dividend. The highest possible acquisition cost can be achieved by acquiring shares immediately before the distribution of dividend, and the lowest possible sales price can be achieved by selling the shares immediately after the distribution of dividend. As a rule, the distribution of dividends lowers the market price of a share by the amount of the dividend.

Gifts given in small batches
Long term tax planning is possible when considering inheritance and giving gifts. Gifts can be given in batches that are tax exempt or subject to a low tax rate.

If the total value of the gifts one donor has given to one recipient during a period of four years is less than 4,000 euros, the gifts are tax exempt. Actual dates are applied when calculating the three-year limit.

It is also worth making sure that the recipient of the gift will not have to sell the assets received as a gift until at least a year has passed since receiving the gift. (See chapter “Capital gains calculation in special cases”)

Example
A single gift of 20,000 euros in tax bracket I is subject to a tax of 1,310 euros, whereas a gift of 5,000 euros is subject to 170 euros. Therefore, the tax payable on a gift of 20,000 euros given in four batches is only 680 euros. The donations must be at least three years apart.

Legacy to grandchildren
Donating or leaving assets to grandchildren in a will saves the inheritance tax for one generation. You can leave your assets to anyone you wish in your will. If the assets

transferred to the beneficiary of the will are below the limit of 20,000 euros, the assets will be exempt from tax on inheritance. You can, for example, leave 19,990 euros to each of your grandchildren or godchildren in your will, and this will not be subject to tax on inheritance.

The inheritors can also renounce the inheritance for the benefit of their descendants or inheritors. If the person renouncing the inheritance has several children, the number of inheritors increases and the total amount of tax payable on the inheritance decreases. The tax on capital gain received from selling the estate's flat or house used as the family's home can often be reduced through a partition of the joint property of the spouses. This way, the whole flat or house is transferred to the surviving spouse before the sale. This way a widow benefits from the original acquisition date and cost from when the deceased acquired his or her part of the property, and often the tax exemption based on the requirement that the flat or house has been used as his or her own home for a period of 24 consecutive months during the time of ownership. Otherwise, the tax exemption from selling your own home only applies to the part of the flat or house that the widow owned, unless the inheritors use it as their home for two years after they have inherited it.

Example

*When **Colin Coinage** died, he left behind assets worth 300,000 euros. Colin's daughter and son would both be liable to pay inheritance tax of 15,200 euros each for their inheritances of 150,000 euros.*

His daughter Carol Careful decides to renounce her inheritance for the benefit of her three children. Thus, Carol will not be liable to pay any taxes on the inheritance. Each of her children now inherits 50,000 euros and is liable to pay inheritance tax of 2,500 euros, i.e. a total of 7,500 euros for Colin's three grandchildren.

Right of possession

The rights of possession may reduce the amount of tax payable on inheritance and gifts. The holder of the right of possession receives the profit generated from the asset and pays for the maintenance of the asset. If the right of possession was received on the basis of a law or a will, the asset cannot be distrained.

A mutual will between spouses giving the right of possession to the surviving spouse will reduce the tax payable on the inheritance by their children. A mutual proprietary will can also be accepted as a will transferring the right of possession only. In this case, the tax consequences are the same as in case of an original mutual will regarding the right of possession. Securities can also be donated while reserving the right of possession and the right to the yields generated from the securities.

A lifelong right of possession or right to the yields reserved in the deed of donation reduces the amount of tax payable on the gift by the receiver. The younger the donor, the larger the relief. Please note, however, that in most cases, the person that reserved the right of possession and the right to the yields is still liable to pay taxes on the yields of the donated assets in income taxation and for its value in property taxation.

