TALLINN UNIVERSITY OF TECHNOLOGY
School of Business and Governance
Department of Law

Miro Knuutinen

THE LEGAL FORM AND TAXATION OF DIFFERENT EQUITY INVESTMENTS IN FINLAND, SWEDEN AND ESTONIA

Bachelor's thesis

Programme HAJB08/14 - Law, specialisation European Union and international law

Supervisor: Thomas Hoffmann, Dr. iur., LL.M.

Tallinn 2020

I hereby declare that I have compiled the thesis independently
and all works, important standpoints and data by other authors
have been properly referenced and the same paper
has not been previously presented for grading.
The document length is 9574 words from the introduction to the end of conclusion.

Miro Knuutinen ……………………………
(signature, date)

Student code: 166369HAJB
Student e-mail address: knuuti@ttu.ee

Supervisor: Thomas Hoffmann, Dr. iur., LL.M.:
The paper conforms to requirements in force

……………………………………………
(signature, date)

Chairman of the Defence Committee:
Permitted to the defence

…………………………………………
(name, signature, date)

TABLE OF CONTENTS

ABSTRACT 5
INTRODUCTION 6
1. MEANS AND INSTRUMENTS IN EQUITY INVESTING AND THEIR LEGAL DIFFERENCES 9
1.1. Direct equity investments 9
1.2. Mutual funds 11
1.3. Exchange-traded funds 13
1.4. Life insurance investment products 15
1.5. Equity savings accounts/investment accounts 16
2. GENERAL TAXATION OF CAPITAL INCOME IN FINLAND, SWEDEN AND ESTONIA 18
2.1. Finland 18
2.2. Sweden 21
2.3. Estonia 22
3. TAXATION OF EQUITY INSTRUMENTS IN FINLAND, SWEDEN AND ESTONIA 24
3.1. Finland 24
3.1.1. Equities (shares) 24
3.1.2. Mutual funds 25
3.1.3. ETFs 25
3.1.4. Life insurance investment products 26
3.1.5. Equity savings accounts/investment accounts 26
3.2. Sweden 27
3.2.1. Equities (shares) 27
3.2.2. Mutual funds 28
3.2.3. ETFs 28
3.2.4. Life insurance investment products 29
3.2.5. Equity savings accounts/investment accounts 29
3.3. Estonia 30
3.3.1. Equities (shares), mutual funds and ETFs 30
3.3.4. Life insurance investment products 30
3.3.5. Equity savings accounts/investment accounts 30

4. COMPARATIVE ANALYSIS....31
CONCLUSION 34
LIST OF REFERENCES 36

ABSTRACT

This research examines different means and instruments in equity investing and their legal differences. The instruments are approached from a private law perspective. The first section of the thesis examines the basic legal structures of equities, mutual funds, exchange-traded funds, life insurance investment products and equity savings accounts/investment accounts.

The second section of the thesis examines the taxation of the instruments, offering a public law perspective. The section presents a general view of taxation of capital income in Finland, Sweden and Estonia, followed by an exploration of taxation of individual instruments in these countries.

The thesis aims to answer what are the legal differences of the equity investments from an investors' view from a private law perspective and how are the equity investments taxed in Finland, Sweden and Estonia, which is approached from a public law perspective. The thesis has an approach of comparative tax law. Cross-border tax issues are not covered in the thesis.

Keywords: direct equity investments, indirect equity investments, comparative tax law, investment instruments taxation

INTRODUCTION

This thesis aims to research the means and instruments in direct and indirect equity investing and to identify how they legally differ from each other, and to determine how the taxation of the income derived from the instruments takes place in Finland, Sweden and Estonia. The first research question addressed is therefore as follows: are the instruments legally significantly different from each other? The second question focuses on taxation: how does the law regulate the taxation of the instruments and capital income derived from them in the countries of study and is there a significant difference in taxation of the income derived from the instruments?

There are several types of equity investment instruments: direct equities (which are traditional equities and are also known as shares), mutual funds, exchange-traded funds (ETF), equity savings accounts/investment accounts and life insurance investment products.[1] From an investor's view, these instruments generally have the same aim: to increase the investor's return and wealth. These instruments also have similar features in their risk and return profiles to the investor. However, they differ from one another from a legal perspective. As the instruments differ in the way in which they are structured and are regulated by different acts, they enable different solutions for equity investing.

The primary method to invest in equities has traditionally been through the stock market, for example, through direct equity investing. However, the development and the evolution of the financial market has enabled new ways to invest, offering investors various options to choose from. In response, new instruments have been developed in order to identify the best possible solution for the investor's needs, or to achieve the desired risk-return ratio. Nevertheless, there is ultimately only one aim: to increase the value of investments and the wealth of the investors.

Capital income is return on capital. In Finland and Sweden, this income is taxed differently from how salary or other earned income is taxed. In contrast, capital income in Estonia is taxed the same as employment income. When instruments are sold there are two components in the cash flow:

[1] It is also possible to use derivatives in equity investing, however, derivative products are left outside of this thesis.

invested capital and capital income, which is the profit on the original invested amount. In equities, this income is determined by the fluctuation in value.

Indirect equity investments generally contain multiple underlying instruments, which together create the total return. The capital income is added to the pool of investments, and only when the profit is redeemed from the instrument is there a tax liability.

When an investor sells an investment, there usually arises either profit or loss. In many cases, profit means tax liability and the investor pays taxes on the profit. Losses, on the other hand, usually mean that the investor has the possibility to reduce the losses from the profits made.

Different investment instruments are regulated differently. The different taxation regimes are based on the legal characteristics of the instruments. This thesis examines the ways in which equity instruments are taxed. Taxable income from equities represents capital gains as well as dividends or other returns. In using some indirect equity investments, tax liability may arise when the allocation changes are made within the instrument. However, some instruments are specifically designed in order to prevent (or postpone) taxation when changes are made inside the instrument.

This thesis first explains the investment instruments and their legal structures. It begins with direct equity investments, which are shares. Shares are legally different from the other instruments because an investor not only receives a pure investment instrument, but also the right to have control and influence over the limited liability company. A limited liability company may be private or public. All listed companies are public limited liability companies, and this thesis focuses solely on public companies. The thesis continues with indirect equity investments: mutual funds, exchange-traded funds, life insurance investment products and equity savings accounts/investment accounts. The legal components of this thesis also explain what legal person is in charge of distributing the investments and how they are legally structured.

The thesis then outlines the general taxation regimes for capital income in Finland, Sweden and Estonia. While Finland and Sweden have relatively similar tax system, Estonia differs from both countries in using one general flat tax rate. This section of the thesis focuses on the general taxation of capital income, which includes taxation on capital gains and losses on the investments.

Finally, this thesis compares the taxation of each investment instrument in the countries of study. While Finland and Sweden employ similar tax systems and taxation on the instruments, Estonia dramatically differs regarding the taxation.

This research topic is significant given the increasingly different investment instruments now available. When new instruments are brought to the market, confusion can arise. The aim in the European Union and the financial market is to make transparent options available for investors. However, the instruments tend to be complex and there is room for some clarification. This thesis therefore seeks to transparently explain the instruments and the legal actions in owning them, which promotes understanding from a legal point of view and understanding of how the instruments are taxed.

1. MEANS AND INSTRUMENTS IN EQUITY INVESTING AND THEIR LEGAL DIFFERENCES

Equity investing means that one invests in a company's own capital with the aim to gain increased return from the investment.[2] This can take place either by investing directly into the company's shares or indirectly through other instruments. Indirect equity investing means that one invests in a company's own capital, but the investment is usually part of a larger investment in many businesses and funds or other assets classes (e.g. different currency). This thesis focuses on funds and other instruments that involve equity investments.

The different equity instruments are created, bought and sold through different service providers; in other words, the instruments are exchanged through different means. In addition, there are differences in the extent of voting rights and other means of control an equity investment investor has for the investment (i.e., the rights to the company). Finally, different instruments may have, *per se*, a third party in the investment, such as a fund management company that trades the investment to the investor. In this case, the fund management company has bought equities that the investor can invest in through funds.

