THE TURNOVER TAX SYSTEM OF FINLAND

The Permanent Mission of Finland has transmitted to the secretariat the following summary of the Turnover Tax System and the supervision of the turnover taxation in Finland.

1. General views

The valid Turnover Tax Act has been given 5 December 1963 (532/63) and it has been applied from 1 January 1964 on. By decreeing the Act it has been as a starting point to create a turnover taxation which should be general by its nature and neutral to its economic consequences. Therefore it has been accepted in the present Act as the leading principle, that all goods shall be liable to tax and that the whole price of goods payable by the ultimate user (the consumer) shall be taxed irrespective of the use and the ways of delivery of goods. These leading principles have been abandoned for particularly weighty reasons only, like to reach some social and economic-political goals and also for taxation-technical reasons.

The aforesaid principles in our turnover taxation have been accomplished by means of a combined wholesale and retail business tax system, according to which the sale of a manufacturer of goods and the sale of wholesale level to retail business level and directly to consumption are liable to tax on the whole value of price and the sale of retail level is liable to tax on the commission or "the margin" only. It is also characteristic of this tax system, that the transaction of business carried out between manufacture and wholesale levels, as well as the import of goods to these, are exempt from tax and the tax shall not be paid on them until the goods are transferred to retail business level.

2. What kind of transaction is liable to turnover tax?

According to the valid Turnover Tax Act the turnover tax to the State shall be paid on sale and manufacture of goods, and also on alteration, cleaning, repair, reconditioning or installation of goods when rendered in the way of business. To be liable to tax the business thus has to meet the characteristics of business. Liable to tax thus is e.g. carrying on the industry, wholesale and retail business and the workshop trade.

Sale of goods liable to tax means also letting of goods, taking of goods into use in connexion with their sale or other business for a purpose other than vend and also service in the hostel or catering business or elsewhere when rendered in the way of business.
In accordance with the rules the turnover tax shall be paid exclusively on transaction of business affecting the goods in the meaning assigned to it in the Turnover Tax Act. Outside the taxation are thus staying among other things service trades like barber's and hairdresser's, letting of rooms and banking business etc. Exempt from tax are also transactions of business carried on with commodities not meaning goods for the purposes of the Act (see Section 2).

As a transaction of business in the meaning assigned to it in the Act is not regarded the primary production, like farming, gardening, fishing, raising of fur animals and reindeer husbandry, picking of mushrooms and wild berries nor the sale of products referable to one's own primary production.

No turnover tax shall be paid on labour directly affecting the soil (an area of land) and construction of a building or a structure, because the labour in question is not considered - in accordance to the Act - as having reference to goods. Also the sale of a real estate is not regarded as transaction of business liable to tax. Instead, installation of machinery, fixtures, water pipes, sewage pipes, heating, gas or electricity conduits or any other similar equipment pertaining to a building or structure, or other labour input affecting them, however, are regarded as taxable labour put in goods. Thus contracting firms (i.e. main contractors) are not ones liable to tax, provided that they do not manufacture in their business goods to be regarded as customary sale products. Sub-contractors, like business of water pipes and water conduits, electric firms etc. are liable to tax on their activity. Concerning the importation of goods the principal rule is, that turnover tax shall be paid on the import. The sale of goods to foreign countries is exempt from tax.

3. The definition of goods in turnover taxation

The definition of goods has not got any positive expression in the Turnover Tax Act. The preliminary works of the Act prove that an object characterized personal estate means goods for the purposes of the Act.

Negatively the Act is determining that water, steam, electricity and lighting gas supplied from the network of distribution pipes does not mean goods for the purposes of the Act. Also a document furnishing proof of a certain right does not mean goods. Documents of this kind are e.g. stocks, shares, bonds, deposit receipts, tickets of admission, lottery tickets etc. The sale at par of current stamps and of currency does not mean the sale for the purposes of the Turnover Tax Act. The sale of collector's objects, however, is regarded as taxable sale of goods.

Alienation of the screen rights of a motion picture is not considered as having reference to the delivery of goods. Nor the areas of land, buildings and other permanent structures thereon including their component materials are regarded as pertaining to the definition of goods. Thus buildings erected either on one's own or on someone else's land are not regarded as goods. As permanent structures are regarded e.g. bridges, piers and fixed oil reservoirs.
4. Who are ones liable to tax?

