

Finland

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What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

To encourage new investment, the Finnish government in late 2019 enacted a corporate income tax law that allows double tax depreciation for new machinery and equipment acquired and put into use in tax years 2020–2023. The increased deduction can be taken through tax year 2023.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Deduction of R&D expenses	R&D expenses are deductible for tax purposes	100% of expenses are deductible from business income that is subject to the normal 20% tax rate	Basically, all costs incurred for R&D activities	
Depreciation of R&D expenditure	Instead of a deduction, a taxpayer may choose to capitalize the R&D costs and depreciate them over a two-year or longer period	100% of expenses are deductible from business income that is subject to the normal 20% tax rate	Basically, all costs incurred for R&D activities, except costs of acquiring a building	
Accelerated depreciation on buildings used for R&D activities	Accelerated tax depreciation of 20% applies for buildings and construction used exclusively for R&D purposes	Annual tax depreciation is 20%, calculated on a declining basis	Costs of acquiring a building used exclusively for R&D activities	
Accelerated depreciation on new machinery and equipment	Accelerated (double) tax depreciation applies on new machinery and equipment acquired and put into use during tax years 2020–2023	For tax years 2020–2023 only, annual tax depreciation is double (up to 50%), calculated on a declining basis	Costs of new machinery and equipment acquired and put into use during tax years 2020–2023	Machinery and equipment put into use before tax year 2020 or after 2023 is not eligible; double depreciation applies only for tax years 2020–2023

Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
● Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
Consumer Products	Real Estate
● Retail, Wholesale & Distribution	Life Sciences & Health Care
● Automotive	● Health Care
Transportation, Hospitality & Services	Life Sciences
Energy, Resources & Industrial	Government & Public Services
● Power & Utilities	Health & Social Care
Mining & Metals	Defense, Security & Justice
● Oil, Gas, & Chemicals	Civil Government
● Industrial Products & Construction	International Donor Organizations
	Transport

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & development (R&D)	●	●	● ●	National: Arrears Local: Not applicable	Corporate income tax deduction for companies performing R&D activities and incurring R&D costs or holding a building used only for R&D activities	All R&D costs are tax deductible; accelerated tax depreciation of 20% applies on buildings used only for R&D	All R&D costs are tax deductible; accelerated tax depreciation of 20% applies on buildings used only for R&D
R&D grant (national or EU)	●	●	● ●	EU: Advance National: Advance	Cash grants for Finnish start-up companies, small and medium-sized companies (SMEs), and large/mid-cap companies, with a particular focus on SMEs	Varies, up to 40%	Varies, 50–70%
Loan funding	●	●	●	Advance	Low interest loans for companies with development and piloting projects. The interest rate is three percentage points below the base interest rate (with a minimum loan rate of 1%), and no collateral is required in most cases	Varies, loans covering 50% of total costs	Varies, loans covering 50–70% of total costs

Key: ● = PERMANENT INCENTIVE (||) = TEMPORARY INCENTIVE (||) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.



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Investment							
Training	●	●	●	Arrears	Corporate income tax deduction for training expenses. Deduction applies to companies engaged in commercial activities or agriculture, and is for training and education sessions held in accordance with a training plan covering all of the company's employees in Finland	Varies based on total costs and number of employees. The tax deduction is approximately half of the wage costs for the time spent in training, limited to three training days per employee per year	Varies based on total costs and number of employees. The tax deduction is approximately half of the wage costs for the time spent in training, limited to three training days per employee per year
Accelerated tax depreciation on new machinery and equipment	▨	●	●	National: Arrears Local: Not applicable	Accelerated tax depreciation on new machinery and equipment acquired and put into use during tax years 2020–2023	Annual double tax depreciation (i.e., 50% calculated on a declining basis) on new machinery and equipment put into use during tax years 2020–2023. The double depreciation applies only for tax years 2020–2023	Annual double tax depreciation (i.e., 50% calculated on a declining basis) on new machinery and equipment put into use during tax years 2020–2023. The double depreciation applies only for tax years 2020–2023
Environmental sustainability							
Sustainability	●	●	●	Advance	Energy aid	Varies depending on the type of project	Varies depending on the type of project
Other							
Production incentive on audiovisual productions	▨	●	●	Varies	Movie/audiovisual production support for productions made in Finland	25% of total project costs	25% of total project costs

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Country background

The corporate tax rate in Finland is 20%. R&D grants, loan funding, and all government incentives are granted and applied for through Business Finland.

