

# Changes in Finnish direct taxation

## Government proposal to unify income tax sources

The Finnish Ministry of Finance published a draft government bill on 22 March 2018 on abolishing the personal income source for corporate entities. Under the draft government bill, the Finnish Business Income Tax Act (BITA) would generally apply to the calculation of a corporation's net operating result. Furthermore, the BITA's scope of application would be extended to cover real estate business activities carried out by entities other than corporations as well. The proposed amendments would simplify the calculation of corporations' taxable



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### Key Changes

The draft government bill drawn up by the Finnish Ministry of Finance proposes the following key changes:

- corporate entities would generally not be considered to have a source of personal income. Instead, their net operating results would be uniformly calculated under the BITA except for income derived from agriculture. This would simplify the offsetting of corporations' prior net operating losses as profits and losses would arise from the same source of income;
- business assets that do not qualify as fixed, current, investment or financial assets would be treated as miscellaneous assets;
- tax deductible costs could be offset against all taxable income and capital gains, whereas capital losses incurred from miscellaneous assets would be deductible only against capital gains derived from miscellaneous assets;
- for entities other than corporations, rental and other income deriving from real estate business activities could be considered as business income under the BITA; and
- the applicability of the Finnish group contribution regime would be extended to cover companies, which net operating result is calculated according to BITA.

### Implications

The calculation of taxable income would be simplified for corporations that have one single source of income, since net operating results would be calculated in accordance with BITA. This would also simplify the offsetting of prior net operating losses as net operating profits and losses would derive from one single source of income. However, capital losses incurred from miscellaneous assets could be offset only against capital gains derived from miscellaneous assets.

Intra-group loss relief through group contributions would be made available also to Finnish real estate business companies and holding companies in particular.

Other entities, such as foundations and partnerships, could still have separate sources of income. However, foundations' real estate activities could be classified as business activities under the proposed new corporate tax system. As such, rental income in particular could constitute taxable business income instead of being treated as corporate tax-exempt personal income as it currently is.

### Further steps

The Finnish Ministry of Finance has invited interested parties to submit their comments on the draft government bill by the beginning of May. We expect to receive the finalised government bill during the summer. The proposed amendments would enter into force at the beginning of 2019 and would first apply in taxation from the fiscal year 2019 onwards.