This thesis includes five instruments in equity investing: direct equity investments, mutual funds, ETFs, life insurance investment products and equity savings accounts/investment accounts. It introduces what the instruments are, how they are built and how one can invest in them. The thesis then examines the differences between the instruments from a legal perspective.

1.1. Direct equity investments

Shares are securities that a limited liability company has issued to the investors. These produce certain economic and legal rights for the investors, who are owners of the company. When one owns shares, one also owns a stake of the company and hence becomes a shareholder. A

[2] *Osakeopas*. (2017). Helsinki: Pörssisäätiö, 4.

shareholder has the right to a portion of the company's own assets, which derives in part from the profits that the company makes.[3] The cash flows shared to the investors are called dividends.[4] They are divided among the shareholders according to the amount of shares each shareholder holds. A further important right of the shareholders is the right to attend the general meeting.[5] Through attending the general meeting, the shareholders have the possibility to influence the company, as the shares entitle the owner to vote in the meeting, for example, voting to accept the board of director's suggestion for the amount of dividends that are payed for each share.

The articles of association determine the amount of shares required for a vote.[6] In principal, the greater the shareholding, the more decision-making power a shareholder has.[7] In addition to voting, shareholders also have the right to raise certain matters to the agenda at the general meeting.[8]

Listed shares are shares that are listed on a stock exchange market and publicly traded, which means that anyone can buy and sell them through the stock exchange via banks and other brokers.[9] There are generally two ways to acquire listed shares. The first way is to buy traded shares from the stock exchange. The second way is the company's issuance of new shares. While the former is traded from investor to investor, the latter is the issue of securities of the company to investors in order to finance its activities.

The laws regulating equities and the trading of equities can be divided into two groups. Firstly, there is the law concerning limited liability companies and their shares.[10] The shares are legally the company's capital; therefore, the source of regulation is the Limited Liability Companies Act.

[3] *Ibid*., 4.
[4] Räbinä, T., Myllymäki, J., Myrsky, M. (2019). *Henkilökohtaisen tulon verotus*. (3rd ed.). Helsinki: Alma Talent Oy, 118.
[5] Aktiebolagslag (2005:551) 7:1.; Osakeyhtiölaki 21.7.2006/624 5:1.; Commercial Code. RT I 1995, 26, 355, § 226.
[6] Aktiebolagslag (2005:551) 4:1..; Osakeyhtiölaki 21.7.2006/624 3:1.
[7] However, there can be different types of shares in a company regarding the voting right, and even shares with no voting right at all.
[8] Osakeyhtiölaki 21.7.2006/624 5:3.
[9] See e.g. Osakeopas (2017), *supra nota* 2, 24-25.
[10] Osakeyhtiölaki 21.7.2006/624.; Aktiebolagslag (2005:551).; Commercial Code. RT I 1995, 26, 355.

Secondly, the law of the securities market[11] and the law of book-entry accounts[12] regulate how an investor can buy or receive the shares and in which form they are stored. Today all listed securities are typically in the book-entry account and thereby stored in data-based form.

As previously noted, an investor who owns shares is a shareholder and legally owns a stake of the company. In this way, direct equity investments (i.e., shares) differ from the other investment instruments, as investors using indirect equity investment instruments make investments through intermediaries, such as banks, insurance companies or brokerage firms.

1.2. Mutual funds

A mutual fund is a pool of investment assets combined together to invest in different investment objects.[13] Mutual funds are an investment vehicle, for which the fund is managed as a portfolio by a fund management company.[14] The fund manages the investor's money and invests in a variety of assets. Typical investment objects are shares, bonds or other mutual funds. While using mutual funds, an investor invests only in one investment product, but the product itself contains many investments. In other words, the fund's assets are spread to several investments.

The benefit of a mutual fund is that the fund already invests in many securities, which spreads the risk of the investment. Therefore investing in a fund makes it easier and more functional allocate money to different investment objects and thereby reduce the overall risk than buying many shares separately.

There are several types of funds for the investor to choose from, such as short-term-interest funds, long-term-interest funds, combined funds and equity funds.[15] While the legal framework for each is the same, the investment policies of the funds differ from each other.

Both combined funds and equity funds invest in shares. Combined funds invest part of the money into the interest rate instruments and the remainder into shares. The investor can therefore benefit

---

[11] Arvopaperimarkkinalaki 14.12.2012/746.; Lag (2007:528) om värdepappersmarknaden.
[12] Laki arvo-osuustileistä 17.5.1991/827.
[13] See e.g. Investment Funds Act. RT I 31.12.2016, 3. § 2(1).
[14] *Sijoitus rahasto-opas*. (2015). Helsinki: Pörssisäätiö, 5.
[15] See about different types of investment funds, Suomen pankki. (2015). *List of investment funds*. Retrieved from https://www.suomenpankki.fi/en/Statistics/investment-funds/list-of-investment-funds/ , 26 December 2019.

from the potential returns in both markets. More importantly, combined funds spread the risk by diversifying the investment to different asset classes. A fund has the possibility to flexibly move the percentage of shares and interest investments within the rules presented in the fund prospectus.[16] The percentage of share investments within the fund usually varies from 10% to 80%, but depending on the investment policy of the fund, some funds may even have 100% invested on the interest market at a certain stage.[17]

An equity fund is a fund that does not invest in fixed-rate investments, but only in shares. The investment consists of investments into different shares and can vary, for example, from geographical placement or industry placement.[18]

A mutual fund is a pool of cash from investors which is managed according to an investment policy for the benefit of the investors and their interests.[19] It is an investment object whose assets have been invested in different investments, such as shares, bonds and precious metal (e.g. gold). In contrast to direct equity investments, mutual funds are not traded on a stock exchange. Fund units are sold to investors (as well as redeemed) through banks and other dealers. Investors can make a fund subscription via banks, fund management companies or their internet service.

Mutual funds are managed by either fund management companies or fund-join-stock companies.[20] A custodian manages the fund management company's assets. A fund management company cannot by itself retain the assets. According to the law of investment funds, a fund management company must keep an investment fund's assets separate from the fund management company and other investment assets.[21] The assets are therefore stored by a custodian and the assets are not subject to foreclosure from the fund management company's debts. As such, they are safely stored for the investors.[22]

---

[16] Ossa, J. (2013). *Tuloverolaki käytännössä*. Helsinki: Sanoma Pro Oy, 193.
[17] See e.g. OP-Varovainen fund, OP. (2019). *OP-Varovainen*. Retrieved from https://www.op.fi/henkiloasiakkaat/saastot-ja-sijoitukset/rahastot/kaikki-rahastot/op-varovainen/, 27 October 2019.
[18] Ossa, J. (2013), *supra nota* 16, 193.
[19] Investment Funds Act. RT I 31.12.2016, 3. § 2(1).
[20] Sijoitusrahastolaki 22.2.2019/213 2:3.; Lag (2004:46) om värdepappersfonder § 1.
[21] See e.g. Sijoitusrahastolaki 22.2.2019/213 9:1.; Lag (2004:46) om värdepappersfonder § 7.
[22] See e.g. Sijoitusrahastolaki 22.2.2019/213 9:1.

Mutual funds are regulated through both national laws and EU legislation. National laws include legislation concerning investment funds[23] and the law of investment service.[24] On the EU level, the Undertakings for Collective Investment in Transferable Securities directive (UCITS)[25] defines the requirements for a fund to be marketed in other EU countries. According to the law, a fund must clearly inform the investors as to what the investment objects are. EU legislation generally mandates the information which much be provided to investors in order to be transparent and clear. The Markets in Finacial Instruments directive's (MiFID)[26] purpose is to make the market safer and more transparent. In addition, a mutual fund's name must be clearly distinct from other funds.[27]

When an investor owns fund units, he or she enjoys economic and legal rights.[28] Owning a fund unit offers the investor the right to attend the fund unit owners meeting. Every fund-unit grants one vote.

