

THE IMPACT OF THE NEW VAT REGULATIONS ON SMALL BUSINESSES IN FINLAND

Wanni-Amanda Elenius
Bachelor's Thesis
Spring 2025
Degree Programme in International Business
Oulu University of Applied Sciences

ABSTRACT

Oulu University of Applied Sciences
Degree Programme in International Business

Author: Wannii-Amanda Elenius

Title of thesis: The Impact of the New VAT Regulations on Small Businesses in Finland

Thesis supervisor: Tomi Huhtamäki

Term and year of completion: Spring 2025

Pages: 39

This thesis examined the impact of new VAT regulations on small businesses in Finland. The regulations, which came into force on September 1, 2024, specifically changed the lower limit for VAT liability for small businesses. The study aimed to determine how these changes have affected entrepreneurs. Furthermore, the study surveyed entrepreneurs' views on the regulations and possible development needs.

The study was conducted as a quantitative survey, which utilized both closed and open questions. The results showed that many respondents felt that the changes had increased administrative work and costs, but some considered the increase in the lower limit to be a positive change. Entrepreneurs hoped for simplification of regulations, targeted information and practical support from, for example, the Tax Administration.

The study provides information on the impact of regulation on small businesses and helps to understand what kind of support measures and communication entrepreneurs need to adapt to the changes.

Keywords: value-added tax, small business, tax regulation, VAT threshold, administrative burden, survey

CONTENTS

ABSTRACT.....	2
CONTENTS	3
GLOSSARY	5
1 INTRODUCTION	6
1.1 Objectives, limitations and content of the work.....	7
2 BACKGROUND OF THE FINNISH VALUE-ADDED TAX SYSTEM.....	9
2.1 VAT history in Finland.....	10
2.2 The effect of EU directives on value-added tax.....	10
2.3 Value-added tax rates.....	12
3 THE ROLE AND IMPACT OF VALUE-ADDED TAXATION ON SMALL BUSINESSES.....	14
3.1 When is VAT registration optional and when is it mandatory?	14
3.2 VAT invoicing and reporting	15
3.3 VAT deduction.....	16
4 LATEST CHANGES AND IMPACTS ON SMALL BUSINESSES.....	17
4.1 General VAT changes	17
4.2 VAT changes for small businesses	17
5 RESEARCH METHODOLOGY	19
5.1 Research Design	19
5.2 Data Collection Method	20
5.3 Data Analysis	20
6 FINDINGS.....	21
6.1 Background information.....	21
6.2 Awareness and sources of information	24
6.3 Extent of impact	26
6.4 Impact on business.....	28
6.5 Preparation and support	30
6.6 Entrepreneurs' opinions and development suggestions.....	32
7 DISCUSSION AND RECOMMENDATIONS	34
7.1 Significance of the results.....	34
7.2 Challenges	34

7.3	Recommendations	34
7.4	Regulatory development needs.....	36
7.5	Need for further research.....	36
	REFERENCES	37

GLOSSARY

Term	Definition
Value-Added Tax (VAT)	A consumption tax on goods and services that consumers pay when they make purchases and businesses collect this tax to remit it to the government.
Tax threshold	The turnover threshold after which a company becomes liable for VAT.
Administrative burden	The time, effort and resources individuals, businesses, or organizations require to comply with government regulations, policies, or procedures, often involving paperwork, reporting and navigating complex systems.
Small business	A person or business that operates on a small scale and has limited turnover.
Tax Administration	The Finnish Tax Administration is responsible for collecting taxes and issuing instructions.
Micro-enterprises	A micro-enterprise is a small business, characterized by a very small number of employees, often less than 10 and low annual revenue.

1 INTRODUCTION

VAT, or value-added tax, is a consumption tax that must be paid on almost all goods and services. When an enterprise sells goods or services, it adds value-added tax to the sales price of the goods or services it invoices. VAT is one of the most important sources of government funds. These revenues often fund schools, healthcare, infrastructure and education.

In Finland, VAT was introduced in 1994 and since then, it has been a critical part of the country's tax structure (Vero n.d.). The Finnish VAT system is made under the European Union's directives. The system has been updated several times over the years to ensure efficiency and response to economic challenges. The value-added tax rates differ in Finland by the type of goods or services. There is a standard VAT rate, reduced and zero tax rate, they are applied depending on the sector. Because the system is occasionally updated, companies have to constantly adapt their accounting practices, pricing strategies and financial planning to stay up to date.