The annual value of the right of possession, i.e. the portion of the market value, depends on the type of the asset. The annual capitalised value of a flat is usually 5 per cent and of a holiday home or second home 3 per cent. Other assets are valued according to their actual annual yield such as the average dividend yield. The concept of "lifelong" is taken into account according to the age of the holder of the right of possession as follows:

Age of the holder of the right of possession	The factor for multiplying the annual
yield	
under 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
over 92	2

Example

The Cabinowners *donate a holiday home to their three children but reserve the lifelong right of use and right of possession. The market value of the holiday home is 60,000 euros. The Cabinowners are 55 years old. The annual value of the right of possession is 3 per cent and the age-based factor is 10. After the deduction of 30 per cent, the taxable value of the gift is 42,000 euros. Each child receives a gift worth 7,000 euros from each of their parents, and each child is liable to pay 2 x 310 euros, i.e. 620 euros of tax on the gift. The benefit due to the right of possession amounts to 420 euros for each beneficiary.*

Termination of the right of possession

When the right of possession expires as a result of the death of the donor, the owner of the asset receives the full ownership of and right of possession to the asset without further tax consequences. If, however, the holder of the right of possession gives up the right during his or her lifetime, the current value of the right of possession is regarded as a gift to the owner of the asset. The tax benefit received from the right of possession is usually forfeited if the asset is sold or the right of possession is otherwise given up during the holder's lifetime.

Example

After turning 65, the widowed ***Mrs Cabinowner*** *stops spending time at the holiday home. The children decide to sell the holiday home for 180,000 euros. In addition to the tax on capital gain, the children are liable to pay gift tax for the current value of the right of possession. Each of the three children is liable to pay 828 euros of gift tax. Thus, the gift tax payable amounts to a larger sum than the amount that reservation of the right of possession reduced the gift tax by earlier.*

Prospects for the year 2014

In spring 2013, the Finnish Government decided to make certain changes to taxation for investors. The changes will only be confirmed in autumn 2013, after this guide has been printed. Below is a list of changes under consideration in spring 2013.

The capital income tax rate will remain at 30 per cent. However, as of 2014, the higher capital income tax rate of 32 per cent will be applied to capital income exceeding 40,000 euros.

Taxation of dividends will increase. The taxable portion of dividend received from quoted companies will increase to 85 per cent, i.e. the dividend received from quoted companies will be taxable at a rate of 25.5 to 27.2 per cent in 2014. The tax on dividends received from unquoted companies within the so-called "normal yield" of 8 per cent (up to 150,000 euros) is 7.5 to 8 per cent, and 25.5 to 27.2 per cent for the part exceeding the normal yield. The concept of dividend as earned income will no longer be used.

The corporation tax rate is lowered from 24.5 per cent to 20 per cent. This keeps the total tax ratio of the shareholders of quoted companies unchanged, i.e. the lower corporation tax rate compensates the increase in the taxation on dividends.

The 2013 tax scales

Income taxes

State income tax rates

Taxable earned income (EUR)	Tax at the lower limit (EUR)	Rate for the portion exceeding the lower limit (%)
16,100–23,900	8	6,5
23,900–39,100	515	17,5
39,100–70,300	3,175	21,5
70,300–100,000	9,883	29,75
100,000-	18,718.75	31,75

In addition to the progressive state tax, earned income is also subject to municipal tax, church tax, and health insurance contribution. The employer also withholds from the salary and wages, pension insurance and unemployment insurance contributions. These amounts are tax deductible.

The municipal tax rate varies between 16.25 and 22 per cent, depending on the municipality.

The church tax rate varies between 1.00 and 2.15 per cent. Members of the Evangelic Lutheran and Orthodox churches are liable for the church tax.

The pension insurance contribution payable by the employee is 5.15 per cent of the gross salary or wage income until the age of 52, and 6.5 per cent as of the age of 53. The unemployment insurance contribution is 0.60 per cent. The contributions are tax deductible.

The health insurance contribution is 1.3 per cent of the income taxable in municipal taxation. The daily benefit contribution for employees is 0.74 per cent. The health insurance contribution payable by pensioners is 1.47 per cent.

