VALTIONEUVOSTON KANSLIA
STATSRÅDETS KANSLI

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To the Chief Executive Officers and Chief Financial Officers of State-Owned Companies

GUIDELINES FOR STATE MAJORITY-OWNED COMPANIES ON COUNTRY-BY-COUNTRY TAX REPORTING STARTING IN THE FINANCIAL YEAR 2022

1. Background and purpose of reporting

The Government Programme of Prime Minister Sanna Marin's Government states that companies in which the state has a controlling interest will show an example of corporate responsibility by reporting their tax footprint in each country and that aggressive tax planning will not be tolerated According to the Government Resolution on Ownership Policy (VNK/2020/48)[1], the State will update its guidelines on country-by-country tax reporting for state majority-owned companies in line with the guidelines issued by the OECD. The previous guidelines were issued in 2014. The purpose of the updated guidelines is to clarify and harmonise procedures for country-by-country tax reporting so that companies' tax responsibility and the payment of taxes to different countries can be better assessed.

In addition, according to the new EU Directive, all large international companies operating in the European Union must begin reporting their income taxes country-by-country. These guidelines take into account the effects of the new Directive.

2. General information on country-by-country tax reporting

The reporting requirements are not designed to set hurdles for the business operations of companies or undermine their competitiveness in the market. At the same time, reporting and the comparison of taxes paid or accounted for country-by-country are complicated by circumstances other than just the potential confidentiality of the information, the most important of these arising from: the complexity of taxation; application of the principle of materiality; the wide variety of international tax concepts; and the reporting obligations of listed companies.

[1] https://valtioneuvosto.fi/paatokset/paatos?decisionId=0900908f80699a87

The regulation of tax reporting has developed strongly in recent years. The most important guidelines are established in the OECD standard,[2] in line with which companies began reporting to the authorities in Finland and other EU Member States in 2016. In addition, compliance with the Global Reporting Initiative (GRI) standard,[3] which entered into force in 2021, can be regarded as comprehensive reporting with respect to taxes. The European Union published a Directive on public country-by-country tax reporting[4] on 21 December 2021. In Finland, the requirements of the Directive will be included in the Accounting Act.

In recent years, the Ownership Steering Department has required state majority-owned companies to include country-by-country tax reporting in their Annual Report, Sustainability Report or a separate tax report published on the companies' websites. The tax reporting described in this letter will replace the previous practice.

3. Content of country-by-country tax reporting

The Government Resolution on Ownership Policy states that the guidelines on country-by-country tax reporting for state majority-owned companies will be updated in line with the guidelines issued by the OECD. The new EU Directive is mainly consistent with the OECD's guidelines on country-by-country tax reporting. For the first time, companies will be required to provide tax reports in line with these guidelines as part of their Sustainability Report or Annual Report or as a separate report on their taxes paid for and accounted for in 2022. State minority-owned companies and all listed companies are encouraged to submit similar reports. The reporting obligation does not apply to companies operating solely in Finland.

The tax report should contain at least the following information:

The company's tax strategy and operating principles
- A description of the organisation and management of tax issues
- Outlines of tax planning, tax strategy and their objectives.

Quantitative tax data
- The following key indicators of the company's tax payment in line with the OECD guidelines (2015) country-by-country:
    1. Income (income obtained from related parties and from others itemised)
    2. Profit/loss before taxes
    3. Paid and accrued income tax and source tax
    4. Book value of equity
    5. Retained earnings
    6. Personnel

[2] https://www.oecd.org/ctp/transfer-pricing-documentation-and-country-by-country-reporting-action-13-2015-final-report-9789264241480-en.htm
[3] https://www.globalreporting.org/standards/
[4] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32021L2101

7. Tangible assets other than cash at hand and cash equivalents

The country-by-country tax report must also contain details on entities belonging to the group or enterprise, the nature of their operations, the information sources used and the currency. The OECD template can be used for reporting the data.[5]
If they wish, companies can also expand their tax reporting by disclosing further information, such as:

- Other information in line with the GRI standard
- Investments and purchases country-by-country
- Reconciliations based on the effective tax rate
- Reconciliations of changes in deferred tax assets and liabilities
- Comparative data on one or several previous years
- Independent third-party verification as proof of the reliability of the report

4. Final remarks

As stated in the Government Resolution on Ownership Policy, transparent tax reporting is an essential aspect of corporate sustainability. As part of their corporate sustainability reporting, companies are expected to file country-by-country reports on their income taxes in a way that permits a reliable assessment of their tax responsibility. As a rule, taxes are to be paid to the country to which they are due based on the business carried out. Aggressive tax planning will not be tolerated. According to the OECD's definition, international aggressive tax planning refers to arrangements that shift a company's profits away from the country in which the activities generating the profits are taking place.

Director General Kimmo Viertola

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[5] https://www.oecd.org/ctp/transfer-pricing-documentation-and-country-by-country-reporting-action-13-2015-final-report-9789264241480-en.htm

C.C.: Chairs of the Boards of Directors of State-Owned Companies