

THE FINNISH TAX ADMINISTRATION



TAXATION IN FINLAND

Taxation in Finland is organized under the jurisdiction of the Ministry of Finance. Tax laws regulating taxation are drafted in the Ministry of Finance, and approved in Parliament.

The Tax Administration is the largest administration in the Ministry of Finance. The Tax Administration collects 50 billion euros of taxes and tax-like charges annually, which is over a third of Finland's gross national product.

In addition to the Tax Administration, the following authorities collect taxes and payments: the Customs Services (excise and import duty), the Vehicle Administration Center (taxes dealing with vehicles) and the pension and insurance institutions (payments for pensions and insurance).

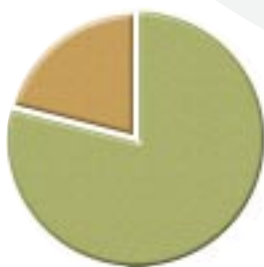
In Finland, as regards the general public, the income of customers is divided into earned income and capital income. Earned income is income from salaries, pensions, and social security benefits. Rental income and proceeds from the sale of property are subject to taxation as capital gains.

Capital gains and earned income are taxed in different ways: capital income is taxed according to a fixed tax rate of 29%, and earned income according to a progressive tax scale.

Corporations are taxed according to a fixed income tax percentage. All taxpayers have the right to deduct any expenses incurred in acquiring or maintaining their income.

Gross tax accrual 2002

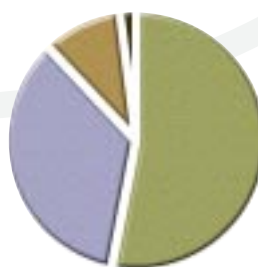
total 49.4 billion euros



Self-initiated payments	79 %	39.0 billion
Employers' and other payments	51 %	25.3 billion
Value-added tax	28 %	13.7 billion
Debited payments	21 %	10.4 billion

Tax recipients' shares of net tax accrual 2002

total 40.2 billion euros



State	53.0 %	21.3 billion
Municipalities	35.0 %	14.1 billion
Social Insurance Institution	10.0 %	4.0 billion
Parishes	2.0 %	0.8 billion

Total state expenditure 36.1 billion euros

Social security and health care	7.6 billion euros
Education, science and culture	5.1 billion euros

Municipalities' expenditure 21.4 billion euros

Social security and health care	11.4 billion euros
Education, science and culture	5.1 billion euros



TAXES IN FINLAND

Tax and payments collected by the Tax Administration

INCOME TAX

Income tax is paid to both the municipalities (municipal tax) and the State (state income tax).

MUNICIPAL TAX

Municipal tax is tax paid to the municipality from earned income. Municipalities verify their income tax percentage on an annual basis. The lowest rate of tax is 15.5% and the highest 20%.

STATE INCOME TAX

State income tax is tax from earned income paid to the State. The income tax scale law is determined annually. This ranges from 13%, at its lowest, to 36% for the highest income class.

NATIONAL PENSION CONTRIBUTIONS

National pension contributions are collected from earned income at the same time as income tax. The Tax Administration transfers the contributions to the Social Insurance Institution (KELA).

NATIONAL HEALTH INSURANCE CONTRIBUTIONS

Health insurance contributions are collected from earned income at the same time as income tax. The Tax Administration transfers the contributions to the Social Insurance Institution (KELA).

CHURCH TAX

Church tax is collected from the income of Evangelic Lutheran and Orthodox church members. The Tax Administration transfers church tax payments to the parishes. Depending on the parish, church tax is between 1 and 2%.

CAPITAL INCOME TAX

Capital income tax is tax from capital income paid to the state. Capital income tax rate is 29%.

TAX WITHHELD AT SOURCE

Foreigners working in Finland for no longer than six months are taxed at a rate of 35% of their earned income. Tax withheld at source is paid by the employer to the State. Tax withheld at source is also paid at the rate of 29% from any income made from interest. It is collected by the interest payer and it is paid to the State.

