

# Erasmus + Personal Finance Programme



## MODULE 4: Taxes Teacher Notes

Coordinator



Lancaster Royal  
Grammar School

Program Partners



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## **Teacher notes**

### **Erasmus + Personal Finance Programme Module 4: Taxes**

#### **For the teacher**

#### **1.1 What are taxes? Examples of the most common taxes**

Taxes are mandatory payments that the state collects to provide services for the public.

Taxes are collected from different types of **income**, like salary, student allowance or pension. If a young person earns less than 10,500 euros a year (2018), no taxes are collected.

Income tax is collected from pay. This year, in practice you pay state tax only from income bigger than 35,680 euros in a year after all deductions. Municipal and parish tax are paid when your income is more than 14,020 euros in a year. The municipalities determine their own tax rate, which means that your rate depends on the municipality that you live in. You only pay the parish tax if you are a member of the evangelical-lutheran or the orthodox church. Employment pension- and unemployment insurance payments are collected from all income.

In addition to income tax, other taxes (like taxes on consumption) are collected. The most common example is value added tax, which is collected in the consumer price of goods and services. You pay the VAT in for example the price of food, books or film tickets. Taxes on tobacco, energy, vehicles and waste are examples of other taxes on consumption. These are also meant to influence consumer behavior. These also play a vital part in the state economy.

In addition to income, **capital gains** are taxed. Capital gains are income that you receive from your assets, for instance dividends and rent income, or if you sell your assets and receive profit. The capital gains tax rate in 2018 is 30%, and 34% for capital gains more than 30,000 euros.

Other taxes include for example **estate tax**, **capital transfer tax** and property tax. Estate tax is collected from estate worth 20,000 euros or more. Capital transfer tax is paid from gifts worth 5,000 euros or more. The tax applies also to gifts received from the same donor during three years, if the combined value of the gifts is 5,000 euros or more.

Mandatory social security payments are tax-like payments that are collected in pay. These add up to roughly eight per cent of pay.

## 1.2 Why do we pay taxes?

The government uses the tax money to pay for roads and other infrastructure, the police, the armed forces, the parliament and the judicial system

Citizens get services paid for by their taxes. These are for example: municipal day care, schools, free basic education, universal health care, libraries, cultural and sports facilities and different benefits.

## 1.3 Direct and indirect taxes

Taxes are divided into direct and indirect taxes. Direct taxes, like income-, municipal-, capital gains- and YLE-tax, are collected directly from income. Indirect taxes are paid in prices of goods and services.

## 1.4 Progressive tax or flat tax?

In Finland, income tax is a progressive tax, which means it is a tax that increases according to brackets. The more you earn, the higher is your tax rate. The tax rate is determined by all income and all deductions within the tax year.

Tax brackets in 2018

<https://www.veronmaksajat.fi/Palkka-ja-elake/Veroprosentit/veroprosentit-2018/>

Flat tax means that the tax rate is the same for everyone regardless of income. In Finland for example value added tax, municipal tax and capital gains tax are flat taxes.

Some countries have flat tax in income taxation. For example Estonia has a flat tax rate of 20% in 2018.

## 1.5: Young people and taxation

A 15-year-old automatically receives their own tax card. If you are a student and entitled to student allowance, tax card is not required for student allowance. However, if you work part-time while studying, you need a new tax card for your income. Student allowance, sickness benefit and unemployment benefit affect the tax rate of your income. Tax-free benefits include housing allowance, housing supplement, school transportation allowance and conscript's allowance.

Income received from all work are taxed. The tax is withheld directly from your pay. If you have not automatically received your tax card from the tax official, **remember to request your tax card before starting work**. The employer withholds the tax based on the rate on the card. If they do not have the card, the tax rate is 60%.

If a young person earns less than 10,500 euros per year (2018), no tax is collected. Taxes are rarely collected from summer job pay, or at least the tax rate is very low. Mandatory social insurance payments take about eight per cent of your pay.

## **1.6 Different tax deductions**

The tax official automatically makes some deductions, like the professional expenses deduction (750 euros a year). A person has the right to declare different deductions to the tax official. Different deductions are introduced below. The most common deductions are commuting expenses, professional expenses deduction and union membership fees.

