

GMS Flash Alert

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Finland - Proposals to Boost Labour Mobility and Attract Foreign Experts

New proposals from the Finnish government provide for a lowered rate of source tax (withholding) for key employees and make permanent the *Provisional Act on Source Tax for Foreign Key Employees*.

Finland's Ministry of Finance has published the government proposal on amendments to the *Income Tax Act* and the *Provisional Act on Source Tax for Foreign Key Employees* (also known as the "Provisional Key Employee Tax Act").¹ The amendments proposed would:

- lower the source tax rate for key employees from 35 percent to 32 percent;
- make permanent the heretofore *provisional* act;
- offer tax relief on relocation expenses paid by employers.

The proposed amendments would come into effect on 1 January 2020.

WHY THIS MATTERS

The reduction in the source tax rate is aimed at making Finland a more attractive destination for foreign talent. In addition, the reduction in the rate should help lower international assignment costs for those multinational employers with employees taxed under this regime.

The new tax relief scheme for relocation expenses could have the effect of making the labour market in Finland more flexible and more mobile. With the proposed tax relief, relocations would be less costly for workers. This could have the effect of encouraging workers from abroad to take a job in Finland as well as making it easier for workers in domestic situations to move closer to their place of work.

Provisional Key Employee Tax Act

The Provisional Key Employee Tax Act was first enacted in 1996 and its period of validity have since been extended six times. The provisional Act provides that when certain conditions are met, foreign experts, researchers, and educators in higher educational institutions can opt to be taxed at a special source tax rate in lieu of the regular progressive income tax for up to 48 months from their initial arrival in Finland.

The source tax rate of 35 percent for foreign key employees hasn't been adjusted once since the enactment of the Provisional Key Employee Tax Act in 1996.² Over the last 20 years or so, the general income tax burden has become increasingly lighter, leading to a situation where the source tax is seen as less of an incentive. To correct the course, so to speak, and to help attract foreign experts, under the proposal, the source tax rate would be lowered to 32 percent. Concurrently, the provisional Act would be made permanent.

Tax Relief on Relocation Expenses

Relocation expenses are generally considered as non-deductible living expenses. In a situation where, for example, a newly-hired employee moves to be closer to his or her place of work, and the employer bears the expenses, the corresponding sum, under current rules, is considered as the employee's taxable income. On the other hand, when an employee relocates on the employer's initiative, for example when being sent on an assignment, the employer can reimburse the incurred expenses for the employee tax free.

According to the proposal, relocation expenses would be covered under a new tax relief scheme in situations where employees move to live closer to their place of work. The proposal states that 50 percent of qualified relocation expenses borne by employers would be tax-exempt for the employee.

Relocating to Finland from abroad would generally always qualify for the relief, and the scope of application is meant to be broad, also taking in domestic situations. Only relocations with no significant effect on the employee's ease of commute would fall outside the scope.

Moving expenses paid out-of-pocket by the employees themselves would still not be considered deductible.

FOOTNOTES:

1 *Hallituksen esitys eduskunnalle vuoden 2020 tuloveroasteikkoiksi sekä laeiksi tuloverolain muuttamisesta ja väliaikaisesta muuttamisesta sekä ulkomailta tulevan palkansaajan lähdeverosta annetun lain 3 ja 12 §:n muuttamisesta.*

2 For current information in English about key employees and the rules under the *Provisional Act on Source Tax for Foreign Key Employees* on the Finnish tax authority's website, click [here](#).

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Contact us

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