VALUE ADDED TAX

VAT is a consumption tax, which is paid with the acquisition of merchandise or services. Entrepreneurs collect VAT according to their sales and pay it to the State monthly. The European Union has a uniform VAT system. The general rate of VAT in Finland is 22%.

INCOME TAX OF CORPORATIONS

The income tax percentage of corporations is 29%. The Tax Administration collects income tax from corporations for the State, municipalities and parishes according to each tax recipient's share.

FOREST MANAGEMENT FEES

The forest management fee is a payment similar to tax made according to the area of forest. The Tax Administration transfers the tax collected from the forest owner to the forestry associations.

REAL ESTATE TAX

The real estate tax is paid annually to the municipality according to the value of the estate. The real estate tax percentage is determined by the municipal council.

INHERITANCE TAX

Inheritance tax is paid to the State on any inheritance of 3,400 euros or more. Inheritance tax is determined by the value of the inheritance and the nature of the relationship with the inheritor.

GIFT TAX

Gift tax is paid to the State on any gift of 3,400 euros or more, or on advance inheritance.

TRANSFER TAX

Transfer tax is paid to the State on handing over real-estate or securities.

PROPERTY TAX

Property taxes are collected on assets having a taxation value of 185,000 euros or more, and these taxes are paid to the State.



THE ORGANISATION OF THE TAX ADMINISTRATION

The Tax Administration comprises the National Board of Taxes and 9 Regional Tax Offices.

THE NATIONAL BOARD OF TAXES

Uusimaa Regional Tax Office

Southwestern Finland Regional Tax Office

Southeastern Finland Regional Tax Office

Savo-Karelia Regional Tax Office

Western Finland Regional Tax Office

Central Finland Regional Tax Office

Oulu and Kainuu Regional Tax Office

Lapland Regional Tax Office

Tax Office for Major Corporations

The National Board of Taxes directs the Tax Administration. The main task of the National Board of Taxes is to oversee the consistency and correctness of taxation. To ensure this, the National Board of Taxes is responsible for the information systems and all the guidelines, forms and handbooks concerning taxation. In an environment of ever increasing international collaboration, the National Board of Taxes represents the Finnish Tax Administration. An advisory committee appointed by the Ministry of Finance supports the National Board of Taxes in the strategic planning.

The regional tax offices are responsible for the taxation of customers in their area of operations. The regional tax offices have several local tax offices taking care of customer service. The common tasks of the regional tax office are carried out by their own units: for example, tax audit is a common task.

The Tax Office for Major Corporations is responsible for the taxation and customer services of larger conglomerates and corporations operating internationally. The Tax Office for Major Corporations covers the whole country in its operations.

The expenditure of the Tax Administration is about 326 million euros a year. The tax recipients participate in the funding of the Tax Administration's expenditure. The State covers over half of the expenditure and the rest is divided between the municipalities, the Social Insurance Institution (KELA) and the parishes of the Evangelical Lutheran and Orthodox Churches.





TAX ADMINISTRATION CUSTOMERS

The customers of the Tax Administration are the tax recipients, taxpayers and the information service users.

Tax recipient customers are the State, the municipalities, the Social Insurance Institution (KELA), the parishes, forestry associations, and forest centres. The Tax Administration accounts for all the taxes and payments that it has collected for the several tax recipients. It also oversees the supervision of the rights of the tax recipients.

Examples of taxpayers are:

In income and wealth taxation

4.5 million individual taxpayers
 113,000 farmers
 543,000 companies and organization

In value added taxation

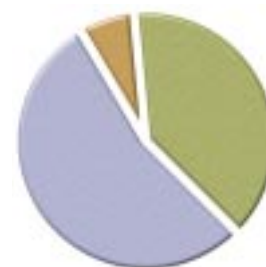
238,000 primary producers
 243,000 companies and organization

Business customers have a central role in the operations of the Tax Administration. Companies pay their own income tax and VAT. They also account to the Tax Administration for the taxes and payments levied on the salaries of their employees. Companies and other employers are also an important source of information for the Tax Administration. For instance, the information given by the business sector is used in the taxation of individual taxpayers.