1.3. Exchange-traded funds

Exchange-traded funds (ETF) are securities that generally follow some index. However, the underlying instrument object can be any kind of object, including raw materials. ETFs can be powerful investment tools, as they can invest in different equities in one product and diversify risk for the investor. The risk spreading arises from the way in which ETFs are built: if one company's value descends, the other investments secure the value of the ETF. ETFs are constructed like regular funds, investing in a large number of investments. The investments for equity ETFs are typically indexes for different companies.

ETFs are funds that are traded on the stock exchange. They are bought and sold in the same way as shares, but the content and functionality of ETFs can be equated with mutual funds. The fund manager manages the portfolio and chooses the investment objects.

[23] Sijoitusrahastolaki 22.2.2019/213.; Investment Funds Act. RT I 31.12.2016, 3.; Lag (2004:46) om värdepappersfonder.
[24] Sijoituspalvelulaki 14.12.2012/747.; Investment Funds Act. RT I 31.12.2016, 3.; Lag (2004:46) om värdepappersfonder.
[25] Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulation and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).
[26] Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.
[27] Sijoitusrahastolaki 22.2.2019/213 8:4.
[28] Investment Funds Act. RT I 31.12.2016, 3, § 14 (7).

ETFs are traded on the stock exchange like shares. In order to own ETFs, an investor needs a book-entry account where the securities are stored. When the ETFs are traded on the stock exchange, the pricing is real time and trading is possible only when the stock exchange is open. In contrast, mutual funds can be bought and sold once a day at a given price, or even less frequently.[29]

While there are clear regulations on equities, mutual funds, life insurance investment products and equity savings accounts/investment accounts, there is no specific legislation on ETFS. However, there are EU-level regulations that control the marketing of ETF instruments: The *packaged retail and insurance-based investment products* regulation (PRIIPS) and the MiFiD II directive.[30] ETFs can be classified as special mutual funds or non-UCITS funds.

Although there may be mention of special mutual funds in the laws on investment funds,[31] specific legislation concerning ETFs is perhaps missing due to their low significance in the financial market in Finland, Sweden and Estonia. Meanwhile, within the EU, ETFs are often used and traded in Germany and the United Kingdom.[32]

The largest market for ETFs is the United States. Given the different investment regulation, American ETFs are not listed in the EU. In the EU, the MiFID II directive, which aims to enhance investment protection and increase transparency in the market, prohibits the marketing of American ETFs, because they are not transparent. Investments must include a description of their character and risk in the form of a 'key investor information document' (KIID). The KIID, in turn, must be available in the investor's language,[33] which is problematic for the issuer of ETFs.

Thus, the legislation regulating ETFs is minor, but it is sufficient for the funds to exist in the EU market. The law of investment funds[34] identifies ETFs as special mutual funds or non-UCITS

---

[29] Avanza. (2019). *Vad är och hur fungerar ETF:er/börshandlade fonder?*. Retrieved from https://www.avanza.se/lar-dig-mer/avanza-akademin/borshandlade-produkter/vad-ar-hur-fungerar-borshandlade-fonder.html, 16 October 2019.
[30] Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs)., Directive 2014/65/EU., Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.
[31] See e.g. Sijoitusrahastolaki 22.2.2019/213.
[32] LYNX. Niskanen, V. (2019, Aug 8) Suosituimpien Yhdysvaltalaisten ETF:ien ostaminen Euroopasta. Retrieved from https://www.lynxbroker.fi/sijoitusblogi/artikkelit/us-etf-ostaminen-euroopasta/, 16 November 2019.
[33] Laki sijoitusrahastolain muuttamisesta 1490/2011 § 93a.
[34] Sijoitusrahastolaki 22.2.2019/213.; Lag (2004:46) om värdepappersfonder.

funds, with the exception of the minimum investment objects in the fund. Yet the trading and storing of ETFs are similar to shares, as they are bought through the stock exchange and stored via a book-entry account.

1.4. Life insurance investment products

Life insurance companies have developed products that act as investment products. The savings on the insurance product are paid to the policy holder or the beneficiary, despite the fact that it is the insured person whose life is covered.[35] Life insurance investment products are investment products that are offered by insurance companies.

Typical insurance savings products are long-term savings for retirement or savings in case of death. There are also products that act purely for saving without insuring anyone. Life insurance investment products are these kind of agreements between the beneficiary and the insurance company. It is a time-limited insurance which seeks to increase the wealth of the investor, who is the policy holder. It is a separate product from pension saving products.[36]

A life insurance investment product is built to act like a fund investment, but is more flexible and may give the investor the freedom to build an investment portfolio on his or her own. Life insurance investment products are planned and structured for long-term saving. In many cases, savings are free to take from the insurance product after a fixed time, which depends on the product.[37] It is possible to invest in these instruments either monthly, periodically or in one wholesale investment.

A life insurance investment product usually allows the investor to choose in which investments the capital is placed. There are typically several instruments available for the investor, such as equities, different funds, bonds and interest rate products.

In contrast to mutual funds, life insurance investment products firstly allow the investor to choose the investments. In mutual funds, the fund is already built by the fund manager for the investor.

---

[35] Kivioja, P., Niiranen, V., Kontkanen, E. (2007). *Verotus: vakuutukset, säästäminen ja sijoittaminen*. *s.l.*: FINVA, 10.
[36] See e.g. Inkomstskattelag (1999:1229) 58:2.
[37] Kivioja, P., Niiranen, V., Kontkanen, E., (2007), *supra nota* 35, 93.

Secondly, it is possible to change the investments inside the agreement. This opportunity is one of the reasons why this investment instrument was invented: to make it possible to flexibly change the investments within the instrument and without any immediate tax liability.

Banks often offer insurance products from their own group, but the parties to the contract are the investor and the life insurance company. Life insurance investment products are offered by insurance companies. Although the product offered by insurance companies is very similar to investment instruments offered by banks or fund management companies, these products fall under different legislation and they are regulated by different authorities and regulations.

Insurance products generally insure the policy holder. However, in a life insurance investment product, the policy holder is not insured. This product is meant to act purely as a saving and investment instrument. It is a form of life insurance for which the purpose is to save and grow the capital of the investor and to pay the beneficiary at the time stated on the insurance agreement.

In Finland, for instance, the law of insurance companies[38] divides insurance companies into pension-, life- and non-life insurance companies. Only a certain type of insurance company can provide certain types of insurance.[39] As such, only a life insurance company can provide life insurance investment products.[40]

As the insurance product is offered by insurance companies, this instrument does not have a deposit guarantee protection. Insurance companies face different legislation and the insurance saving is not a deposit; thus, there is not naturally a deposit guarantee.

1.5. Equity savings accounts/investment accounts

An equity savings account or an investment account is a savings account which makes it possible to trade equities without a direct tax effect, which means that it postpones the income tax liability to the moment of realisation of the income. In Finland, a savings account is called an equity savings account and in Sweden and Estonia it is called an investment account. The account differs between

[38] Vakuutusyhtiölaki 18.07.2008/521.
[39] Kivioja, P. (2002). *Vakuutusten verotus*. *s.l.*: Suomen vakuutusalan koulutus ja kustannus oy, 8.
[40] Kivioja, P., Niiranen, V., Kontkanen, E. (2007), *supra nota* 35, 10.

Finland, Sweden and Estonia, as in Sweden and Estonia the account also makes it possible to trade with funds and other assets in the account.

The idea behind the equity savings account and investment account is to reinvest without a direct tax liability. In other words, this means that it is possible to trade equities inside the account without having to pay tax between the trades. In addition, income from dividends are not subject to direct tax and can be invested to buy more shares.

The account is either a regular current account or an account with the possibility to store the equities, such as a book-entry account. Thus, the account either acts similarly to a life insurance investing product, where the money and securities are stored, or it is an account where the capital moves in and out for acquiring and selling securities.

Despite the fact that the account may resemble a life insurance investment product, there are legal differences that distinguish these instruments. Firstly, an equity savings account or investment account is a bank product, which means that there are protections for the investments if the service provider is insolvent,[41] whereas life insurance investment products do not have such protection. Secondly, the legal ownership of the shares is different. Owning shares from an equity savings account or investment account grants the investor the right to attend the general meeting, as the shares are bought directly. However, if the investor invests into equities through life insurance investment products, there is no similar right to attend the general meeting, as it is the life insurance investment provider which has bought the shares.