In recent years, the Finnish government introduced new VAT regulations. Despite that the new regulations are designed to streamline the process and improve overall tax law, they can be a burden for businesses, especially for small businesses. Considering that small businesses have fewer human and financial resources compared to larger enterprises. Following new tax laws is often more challenging, especially when it requires significant adjustments to their current processes. As a result, understanding the impact of the recent VAT changes on small businesses is crucial when assessing the broader impact of the tax reform on the Finnish economy.

1.1 Objectives, limitations and content of the work

Although the importance of taxation in the economic environment has been widely studied, the impact of the new VAT regulations, especially on small businesses has received little attention. Small businesses constitute a significant part of the Finnish economy, according to Statistics Finland (2023), micro and small businesses makeup for 99.2% of all enterprises in Finland. Small businesses often face challenges with tax changes due to limited resources. This makes compliance with regulations and adaptation to changes demanding. There is a clear gap in the current research literature on how recent VAT changes affect the daily operations and financial performance of small businesses. The purpose of this study is to address this research gap.

The focus of this study is on small businesses, which have limited financial and administrative resources. As the research data is collected through a survey, one limitation may be that not all industries are equally represented. In addition, the study focuses mainly on short-term impacts, which may mean that long-term economic impacts cannot be fully assessed within the time constraints of the study. Although the study specifically addresses Finland, its results may also provide useful information for other EU countries with similar VAT systems.

This thesis consists of seven chapters. The first chapter discusses the background, objectives and limitations of the work. The second, third and fourth chapters examine the directives, tax rates and their significance related to VAT based on previous literature. In addition, the role and effects of VAT on small businesses, such as registration and practices, are examined. Finally, the latest changes in VAT regulations and their effects on the operations of small businesses are discussed.

The fifth chapter describes the implementation of the study, such as the research design, data collection and analysis methods. The sixth chapter presents the research results, providing background information about the respondents, their awareness of the regulations, the effects on business and the entrepreneurs' views and development proposals.

The seventh chapter analyzes the results and gives recommendations for small business. In addition, the chapter discusses the limitations of the study and presents recommendations for further research.