### **Professional expenses deduction**

Professional expenses deduction consists of expenses directly related to your work, like professional literature, computer or work space, if you work at home. You are automatically entitled to 750 euros deduction.

### **Union membership fees**

Union membership fees are deducted from your income.

### **Mandatory pension and social insurance fees**

The employer declares all mandatory pension and insurance fees to the tax official every year. Remember to check these amounts in the year's last paycheck.

### **Commuting expenses**

Commuting expenses refer to the expenses cause by sommuting between work and place of residence. These are deducted before tax is calculated. You have to cover for 750 euros per year, rest is deducted. The maximum amount deducted is 7,000 euros.

### **Household expenses deduction**

Household expenses deduction can be claimed for household work done at home or at a holiday house. This can be for example child care, renovations or cleaning. Your own risk is 100 euros and the maximum amount of deduction is 2,400 euros per person in 2017.

### **Second home deduction**

You have the right to claim a maximum of 250 euros per month in rent expenses for a second home needed for work reasons. This is considered a professional expense.

### **Maintenance liability deduction**

If you pay child support, which is confirmed by court ruling, you are entitled to this. The deduction is 1/8 of the amount of the support paid, but at most 80 euros per year per child.

### **Gift deduction**

If a person or an estate make a donation to a university, and that donation is at least 850 euros and at most 500,000 euros, they are entitled to this.

## **1.7 Tax rate generator**

With the tax rate generator you can evaluate whether you need to change the tax rate on your tax card. You can estimate the appropriate tax rate for income or different benefits.

Note, that the generator only calculates the tax. Also tax-like payments are collected from your income. These include for example unemployment insurance payment and pension payment.

<https://prosentti.vero.fi/VPL2018/Sivut/Henkilotiedot.aspx>

### **1.8 Taxation in buying a residence**

When you buy a flat or property, you must pay the transfer tax. It is not automatically collected, but you have to pay it yourself. A young person (age 18-39) purchasing their first flat does not pay the transfer tax. The transfer tax for flats is 2% of the final price (4% for property). Transfer tax applies to for example flats, business premises, reserved parking spaces, storages, golf shares, time shares and boat berths

### **1.9 Estate tax and capital transfer tax**

Estate tax is collected from estate worth 20,000 euros or more.

Estate tax is defined based on the value of the estate and the closeness of the kinship between the inherited and the heir. The value is determined by the likely selling price of the estate. A specific tax scale is applied.

Capital transfer tax is paid from gifts worth 5,000 euros or more.

The tax applies also to gifts received from the same donor during three years, if the combined value of the gifts is 5,000 euros or more.

### **1.10 Grey economy**

Refers to activity where legal obligations are neglected to avoid taxes, tax-like payments or customs duties, OR to collect deductions under false pretenses. In layman's terms, grey economy means that you neglect to pay taxes, you are paid under the table

#### Unauthorized workforce

Workers are paid in cash and proper documentation is neglected. Social insurance payments are not collected. Binding contracts are not respected. New platform economy brings new types of work and employer-employee relationships. Then the responsibilities could easily be neglected.

#### Virtual currency

Not really regulated by laws. They can easily be used to pay salaries without paying taxes.

#### Identity fraud

Officials are deluded by declaring false identities as people in charge in companies. Often companies are used in fraud by making false purchases in their name. All kinds of institutions (public institutions, banks, insurance companies etc.) can be deluded in this manner.

#### Corruption

Corruption is a broad phenomenon and it includes offences in office, bribery, fraud, embezzlement, money laundering and insider trading. Misuse of a confidential post and transgressions regarding

company confidentiality can also be seen as corruption. It is difficult to identify corruption because it is hard to define, although it is damaging to many parties. Corruption is an international phenomenon.

### Consumer fraud

Fraud in products sold to customers usually includes misinformation on the origin of food products and transgressions in import of alcohol, tobacco and vehicles. It can also include transgressions in distance selling. This type of fraud is usually meant to gain unsubstantiated economic advantage by deluding the consumer, but it is also connected to avoiding taxes and other payments.

