KPMG

GMS Flash Alert

2022-149 | August 18, 2022

Finland - Exit Tax Proposed for Individuals

The Finnish government published on 12 August 2022, a preliminary draft of a proposal for an exit tax for individuals.[1] The exit tax would subject individuals with significant non-real estate assets to a capital gains tax on the increased value of their assets when moving away from Finland. The preliminary draft will be available for comment by various interest groups and experts until 12 September 2022, and is expected to spark a lively debate due to the controversial nature of the proposed tax.

WHY THIS MATTERS

The proposal is currently intended to come into force in the beginning of 2023. Wealthy individuals planning to move out of Finland need to be aware of these possible new rules. It is recommended that employers review the circumstances and cases when a Finnish individual is sent on assignment abroad or a foreign employee relocates to Finland, to understand the impact of the proposed exit tax rules.

Background

If enacted, the proposed exit tax (*Arvonnousuvero* in Finnish, literally translated as "tax on increased value") would lead to a significant expansion of Finland's right to tax the assets of wealthy individuals who move away from Finland. Most non-real estate types of income would be subject to the tax, including:

- company shares
- shares in national and foreign investment funds
- options
- futures
- capital redemption policies
- endowment insurance
- pension insurances
- virtual currencies

Exit taxes are already in use in many European countries. In the jurisprudence of the EU court, exit taxes have as a main rule not been viewed as being contrary to any of the EU treaties, provided that the payment of the tax can be postponed until the individual

© 2022 KPMG Oy Ab, a Finnish limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

actually sells the assets subject to exit tax.[2] Among the Nordic countries, Denmark and Norway have exit taxes, while in Sweden an exit tax proposed in 2018 was eventually canceled due to criticism.

The purpose of the Finnish exit tax is to increase tax revenue and to close a loophole within Finnish tax law allowing individuals who own assets that have increased in value to move to a country that does not tax capital gains (or that has much lower tax rates for capital gains) and then sell the assets with minimal tax consequence. In Finland, capital gains are typically taxed at a tax rate between 30-34%, whereas, for example, Switzerland (which is explicitly used as an example in the government's preliminary draft) does not tax capital gains at all. Exit taxes are already used in Finland in corporate taxation and certain stock share exchange situations, but a general exit tax for private individuals has not previously been in use in Finland.

Content of proposal

The exit tax would apply to individuals moving from Finland who before moving have had their tax treaty residence and been tax residents (based on national law) in Finland for at least 4 years of the previous 10 years. Additionally, for the exit tax to apply, the value of the individual's assets must meet certain criteria. On the date before the individual moves from Finland, the assets subject to exit tax must at minimum:

- be valued at EUR 500,000, and
- have a EUR 100,000 hypothetical capital gain

The exit tax would be triggered by either the tax treaty residence changing or the individual becoming a non-tax resident in Finland. The tax basis is the assets' total increased value (potential decreases in an asset's value are also accounted for) from the time when the individual lived in Finland and the tax rate would be calculated using the standard capital gains tax rates (30-34%).

- Example: An individual buys company shares for EUR 400,000, which are later valued at EUR 600,000 when the individual moves away from Finland. In this case the potential exit tax on the company shares would be calculated as follows: (EUR 600,000 – EUR 400,000) * approx. 34% = EUR 68,000.

The income subject to exit tax would be considered as income in the tax year when the individual moves from Finland. However, the individual will have the right to postpone the payment of the tax until the assets in question are actually disposed of in a sale or gift. In case the assets are not in any way disposed of for 8 tax years following the year when the individual moved away from Finland, then exit tax would no longer be applicable (e.g., if an individual moves away from Finland in 2023, then the individual's assets would no longer be subject to exit tax starting from tax year 2032).

Individuals subject to exit tax would have a yearly reporting obligation as long as assets they owned when moving from Finland remain in their possession. Individuals would have to report the increase or decrease in value of all the assets subject to exit tax. The reporting obligation would end either when all of the assets in question have been disposed of or when the 8-year period has passed.

KPMG NOTE

The proposed exit tax would be a major overhaul of taxation of capital gains in Finland. The proposal could have far-reaching consequences in certain situations which are seemingly overlooked in the government's preliminary draft, such as long-term assignments to Finland of executive-level employees. The preliminary draft of the proposal was not published until 12 August 2022, yet the updated legislation is currently planned to be effective as of the start of 2023. This tight schedule for the proposed exit tax creates a great deal of uncertainty, especially since the proposal is likely to face significant criticism from interest groups and experts.

It should be noted that at this point the government's proposal is only a preliminary draft. KPMG in Finland will endeavor to provide updates on any changes to the current situation during 2022.

© 2022 KPMG Oy Ab, a Finnish limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

FOOTNOTES:

1 The government's presentation to parliament on amending the Income Tax Act and some other laws into laws for the implementation of the tax imposed due to the income from the appreciation of the property of natural persons (in Finnish): *Hallituksen esitys eduskunnalle laeiksi tuloverolain ja eräiden muiden lakien muuttamisesta luonnollisten henkilöiden omaisuuden arvonnousutulon johdosta määrättävän veron käyttöönottamiseksi*

2 See C-9/02, Hughes de Lasteyrie du Saillant v. Ministère de l'Èconomie, des Finances et de l'Industrie as well as C-470/04, N v. Inspecter van de Belasting-dienst Oost.

© 2022 KPMG Oy Ab, a Finnish limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

Contact us

For additional information or assistance, please contact your local GMS or People Services professional or one of the following professionals with the KPMG International member firm in Finland:

Paula Holmström
Partner, Tax & Legal, People Services
Tel. +358 20 760 3710
paula.homlstrom@kpmg.fi

Antti Eerola
Partner, Tax & Legal, People Services
Tel. +358 20 760 3391
antti.eerola@kpmg.fi

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

© 2022 KPMG Oy Ab, a Finnish limited liability company and a member firm of the KPMG network of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

www.kpmg.com

kpmg.com/socialmedia

© 2022 KPMG LLP, a Delaware limited liability partnership and a member firm of the KPMG global organization of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved. Printed in the U.S.A. NDPPS 530159

The KPMG name and logo are registered trademarks or trademarks of KPMG International. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

KPMG LLP is the U.S. firm of the KPMG global organization of independent professional services firms providing Audit, Tax and Advisory services. The KPMG global organization operates in 147 countries and territories and has more than 219,000 people working in member firms around the world.

Each KPMG firm is a legally distinct and separate entity and describes itself as such. KPMG International Limited is a private English company limited by guarantee. KPMG International Limited and its related entities do not provide services to clients.

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.