



Thinking beyond borders: Management of extended business travelers - Finland



January 2024

Contents

1	Key message	4
2	Income Tax	6
3	Social Security	10
4	Compliance obligations	12
5	Immigration	14
6	Other issues	16

01

Key message

A person's liability to Finnish tax is determined by residence status for tax purposes and the source of income derived by the individual. Income tax is levied at progressive rates on an individual's taxable income for the year, which is calculated by subtracting allowable deductions from the total assessable income. Non-residents pay a flat rate of tax at the source or tax at progressive rates like the residents.

1 Key message

Depending on tax treaty provisions, payroll setup, and the length of stay, extended business travelers may become taxable on employment income relating to their Finnish workdays.

02

Income tax

2 Income Tax

2.1 Liability for income tax

A person's liability for Finnish tax is determined by residence status. A person can be a resident or a non-resident for Finnish tax purposes. An individual is treated as a resident if the individual has a permanent home or habitual abode in Finland or otherwise has stayed in the country/jurisdiction for a continuous period of more than 6 months. It should be noted that the stay in Finland might be regarded as continuous in spite of a temporary absence from the country/jurisdiction.

A non-resident for tax purposes in Finland is generally someone who spends 6 months or less in Finland and does not have a permanent home in Finland.

The general rule is that a person who is a resident of Finland is assessable on worldwide income. Non-residents are generally assessable on income derived directly or indirectly from sources in Finland. Extended business travellers are likely to be considered non-resident of Finland for tax purposes unless they enter Finland with the intention to remain in Finland for more than 6 months.

Employment income is generally treated as Finnish-sourced compensation when the individual performs the services for a Finnish employer while physically located in Finland.

2.2 Tax trigger points for employment income

Technically, there is no threshold/minimum number of days that exempts the employee from the requirements to file and pay tax in Finland. To the extent that the individual qualifies for relief under the dependent personal services article of an applicable double tax treaty, there will be no tax liability. The economic employer approach is not adapted or legislated in Finland. The tax authority has not provided any written guidelines in this respect. One lower court case has indicated that domestic legislation would allow for economic employer concept to be applicable. A draft legislation was introduced in 2022 with the aim of implementing the economic employer concept in Finland from 1 January 2023. However, the legislation was withdrawn and currently the economic employer concept is not applied in Finland. However, the economic employer concept may be introduced at some point, as this seems to be the general trend.

2.3 Types of taxable income

Normally during short-term assignments (lasting less than 6 months in total), only employment income for work primarily performed for a Finnish employer or only in Finland (with remuneration paid in cash or in the form of fringe benefits) will be taxed in Finland.

The employment income related to a short-term assignment may be tax exempt on the basis of the relevant tax treaty.

In some cases, the housing and other travel costs to and from Finland can be compensated without tax liability, such as assignments lasting for a period of less than 3 years (a temporary legislation has been enacted to increase the period to three and half years, if the three year period is exceeded during the year 2021) where the assignee maintains valid employment in the home country/jurisdiction. In this case, a daily tax-exempt allowance may also be paid.

2.4 Tax rates

Finland levies progressive tax rates up to 48.40 – 54.80 percent (depending on the municipality) for residents. In addition, the local communities of the Evangelical-Lutheran and Orthodox Churches levy church tax. Church tax is imposed at flat rates between 1 and 2.25 percent. The sickness insurance contribution is 1.52 percent (consists of daily allowance premium and health care premium).

A public broadcasting tax is also levied in Finland. The rate of the tax is 2.5 percent of the sum of an individual's earned income and capital income that goes over 14,000 Euros (EUR), however the maximum amount to pay is EUR 163 per year.

For non-residents, a flat 35 percent tax rate is used. There is also a flat basic deduction applicable for non-residents if this is mentioned in the tax card.

For a foreign key person the tax rate is 32 percent. To be considered as a key employee, the individual must apply with certain requirements, for example monthly salary higher than EUR 5.800 and the employee's special expertise is needed to perform the tasks and duties of the profession.

Under certain conditions it is possible for non-residents to apply for a progressive tax rate instead of a flat 35 percent tax rate. The progressive tax rate for non-residents is calculated based on their worldwide income. Thus, non-residents need to provide Finnish tax authorities with information on their worldwide income when applying the progressive tax rate.

03

Social Security

3 Social Security

3.1 Liability for social security

According to the general rule, all social security premiums must be paid when an individual is working in Finland, regardless of the length of the working period.

Exemption from social security contributions can be granted for individuals seconded to Finland under the European Union (EU)/ European Economic Area (EEA) Social Security Regulation or an applicable totalization agreement.

Employees coming from countries/jurisdictions outside of the EU/EEA or countries/jurisdictions with which Finland has a totalization agreement are generally fully subject to social security payments in Finland. An exemption from obligatory pension insurance may apply under certain circumstances.

Exemption may be granted for up to a maximum of 5 years.

04

Compliance obligations

4 Compliance obligations

4.1 Employees' compliance obligations

Tax returns are normally due in May following the tax year (which is also the calendar year). The date will be printed on the pre-completed tax return form. If a taxpayer has not received a pre-completed tax return form, the taxpayer must file a tax return by the applicable deadline.