In Sweden, it is possible to transfer owned equities to an investment account, but in this case tax liability may arise. However, in Finland, it is possible to transfer money, but not equities to an equity savings account.[42] In addition to the restriction of transferring only money to an account, the law in Finland also restricts the value of transfers into an equity savings account up to 50,000 Euros.[43]

---

[41] Rahoitusvakausvirasto. (2019). *Osakesäästötilin rahavarat ovat talletussuojan piirissä*. Retrieved from https://rvv.fi/tiedotteet/-/asset_publisher/rvv-muistuttaa-osakesaastotilin-rahavarat-ovat-talletussuojan-piirissa, 22 December 2019.; See also Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.
[42] Räbinä, T., Myllymäki, J., Myrsky, M. (2019), *supra nota* 4, 190.
[43] Laki osakesäästötilistä 680/2019 § 5.; See also, Harju, I. (2019). Osake- ja sijoitussäästötilit pohjoismaissa – eroja ja yhtäläisyyksiä, osa 2. *Verotus*, 69(4), 478.

2. GENERAL TAXATION OF CAPITAL INCOME IN FINLAND, SWEDEN AND ESTONIA

In economic terms, taxes are costs placed on individuals by the government.[44] When natural persons make investments, they may redeem income, such as dividends and capital gains (i.e., gains when selling or realising the investment). These returns are taxable income and are subject to taxes that investors must pay.[45]

This chapter presents the general taxation regime for capital income in Finland, Sweden and Estonia. The countries exhibit two approaches to taxing personal income: In Sweden and Finland, capital income is a separate form of income. However, in Estonia, capital income is not taxed separately; instead, it is considered ordinary income like salaries and other earned income.

According to Article 113 of the Treaty of Functioning of the European Union, indirect taxes in the Member States of the European Union are harmonised. Direct taxes are contrarily determinable by the Member States. Taxation on capital income are direct taxes, therefore there is the possibility that taxation of capital income is different in the Member States which in this case means, different taxation of capital income in Finland, Sweden and Estonia.

2.1. Finland

All natural (as well as legal) persons that have taxable income during a tax year are liable for income tax. The taxing power has two levels: those who live in Finland are generally tax liable for all income, while those who live outside of Finland are only partially tax liable and pay tax only from income they earned within Finland.[46]

---

[44] Thuronyi, V., Brooks, K., Kolozs, B. (2016). *Comparative Tax Law*. (2nd ed.). The Netherlands: Kluwer Law International B.V., 39.
[45] Myrsky, M., Svensk, N. (2016). *Vero-oikeuden oppikirja*. Helsinki: Talentum Pro, 121.
[46] Tuloverolaki 30.12.1992/1535 § 9.: See also e.g. Kivioja, P., Niiranen, V., Kontkanen, E. (2007), *supra nota* 35, 13.

In Finland, the income of a natural person is taxed either as earned income or capital income.[47] Capital income is income that comes as return on capital. Meanwhile, earned income is all other income, such as salary or other income from employment. Therefore, income from investments is generally capital income.[48]

Taxation on investment instruments can be divided into two stages. The first stage is the when the savings are kept and there is annual income from the investments. For example, this income could be dividends from equities or income that funds pay annually to the investors. The second stage is when the owner makes a redemption of the instrument or other kind of savings. The redeemed amount, either in whole or only the profit, is taxable income . When equities or fund units are sold, the profit is taxed as capital gain, which is capital income. The determination of profit from the investments can be calculated by reducing the purchase price of acquiring the investment together with possible costs, such as trading expenses, from the total redeemed amount.[49] The capital income tax in Finland for direct and indirect equities is 30% for amounts up to 30,000€ and 34% for amounts above 30,000€.[50]

In some cases (e.g. when the acquiring price and costs cannot be used to determine how much profit the redeemed amount contains), a method called presumed acquisition cost can be used to determine the taxable income. Through this method, either 20% or 40% is deducted from the redeemed price, depending on how many years the investor has owned the investment. If the investor has owned the investment for under 10 years, 20% is deducted from redeemed price.[51] If the investor has owned the investment for 10 years or more, 40% is deducted from the redeemed price.[52]

The following is an example of calculating presumed acquisition cost:

---

[47] Tuloverolaki 30.12.1992/1535 § 29.

[48] Fasoúlas, E., Manninen, P., Niiranen, V. (2019). *Sijoittajan verotus ja verosuunnittelu*. Helsinki: Alma Talent Oy, 23.

[49] Tuloverolaki 30.12.1992/1535 § 46.; See also Andersson, E., Linnakangas, E., Frände, J. (2016). *Tuloverotus*. (8th ed.). Helsinki: Talentum Pro, 191.

[50] Tuloverolaki 30.12.1992/1535 § 124.; See also e.g. Fasoúlas, E., Manninen, P., Niiranen, V. (2019), *supra nota* 56, 23.

[51] Tuloverolaki 30.12.1992/1535 § 46.; See also Ossa, J. (2002). *Sijoitustoiminnan verotus ja* verosuunnittelu. Helsinki: Kauppakaari Lakimiesliiton kustannus/Talentum media Oy, 166-167.

[52] Tuloverolaki 30.12.1992/1535 § 46.; See also Ossa, J. (2006). *Myyntivoittoverotus käytännössä*. Helsinki: Tietosanoma Oy, 112.

Investor A bought 1,000 shares of the company Investor Ltd. in 2002. The price of one share was 2€. In total, the price of 1,000 shares was 2,000€. The cost of transaction was 1%, which translates to 20€. The costs of purchasing the shares, 20€, are added to the cost of acquisition to calculate the total cost of purchase as 2,020€.

Investor A decided to sell the shares in 2018. The value of one share at the time was 9.40€. In total, the value of the investor's shares was therefore 9,400€. The cost of the transaction was still 1%, which translates to 94€.

As Investor A had owned the shares longer than 10 years, it is possible to calculate the capital income in two ways: the real acquired price and costs or presumed acquisition cost, which in this case is 40%.

The original acquiring price is calculated with the following formula: redeemed price - (acquired cost + cost of transaction). For Investor A, the calculation is as follows: 9,400 – (2,020 + 94) = 7,286€. Therefore 7,286€ is the capital income.

Meanwhile, the presumed acquisition cost is calculated as 40% of the redeemed price,[53] which is equal to 3,760€. The acquisition cost of 3,760€ is subtracted from the redeemed price of 9,400€ to determine the capital income of 5,640€.

Since 2005, Finland has enacted a policy under which small redemptions are capital income tax free. Under this policy, if all of an investor's redemptions during the tax year are under 1,000 Euros, the gains are not taxable income.[54] The purpose of this exception is to simplify taxation.

When making redemptions there is either capital gain, which means that when selling shares and fund units the redeemed price is higher than the acquiring prince and the expenses, or there are capital losses in the redeemed price, which are deductible from other capital income.[55] In other words, if the capital income is 500 Euros and capital losses are 500 Euros, there is no taxable net income.

[53] Tuloverolaki 30.12.1992/1535 § 46.
[54] Tuloverolaki 30.12.1992/1535 § 48.
[55] Tuloverolaki 30.12.1992/1535 § 50.

