

October 21, 2015
2015-126

flash Alert

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

Finland – In Budget 2016, Tax Measures for Assignees and Employers

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

In This Issue:

- * Budget Proposals
- * Proposed Changes to Laws Affecting the Terms of Employment
- * Social Security Agreement between Finland and South Korea

The Finnish government presented its Budget proposal for 2016 to Parliament on 28 September 2015.¹ Among other things, the government is proposing the continuation of the special expatriate tax regime for the period 2016-2019 and modification of the income tax brackets, which would impact most those individuals earning high salaries. Also being proposed are various changes to laws affecting the terms and costs of employment (for a three-year fixed-term period). Moreover, there is a proposal to significantly reduce private employer social security contributions.

In this newsletter, we also report that Finland has signed a social security agreement with South Korea (the Republic of Korea). The agreement is planned to take effect during 2016.

Why This Matters

The proposed changes to Finnish law affecting the terms and costs of employment mean that companies with international assignees subject to Finnish tax may see their international assignment-related (and their employment-related) costs either rise or fall, depending on their circumstances – each individual assignee's tax status should be determined in light of applying the changed rules to his or her particular situation.

Employees and employers need to observe the potential changes to laws affecting the terms and costs of employment, such as the peremptory provision of holiday bonus payment, the payment terms for sick leave, and the changing of public holidays and paid versus unpaid leave.

Foreign key employees starting employment in Finland may potentially benefit from the special expatriate tax regime and lower tax rate.

International assignment cost projections and budgeting for assignments to Finland, and for assignees outside Finland still subject to Finnish taxation, should reflect these potential changes above-mentioned and other Budget 2016 measures once they come into force. Where appropriate, adjustments by payroll administrators to withholdings will also have to be made.

The social security agreement between Finland and South Korea potentially means significant savings related to the social security costs of mobile employees between these two countries.

Budget Proposals

Brief Summary

In the proposal affecting terms and costs of employment the Finnish government included, for example, changing the first sick-leave day as unpaid (currently paid); another proposal regulates the payment of holiday bonus by law (currently there is no

peremproty law on this). Also two public holidays, currently paid holidays, are proposed to be changed into unpaid leave.²

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

The social security agreement with South Korea has been signed but it is not in force yet.³ We further highlight the agreement below.

Special Expatriate Tax Regime

The temporary expatriate regime providing for flat-rate taxation (35 percent) of employment income received by qualifying foreign specialists and executives is proposed to be extended until 31 December 2019 (currently the regime applies with respect to employment which commences by 31 December 2015). No changes to qualifications were proposed (including the minimum EUR 5,800 monthly cash salary). The 35-percent flat rate can be applied for a maximum 48 months.

Personal Income Tax Rates/Brackets and Credits

The rate table for the national income tax levied on earned income, in 2016, is proposed to be set as shown in the table below. In the proposal, the second highest bracket (in 2015 EUR 71,400 – 90,000 with a rate of 29.75) is removed and the highest bracket would be starting from EUR 72,300 (solidarity tax on high-income earners).

Taxable income (EUR)		Tax on lower amount (EUR)	Rate on excess (%)
16,700	–	25,000	8
25,000	–	40,800	547,50
40,800	–	72,300	3312.50
72,300	–	and over	10,085.00
			31.75

The maximum amount of the earned income credit against national tax on earned income (*työtulovähennys*) is proposed to be increased to EUR 1,260 (currently, EUR 1,025). Furthermore, the percentage used to calculate the credit would be increased to 11.8 percent (currently, 8.6 percent) and the percentage to reduce the maximum credit would be increased to 1.46 percent (currently, 1.2 percent).

Mortgage Interest Deduction

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

- 55% in tax year 2016;
- 45% in tax year 2017;
- 35% in tax year 2018; and
- 25% in tax year 2019.

(Earlier, the percentage for each year was 10 percentage points higher.)