Inheritance and gift tax rates

Two separate tax brackets are applied to the taxation of inheritance and gifts.
The spouse, inheritors a generation above or below, and the spouse's inheritors in the generation below belong in tax bracket I. A common-law partner or cohabiting partner is equal to a spouse in this respect, if the couple has previously been married or if they have a child together. However, a common-law partner or a cohabiting partner can only inherit the assets of the deceased partner under a will. Other relatives and unrelated persons belong in tax bracket II.

Inheritance tax rates, bracket I

Value of the taxable portion	Tax at the lower limit	Tax for the part exceeding the lower limit (%)
20,000-40,000	100	7
40,000-60,000	1,500	10
60,000-200 000	3,500	13
200,000-1,000 000	21,700	16
1,000,000-	149,700	

Amounts deductible from the taxable portion of an inheritance:
- spousal deduction 60,000 euros
- deduction for minors (under 18 years) 40,000 euros

Inheritance tax rates, bracket II

Value of the taxable portion	Tax at the lower limit	Tax for the part exceeding the lower limit (%)
20,000-40,000	100	20
40,000-60,000	4,100	26
60,000-1,000,000	9,300	32
1,000,000-	310,100	35

A new limit of 1,000,000 euros in inheritance tax scales is valid as of 01.01.2013 and will remain temporarily in force from 01.01.2013 to 31.12.2015.

Gift tax rates, bracket I

Value of the taxable portion	Tax at the lower limit	Tax for the part exceeding the lower limit (%)
4,000–17,000	100	7
17,000–50,000	1,010	10
50 000–200 000	4,310	13
200,000–1,000,000	23,810	16
1,000,000–	151,810	19

Gift tax rates, bracket II

Value of the taxable portion	Tax at the lower limit	Tax for the part exceeding the lower limit (%)
4,000–17,000	100	20
17,000–50,000	2,700	26
50,000–1,000,000	11,280	32
1,000,000–	315,280	

A new limit of 1,000,000 euros in gift tax scales is valid as of 01.01.2013 and will remain temporarily in force from 01.01.2013 to 31.12.2015.

(Sources: Tax Authorities, Ministry of Finance, Ministry of Social Affairs and Health)

Glossary

Above par value
The portion of the price of a bond exceeding the nominal value.

Acquisition cost
The amount deductible in the taxation of capital gain that includes the acquisition price, expenses that have arisen in connection with acquisition and sale of the asset, and transfer tax.

Bond
A loan taken by a corporation and issued by the public that is divided into several debentures.

Book entry
A security attached to the book-entry system. Book entries replace printed securities such as share certificates and bonds.

Book-entry account
The personal account of an investor for recording the investor's assets by company and type of book entry

Capital gain (or loss)
Capital gain (or loss) is the remainder of the sale price minus the actual acquisition cost or deemed acquisition cost.

Capital income
Income generated as a result of capital investment such as dividends, rental income, profit fund units, and foreign interest income.

Convertible bond
A bond issued by a limited company that is exchangeable for shares according to the terms of the loan.

Credit for a deficit in capital income
A credit to an individual's tax on earned income when the amount deductible from capital income (such as cost of acquisition of income and deductible interest cost) exceeds the amount of capital income.

Deemed acquisition cost
Alternative amount to actual acquisition cost, deductible from the taxation of capital gain.

Dividend
The share of profit a company distributes to its shareholders.

EEA
European Economic Area comprises the member states of the EU plus Iceland, Norway, and Liechtenstein.

Emission
Share issue or bond issue for the general public.

FIFO principle
According to the First In, First Out principle, the order of the sale of assets is deemed to be the same as the order of the acquisition of the assets, unless the order of the batches of assets acquired at different times can be proven.

Forward agreement
An obligation to buy or sell an underlying instrument at a certain point in time for a certain price. The underlying instrument may be a currency or a security, for example.

Investment fund
A fund comprising shares and other securities and owned by the persons and corporations that have invested in it.

Issuance
Emission. Share issue or bond issue for the general public.

Legacy
An individual will that concerns a certain asset or a certain amount for the benefit of a beneficiary. The beneficiary of a special will is not a partitioner in the estate based on the special will alone.