Whoever engaged in business referred to ahead in Section 2, is liable to tax. The importer is liable to tax on the importation of goods. Under certain circumstances, the one the work was done for, is to be regarded as liable to tax. This being the case when a foreign enterprise, not being liable to tax on his activity here, is carrying on labour inputs in Finland.

Ones liable to tax are not those who solely are carrying on other transactions of business than those affecting goods referred to in the Turnover Tax Act, or whose activity by the virtue of the law or by Decree laid down on basis of that, is not any transaction of business in the meaning assigned to it in the Turnover Tax Act. Thus e.g. municipal water, electricity and gas establishments, building contractors, service business men and primary producers like the ones engaged in farming and forest husbandry are not liable to tax.

According to the Act the State and its establishments generally are not liable to tax. However, it has been laid down by Decree, that State undertakings managed in accordance with business principles and engaged in transactions referred to in the Turnover Tax Act, are liable to tax.

Those carrying on business for oneself and without a business establishment and without employing other assistants than husband or wife or offspring younger than twenty-one years, are neither liable to tax. A business establishment means a building, room, area of land or other place where by installing machinery, reserving space for working, selling, offices, storing or display or otherwise special arrangements have been made for the purpose of transaction of business, such as a place where an industrial establishment, mine, quarry, sawmill or other production establishment, workshop, workroom, repair shop, business, offices, shop, catering establishment, kiosk, stand or any other similar stationary or transportable establishment is situated.

According to the authorization clause in the Turnover Tax Act it has been made possible to decree that a temporary, insignificant or special kind of business, sale of a non-profit making society (sc buffet sale) or business carried on by a person whose ability to work and vigour have been decisively enfeebled because of loss of an organ or its functional deficiency, shall not be regarded as a business for the purposes of the Turnover Tax Act.

5. The grouping of those liable to tax

Those liable to tax are divided in liable to tax on wholesale and in liable to tax on retail sales. One liable to tax on wholesale shall be entered in the special register of wholesale tax liabilities kept by the local turnover tax office. In this register shall usually be entered those liable to tax engaged in rather a large manufacture of goods or resale to distributors, e.g. factories and wholesale business. Others are liable to tax on retail sales if they are not, when their transaction of business is comparable to that of wholesale tax liabilities, entered on application in the register of wholesale tax liabilities. As liable to tax on retail sales are regarded e.g. retail dealers, workshop keepers and catering business men.
One liable to tax on wholesale shall pay tax on his sale of goods to one liable to tax on retail sales and to consumers (i.e. users of goods), whereas the importation of goods to one liable to tax on wholesale and the sale of goods between wholesale tax liabilities are exempt from tax. One liable to tax on retail sales shall pay tax on all his sale, however, in computing the taxation value of vend (taxable amount of vend) he is entitled to deduct the purchase price of goods intended for sale and obtained from others liable to tax as subject to tax or imported as subject to tax by the same. Thus one liable to tax on retail sales shall usually pay tax on his commission (the additional value) only.

6. The rate of tax and the taxation value of vend

The rate of tax is 11 per cent of the taxation value of vend (i.e. of the selling price invoiced to the vendee inclusive of the tax) and in connexion with the importation of goods 12.4 per cent of the normal value of the goods increased with the customs duty, import charge and excise tax. In the taxation value of vend for one liable to tax on wholesale is reckoned the vend at home to others than those liable to tax on wholesale, i.e. the vend to one liable to tax on retail sales and to consumers. One liable to tax is deemed to obtain goods for the purpose of vend when the goods as such or as components of other goods are intended for sale or for letting in transacting business; or for direct consumption in first use in the manufacture of goods for sale or letting or in connexion with labour input referred to in paragraph 3 of Section 1.

Besides; one liable to tax on wholesale shall pay tax on the taking of goods, obtained for sale or manufactured by himself, into his own use and also on the sale of goods to others liable to tax on wholesale to be taken into one's own use, i.e. for a purpose other than vend. In the taxation value of vend for one liable to tax on retail sales is reckoned all internal sale and also taking of goods into a purpose other than vend. The leading principle of the Act according to which the purchase price paid by consumer is including 11 per cent of turnover tax irrespective of the way of delivery will be materialised when one liable to tax on retail sales may deduct one's purchases including the tax.

