

Note: This publication contains no instructions to foreign leasing corporations, staff leasing companies, companies hiring out employees/labour/manpower, professional employer organizations, PEOs, or human resource outsourcing companies that assign their employees to work for another company. Instead, read the article called "Leased employees - taxation in Finland - prepayment of tax", published at www.tax.fi.

A. OBLIGATIONS CONCERNING SOCIAL SECURITY

In Finland, employers have to pay several social security payments. They also have to deduct from the salary the employee's payments and pay them further to the insurance companies. There is, however, no obligation to pay these payments as far as so called posted foreign employees are concerned.

1. If the employee has Certificate E 101 or other certificate of posting

Sometimes a foreign company sends an employee to Finland from the company's own home country. If the company resides in a Member State of the European Communities or in Norway, Iceland, Liechtenstein or Switzerland, the social security authorities in the home country may have given the employee forms E 101 or E 102, a certificate of posting. This certificate means that the social security legislation of the home country still applies to the employee. No social security payments have to be paid in Finland as long as the certificate is valid.

No social security payments have to be paid in Finland even in cases where an employee from Canada, Israel, or the United States has a certificate of posting on other forms used by social security authorities in these countries.

2. If the employee does not have the certificate of posting, the employer has following obligations:

In order to find out the procedure for obligations and payments mentioned in this section the foreign company has to contact the entities mentioned below, e.g. The Central Pension Security Institute. This is how the company also receives information of the exact amounts of payments which may slightly vary annually.

The employer must take out *pension insurance* for the employee from a Finnish pension insurance company. The employer pays the pension insurance company the pension insurance premium, which is over 20% of the wages. The premium includes the employee's share, which the employer deducts from the salary. In the construction industry, the insurance policies are issued by the Etera insurance institution.

Further information: The Central Pension Security Institute, PO BOX 11, 00521 Helsinki, phone 010 751 4216, and other pension institutions.

The employer must also take out *accident insurance* for the employee from an appropriate insurance company. Insurance companies will tell the amount of the premium. The *unemployment insurance premium* is paid at the same time to the same insurance company. The premium is 1% to 4% of wages. The employee's share of this premium is deducted from the wages by the employer. In addition, the employer must pay the employee's *group life insurance premium*.

Further information: The Federation of Accident Insurance Institutions, address: Bulevardi 28, 00120 Helsinki, phone (09) 680 401, and Finnish insurance companies.

In addition to the above, a foreign company may be obliged to pay the *employer's social security contribution* (*työnantajan sosiaaliturvamaksu*). If the foreign company has a permanent establishment in Finland, it always has this obligation. For more information, see item B. 2.3 below. The regional tax office issues specific instructions.

Foreign employer companies do not always have a permanent establishment in Finland within the meaning of income taxation. In spite of that it is recommended that the social security contribution be paid. This recommendation concerns situations where the employee of the company is protected by Finland's social security system based on his domicile. Such employees are e.g. Finnish citizens who live in Finland permanently. If the foreign company has no permanent establishment in Finland within the meaning of income taxation, the procedure for payment will be the following:

The social security contribution should be paid monthly.

The amount of the contribution is 2.951 per cent of gross wages including benefits in kind.

Tax Administration bank account number: Nordea 166030-215403

Name of beneficiary: Uusimaa Regional Tax Office (Uudenmaan verovirasto)

Message to accompany payment: Social security contribution
Reference number to accompany payment: 2 77215.

B. OBLIGATIONS CONCERNING INCOME TAXATION

1. No permanent establishment

If a foreign company does not have a permanent establishment in Finland for income tax purposes, the company does not pay income tax in Finland. Furthermore, if the payment of wages only takes place as a direct electronic transfer of funds from a foreign bank, the company does not have to withhold any tax for the wages paid out. Moreover, the company will not be registered as an employer. However, the company may still have some of the obligations described in section A.

Employees working in Finland longer than 6 months; the new reporting obligation of employers

If an employee of a foreign company works in Finland for longer than 6 months, the company must file an employer payroll report to the Finnish tax authority, using form VEROH 7801e. Go to www.tax.fi - Annual Information Returns to download the form. The first due date of this report is January 2008, when employers are expected to report the facts and information on wages paid in 2007.

Furthermore, employers are expected to give instructions to their employees to contact the local tax office in Finland. The local tax office will calculate prepayments of personal income tax for the employee. The employee must make the prepayments independently each month. However, if wage payments are carried out by a Finland-based substitute payer, not the actual employer, then the usual procedure of withholding tax on the wage payments will be applicable, and no prepayment obligation of income tax will concern the employee himself.

2. Permanent establishment in Finland

Often a foreign company operating in Finland sets up a company in Finland under the Finnish legislation. It is, however, also possible that a foreign company operates in Finland only having a permanent establishment in Finland. If this is the case, the company pays in Finland an income tax on the income attributable to this permanent establishment.

A foreign company may have a permanent establishment in Finland if the company has an office or a branch in Finland. A mere stock of goods is not considered a permanent establishment for the purposes of income taxation. A building site or a construction or assembly project for more than twelve months is deemed a permanent establishment in income taxation. The fact that a foreign company is deemed to have a permanent establishment for the purposes of value-added taxation in Finland does not necessarily mean that a permanent establishment also exists for income taxation. For more information on the obligations in respect of value-added taxation, see Publication no. 185 of the National Board of Taxes.

Employer obligations concerning a permanent establishment in Finland:

2.1 The company must register itself as an employer

The Start-up notification form Y1, Y2, or Y3, depending on legal entity form is to be submitted.

2.2 The company must withhold tax on paid wages

The amount to be withheld is dependent on the percentage rates printed on the employees' tax cards (or tax-at-source cards). The tax concerns the gross amount, including cash wages and fringe benefits. Current taxable values of fringe benefits are defined in a Decision of the National Board of Taxes. If the employee does not show a tax card, the withholding is 60% of his gross wages.

2.3 The company must pay social security contribution if there is no Certificate E 101

The social security contribution, payable by the employer every month, is determined according to the monthly amount of paid wages. It does not concern the employees on the payroll who have the E 101 Certificate or other certificates of posted employees. See section A above. The regional tax office will inform employer companies of the exact amount of the contribution (3% to 6%).

2.4 The company must file Monthly Tax Returns and annual Employer Payroll Reports

The Monthly Tax Return should include facts about taxes withheld, social security contributions paid. The Employer Payroll Report must be submitted in January after the close of tax year.

For more information: Regional tax offices.