Long-term savings
Savings transferred into a long-term savings account that are further invested in deposits, shares, investment fund units, and/or interest investments.

Long-term savings account
An account for long-term pension saving. The state supports saving in a long-term savings account by granting tax deductions during the saving period, but both the saved capital and the profits are taxable when they are withdrawn after reaching retirement age.

Marginal tax
Tax payable on additional income.

Market value
Market price.

Mathematical value of a share
The net assets of a company (assets minus liabilities) divided by the number of shares that have been issued.

Natural person liable to pay taxes in Finland
An individual resident in Finland during the tax year. An individual is deemed to be resident in Finland if he or she has his or her main abode and home in Finland, or if he or she spends a continuous period of at least six months in Finland. After moving abroad, a Finnish citizen is a natural person liable to pay taxes in Finland for a period of the year during which the move took place and the following three years, unless he or she can prove that she no longer has any material ties to Finland.

Net earned income
Earned income minus deductible amounts (commuting expenses, trade union contributions, and other professional expenses).

New issue
A rights issue.

Option
An agreement that includes a right but not an obligation to acquire or sell the underlying instrument at a certain point in time for a pre-agreed price. The underlying instrument may be a share or an index, for example.

Option certificate
A subscription right that entitles the owner to acquire a share under certain conditions at a certain point in time.

Option loan
A bond with option certificates that entitle the owner to subscribe for shares.

Premium
Price difference, additional price to another comparable security, the price paid for an option to the issuer.

Profit fund unit
The annual profit distributed by an investment fund to its owners.

Progression
The gradual increase in the amount of tax payable for additional income. The higher the income, the steeper the gradual progression.

Quoted company
A company whose shares are traded on a stock exchange.

Redemption price
The price payable for an investment fund unit to the owner of the unit.

Reference value
The value of an asset in a tax year according to the law on valuation.

Residual tax
Tax payable in arrears in the event that the tax payable according to the final taxation exceeds the withheld advance tax.

Sale price
The price received for selling assets.

Scrip issue
A share issue free of charge for shareholders.

Share
Partial ownership in a company. A share entitles the owner to profit from the company, a right to participate in a rights issue, and a right to participate in the shareholders' meeting.

Share issue
The issuance of the new shares in a limited company or the handover of the shares in the possession of the company to its shareholders. A share issue can also be directed to groups other than the shareholders. A share issue can be a rights issue, or the shares can be issued for free.

Share of profit
Profit fund unit. The annual profit distributed by an investment fund to its owners.

Share-based deposit
A time-limited deposit, the yields of which depend on the share price development of certain shares.

Special credit for a deficit in capital income
If the amount of contributions to a voluntary pension insurance scheme or the amount of savings transferred to a long-term savings account exceeds the amount of taxable capital income, the amount of credit is deductible from the taxes payable for earned income.

Subscription
The act of buying shares and bonds at the issuance, the act of buying investment fund units.

Subscription price
The price payable for a security at the issuance.

Subscription right
The right attached to a share to acquire further shares in the company.

Tax rate
The tax percentage of taxable income.