However, certain exceptions from this principle have been prescribed by the Act for social, economic and taxation-technical reasons. Thus the sale of the following goods is exempt from tax on every level of commerce:

(a) newspapers and periodicals subscribed to for at least a month;

(b) round timber, also when impregnated or protected against rot; firewood; chopped firewood; fuel ships and fuel peat; reindeer-moss;

(c) earth, sand, gravel and stone, as such or screened, broken or crushed; however, not when sold or imported in packages or other similar lots to be sold by retail;

(d) animals of bovine species; horses, reindeer, swine, sheep, goats, rabbits, dogs, cats, chickens, ducks, geese, turkeys, and bees and farm fur animals such as minks, foxes and chinchillas, all alive; and
(e) aircraft, and vessels with hulls of an overall length of 10 metres or more.

Also the sale of a newspaper's impression to a non-profit making society, which issues the paper mainly for it's members, is - under certain conditions - exempt from tax, as also labour inputs with deliveries of goods affecting tax-free aircraft and vessels.

The primary provisions referred to in Section 4 in paragraphs 1-3, such as fodders and fertilizers and pharmaceutical products, have an exceptional position.

The tax shall be paid on improvement and retail commissions of primary provisions only, on retail commissions of fodder and fertilizer only, and on commissions of chemists' sale of pharmaceutical products only. This has been materialized in the Act by prescribing the sale of primary provisions by a primary producer (e.g. farmers' and fishermen's sale), the sale of fodder and fertilizer by a manufacturer and also the sale by a pharmaceutical products factory or pharmaceutical products shop, exempt from tax, and by granting to the next level of commerce the right to deduct the tax-free purchases. In connexion of the sale of used goods, too, the tax shall be paid on the commission only.

According to the estimates made by General Turnover Tax Office, the tax burden of primary provisions and of processed goods manufactured of them is varying from 2 to 6 per cent on retail price.

7. **The payment of the tax and the submitting of the tax return.**

The tax shall be paid on the taxation value of vend per each calendar month not later than the last week-day of next calendar month. The payment shall be made through monetary institutions by using special turnover tax entering card. In order to impose the tax and assess its amount shall one liable to tax submit within a fixed time a tax return for every taxation term to the local turnover tax office. A taxation term comprises for those liable to tax on wholesale one third of a calendar year and for those liable to tax on retail sales, half of a year. If the tax for the calendar months of a taxation term has not been paid in advance according to the tax return, the unpaid tax shall be collected with a tax demand note or the excess payment shall be reimbursed to one liable to tax.
8. The gist of the present tax system

The arrows in the scheme indicate the circumstances under which the sale, import or export of goods is liable to tax or exempt from. One liable to tax may deduct from his selling price the purchases from another liable to tax obtained by oneself as subject to tax and the cost price of the primary provisions referred to in paragraph 1 of Section 4, obtained by oneself from a primary producer (non-liable to tax). Thus the consumer's price of goods includes 11 per cent turnover tax irrespective of the way of delivery, excluding the primary provisions, for which the tax shall be paid on the difference of consumer's price and the price invoiced by the primary producer (improvement and sales commissions) only.
9. The supervision of turnover taxation

The general supervision of turnover taxation comes under the General Turnover Tax Office subordinated to the Ministry of Finance. There are seven local turnover tax offices in the country for assessment of tax and control of payment of tax, whose areas of authority (taxation areas) are defined according to the borders of administrative districts. The areas of authority of a single turnover tax office may be composed of one or several administrative districts. Thus the local turnover tax offices are operating as tax authorities and the General Turnover Tax Office as administrative central office.