Innovation Incentives

Research & Development (R&D)

Nature of incentives

R&D expenses may be deducted at the time they are incurred. Taxpayers also have discretion to depreciate the R&D expenditure over two or more years (but no more than 10 years).

The total deduction for R&D expenditure (whether expensed or through depreciation) may not exceed the amount recorded in the taxpayer's accounts during the tax year and prior years. However, the taxpayer may choose to expense the cost for accounting purposes and depreciate the cost for tax purposes.

Eligible industries and qualifying costs

Costs incurred in conducting R&D are deductible regardless of the taxpayer's industry.

There is no definition of R&D expenditure in the tax law but, based on tax practice and rulings, R&D expenditure includes costs incurred for scientific research, the planning of products, building prototypes, and conducting market research. Examples include costs of payroll, subcontractors, materials, equipment, etc. acquired for purposes of the R&D.

R&D costs may be deducted regardless of whether the research is successful. Expenditure incurred abroad also may be deducted when incurred. If an R&D transaction is with a related party, the arm's length principle and transfer pricing documentation requirements apply.

Accelerated and enhanced depreciation are available for expenditure incurred for buildings used solely for R&D activities. The standard rates for buildings are 4% (offices) and 7% (stores, warehouses, factories, etc.) and are applied on a declining basis; however,

buildings and construction used exclusively for R&D are depreciated at a rate of 20% on a declining basis. Additionally, construction, equipment, and machinery used to improve environmental conditions may be depreciated at a maximum annual rate of 25%. The standard maximum depreciation rate for machinery and equipment is 25%; however, due to the new investment incentive on machinery and equipment, accelerated tax depreciation at a maximum annual rate of 50% (on a declining basis) applies through tax year 2023 on all new machinery and equipment acquired and put into use by corporate entities during tax years 2020–2023.

Deductible R&D expenditure includes amounts paid to contractors or research institutions to conduct research on the taxpayer's behalf. Payments made to research institutions may be deductible even when the payment is not consideration for specific research results received by the taxpayer, provided the research is related to the taxpayer's field of business.

Intellectual property (IP) and jurisdictional restrictions

There is no requirement that IP created by the research remain in Finland. If the IP is transferred to a related party, the terms must be at arm's length. If funding from Business Finland (previously called "Tekes," see below) is used, there may be restrictions on, or conditions for, the transfer.

As noted above, qualifying R&D costs are deductible when incurred even if the research is conducted outside Finland.

R&D Grant (national)

Business Finland, the Finnish funding agency for innovation, mainly channels public R&D funding to research, product development, and business development. Funding is provided in the form of grants and loans, and is available to companies, research organizations, and providers of public services. Funding services are targeted at companies that have their sights set on international growth. Business Finland funds Finnish start-up companies, small and medium-sized companies (SMEs), and large/mid-cap companies with a particular focus on SMEs.¹

1. A start-up company is a company that is less than five years old. An SME is a Finnish company with annual turnover of EUR 50 million or less, or a maximum balance sheet of EUR 43 million, and that has fewer than 250 employees. Finnish companies that employ more than 250 individuals are large companies. Mid-cap companies are large companies that have a maximum annual turnover of EUR 300 million.



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Business Finland grants are intended for R&D by companies that generate new knowledge and competencies. The grant is paid in arrears, based on the reported actual costs. Possible grant amounts are as follows:

- Grants can be awarded to SME start-ups to cover up to 50% of the total R&D project costs; for international joint projects, the funding can cover up to 65%.
- Grants can be awarded to large companies for up to 40% of the total R&D project costs. However, large companies must spend at least 40% of the total project costs on acquiring services from SMEs or research organizations, or the project must be a joint venture with SMEs and research groups.
- Grants can be awarded to research institutions partnering with Finnish companies to develop new knowledge and innovations for business needs. Grants typically can cover up to 60% of research costs; research projects that are highly networked internationally can receive 70% funding.
- Grant funding can be awarded to public service providers to improve their service quality and develop innovative organizational practices. Funding can cover up to 50% of a project's total cost.