### New forms of work

New forms of work are developing all over the world. New platforms blur the line between being an employee or an entrepreneur. In sharing economy, people can share their free resources in exchange for money or other resources, using digital platforms.

### Professional misuse of companies

Professional misuse of companies is a diverse phenomenon in white-collar crime. Typically it means that limited companies are used as "tools" in different types of fraud. Often false identities are named as responsible parties, and they act as fronts for other people.

### Grey economy in online shops

This can mean for example fraud involving instruments of exchange, money laundering, identity theft, tax and duty evasion, accounting offence and counterfeits. Online shops can also be involved in corruption, human trafficking, or smuggling. They are also often connected to international, organized crime.

## **Company taxation**

The form of the company affects taxation.

Limited companies' and co-operatives' income is taxable. The tax rate is 20%. Dividends are taxed as capital gains for the beneficiary. NGO:s or foundations are taxed on their income

Profit for entrepreneurs and partnership companies is taxed as income for the entrepreneur/owner. This is divided into income and capital gains. The rate for capital gains is 30%. Income tax is progressive. Farmers' income is treated similarly.

More information: tax official

<https://www.vero.fi/yritykset-ja-yhteisot/tietoa-yritysverotuksesta/tuloverotus/>

## **Corporation taxation in the EU**

Check:

Corporation taxation in the EU

[https://europa.eu/youreurope/business/taxation/business-tax/company-tax-eu/index\\_fi.htm](https://europa.eu/youreurope/business/taxation/business-tax/company-tax-eu/index_fi.htm)

## Tax havens

Tax havens can be utilized in many ways, both legally and illegally. Usually tax haven is only a front used to blur the ownership arrangement. A company can be registered in the Caribbean, but the accounts are in Europe, most often in Luxembourg or Switzerland. When a person or a company places their assets in a company registered in a tax haven, it does not automatically mean that they are guilty of tax evasion. There can be other, personal reasons for the arrangement. You can legally place your assets in a tax haven, but there is no great benefit in it if you abide by the Finnish tax laws.

Using tax havens is tax evasion when you place income that would be taxed in Finland to a tax haven with artificial arrangements.

More information on tax havens:

YLE: Tax havens

<https://yle.fi/aihe/termi/finto/httpwwwysofiontokokop50561/veroparatiisit>

- Vero-web page: [https://www.vero.fi/tietoa-verohallinnosta/tietoa\\_verotuksesta/verovaj/veroparatiisi/](https://www.vero.fi/tietoa-verohallinnosta/tietoa_verotuksesta/verovaj/veroparatiisi/)
- YLE: <https://yle.fi/aihe/artikkeli/2018/03/29/kaksi-vuotta-panaman-papereista-suomen-verottajan-tahanastinen-saalis-on-laiha>
- YLE: <https://yle.fi/aihe/artikkeli/2018/06/20/uusi-tietovuoto-paljastaa-teidan-vuoksi-joudumme-maksamaan-veroja>

## Tax card

is a document that confirms the employee's tax rate. The employer withholds the tax from the employee's pay according to the rate. The employee requests the card from the tax official and gives it to the employer.

## Tax rate

determines how much income tax is paid on a given income level.

## Tax decision

is the calculation which shows how much should be paid in total. Tax has been withheld from your pay based on your tax rate, and after this the end sum is checked, taking into account all income and all deductions. The tax decision is the result of this check.

## Tax declaration

is a declaration about all income and property, given to the tax official every year. All government-, municipal-, and church taxes are determined based on the declaration. The tax official delivers a precompleted declaration, which can be filled in online or on paper. In the declaration you can also declare deductions.

## Tax refund

means that too much tax has been withheld from your pay. The tax official will refund the extra tax.

## Back taxes

are a tax that has to be paid, when too little tax has been withheld from your pay.

Tax certificate

is an appendix to the tax declaration. It includes condensed information from the tax year. You need the certificate when you apply for certain benefits.

Income register

is a national database which will be introduced in 2019. The register includes information about individual pay- pension- and benefit records.

## MODULES

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