

December 17, 2014  
2014-119

## flash Alert

A Publication for Global Mobility and Tax Professionals by KPMG's Global Mobility Services Practice

### **Finland – For Budget 2015 Some Tax Changes; Rise in Some Social Charges**

by Esa Johnsson and Marika  
Kaitamaa, KPMG, Helsinki  
(KPMG in Finland is a KPMG  
International member firm)

In its Budget proposals for 2015, Finland's Ministry of Finance has adjusted upwards the personal income tax thresholds and tax credits, restricted mortgage interest deductibility, and modified the deduction for commuting expenses. In addition, social security rates, for the most part, have been increased slightly. In most cases, the measures are expected to apply from 1 January 2015, unless otherwise indicated.

### **Why This Matters**

In general, this Budget, along with the increases in the rates of social security, means that companies with international assignees subject to Finnish tax may see their international assignment-related (and their employment-related) costs rise slightly – although, each individual assignee's tax status should be determined in light of his or her particular situation. The small adjustments upwards in the income tax thresholds and tax credits will be more than offset by the increased social security rates.

International assignment cost projections and budgeting for assignments to Finland and for assignees outside Finland still subject to Finnish taxation should reflect these changes. Where appropriate, adjustments by payroll administrators to withholdings will also have to be made.

On 7 August 2014, the Ministry of Finance published its Budget proposal for 2015.<sup>1</sup> The Budget legislation has been undergoing parliamentary review and debate.

The proposed tax measures impacting individuals – including those on international assignment – and their multinational employers are summarized below.

### **Social Security Rates for 2014**

According to the Ministry of Social Affairs and Health, the pension insurance contributions, employer's social security charges, and employee's sickness insurance contribution for 2015 are as follows:

- Employee's pension insurance contribution
  - 5.7 percent for employees less than 53 years (previously 5.55 percent); or
  - 7.2 percent for employees 53 years and over (previously 7.05 percent).
- Employer's pension insurance contribution
  - 18.0 percent on average (previously 17.75 percent).

- Employer's social security charge
  - 2.08 percent of paid salaries (previously, 2.14 percent).
- Employee's sickness insurance contribution
  - 2.10 percent (previously 2.16 percent) – the employee's sickness insurance contribution consists of health insurance contribution of 1.32 percent and daily allowance of 0.78 percent.
- Unemployment insurance contribution rate is yet to be confirmed.
  - The proposed employer's unemployment insurance contribution for 2015 is 0.80 percent (previously 0.75 percent) of the paid salaries up to €2,025,000 (previously €1,990,500) and 3.15 percent (previously 2.95 percent) of the paid salaries over €2,025,000 (previously €1,990,500).
  - The proposed employee's unemployment insurance contribution is 0.65 percent (up from 0.50 percent).

## Budget Tax Proposals for 2015

### ***Personal Income Tax Rates/Brackets and Credits***

For 2015, national income tax levied on earned income is as shown in the table below.

Taxable income (EUR)		Tax on lower amount (EUR)	Rate on excess (%)
16,500	–	24,700	8
24,700	–	40,300	541
40,300	–	71,400	3,271
71,400	–	90,000	9,957.50
90,000	–	and over	15,491
			31.75

The maximum amount of the earned income credit against national tax on earned income (*työtulovähennys*) is to be increased to EUR 1,025 (currently, EUR 1,010). Furthermore, the percentage used to calculate the credit will be increased to 8.6 percent (currently, 7.4 percent) and the percentage to reduce the maximum credit is to be increased to 1.2 percent (currently, 1.15 percent).

### ***Mortgage Interest Deduction***

The deductibility of mortgage interest is limited further. The percentage of interest on a loan used to purchase a dwelling in which the taxpayer or his family lives permanently that is deductible will be:

- 65% in tax year 2015
- 55% in tax year 2017
- 60% in tax year 2016
- 50% in tax year 2018

### ***Commuting Expenses Deduction and Exemption for Employer Public Transport Subsidized Tickets***

The deductibility of travelling expenses (e.g., public transportation tickets, use of private car, etc.) from the place of residence to the place of employment incurred by the employee is to be modified. The Budget proposal would make such expenses deductible for the employee only to the extent they exceed EUR 750 (currently, EUR 600).

Furthermore, the public transportation tickets subsidized by the employer remain tax exempt (to the employee) up to EUR 300 annually. In addition, such tickets will also be tax-free between EUR 750 (currently, EUR 600) and EUR 3,400.<sup>3</sup>

### **Next Steps**

#### ***Legislative Action***

The Budget bill is being debated in Parliament and is expected to be voted on definitively and published as final legislation in the country's official gazette "Säädöskokoelma" by the end of December. Should any amendments be voted that alter the measures described above or otherwise introduce new measures impacting individuals, the KPMG International member in Finland will endeavor to keep readers informed.

#### ***Footnotes:***

1 For the Budget statement (in Finnish) with links to the budget proposals (in Finnish), see the Ministry of Finance Web page at:

[http://www.vm.fi/vm/fi/04\\_julkaisut\\_ja\\_asiakirjat/01\\_julkaisut/01\\_budjetit/20140915Budget/name.jsp](http://www.vm.fi/vm/fi/04_julkaisut_ja_asiakirjat/01_julkaisut/01_budjetit/20140915Budget/name.jsp) .

2 There are three press releases in Finnish (one for pension, one for unemployment, and one for social security charge/sickness insurance contribution):

<http://www.stm.fi/tiedotteet/tiedote/-/view/1895316>

<http://www.stm.fi/tiedotteet/tiedote/-/view/1895276>

<http://www.stm.fi/tiedotteet/tiedote/-/view/1894616> .

3 Below EUR 300, tax-free for the employee, EUR 300 – EUR 750, taxable income for the employee; EUR 750 - EUR 3,400, tax-free for the employee.

\* \* \* \*

The information contained in this newsletter was submitted by the KPMG International member firm in Finland. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

*Flash Alert* is a GMS publication of KPMG LLP's Washington National Tax practice. To view this publication or recent prior issues online, please click [here](#). To learn more about our GMS practice, please visit us on the Internet: click [here](#) or go to <http://www.kpmg.com>.