2.2. Sweden

The tax system in Sweden is essentially similar to the Finnish tax system: both countries have a dualistic model with earned and capital income. Dividends and interest are taxed as capital income.[56] There is a different tax for earned salary and for capital income. The general taxation rate for capital income in Sweden is 30%.[57] Capital losses are deductible up to 70%[58] and in some cases up to 100%.[59]

Capital income is taxed even for investors that are only partially tax liable in Sweden, using the '*tioårsregelen*', which is translated as the ten-years rule. According to the rule, if an investor has lived in Sweden during the year of the transaction or 10 calendar years prior, Sweden has the right to tax profits on ownership rights in Sweden.[60]

When calculating the capital income from an investment in Sweden, there are, similarly to the Finnish tax system, two methods of calculation. However, the methods themselves are different in Sweden. There is not a method of calculating securities differently from acquiring stages; in other words, there is no *first in first out* principle (FiFo). The first method for calculating capital income is '*Genomsnittsmetoden*', which means average method. The second method is '*Schablonmetod*', which means standardised method. In this method, the costs are subtracted from the redeemed price and then compared to the acquiring price.[61]

The '*Genomsnittmetod*' calculates all of the transactions for the same share together. For each time an investor has bought securities (e.g., shares), the sum of shares is combined. The total costs of shares are divided by the amount of shares.[62]

The following is an example of calculating capital income under the '*Genomsnittmetod*' :

---

[56] Inkomstskattelag (1999:1229) 41:4.; See also Alvarado, M., Cotrut, M., De Lillo, F., Gerzova, L., Kireta, I., Oljenicka, M., Perdelwitz, A., Rodriguez, B., Schellekens, M., Vlasceanu, R. (Eds.) (2019). *European Tax Handbook 2019*. Amsterdam: IBFD, 1105.
[57] *Ibid*., 1106.
[58] Inkomstskattelag (1999:1229) 50:9.; See also Rabe, G., Hellenius, R. (2011). *Det svenska skattesystemet*. (24th ed.). Stockholm: Norstedts Juridik AB, 150.
[59] Tivéus, U., Jacobsson, S. (2013). *Skatt på finansiella instrument*. Stockholm: Norstedts Juridik AB, 79.
[60] *Ibid*., 75.
[61] Inkomsskattetlag (1999:1229) 44:13.; See also Rabe, G., Hellenius, R. (2011), *supra nota* 58, 148.
[62] Skatteverket. (2019). *Kapitalvinstberäkning*. Retrieved from https://www4.skatteverket.se/rattsligvagledning/edition/2019.8/2800.html, 25 November 2019.

Investor B buys 200 shares of Technology Inc. for 25,000 Swedish Krona (SEK). Investor B later buys 200 shares of the same company for SEK 30,000. The average cost of one share is calculated by adding the sums together and dividing the amount by the quantity of shares: (25,000 + 30,000) / 400 = SEK 137.5 / share.

The average cost of one share would be SEK 137.5. If Investor B decides to sell 100 shares, it would result in a redeemed price as follows: 100 x 137.5 = SEK 13,750.

Thus, according to the average method, selling 100 shares of Technology Inc. results in a redeemed price of SEK 13,750. This amount would be compared with the acquiring price.

The '*Schablonmetod*' is an alternative method used when the investor does not have the acquiring price. It is similar to the Finnish presumed acquisition cost method. The percentage which is used in the Swedish tax system is 20%.[63]

The following is an example of calculating capital income under the '*Schablonmetod*':

Investor C has 100 shares of Medicine Inc. The investor sells one share for SEK 450. From this price, 20% is calculated to determine the acquiring price: 450 x 20% = 90. The acquiring price in this case is 90 SEK. The redeemed price is SEK 450. Thus, the capital income in this case is SEK 360.

2.3. Estonia

In Estonia, natural persons are subject to the national income tax. This tax covers both income from employment and capital income. Unlike other countries, Estonia does not have a separate tax for capital income.[64] Capital income is included in the general taxable income and the tax rate.

[63] *Ibid.*
[64] Alvarado, M., Cotrut, M., De Lillo, F., Gerzova, L., Kireta, I., Oljenicka, M., Perdelwitz, A., Rodriguez, B., Schellekens, M., Vlasceanu, R. (Eds.) (2019), *supra* nota 56, 317.

Estonia has one of the most competitive tax systems in the OECD.[65] Indeed, according to rankings of international tax competitiveness, Estonia was ranked the winner of the best tax code in OECD for six consecutive years.[66] It has a flat tax rate.

Estonia has only one income tax rate for natural persons, which[67] has been 20% since 2015.[68] Therefore, the income tax rate for capital income is 20% as well.

When an investor sells securities and earns capital income, he or she is subject to the income tax rate of 20%. If the investor has suffered losses when redeeming securities, the losses can be deducted from the capital income during the same period of taxation.[69]

---

[65] Lundeen, A., Pomerleau, K. (2014). *Estonia has the Most Competitive Tax System in the OECD*. Retrieved from https://taxfoundation.org/estonia-has-most-competitive-tax-system-oecd/, 25 November 2019.
[66] Bunn, D., Aksen, E. (2019). *International Tax Competitiveness Index 2019*. Retrieved from https://taxfoundation.org/2019-international-index/,25 November 2019.
[67] Income Tax Act. RT I 1999, 101, 903, § 12.
[68] Alvarado, M., Cotrut, M., De Lillo, F., Gerzova, L., Kireta, I., Oljenicka, M., Perdelwitz, A., Rodriguez, B., Schellekens, M., Vlasceanu, R. (Eds.) (2019), *supra nota* 56, 320.
[69] Income Tax Act. RT I 1999, 101, 903, § 39.

3. TAXATION OF EQUITY INSTRUMENTS IN FINLAND, SWEDEN AND ESTONIA

3.1. Finland

3.1.1. Equities (shares)

Taxation on income derived from equities is divided into two stages. In the first stage, the investor still owns the shares, and the capital income for each tax year typically consists of dividends.[70] In the second stage when shares are redeemed (in most cases on the stock exchange), capital gain is taxed.

In economic terms, dividends are subject to double taxation. First, the corporate tax of 20% is applied to the profits of a company. When profits are then delivered to shareholders as dividends, they represent taxable capital income for investors. Because of the economic double taxation, the taxation on shareholders' dividends is relieved through partial tax exemption.[71]

The dividends from listed limited liability companies are 85% taxable capital income, while 15% are tax free.[72] Regarding the effective tax rates, this translates to a 25.5% tax rate from dividends that are under 30% taxation of capital income, and a 28.9% tax rate for dividends that are under taxation of 34% of capital income.[73] When companies pay dividends to the shareholders, a withholding tax of 25.5% is applied.[74]

When shares are sold on the stock exchange and gains are realised, capital income is taxed 30% up to 30,000 Euros of the investor's capital income during the year, and 34% of the exceeding

---

[70] Tuloverolaki 30.12.1992/1535 § 33a.; See also Järvenoja, M. (2002). *Osinkoverotus*. (2nd ed.). Helsinki: Talentum, 211.
[71] Räbinä, T., Myllymäki, J., Myrsky, M. (2019), *supra nota* 4, 124.
[72] Tuloverolaki 30.12.1992/1535 § 33a.; See also Myrsky, M., Svensk, N., Voutilainen, T. (2014). *Suomen finanssioikeus*. Helsinki: Helsingin Kamari Oy / Helsingin Seudun kauppakamari, 102.
[73] See closer Räbinä, T., Myllymäki, J., Myrsky, M. (2019), *supra nota* 4, 124.
[74] Fasoúlas, E., Manninen, P., Niiranen, V. (2019), *supra nota* 48, 128. This means that if an investors capital income exceeds 30,000 Euros, the withheld tax does not cover the full amount of tax that has to be paid.

capital income. However, capital losses from equities can be deducted from other capital income.[75] No tax has to be paid when net capital income is zero (or negative).

3.1.2. Mutual funds

In order to determine the taxes for mutual funds, it is first necessary to determine if the fund investment is a so-called growth unit (which does not pay any yearly return to investors) or a so-called distribution unit, which pays out the profit to the investor annually. For growth unit funds, capital income is taxed only when the fund units are redeemed and create capital income.[76] Meanwhile, distribution unit funds annually pay out profit to the fund owners, resulting in capital income liable to tax.[77]

When paying out profits to the investor, the fund management company keeps a 30% withholding tax from the payments.[78] Here again, if the investor's taxable capital income is 30,000 Euros or less during the year, the withheld tax covers the tax that has to be paid from the profit. If the amount exceeds 30,000 Euros, the investor pays 34% of the capital income.[79]

When an investor sells a fund unit, the same rule of 30% or 34% tax applies depending on the taxable capital income that the investor receives during the year. The acquiring price and the costs of acquiring and selling the funds are removed from the redeemed amount in order to determine if the redemption contains capital income.[80] If there is capital income, it is taxed. The losses are deductible here as well.

