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## **Recent developments in international taxation: Finland**

### **Tax reforms**

#### *Tax credit for major green transition investments*

In March 2025, the Finnish Parliament approved a new legislation concerning a tax credit for certain types of green transition investments supporting climate neutral economy. The legislation entered into force at the beginning of May 2025. The tax credit aims to attract new green transition investments into Finland and is enabled by the European Commission's Temporary Crisis and Transitional Framework, which sets certain limitations on the types of investments and the timing of the tax credit.

The tax credit applies to certain investments that support the green transition in three areas:

- investments that accelerate the rollout of renewable energy and for energy storage;
- investments related to the decarbonisation of industrial production processes and for energy efficiency measures; and
- investments in strategic sectors for the transition towards a net zero economy (production of batteries, solar panels, wind turbines, heat pumps, electrolysers, and equipment for carbon capture usage and storage).

Generally, investments into the production of electricity, including wind and solar power, do not qualify for the tax credit. The tax credit will be available for new investment projects only. The period for applying for the tax credit is from 24 March 2025 to 29 August 2025.

The tax credit would amount to 20 per cent of qualifying investment costs and a maximum amount of the tax credit is €150m per group. The qualifying costs must be at least €50m for the investment to be considered as a major investment in the scope of the tax credit. The tax credit is deducted from the company's payable corporate income taxes. The tax credit should be claimed at the company's own request from the year 2028 onwards and the following 19 tax years. However, the tax credit can be deducted no earlier than the tax year in which the investment is completed. The annual deduction is capped at 10 per cent of the total amount of the tax credit granted.

#### *Increase of the general VAT rate*

The general VAT rate in Finland has increased from 24 per cent to 25.5 per cent as of 1 September 2024. The general VAT rate applies to most goods and services sold in Finland. The change in the general VAT rate does not affect goods and services subject to the reduced VAT rates of 14 per cent and 10 per cent.

#### *Amendments to the Pillar Two legislation*

Finland has implemented the EU Minimum Tax Directive<sup>1</sup> into its domestic legislation by the Act on the Minimum Tax Rate for Large-Scale Corporate Groups (1308/2023), which entered into force on 1 January 2024. The implemented Pillar Two provisions have been applicable to financial years beginning on or after 31 December 2023.

Due to recent updates in the OECD Global Anti-Base Erosion Model Rules (GloBE Rules), Finland has amended the domestic Pillar Two legislation by the Act on amending the Act on the Minimum Tax Rate for Large-Scale Corporate Groups (917/2024, 'Amending Act') which entered into force on 31 December 2024 and applies retroactively to financial years beginning on or after 1 January 2024.

The purpose of the Amending Act is to implement the latest updates to the GloBE Rules into the national legislation. The changes mainly consisted of clarifications and technical amendments to definitions and calculation rules for income and taxes. The act also includes minor additions related, for example, to the treatment of tax credits.

Further, it was proposed that the Finnish Government continue its preparation work relating to a possibility of introducing an option to apply for a preliminary ruling regarding the Pillar Two provisions. Currently, it is not possible to apply for a preliminary ruling relating to the Pillar Two provisions.

### **Significant case law**

#### *SAC 2025:33 – VAT treatment of a wind farm located in Finland's exclusive economic zone*

In April 2025, the Finnish Supreme Administrative Court (SAC) issued ruling 2025:33 concerning the VAT treatment of a wind farm located in Finland's exclusive economic zone. The ruling addressed whether the wind farm area planned in Finland's exclusive economic zone is considered to be located in Finland for the purposes of applying Finnish VAT on certain research and analysis services related to the wind farm area.

The SAC held that the wind farm area located in Finland's exclusive economic zone was, with respect to activity in question, considered part of Finland's VAT territory. The services related to research and analysis of the area were regarded as services related to real estate located in Finland, as defined in the Finnish VAT Act. Further, the SAC held that, within the meaning of Article 56 of the United Nations Convention on the Law of the Sea, Finland as the coastal state had jurisdiction, including in the matters of VAT, over the research and analysis services related to the planned wind farm area.

#### *SAC 2025:22 – Comparability of the central bank of a non-EEA state with the Bank of Finland for the purposes of withholding tax treatment*

In March 2025, the SAC issued ruling 2025:22 concerning the question of whether the central bank of a non-European Economic Area state can be regarded as equivalent to the Bank of Finland, so that the central bank of a non-EEA state may also be exempted from withholding taxes on dividends it receives from publicly listed Finnish companies.

The court held that the functions of the Bank of Finland and those of the central bank of the non-EEA state in question were equivalent, and that no objective differences could be identified between these two institutions. Therefore, a situation in which withholding tax is levied on the central bank of a non-EEA country, while no such tax is imposed on the domestic central bank, constitutes a prohibited restriction on the free movement of capital under Article 63 of the Treaty on the Functioning of the European Union (TFEU). The restriction could not be justified by the need to

preserve the coherence of the tax system or by the balanced allocation of taxing rights between states.

#### *SAC 2025:5 – Controlled foreign corporation regulation*

In January 2025, the SAC published preliminary ruling 2025:5 regarding the Finnish-controlled foreign corporation (CFC) regulation. The question was whether the Japanese trust-type investment fund should be deemed to be a CFC from a Finnish tax perspective. The assessment focused on whether the fund could be regarded as effectively conducting economic activity in its state of residence as required by the Finnish CFC Act and as determined in the economic substance exemption based on the Anti-Tax Avoidance Directive (ATAD).<sup>2</sup> The court held that a foreign investment fund should not be considered a CFC even if it does not have substance, provided that its operations are outsourced to a management company within the same jurisdiction and thus, the fund shall be deemed to conduct a genuine economic activity in Japan.

#### **Proposed tax reforms**

In April 2025, the Finnish Government announced several legislative and regulatory measures to strengthen Finland's economic growth and to increase Finland's attractiveness as an investment environment. The most significant initiatives are the following:

- corporate income tax rate to be lowered from 20 per cent to 18 per cent from 1 January 2027;
- tax losses are to carry forward a 25-year period (previously a ten-year period) from 2026 onwards;
- the provisions regarding tax-neutral share-for-share exchange to be extended to apply to transactions outside the EEA. Further, the existing requirement of the maximum cash consideration is to be reassessed;
- an overall assessment of existing legislation in order to promote investments in Finnish private equity and venture capital funds, including reviewing fund structures;
- an overall assessment of the tax treatment of equity-based employee incentive plans;
- progressive income taxation of private individuals to be lowered so that the highest marginal tax rate would be approximately 52 per cent;
- currently, foreign key employees who come to work in Finland for more than six months and are granted the status of resident taxpayer are, under certain circumstances, entitled to a 32 per cent income tax rate instead of progressive income tax rates. Pursuant to the proposed amendments, such key employees' income tax rate to be lowered to 25 per cent;
- the reduced VAT rate of 14 per cent to be lowered to 13.5 per cent as from 2026. Generally, the reduced VAT rate applies to food, beverages, restaurant services, pharmaceuticals, books, passenger transportation, accommodation services and sport services, and cultural events; and
- the tax credit for major green transition investments (as described in Section 1) to be continued after the ongoing application period (subject to the European Commission's Clean Industrial State Aid Framework).

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<sup>1</sup> Council Directive (EU) 2022/2523 of 14 December 2022 on ensuring a global minimum level of taxation for multinational enterprise groups and large-scale domestic groups in the Union.

<sup>2</sup> Council Directive (EU) 2016/1164 of 12 July 2016 laying down rules against tax avoidance practices that directly affect the functioning of the internal market.