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**WORKING PAPER**

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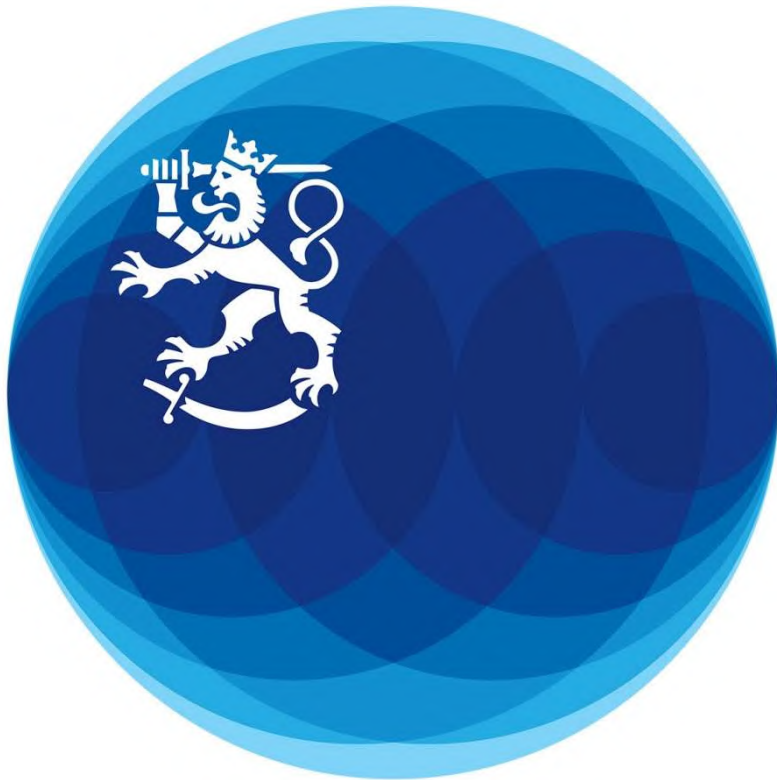
**MEETING DOCUMENT**

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|----------|---|
| From:    | Presidency  |
| To:      | Working Party on Tax Questions (Digital Taxation) |
| Subject: | Presentation by Presidency                        |

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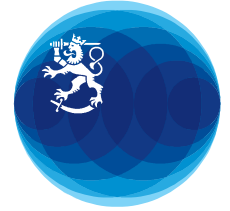
Delegations will find attached a document in view of the Working Party on Tax Questions (Direct Taxation - Digital) on 11 October 2019.



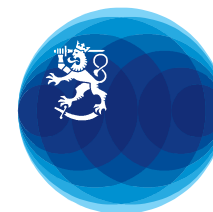
# OECD Pillar I - Impact Analysis in Finland

WPTQ 11 Oct 2019

# Background

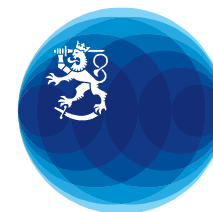


- Initial hypothesis of the Finnish Tax Administration (FTA)
  - Finland is an export driven small and open economy
  - Competitive advantages being the quality of education and skilled workforce, innovations
  - Due to its small size in terms of population, surrendering part of the residual profits to market jurisdictions might result in loss of revenue income
- Approach for the IA by the FTA
  - Assessment of the current situation
    - Identification of the taxpayers potentially impacted by the contemplated reform
    - Definition of taxes paid on the income stream affected by the reform
  - Impacts of the reforms
    - Definition of the data sources, followed by data collection
    - Allocation exercises based on the known elements of the reform



# Assessment of the current situation

- Definition of the taxpayers affected
  - Data sources
    - Corporate tax data based in tax return forms (including specific form for intercompany (I/C) transactions)
    - VAT-data (e.g. sales to EU)
    - CbC-data
    - Customs data
    - Orbis
- Scoping: All corporate taxpayers (FYs 2013-2017)
  - Identification of taxpayers with
    - Sales to market jurisdictions – outbound effect
      - FI resident companies selling goods or services to overseas, directly to customers or to associated enterprises
      - Identification: EU sales or 0%-rate sales (VAT-data) OR sales to associated parties (I/C data) OR exports (customs data)
  - Sales to Finland – inbound effect
    - FI resident group entities purchasing goods or services from overseas
      - Identification – I/C data
    - Non-resident companies selling goods or services to FI without a taxable presence
      - Identification: VAT-sales data AND registered (FI CIN) as foreign entity/branch AND no CIT PE
- Further specifications to be included in accordance with the OECD work



# Assessment of the current situation

- Number of taxpayers identified
  - Outbound
    - Sales to market jurisdictions – ca. 23 000 – inaccuracies in VAT-data
  - Inbound
    - IC-sales to Finland – ca. 2 600 – potential overlaps with the above
    - Sales by non-residents – ca. 2 500 – some inaccuracies in VAT-data
- Taxes paid by first two (23 000 and 2 600 companies combined) of the above: 3,1 billion
  - The reform will have two-way impacts to the total sum
  - Proportion impacted by the reform, ie. new taxing rights in market jurisdictions – identifiable based on VAT-data – work in progress
- Approach for IA – work in progress
  - Utilisation of Orbis-data as broadly as possible
  - Outbound effect per taxpayer counted in if
    - Consolidated profits exceed set threshold (e.g. 10 % EBIT) OR
    - In the absence of group profit data, if taxpayer profit exceeds the set threshold
    - Share of the FI taxpayer of the residual allocable to the new taxing rights is calculated in proportion of the FI resident company residual profit to group residual profit
  - Inbound effect per taxpayer counted in if
    - Consolidated group profits exceed the set threshold
    - Definition of residual profit allocable to FI (new taxing right) in proportion of the sales to FI to the group sales