

GMS Flash Alert

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Finland - Changes to Taxation of Inbound Employees

This *GMS Flash Alert* outlines upcoming changes to the Finnish Special Expatriate Tax-at-Source Regime, as well as proposed changes related to international personal taxation in the new Finnish Government Programme. The key upcoming change is the lengthening of the maximum duration of the Special Expatriate Tax-at-Source Regime from four years to seven years. Other proposed changes include revisions to the taxability of payments made by the employer in relation to the relocation process of employees arriving in Finland.

WHY THIS MATTERS

The proposed changes would have a notable impact on the Finnish taxation of inbound foreign employees, primarily in terms of providing a more generous special expatriate tax regime. New rules will increase the maximum duration of the regime, meaning that inbound employees can benefit from favourable taxation for a longer period. This may help mitigate costs tied to international assignments to Finland.

For employees currently in Finland under the Special Expatriate Tax-at-Source Regime and who previously were granted a Special Expatriate Tax-at-Source Card, which applies for four years, are able to apply for a new Special Expatriate Tax-at-Source Card so as to extend the applicability of the regime to seven years.

Companies' policies in respect of international assignments to Finland should be modified and the changes should be discussed in pre-departure and/or upon-arrival meetings with affected assignees. Understanding upcoming changes and their practical effect is necessary to assess and plan for the Finnish tax landscape in future years, both from the perspective of inbound employees as well as their employers.

Background

The right-wing Cabinet with Petteri Orpo as prime minister was formally appointed on 20 June 2023, succeeding the left-wing Cabinet under former prime minister Sanna Marin following the April 2023 Finnish parliamentary elections. The Government Programme of the Orpo Cabinet aims to enhance the attractiveness of Finland as a destination country of employment-related immigration.¹

The Finnish Special Expatriate Tax-at-Source Regime (*avainhenkilön lähdeverotus*) provides a favourable tax regime for experts and other key personnel relocating to Finland from abroad. When applied, the regime replaces the generally applicable progressive taxes for earned income with a final flat rate of 32-percent tax-at-source.

However, the regime currently may only be applied for a maximum duration of 48 months (four years), and requires the employee to meet the following criteria²:

- the employee arrives in Finland in connection with taking up employment in Finland, and becomes a Finnish tax resident upon arrival;
- the employee's cash salary is at least EUR 5,800 per month during the entirety of his/her work;
- the employee works in a position requiring "special expertise";
- the employee is not a Finnish national and has not been a Finnish tax resident during the five years preceding the relocation to Finland.

A Special Expatriate Tax-at-Source Card (*avainhenkilön lähdeverokortti*), stating the applicable 32-percent tax-at-source and the duration of applicability, must be applied for from the Finnish Tax Administration (*Verohallinto*) to confirm the application of the regime.

Upcoming Changes to the Special Expatriate Tax-at-Source Regime

The Government Programme of the Orpo Cabinet identifies the 48-month maximum duration as a factor limiting the Special Expatriate Tax-at-Source Regime's effectiveness in attracting skilled labour to Finland.³ A proposal to increase the maximum duration of the regime was consequently included in the Government Bill for Act on the 2024 Tax Scale and the Amendment of Certain Other Tax Laws, which was subsequently passed by the Parliament on 29 November 2023.⁴

The key points of the change can be summarised as follows⁴:

- The maximum duration of the applicability of the Special Expatriate Tax-at-Source Regime is increased from 48 months to 84 months (seven years),
- The extended duration (84 months) applies to employees commencing employment in Finland on or after 1 January 2024.
- In addition, employees who have been previously granted a Special Expatriate Tax-at-Source Card, applicable beyond 31 December 2023, may apply for a new Special Expatriate Tax-at-Source Card from the Tax Administration to extend the total applicability of the Special Expatriate Tax-at-Source Regime to 84 months.

Therefore, the change affects employees arriving in Finland after 2024, as well as employees who have arrived in Finland in 2020–2023 and remain under the Special Expatriate Tax-at-Source Regime after 31 December 2023. For the latter group, the application for the new Special Expatriate Tax-at-Source Card must be filed within 30 days of the

expiration of the original Special Expatriate Tax-at-Source Card. In order for the extension to be approved, the employee must continue to fulfil the criteria for the applicability of the Special Expatriate Tax-at-Source Regime (see above).