The content and goals of a project determine which costs will be funded. Business Finland will approve costs from the date the grant application is submitted, provided all application requirements are met.

Eligible cost categories for R&D projects include the following:

- Salaries;
- Indirect personnel costs;
- Overhead;
- Travel expenses;
- Materials and supplies;
- Machinery and equipment purchases;

- Machinery and equipment depreciation costs/machinery equipment rentals; and

- Purchased services.

Eligible costs for a piloting project can include:

- Costs of materials and supplies;
- Design costs associated with the subject of the pilot project;
- Commercialization costs;
- Costs associated with the use of premises during the project;
- R&D costs associated with the pilot or demonstration project; and
- Leases or depreciation costs for land, buildings, machinery, and equipment associated with the project.

Substantial revenues earned during piloting projects can preclude the reimbursement of costs through Business Finland, as the goal of the initiatives is to reduce risk for new businesses.

R&D grant (EU)

Companies located in Finland also can apply for R&D grants under EU programs, such as the funding program Horizon 2020, and from European structural and investment funds. Additionally, Business Finland offers funding for Horizon 2020 project preparation, alleviating proposal costs for Finnish companies.

Loan funding

Business Finland provides low cost loan funding. The interest rate is three percentage points below the government's base interest rate (with a minimum loan rate of 1%), and no collateral is required in most cases. If the project fails or its results cannot be commercially exploited, the loan may be partially converted into a grant.

Business Finland offers loans covering 50% or 70% of the total costs of development and piloting projects of SMEs. For mid-cap companies, the loan covers a maximum of 50% or 70% of the total



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project costs, and for large companies, the Business Finland loan is up to 50% of total costs. Large corporations also must spend at least 15% of total project costs on acquiring services from SMEs or research organizations, or the project must be carried out as a joint venture with SMEs and research groups.

Investment Incentives

Accelerated depreciation on machinery and equipment

A Finnish tax law enacted in 2019 provides for accelerated tax depreciation of double the standard amount on new machinery and equipment purchased and put into use during tax years 2020–2023. Under the law, the annual depreciation is calculated at a rate of 50% (instead of 25%) on a declining basis on the acquisition cost of the new machinery and equipment and is claimed via the company's annual corporate income tax return.

According to the law, the double depreciation is being granted for a fixed term to encourage new investments in machinery and equipment. The increased depreciation can be taken through tax year 2023, after which the standard depreciation rules will apply. The increased depreciation on machinery and equipment is available for all corporate taxpayers in Finland. The rules surrounding this incentive are complex and should be discussed with a Finnish tax specialist.

Environmental Sustainability Incentives

Energy aid

Business Finland grants energy aid to climate and environmentally friendly investment projects that promote energy savings and the production/use of renewable energy, as well as those that reduce environmental damage caused by the production of energy. The purpose is to promote the implementation of new energy technology and its introduction to the market.

Companies of all sizes can apply for energy aid, but the grants are discretionary. The aid amount varies depending on the type of project.

Other Incentives

Production incentives

Business Finland offers a 25% cash rebate production incentive for audiovisual production costs incurred in Finland. This is intended to increase international interest in Finland as a production location and to promote the development, growth, and internationalization of Finnish companies. Finnish or foreign production companies can apply if activities are performed in Finland. Qualified projects include:

- Feature films;
- Documentary films;
- Serial fiction; and
- Animation productions.

Disqualified projects include commercials or promotional products, reality and talk shows, music videos or recordings, and sporting event recordings. The incentive support is granted only after end of production after costs are known.

Corporate income tax deduction for training

Corporate entities engaged in commercial activities or agriculture in Finland can claim a corporate income tax deduction if the company holds training and/or educational courses, when the training or course is held for all of its employees in Finland conducting the company's business operations and the company has a training plan in place covering all of its employees.

The deduction is claimed on the company's corporate income tax return, and the total deduction amount varies based on the number of training days and employees, and the employees' salary costs. The tax deduction is approximately half of the wage costs for the time spent in training, limited to a maximum of three training days per employee per year. The rules surrounding this deduction are complex and should be discussed with a Finnish tax specialist.

