

# Corporate and Capital Tax Reform 2005 in Finland and Effective Tax Burden

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**Abstract:** The Government of Finland published a corporate and capital tax reform proposal in November 2003. The tax reform should become effective in January 1<sup>st</sup>, 2005. This paper describes effects of the reform on the cost of capital and effective tax rates compared to the present taxation and other countries. Both stock quoted and closely held corporations are studied. The forward-looking indicators of effective tax burden verify that the corporate taxation would become more advantageous and the reform would strengthen competitiveness of Finland (as a country under average tax burden) for investment. The taxation of owners would step up, but in the certain cases the investment incentives of owners of closely held corporations would increase because of the tax-free part of dividend income (< 90000 euros) that depends on net wealth of the firm and the rising taxation of the other dividend income. Thus the reform would increase some distortions of incentives.

**Keywords:** Corporate Taxation, Capital Taxation, Tax Reform, Effective Tax Rates, Finland

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