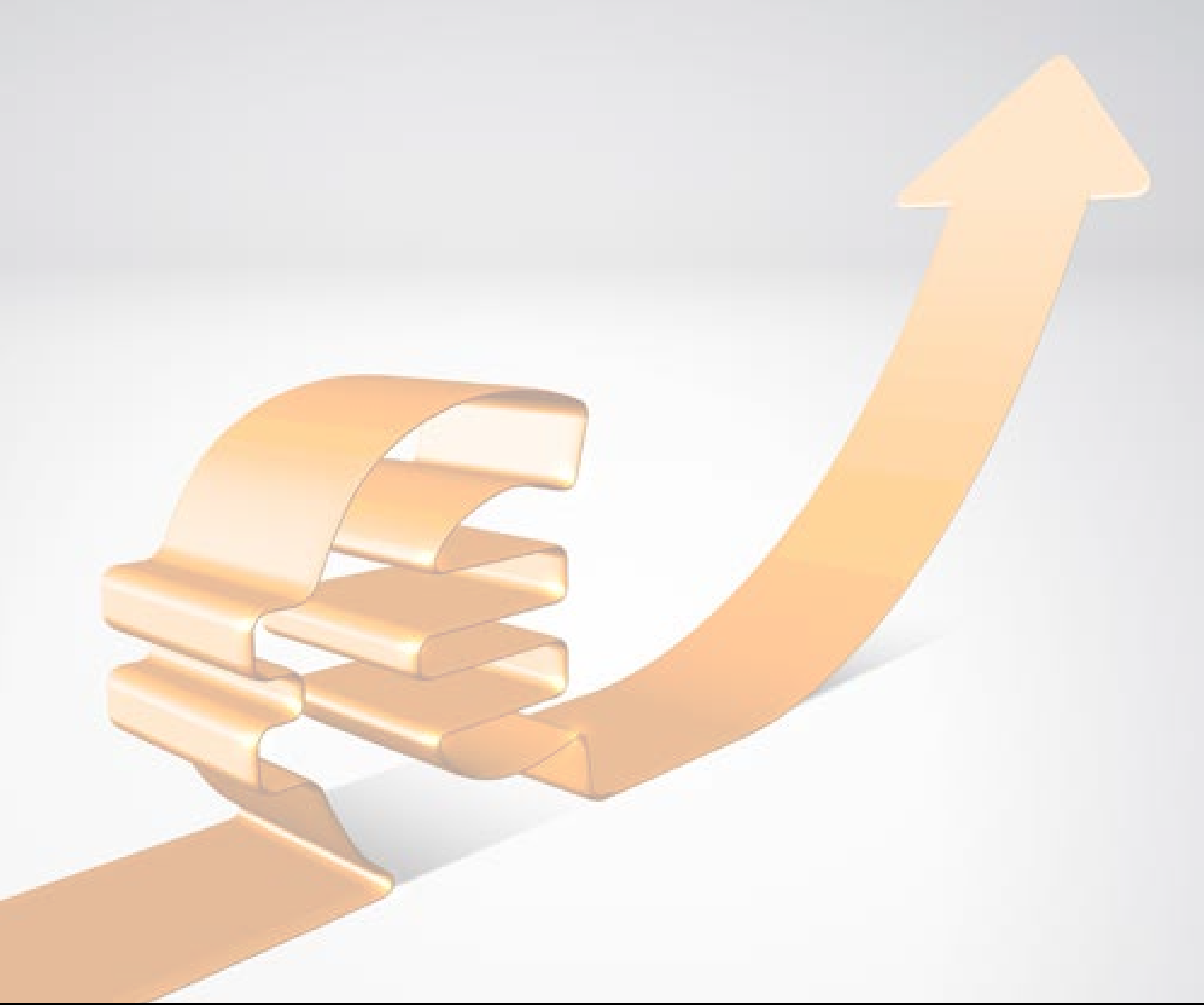
Tax scale
The progressive scale applied to the state income taxation or the taxation of inheritance and gifts.

Tax withheld at source
A final tax levied at the source of the income such as the tax payable for profits payable in a foreign country.

Tax withheld at source on interest income
Final tax payable on the interest received from domestic deposits and bonds, for example.

Transfer tax
State tax levied in connection with a sale against payment for a piece of property or a security. The transfer tax replaced the so-called stamp duty. The transfer tax payable is 4% when selling property, 2% (as of 01.03.2013) when selling shares in housing associations and other property companies, and 1.6% when trading in unquoted shares.

Warrants
A security that gives a right but not an obligation to buy or sell an underlying instrument (share or index) for the price and at the time determined in the registration statement, or to receive a corresponding cash payment. Warrants are comparable to options but their term is longer. During the term of a warrant, it can be traded on the stock exchange like a share.



Tax Guide for Investors 2013

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