3.1.3. ETFs

ETFs resemble regular mutual funds in taxation. The profits gained from ETFs are subject to capital income tax. From the capital income, 30% is withheld, and if the investor's capital income is over 30,000 Euros, then 34% is the final tax rate of the profit from the ETFs.[81]

---

[75] Tuloverolaki 30.12.1992/1535 § 50.; See also Juusela, J. (2004). *Osinkojen ja osakeluovutusten verotus*. Helsinki: Talentum, 144-145.
[76] Fasoúlas, E., Manninen, P., Niiranen, V. (2019), *supra nota* 48, 178.
[77] Viitala, T. (2018). Rahastot – muoto, sääntely ja verotus. *Defensor Legis* , 4, 532.
[78] Fasoúlas, E., Manninen, P., Niiranen, V. (2019), *supra nota* 48, 179.
[79] Tuloverolaki 30.12.1992/1535 § 124.
[80] Fasoúlas, E., Manninen, P., Niiranen, V. (2013). *Sijoittajan verotus*. *s.l.:* FINVA, 137.
[81] Fasoúlas, E., Manninen, P., Niiranen, V. (2019), *supra* nota 48, 188-189.

When ETFs are sold on the stock exchange, capital income is taxed as usual. The capital income is calculated in the same way as shares and mutual funds; the costs of acquiring and keeping the ETF are subtracted from the redeemed price, and the remaining amount is taxable capital income.

3.1.4. Life insurance investment products

In regards to taxation, insurance products are simple, as the redemptions within the insurance shell are not taxable events. The capital income from a life insurance investment product is subject to tax either when redeeming capital from the product when there is profit along the redemption, or when the insurance ends.[82] Thus, the profit is subject to taxation only in the end and the investor can gain tax free compound interest within the savings period.

In order to determine the taxable capital income from life insurance investment products, insurance payments are subtracted from the redeemed amount.[83] If more money is gained from the insurance than payments have been made, there is profit redeemed and it is taxed. In other words, first invested capital is redeemed and then capital income is redeemed. It was previously possible to raise invested capital first and leave the accrued profits untaxed. However, beginning in 2020, the taxation of capital redemptions from insurance products will be changed. Under the new regime, it is no longer possible to first redeem invested capital tax free from the insurance. In future, the redemption will contain the relative share of profit along the invested capital, which reflects to the amount of profit in the life insurance investment product, at the time of the redemption.[84] The capital income is then taxed at 30%.

3.1.5. Equity savings accounts/investment accounts

Taxation of equities within an equity savings account differs from regular shares, because the capital income from redemptions and dividends within the account are tax free.[85] Capital income is taxed only when capital is redeemed from the equity savings account.[86] The capital income in the equity savings account is considered to be the amount that exceeds the paid amount into the

[82] *Ibid.*, 223.
[83] Tuloverolaki 30.12.1992/1535 § 35.
[84] Myllymäki, J. (2019). Säästö- ja sijoitusvakuutusten verotuksen muutokset vuodelle 2020. *Verotus*, 69(3), 320-321.
[85] Räbinä, T., Myllymäki, J., Myrsky, M. (2019), *supra nota* 4, 193.
[86] Salokoski, J. (2019). Tuleeko osakesäästötilistö pienisijoittamisen tehokas uusi työkalu?. *Verotus*, 69(2), 165.

savings account.[87] Thus, dividends, profit from selling shares and the increased value of the shares are taken into account when calculating the overall capital income.

When the investor is making a redemption from the equity savings account, the taxable amount is, similarly to life insurance investment products, the relative share of capital income in the redemption, which reflects the capital income in the equity savings account.[88]

The tax rate on the equities in an equity savings account is always 30% of the capital income,[89] even on dividends, which are generally only 85% taxable if the shares are stored in a regular book-entry account.

However, for equities that are owned in a regular book-entry account and are acquired in the general way, the losses are deductible when selling the shares. Losses in equity trading on the equity savings account are deductible only when closing the whole account and redeeming everything from it.[90]

3.2. Sweden

3.2.1. Equities (shares)

Equities are taxed in Sweden, as in Finland, on dividends and capital gains when selling the shares. When shares are sold on the stock exchange and contain capital income, they are taxed at 30%.[91] The difference for dividends in Sweden is that they are also taxed at 30%, whereas, in Finland dividends are taxable for only 85%. Capital losses from selling shares are deductible by 70%.[92]

[87] Tuloverolaki 30.12.1992/1535 § 10.; See also e.g. Fasoúlas, E., Manninen, P., Niiranen, V. (2019), *supra* nota 48, 172.
[88] Fasoúlas, E., Manninen, P., Niiranen, V. (2019), *supra* nota 48, 173.
[89] See Government proposal HE 279/2018 p.29.
[90] *Ibid*., 29.
[91] Inkomstskattelag 1999:1229 65:7.
[92] Inkomstskattelag (1999:1229) 50:9.

3.2.2. Mutual funds

Mutual funds are taxed in Sweden similarly to equities when redeeming the fund units and when they contain capital income. The capital income is taxed at 30%[93]. However, since 2012, when Sweden integrated the UCITS directive in its law, there has also been a tax liability for the fund owners to pay a fund tax.[94] Under the directive, 0.4% is summed from all of the investor's fund investments and taxed at 30%,[95] which results in a percentage of 0.12%. This tax is taxed annually at the beginning of the year.

Below is a sample calculation of the tax:

Investor A has SEK 20,000 invested in Fund I and SEK 40,000 invested in Fund O.

20,000 x 0.4% = SEK 80
40,000 x 0.4% = SEK 160

80 + 160 = SEK 240
SEK 240 x 30% = SEK 72

SEK 72 / SEK 60,000 = 0.0012 which is 0.12%.

The capital losses from mutual funds are deductible in the same way as equities. They are deductible by 70% from tax.[96]

3.2.3. ETFs

ETFs are taxed in the same way in Sweden as mutual funds.[97] Thus, the capital income is taxed at 30% and there is an annual fund tax of 0.12%.

---

[93]Inkomstskattelag 1999:1229 65:7.
[94] Tivéus, U., Jacobsson, S. (2013), *supra nota* 59, 165.
[95] Inkomstskattelag 1999:1229 42:43-44.
[96] Inkomstskattelag (1999:1229) 50:9.
[97] Tivéus, U., Jacobsson, S. (2013), *supra nota* 59, 159.

3.2.4. Life insurance investment products

Taxation of life insurance investment products differs from the regular 30% tax on equities, funds and ETFs. Life insurance investment products face one tax that is paid annually. There is no separate tax for capital gains and dividends.

The tax on life insurance investment products consists of a yield tax, which is an annual profit tax. The yield tax is determined by calculating the product's value in the beginning of the year, adding paid deposits to the product during the first six months of the year and adding 50% of paid deposits to the product in the second half of the year.[98] The combined sum is multiplied with the past year's state loan of November 30th, and an additional 1% is added. Finally, the calculated amount is taxed at 30%.

The following is an example of the tax:

Life insurance investment product's value in the beginning of the year: SEK 200,000
Paid deposits during the first 6 months of the year: SEK 20,000
Paid deposits during the later 6 months of the year: SEK 20,000
State loan from 30th November 2018: 0.49%[99] + 1% = 1.49%

200,000 + 20,000 + (0.5 x 20,000) = SEK 230,000
SEK 230,000 x 1.49% = SEK 3,427
SEK 3,427 x 30% = SEK 1,028

From this calculation, the investor would have paid SEK 1,028 of tax for the life insurance investment product.

3.2.5. Equity savings accounts/investment accounts

Investment accounts are taxed similarly to life insurance investment products in Sweden, which means changes and capital income inside the account is not subject to tax[100]. The difference is that instead of the value and the deposits, the market value in every quarter of the year is added together

[98] Ibid., 202-203.
[99] Berg, P. (2017). *Statslåneränta 2018 – här ser du* skatteeffekterna. Retrieved from https://redovisningshuset.se/mitt-foretag/nyheter/statslaneranta-2018/, 30 November 2019.
[100] Harju, I. (2019), *supra nota* 43, 477.

and then divided by four in order to calculate an average market value of the account during the year. In addition, all deposits to the account during the year are added to the amount.[101] The amount is then multiplied by the state loan tax and one percent unit. From the multiplied amount, 30% is ultimately taxed.