Other Upcoming/Proposed Changes

Relocation Benefits

In addition to the extension of the applicability of the Special Expatriate Tax-at-Source Regime, the Government Programme states the wish to ease the process of relocating employees to Finland by reclassifying “payments related to the entry process” as tax-exempt personnel benefits⁵. Currently, employee-paid services (e.g., registration, tax services, assistance with finding apartments) related to the relocation of employees to Finland are treated as taxable fringe benefits for the employee⁶, which has been identified as an obstacle for cross-border mobility of employees into Finland.

KPMG INSIGHTS

However, it should be noted that the section in the Government Programme related to this proposal is vaguely worded. In particular, the Government Programme is markedly unspecific as to which payments/services would be included as tax-exempt “payments related to the entry process”. Furthermore, as of November 2023, no concrete steps have been taken by the government to advance this proposal. Therefore, it is not yet certain what, if any, practical effect this proposal will have.

Personal Income Taxation

Other proposed changes to personal income taxation include the adjustment of earned income (*ansiotulo*) tax brackets for inflation, increasing the formulaic credit for work income (*työtulovähennys*), adjusting the additional age-based credit for work income, increasing the lower limit (*omavastuu*) of deductible commuting expenses, increasing the maximum capital limit of certain deferred share investment accounts (*osakesäästötili*), and slightly expanding the scope of the credit for household work (*kotitalousvähennys*).⁷

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Extending the applicability of the Special Expatriate Tax-at-Source Regime is a significant development. The flat-rate 32-percent tax-at-source may be quite advantageous to high-earning employees, as the highest generally applicable progressive tax rates may exceed 55 percent. Still, the actual advantage an employee receives from the regime has previously been significantly limited by its 48-month maximum duration. Therefore, the extension of the maximum duration by 36 months (three years) is expected to further increase the attractiveness of Finland as a target country for relocation of skilled employees and is therefore generally a welcome change. It is notable that the change also applies retroactively, provided that the employee applies for the extension of the regime and continues to meet its criteria.

Likewise, the reclassification of employer-paid payments related to employees' relocation to Finland as tax-exempt employee benefits could significantly ease the process of relocating employees to Finland, as employers could more freely offer relocation services to employees without incurring tax expenses for either party. However, the practical effect of this proposal cannot be accurately assessed yet due to its unspecific nature and the lack of any concrete action on it. Further developments will be monitored.

KPMG INSIGHTS (cont'd)

Overall, one may note that the upcoming and proposed changes mostly constitute revisions or adjustments of existing structures and concepts in the Finnish personal income taxation system, and that no significant structural tax reforms have been proposed in either the Government Programme or the 2024 Budget Proposal. It is important to note that the Orpo Cabinet does not appear to be interested in pursuing the implementation of the economic employer principle⁸ or an exit tax⁹, which were considered during the previous Marin Cabinet.

FOOTNOTES:

- 1 See Programme of Prime Minister Petteri Orpo's Government: A strong and committed Finland, at 1.3 and 4.4 (available in English, Finnish and Swedish) at: <https://valtioneuvosto.fi/en/governments/government-programme/#/>.
- 2 See Finnish Tax Administration's (*Verohallinto*) detailed tax guide 4.6.2023 (*dnro VH/1816/00.01.00/2023*, available in English, Finnish and Swedish): Taxation of key employees, at 2.2: <https://www.vero.fi/en/detailed-guidance/guidance/106825/taxation-of-key-employees2/>.
- 3 See *supra* note 1, at 1.3 and 4.4.
- 4 See Government Bill for Act on the 2024 Tax Scale and the Amendment of Certain Other Tax Laws (HE 34/2023 / *hallituksen esitys eduskunnalle laeiksi vuoden 2024 tuloveroasteikosta, tuloverolain muuttamisesta ja väliaikaisesta muuttamisesta sekä eräiden muiden verolakien muuttamisesta*, available in Finnish), p. 1, p. 18, pp. 33–34, and p. 39: https://www.eduskunta.fi/FI/vaski/HallituksenEsitys/Documents/HE_34+2023.pdf.
- 5 See *supra* note 1, at 4.4.
- 6 See Finnish Tax Administration's statement 18.8.2021 (*dnro VH/2124/00.01.00/2021*, available in English, Finnish and Swedish): Tax treatment of employer-provided relocation services for workers sent to other countries.
- 7 See *supra* note 1, at 1.3 and Finnish Ministry of Finance's 2024 Budget Proposal: *Talousarvioesitys 2024*, at Osasto 11 (available in Finnish and Swedish) by clicking [here](#).
- 8 See [GMS Flash Alert 2021-305](#), 10 December 2021.
- 9 See [GMS Flash Alert 2022-149](#), 18 August 2022.

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