Other Measures

- The maximum amount of the basic allowance for low-income earners for municipal tax purposes (*kunnallisverotuksen perusvähennys*) is proposed to be increased to EUR 3,020 (currently EUR 2,970).
- The higher tax rate for capital income received by individuals is proposed to be increased to 34 percent (currently 33 percent).
- Capital losses accrued from 1 January 2016, are proposed to be deductible not only from capital gains, but also from other capital income (currently capital losses are deductible only from capital gains).

Proposed Changes to Laws Affecting the Terms of Employment

- Two public holidays (Epiphany and Ascension Day) would be changed into unpaid leave days without reducing annual working time. If the employee does not work on those days, the equivalent hours can be worked at another time and compensation paid accordingly.
- The first sick-leave day would be unpaid and days 2 through 9 partially unpaid (80 percent of salary). Pay during the following sick days would be paid according to the applicable collective agreement.
- The maximum holiday length would be six weeks. In practice, the longest holidays would be shortened in the public sector and some industries in the private sector. Most employees in the private sector have five weeks of annual holiday.
- A statutory right to holiday bonus would be provided by law. Currently the holiday bonus is paid based on collective agreements, employer's common practice, separate agreement, etc. For those who currently receive holiday bonus, the bonus would be around 30 percent less after the change. For those who currently do not receive holiday bonus, this would mean additional pay.
- The private (not public sector) employer's social security contribution would be reduced by 1.72 percentage points, i.e., to 0.36 percent (currently the rate is 2.08 percent).

Social Security Agreement between Finland and South Korea

The social security agreement with South Korea was signed in Seoul on 9 September 2015. The purpose of the agreement is to avoid “insuring” and double charging cross-border employees in both countries. The main rule is to socially “insure” in the proper jurisdiction of the employee, that is, in the country in which he is working; however when the employee is on assignment in the other state, insuring the employee in the home state will be possible.

The agreement mainly concerns pension and unemployment insurance. Otherwise, social security will be determined according to national laws.

The agreement is expected to come into force in 2016.

Next Steps: Legislative Action

The Budget proposal has been presented to Parliament. The law changes affecting the terms of employment are being discussed in Parliament.

The KPMG International member in Finland will endeavor to keep readers informed if the final legislation and proposed law changes affecting the terms of employment alter from the information provided above.

Footnotes:

1 For information on the Budget proposal (in Finnish) and the link to the Budget proposals (in Finnish), see the Ministry of Finance Web page at:

http://vm.fi/artikkeli/-/asset_publisher/hallitus-esittaa-muutoksia-verolakeihin .

<http://budjetti.vm.fi/index/sisalto.jsp?year=2016&lang=fi&maindoc=/2016/tae/hallituksenEsitys/hallituksenEsitys.xml&opennode=0:1>:

2 For further information regarding the changes potentially affecting the terms of employment (available also in English), see the Finnish government Web page at:

http://valtioneuvosto.fi/artikkeli/-/asset_publisher/hallitus-jatkaa-kilpailukykyä-parantavien-toimien-valmistelua?_101_INSTANCE_3wyslLo1Z0ni_groupId=10616 .

3 For information on the social security agreement between Finland and South Korea (available also in English), see the Ministry of Social Affairs and Health Web page at:

http://stm.fi/artikkeli/-/asset_publisher/suomen-ja-korean-valille-sosiaaliturvasopimus?_101_INSTANCE_yr7QpNmIJmSj_languageld=fi_FI .

* * * *

The information contained in this newsletter was submitted by the KPMG International member firm in Finland.

The KPMG logo and name are trademarks of KPMG International. KPMG International is a Swiss cooperative that serves as a coordinating entity for a network of independent member firms. KPMG International provides no audit or other client services. Such services are provided solely by member firms in their respective geographic areas. KPMG International and its member firms are legally distinct and separate entities. They are not and nothing contained herein shall be construed to place these entities in the relationship of parents, subsidiaries, agents, partners, or joint venturers. No member firm has any authority (actual, apparent, implied or otherwise) to obligate or bind KPMG International or any member firm in any manner whatsoever. The information contained in herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

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>.