3.3. Estonia

3.3.1. Equities (shares), mutual funds and ETFs

Estonia has a simpler solution for taxation on investment instruments, by which equities, mutual funds and ETFs reflect the same taxation principle. The general tax for capital income in investments is 20%.[102] Thus, when equities are sold and contain capital income, the profit is taxed at 20%. Mutual funds and ETFs are similarly taxed.

3.3.4. Life insurance investment products

Estonia does not have an instrument offered by insurance companies similar to the instruments offered in Finland and Sweden. Instead, there are pension insurances, for which the investor has a possibility to choose different pension funds. As there is not a similar product in the Finnish and Swedish markets, this instrument cannot be compared to the Finnish and Swedish life insurance investment products.

3.3.5. Equity savings accounts/investment accounts

Investment accounts face a slightly different tax burden in Estonia. Because of how the instrument is structured, the capital income is subject to income tax only when capital that is redeemed exceeds the amount of invested capital into the account.[103]

---

[101] Investeringssparskonto.se (2019). *Vad är ett investeringssparskonto eller ISK konto?*. Retrieved from https://investeringssparkonto.se, 30 November 2019.
[102] Estonian Tax and Custom Board. (2019). *Tax rates*. Retrieved from https://www.emta.ee/eng/business-client/income-expenses-supply-profits/tax-rates, 25 November 2019.
[103] Income Tax Act. RT I 1999, 101, 903, § 17(2).

4. COMPARATIVE ANALYSIS

This part discusses the advantages and disadvantages of each tax system and the possibilities to adopt tax transplants from one tax system to another. Each of the tax systems in Finland, Sweden and Estonia have their own advantages and disadvantages. This analysis is considered from small and medium private investors view.

Finland's tax system have advantages for investors that make small redemptions and for those who gain less capital income. The first advantage comes from the small redemptions that investors can annually make tax free for 1000 Euros. The latter advantage is seen in taxation on capital income that is up to 30,000 Euros, which is taxed 30%.

The disadvantages in the Finnish tax system are the overall high taxation on equity investments and the unsupportive system for long-term equity investing. The tax rates are the highest when comparing to Sweden and Estonia. Indeed, there is a smaller tax rate for capital income that does not exceed 30,000 Euros, however, when this tax rate is compared to Sweden and Estonia, it is not from their tax systems point of view a low tax rate. Investors that invests for long-term period or with large capital are also punished with higher tax rates. When presumed acquisition cost is used for investments that are made ten or more years ago, 40% of the redeemed amount is presumed to be the capital income of the investment. This method can cause loss of capital for the investor. The tax rate is 34% for investors whose capital income is above 30,000 Euros, which does not support investors to redeem a large amount of capital during a tax year to reinvest it to more profitable investments. Finland is also the only country that has restricted the invested capital into an equity savings account/investment account. It could be considered to have a higher limit than 50,000 Euros.

To summarise the taxation in Finland, it seems that investors that has small capital invested into equity investments are protected from high taxation, whereas investor with larger amounts invested are heavily taxed. Taxation on life insurance investment products are changed, which means that it is no longer as flexible to postpone tax for capital income. Tax transplants that could be adopted to the Finnish tax systems from elements of the Swedish and Estonian tax system are: the same tax percent for all capital income, the '*Schablonmetod*', which would replace the Finnish method for presumed acquisition cost and a higher limit to the equity savings account.

The Swedish tax system does not have higher taxation for larger capital investments (which is more fair for investors with larger capital income), but overall, Sweden has a strict taxation when comparing taxation on equity instruments in Finland and Estonia. Firstly, there is a strict deduction policy of 70% in most cases. Secondly, there is an additional fund tax that investors has to pay in addition to tax for capital income from funds.

However, the advantages in the Swedish tax system lies in the taxation on life insurance investment products and investment accounts. Although, it is not possible to make deductions from capital losses on these accounts, they are taxed with an annual taxation. This has its advantages when equity investments are redeemed from the account. There is no taxation on capital gain or dividends. However, this can at the same time be a disadvantage if the capital income is zero or negative.

The different taxation for equities, funds and ETFs, life insurance investment products and investment accounts causes confusion which means that an investor has to know the taxation of the equity instruments well before choosing the instrument that will be used. Sweden could adopt tax transplants from the Estonian or Finnish tax system on taxation of equity instruments with having a general taxation for equities, funds and ETFs. In addition, elements from the Finnish and Estonian tax system where capital losses from equities are deductible by 100% could be adopted to the Swedish tax system.

When Estonia's taxation of equity instruments is compared to the Finnish and Swedish tax system, it is a straightforward system. There is one general tax rate for all the equity instruments and it is possible to make full deductions for capital losses from the investments. The advantages in the Estonian tax system are that it is simple, fair and transparent. It does not matter for how long the savings are kept or how much is invested, the taxation behaves the same.

Tax transplants that could be adopted from the Swedish and the Finnish tax systems to the Estonian tax system are: the tax free redemptions when the redemptions are under 1000 Euros during the tax year, from the Finnish tax system and from the Swedish tax system the possibility of different taxation on different instruments. This could be an advantage for example, in the investment account where it would be annually taxed. The equities on the investment account would be liable to one annual tax, which could be profitable if there would be a larger sum invested to equities. There would not be any tax liability to make redemptions that contain capital income.

CONCLUSION

The aim of this thesis was to determine how the equity investment instruments in the countries of study are legally different, how they are legally structured and how they are offered to investors in the financial market. Furthermore, the aim was also to evaluate the taxation of the instruments.

Equity investors face various choices regarding in what company, industry or location to invest. In addition, investors today must also choose among diverse investment instruments. The primary instruments are direct equity investments through shares traded in the stock market, indirect equity investments, mutual funds, ETFs, insurance products and equity savings accounts. Taxation on indirect equity investments depends on the investment vehicle. Which means, are indirect equity investments bought as regular fund units, investment accounts or life insurance investment products.

Investors have the choice to own securities and pay tax for capital income and the possibility to deduct capital losses in taxation. Different industries, such as the insurance industry, have also joined the investment market in offering investment solutions for investors to benefit from the financial market from a tax perspective. This diversification has also led to the need for new legislation.

The limited liability companies act regulates the functioning and dealing of dividends to investors for limited liability companies' shares that are listed on the stock market. Mutual funds and ETFs are traded by fund management companies and fall under legislation that regulates investment funds.

Life insurance investment products are offered by insurance companies and are bound to the legislation that regulates the insurance industry, which has made it possible to have investments inside the life insurance investment product and to postpone taxes.

Finally, equity savings accounts or investment accounts vary between countries, but the main idea is that such accounts have an effect on postponing the taxes and making equity trading more flexible.

Taxation on capital income and instruments is generally divided into two categories. Firstly, as in the tax system in Finland and Sweden, an investor may pay a separate tax on capital income when redeeming from an instrument or receiving dividends.

Secondly, as in the tax system in Estonia, there may be tax neutrality, which means that the tax is levied for all income. In this system, the same tax is applied for capital income and employment income.

Whichever system is used, there is a similar tendency for taxing capital income. When an investor makes profit (i.e., capital income), the investor is taxed for capital income, generally with the same tax percentage. The more substantial difference lies in the instruments that have been constructed, their functioning and the dealing of dividends to investors.

LIST OF REFERENCES

Scientific books

1) Alvarado, M., Cotrut, M., De Lillo, F., Gerzova, L., Kireta, I., Oljenicka, M., Perdelwitz, A., Rodriguez, B., Schellekens, M., Vlasceanu, R. (Eds.) (2019). European Tax Handbook 2019. Amsterdam: IBFD.

2) Andersson, E., Linnakangas, E., Frände, J. (2016). Tuloverotus. (8th ed.). Helsinki: Talentum Pro.

3) Fasoúlas, E., Manninen, P., Niiranen, V. (2013). Sijoittajan verotus. s.l.: FINVA.