Information service customers are the Statistics Centre, the Ministry of Finance, the Social Insurance Institution (KELA), the municipalities, pension and insurance companies, universities and centres of research, among others. Information service customers have a legal right to obtain information collected in the taxation process. The information is used in political tax planning, the budgeting of the State and the municipalities, social statistics and research and the activities of other authorities.

The Tax Administration reviews the quality of its services through research into the satisfaction of its customers every few years.

Expenses of taxation according to taxpayer type



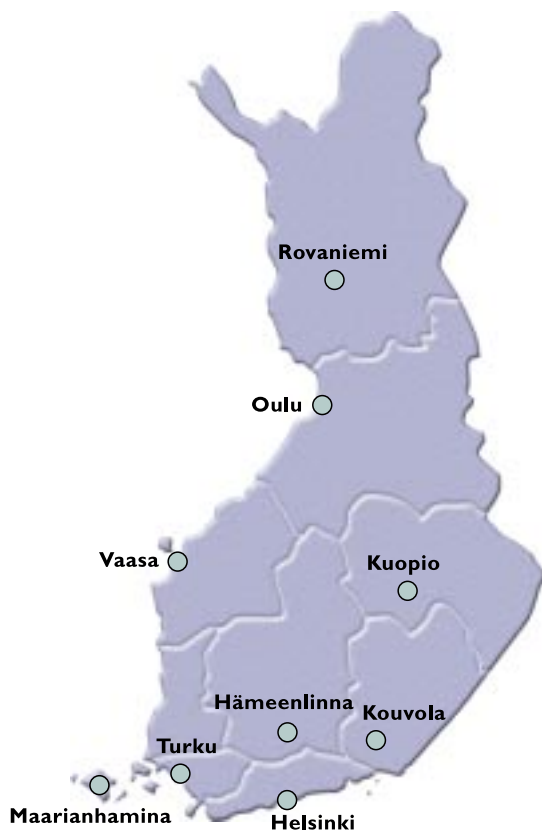
Companies and corporations	54 %
Individual taxpayers	39 %
Farmers	7 %



The taxation process comprises the following stages, regardless of the subject or the type of taxation:

- client registration
- advice and guidance for the client
- taxation decisions
- supervision
- collection of taxes
- tax capital accounting
- the accounting of taxes and payments made to the tax recipients

TAXATION



Most of the work in taxation is carried out with the use of information technology. To ensure that the client's duties of enrolment and payment are fulfilled correctly, supervision is carried out at all the different stages of taxation. The correspondence between the accounting and the actual operations of the companies is verified during the tax inspection. The Tax Administration participates with considerable input in the action program against the grey economy initiated by the Ministry of Finance.

The Tax Administration serves its customers through over one hundred offices across Finland. Many tax matters can also be carried out by telephone. Customers can find all the taxation forms and all the relevant information from the Tax Administration's Internet pages (www.vero.fi).

The Tax Administration is presently increasing its electronic services to offer its customers even greater flexibility in carrying out their tax affairs.

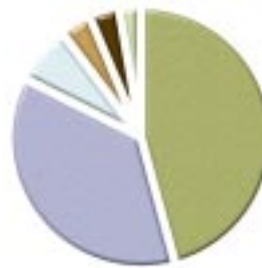


TAX ADMINISTRATION STAFF

The Tax Administration employs about 6,400 personnel, of which 6,000 work in Tax Offices.

In the work of the Tax Administration a great variety of skills in the areas of taxation, information technology and accounting are needed. The development of the activities requires the acquisition of new skills from the personnel and their continuous training. Tax information is confidential and therefore personnel are under an oath of confidentiality.

Working time used per customer group, total 6,343 (working years per person)



The distribution of personnel in Regional Tax Offices