The supervision of taxation connected with importation, however, comes under the Board of Customs, and the custom offices subordinated to it are operating as tax authorities. The General Turnover Tax Office and the Board of Customs are operating also as the court of first appeal and one may appeal against their decisions to the Supreme Administrative Court which is the highest court as far as administrative affairs are concerned. Both one liable to tax and the special State commissioner, which is ordered for each subordinated tax authority and court of first appeal (the General Turnover Tax Office), are entitled to appeal. The regular time for appeal is thirty days of the plaintiff having been notified of the decision subject to appeal. Besides, one liable to tax is entitled, on certain grounds, to appeal against the taxation during the next five years from the end of the calendar year the tax was assessed (sc complaint on grounds).

The supervision of the payment of tax belongs, as mentioned before, to functions of local turnover tax offices. This is carried out a.o. through inspections of book-keepings of tax liabilities fulfilled by inspectors belonging to the personnel of the offices. Will it be ascertained in connexion with an inspection that tax has not been paid correctly, will the inspection result in a taxation of arrears, which may be assessed retrospectively concerning the last three years.

The instruction concerning taxation is given to tax liabilities by the turnover tax authorities. Sc valid precedential information on the application of the turnover tax to a certain transaction of business may be given in writing to one liable to tax, if applied by the same, being observed during the taxation terms as stated. A precedential information concerning the internal turnover taxation is stated by the local turnover office unless this, because of the general importance of the matter, should refer the application to the General Turnover Tax Office to be considered by the latter as first rank. A precedential information concerning the importation of goods is stated by the Customs Board. An appeal against the ruling concerning precedential information may be lodged the same way as an appeal against taxation up to the Supreme Administrative Court.
10. Particulars about turnover taxation

(a) The share of the turnover tax compared with other tax-like (State) revenue:

<table>
<thead>
<tr>
<th>Tax-like (State) revenue</th>
<th>1964</th>
<th>1965</th>
<th>1966</th>
</tr>
</thead>
<tbody>
<tr>
<td>Income and property tax</td>
<td>1,290</td>
<td>1,483</td>
<td>1,712</td>
</tr>
<tr>
<td>Other direct taxes</td>
<td>140</td>
<td>44</td>
<td>69</td>
</tr>
<tr>
<td>Customs revenue</td>
<td>371</td>
<td>367</td>
<td>310</td>
</tr>
<tr>
<td>Excises</td>
<td>575</td>
<td>740</td>
<td>913</td>
</tr>
<tr>
<td>Stamp duties</td>
<td>239</td>
<td>170</td>
<td>176</td>
</tr>
<tr>
<td>Turnover tax (in 1966 of 11 months only)</td>
<td>1,227</td>
<td>1,314</td>
<td>1,425</td>
</tr>
<tr>
<td>Tax on automobiles and motor cycles</td>
<td>137</td>
<td>168</td>
<td>167</td>
</tr>
<tr>
<td>Tax on motor vehicles</td>
<td>56</td>
<td>154</td>
<td>161</td>
</tr>
</tbody>
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(b) Turnover tax returns in 1967 amounted to ca. Fmk 1,908 million, of which the internal turnover accumulated ca. 95.7 per cent and the importation ca. 4.3 per cent.

(c) At the end of 1967 the number of turnover tax liabilities amounted to 69,243, of which 8,097 were liable to tax on wholesale and 61,146 liable to tax on retail sales.

(d) There were 483 persons employed by the turnover tax supervision in the country at the end of 1967. Of these were 142 inspectors.

(e) In 1967 the expenditure of the turnover taxation concerning the turnover tax supervision was Fmk 8.9 million equalling 0.47 per cent on tax returns, which amounted in said year to ca Fmk 1,908 million.

The expenditure was divided as follows:

- wages 76.3 per cent
- social security 5.0 per cent
- rents and light 9.1 per cent
- printing cost 2.6 per cent
- running means 2.0 per cent
- travelling expenses 2.2 per cent
- tax collection fees for banks 1.9 per cent

100.0 per cent
(f) In 1967 4,459 inspections were performed. Ca. 80 per cent of the ordinary inspections resulted in a taxation of arrears.

(g) At the end of 1967 there were 5,964 having taxes under the distraint, which equalled 8.6 per cent of the total of tax liabilities. By that time was the value of taxes under the distraint ca Fmk 34 million. In 1967 the taxes under the distraint were written off to the amount of Fmk 2.7 million equalling 0.14 per cent of tax returns.