4.2 Employers reporting and withholding requirements

The reporting obligations have changed as of 1 January 2019. The Incomes Register has replaced the annual payroll information returns previously submitted to the Finnish Tax Administration. The employer must report each employee's information separately and monthly. There are two different types of monthly reports to be made.

If salary or fringe benefits are paid by the Finnish entity (company or PE), the local employer has withholding and reporting obligations. Withholding is based on a tax card. Taxation for residents is based on the progressive tax card. For non-residents either a tax at source card or a progressive tax card is issued based on which one the person applies. Tax cards can be obtained from the tax office.

A non-Finnish entity (foreign employer with no PE) can register voluntarily as an employer, if this is done obligations are the same as for a Finnish employer or foreign employer with a PE. A monthly 'Earnings payment report' needs to be filed to the income register in certain situations even if no registration is done. A separate report, the so called 'employer's separate report', also has to be made in certain situations. If no wages are payable for a month, reporting might be required e.g. the "No wages payable" data needs to be reported if the employer is in the employer register.

05

Immigration

5 Immigration

5.1 Work permit/visa requirements

Employees outside the EU/EEA generally need a work permit in order to work in Finland. Applicable permit type should be separately confirmed, as there are several types of permits for different types of work. A Schengen visa is needed for those who are not EU/EEA nationals or not part of the visa waiver program. The visa needs to be applied for prior to entry into Finland.

Certain local registrations may also be needed after entry into Finland. EU citizens must register their right of residence in Finland if staying for over 3 months.

06

Other issues

6 Other issues

6.1 Double taxation treaties

In addition to Finland's domestic arrangements that provide relief from international double taxation, Finland has entered into double taxation treaties with more than 70 countries/jurisdictions to prevent double taxation and allow cooperation between Finland and overseas tax authorities in enforcing their respective tax laws.

6.2 Permanent establishment implications

There is a potential threat that a permanent establishment could be created as a result of extended business travel, but this would be dependent on the type of services performed, the duration of the presence abroad and the level of authority the employee has.

6.3 Indirect taxes

Value-added tax (VAT) is applicable at between 10 and 24 percent for taxable supplies. VAT registration may be required in some circumstances.

6.4 Transfer pricing

The Finnish transfer pricing regime is broadly based on the OECD guidelines.

A transfer pricing implication could arise if the employee is being paid by an entity in one jurisdiction but performing services for the benefit of the entity in another jurisdiction. The Finnish transfer pricing regulations require that the entity benefiting from the services performed also bears the costs of the employee performing the services.

6.5 Local data privacy requirements

Processing of personal data in Finland is governed by the European Union General Data Protection Regulation 2016/679 ("GDPR"). The GDPR is complemented by the Finnish Data Protection Act (1050/2018) and other national legislation, such as the Act on the Protection of privacy in Working Life (759/2004). Personal data must be processed in accordance with the key principles relating to processing of personal data (set out in Article 5 GDPR) and data controllers are under an explicit obligation to process personal data in accordance with the principles.

6.6 Exchange control

Exchange control has been practically abolished in Finland. Only the most significant foreign transactions of financial institutions are subject to authorization.

Certain reporting requirements apply to payments to or from a foreign country/jurisdiction. If such a payment is affected through an authorized bank, the bank will supply the required information to the Bank of Finland. If some other method of payment is used, the resident party making the foreign transaction must provide the Bank of Finland with details of information about the transaction.

6.7 Non-deductible costs for assignees

Non-deductible costs for assignees include, for example, clothing, children's school fees, meals, and other costs considered as normal living costs. In some cases, assignees' living costs that are higher than normal living costs may be deductible.

[Back to top](#)

Disclaimer

All information contained in this publication is summarized by KPMG Oy Ab, the Finnish member firm affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity, based on the Finnish Income Tax Act 1535/1992 and subsequent amendments, the Tax at Source Act (627/1978) and subsequent amendments, the Finnish Tax Administration's website, Kansainvälisen Verotuksen käsikirja 2015 (Publication 284.15 of the Finnish Tax Administration), the Act on Tax Procedure (1558/1995) and subsequent amendments, the Act on the Taxation of Business Profits and Income from Professional Activity (EVL, 360/1968) and subsequent amendments, the Value Added Tax Act (1501/1993) and subsequent Amendments, the Finnish Data Protection Act (1050/2018), the Health Insurance Act (911/2011) and subsequent amendments, the Convention implementing the Schengen Agreement on the gradual abolition of controls at common borders (Treaties of Finland 23/2001), Act on the Application of European Union Legislation Concerning the Coordination of Social Security Systems (352/2010), the Aliens Act 301/2004 and subsequent amendments and the Finnish Immigration Service's web site.

kpmg.com



'KPMG' refers to the global organization or to one or more of the member firms of KPMG International Limited ("KPMG International"), each of which is a separate legal entity. KPMG International Limited is a private English company limited by guarantee and does not provide services to clients. For more detail about our structure please visit kpmg.com/governance.

© 2024 Copyright owned by one or more of the KPMG International entities. KPMG International entities provide no services to clients. All rights reserved. The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organization.

The information contained 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.