4) Fasoúlas, E., Manninen, P., Niiranen, V. (2019). Sijoittajan verotus ja verosuunnittelu. Helsinki: Alma Talent Oy.

5) Juusela, J. (2004). Osinkojen ja osakeluovutusten verotus. Helsinki: Talentum.

6) Järvenoja, M. (2002). Osinkoverotus. (2nd ed.). Helsinki: Talentum.

7) Kivioja, P. (2002). Vakuutusten verotus. s.l.: Suomen vakuutusalan koulutus ja kustannus oy

8) Kivioja, P., Niiranen, V., Kontkanen, E. (2007). Verotus: vakuutukset, säästäminen ja sijoittaminen. s.l.: FINVA.

9) Myrsky, M., Svensk, N. (2016). Vero-oikeuden oppikirja. Helsinki: Talentum Pro.

10) Myrsky, M., Svensk, N., Voutilainen, T. (2014). Suomen finanssioikeus. Helsinki: Helsingin Kamari Oy / Helsingin Seudun kauppakamari.

11) Osakeopas. (2017). Helsinki: Pörssisäätiö.

12) Ossa, J. (2002). Sijoitustoiminnan verotus ja verosuunnittelu. Helsinki: Kauppakaari Lakimiesliiton kustannus/Talentum media Oy.

13) Ossa, J. (2006). Myyntivoittoverotus käytännössä. Helsinki: Tietosanoma Oy.

14) Ossa, J. (2013). Tuloverolaki käytännössä. Helsinki: Sanoma Pro Oy.

15) Rabe, G., Hellenius, R. (2011). Det svenska skattesystemet. (24th ed.). Stockholm: Norstedts Juridik AB.

16) Räbinä, T., Myllymäki, J., Myrsky, M. (2019). Henkilökohtaisen tulon verotus. (3rd ed.). Helsinki: Alma Talent Oy.

17) Sijoitus rahasto-opas. (2015). Helsinki: Pörssisäätiö.

18) Thuronyi, V., Brooks, K., Kolozs, B. (2016). Comparative Tax Law. (2nd ed.). The Netherlands: Kluwer Law International B.V.

19) Tivéus, U., Jacobsson, S. (2013). Skatt på finansiella instrument. Stockholm: Norstedts Juridik AB.

Scientific articles

1) Myllymäki, J. (2019). Säästö- ja sijoitusvakuutusten verotuksen muutokset vuodelle 2020. *Verotus*, 69(3), 316-328.

2) Salokoski, J. (2019). Tuleeko osakesäästötilistä pienisjoittamisen tehokas uusi työkalu?. *Verotus,* 69(2), 161-17.

3) Viitala, T. (2018). Rahastot – muoto, sääntely ja verotus. *Defensor Legis* , 4, 528-546.
4) Harju, I. (2019). Osake- ja sijoitussäästötilit pohjoismaissa – eroja ja yhtäläisyyksiä, osa 2. *Verotus*, 69(4), 475-486.

Estonian legislation

1) Commercial Code. RT I 1995, 26, 355

2) Income Tax Act. RT I 1999, 101, 903

3) Investment Funds Act. RT I 31.12.2016, 3

EU and international legislation

1) Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulation and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

2) Directive 2009/65/EC of the European Parliament and of the Council of 13 July 2009 on the coordination of laws, regulation and administrative provisions relating to undertakings for collective investment in transferable securities (UCITS).

3) Directive 2014/49/EU of the European Parliament and of the Council of 16 April 2014 on deposit guarantee schemes.

4) Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on markets in financial instruments and amending Directive 2002/92/EC and Directive 2011/61/EU.

5) Regulation (EU) No 1286/2014 of the European Parliament and of the Council of 26 November 2014 on key information documents for packaged retail and insurance-based investment products (PRIIPs).

Other countries' legislation

1) Aktiebolagslag (2005:551)

2) Arvopaperimarkkinalaki 14.12.2012/746

3) Government proposal HE 279/2018

4) Inkomstskattelag (1999:1229)

5) Lag (2004:46) om värdepappersfonder

6) Lag (2007:528) om värdepappersmarknaden

7) Laki arvo-osuustileistä 17.5.1991/827

8) Laki osakesäästötilistä 680/2019

9) Laki sijoitusrahastolain muuttamisesta 1490/2011

10) Osakeyhtiölaki 21.7.2006/624

11) Sijoitusrahastolaki 22.2.2019/213

12) Tuloverolaki 30.12.1992/1535

13) Vakuutusyhtiölaki 18.07.2008/521

Other sources

1) Avanza. (2019). *Vad är och hur fungerar ETF:er/börshandlade fonder?*. Retrieved from https://www.avanza.se/lar-dig-mer/avanza-akademin/borshandlade-produkter/vad-ar-hur-fungerar-borshandlade-fonder.html, 16 October 2019.

2) Berg, P. (2017). *Statslåneränta 2018 – här ser du* skatteeffekterna. Retrieved from https://redovisningshuset.se/mitt-foretag/nyheter/statslaneranta-2018/, 30 November 2019.

3) Bunn, D., Aksen, E. (2019). *International Tax Competitiveness Index 2019*. Retrieved from https://taxfoundation.org/2019-international-index/, 25 November 2019

4) Estonian Tax and Custom Board. (2019). *Tax rates*. Retrieved from https://www.emta.ee/eng/business-client/income-expenses-supply-profits/tax-rates, 25 November 2019.

5) Investeringssparskonto.se (2019). *Vad är ett investeringssparskonto eller ISK konto?*. Retrieved from https://investeringssparkonto.se, 30 November 2019.

6) Lundeen, A., Pomerleau, K. (2014). *Estonia has the Most Competitive Tax System in the OECD*. Retrieved from https://taxfoundation.org/estonia-has-most-competitive-tax-system-oecd/, 25 November 2019

7) LYNX. Niskanen, V. (2019, Aug 8) Suosituimpien Yhdysvaltalaisten ETF:ien ostaminen Euroopasta. Retrieved from https://www.lynxbroker.fi/sijoitusblogi/artikkelit/us-etf-ostaminen-euroopasta/, 16 November 2019.

8) OP. (2019). *OP-Varovainen*. Retrieved from https://www.op.fi/henkiloasiakkaat/saastot-ja-sijoitukset/rahastot/kaikki-rahastot/op-varovainen/, 27 October 2019

9) Rahoitusvakausvirasto. (2019). *Osakesäästötilin rahavarat ovat talletussuojan piirissä*. Retrieved from https://rvv.fi/tiedotteet/-/asset_publisher/rvv-muistuttaa-osakesaastotilin-rahavarat-ovat-talletussuojan-piirissa, 22 December 2019.

10) Skatteverket. (2019). *Kapitalvinstberäkning*. Retrieved from https://www4.skatteverket.se/rattsligvagledning/edition/2019.8/2800.html, 25 November 2019

11) Suomen pankki. (2015). *List of investment funds*. Retrieved from https://www.suomenpankki.fi/en/Statistics/investment-funds/list-of-investment-funds/, 26 December 2019.

Annex 1
to Rector's written order No. 60 of 27 February 2014

Non-exclusive Licence for Publication and Reproduction of Graduation

I Miro Knuutinen (author's name) (date of birth: 05.12.1994)

1. grant Tallinn University of Technology free licence (non-exclusive licence) for my thesis

The legal form and taxation of different equity investments in Finland, Sweden and Estonia,
(title of the graduation thesis)

supervised by Thomas Hoffmann,
(supervisor's name)

to be

1.1. reproduced for the purposes of preservation and electronic publication, incl. to be entered in the digital collection of TUT library until expiry of the term of copyright;

1.2. published via the web of Tallinn University of Technology, incl. to be entered in the digital collection of TUT library until expiry of the term of copyright.

2. I am aware that the author also retains the rights specified in clause 1.

3. I confirm that granting the non-exclusive licence does not infringe third persons' intellectual property rights, the rights arising from the Personal Data Protection Act or rights arising from other legislation.

__________________________ *(signature)*

__________________________ *(date)*