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Global Reward Update

Finland

Background

The Finnish Parliament has recently approved a new employee share issue regime. This applies to shares issued directly to employees of non-listed companies located in the EEA. The aim of the new regime is to attract, engage and retain talent through share ownership, particularly in start-up and growth companies. The new rules also seek to clarify ambiguities that arise under existing legislation in relation to company valuation and determining the fair market value of the shares. The new rules came into force on 1 January 2021.

What has changed?

Under the new rules, participating employees will not be subject to tax on a qualifying employee share issue, provided the price they pay to acquire the shares is at least equal to the 'mathematical value' of the company's shares. In many cases, this means that shares can be issued to employees at a price below the fair market value, without income tax or social security consequences for participating employees. Where the employees later dispose of the shares, the gain received on the sale is taxed as a capital gain.

The issue of shares to employees must meet several conditions in order to qualify under the new regime:

- Shares must be issued to over 50% of the company's employees. While this means that share issues only to key personnel or management of the company are not possible, it is possible to vary the number of shares issued to different groups of employees.
- Shares can only be issued to the company's own employees. They cannot be issued to group company employees or board members.
- The mathematical value is the company's net asset value calculated based on tax values. It is often close to the equity in the balance sheet. The most recently approved financial statements must be used to calculate the mathematical value.
- The new rules apply to all non-listed companies.
- The employer issuing the shares must be located in the EEA and carry out business activities. It must also be a registered regular employer and be registered in the tax prepayment register without recorded tax defaults.
- Any employee receiving shares may not own more than 10% of the company's shares or voting rights, either alone or together with their family members.
- The new rules are not applicable to employee stock option programmes and these are not taken into account when determining the 10% limit of ownership.

Deloitte's view

The new rules should make it easier to use shares to reward, engage and retain employees in privately owned companies. This is especially so where the subscription price for the shares is lower than the fair market value. The new rules will also help to remove some of the valuation related uncertainties often linked to employee share issues. A potential limit is that the new rules do not allow for companies to reward only key employees or management. Companies planning to take advantage of the new employee share issue regime will need to ensure all the conditions for the new rules are met.

Who to contact

If you would like to discuss this further, or have any questions, please speak to your usual Deloitte contact or any of the contacts listed below:

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