2 BACKGROUND OF THE FINNISH VALUE-ADDED TAX SYSTEM

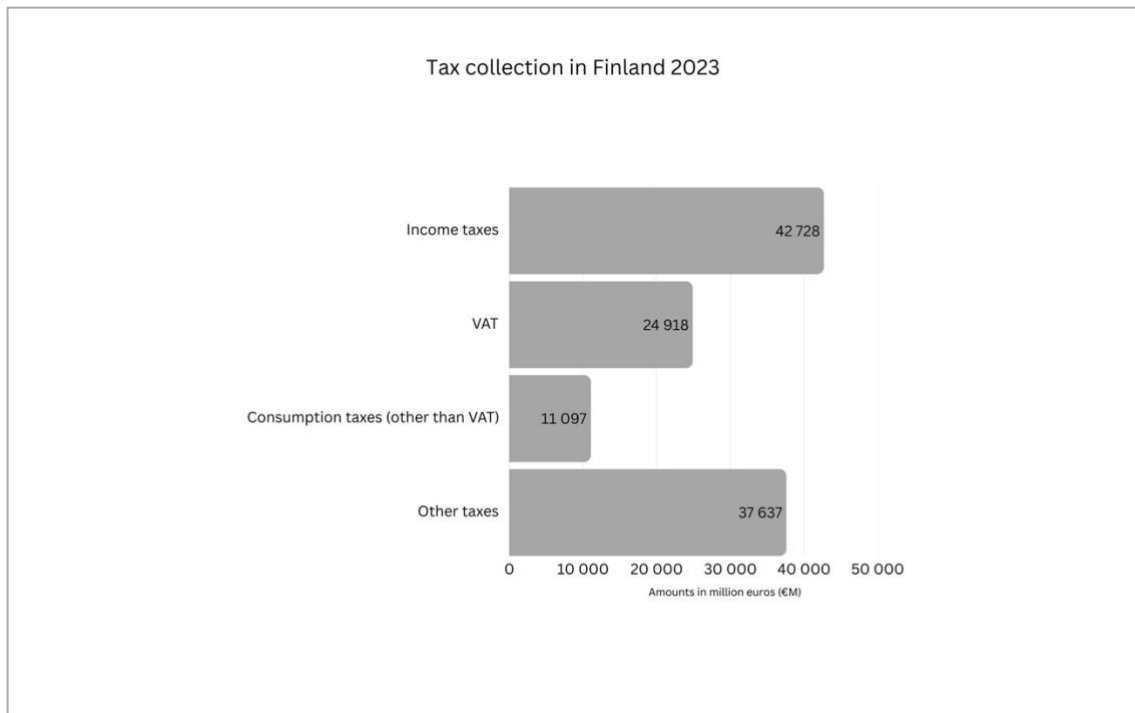


Figure 1. Tax collection in Finland 2023. (Veronmaksajat 2024, edited)

Value-added tax is a general consumption tax that targets almost all sales of products and services. It is one of the most important forms of taxation and makes a significant (21.4%) of the government's tax income, as seen in Figure 1. In Finland, value-added taxation was taken into practice in 1994 and it replaced the earlier sales tax system (Vero n.d.). The Finnish value-added tax system is based on the European Union's value-added tax directives, which create uniform rules. An example of this is Council Directive 2006/112/EC on the common value-added tax system (European Union 2006).

The general idea is that value-added tax is added to the tax-free price of the product or service. It is an indirect tax intended to be paid by the final consumers. This differs from direct taxes, such as income tax, which is paid directly by the taxpayer. Companies liable for paying value-added tax act as tax intermediaries,

they include the tax amount in the sales prices and pay the tax to the government. (Ministry Of Finance Finland n.d.).

2.1 VAT history in Finland

The history of value-added tax in Finland began during the Second World War when 1941 was introduced as a sales tax law to support the state economy. This form of consumption tax was intended to be temporary, but it was updated several times. The first update came already after one year and in 1950, was regulated a new law. The law, which entered into force in 1964, remained in force until 1991 after several amendments. The current VAT Act (1501/1993, AVL) was introduced on June 1, 1994. The advantages of the value-added tax system compared to sales tax are a broader tax base and a comprehensive right to deduct, which prevent double taxation and hidden taxation. In sales taxation, the tax base was narrow, as mainly only the sale of goods and some few services were covered by the tax. (Äärilä, Nyrhinen & Hyttinen 2015, 27,28).

2.2 The effect of EU directives on value-added tax

Value-added taxation inside the EU is harmonized i.e. a uniform taxation system, which is based on Article 113 of the Treaty on the Functioning of the European Union (TFEU). This article authorizes the Council of the EU to regulate the uniformity of turnover taxes and other indirect taxes in order to make the internal market work as efficiently as possible. This harmonization started in the 1970s, when the EU funding began to be partially based on member states' value-added tax. (Niskakangas 2014, 155).

The EU makes a general frame for value-added taxation through directives, but members can implement their taxation nationally in the way they choose. The directives given by the EU are not necessarily laws, but instructions and goals intended for members, which each member can fulfill nationally in accordance with its legislation. (Niskakangas 2014, 155).

Although directives set certain basic principles, some of the arrangements are optional for the members. This enables the use of different tax exemptions and transition periods in the EU, which can be seen, for example, in the different VAT rates of different member states. Member states also have the right to refund VAT paid on acquisitions to taxpayers in another EU country based on Directive 2008/9/EC and the same refund right also applies to the EU external actors through Directive 86/560/EEC. (Niskakangas 2014,156).

The value-added tax rates of the EU member states differ considerably, even though the basic structure is harmonized. According to EU rules, the general rate cannot be less than 15%. The reduced rate cannot be less than 5%. There are also three other special rates: super-reduced, zero and parking. (Your Europe 2024).

The most common VAT rate is around 21.6%, but there are variations. The highest general VAT rate is in Hungary (27%), followed by Finland (25.5%) and then Croatia, Sweden and Denmark, each with a rate of 25%. The lowest general VAT rate is in Luxembourg (17%) then Malta (18%). (Tax Foundation Europe, 2024).

VAT Rates in Europe

Standard Value-Added Tax (VAT) Rates in European Union Member States and European OECD Countries, as of January 2024

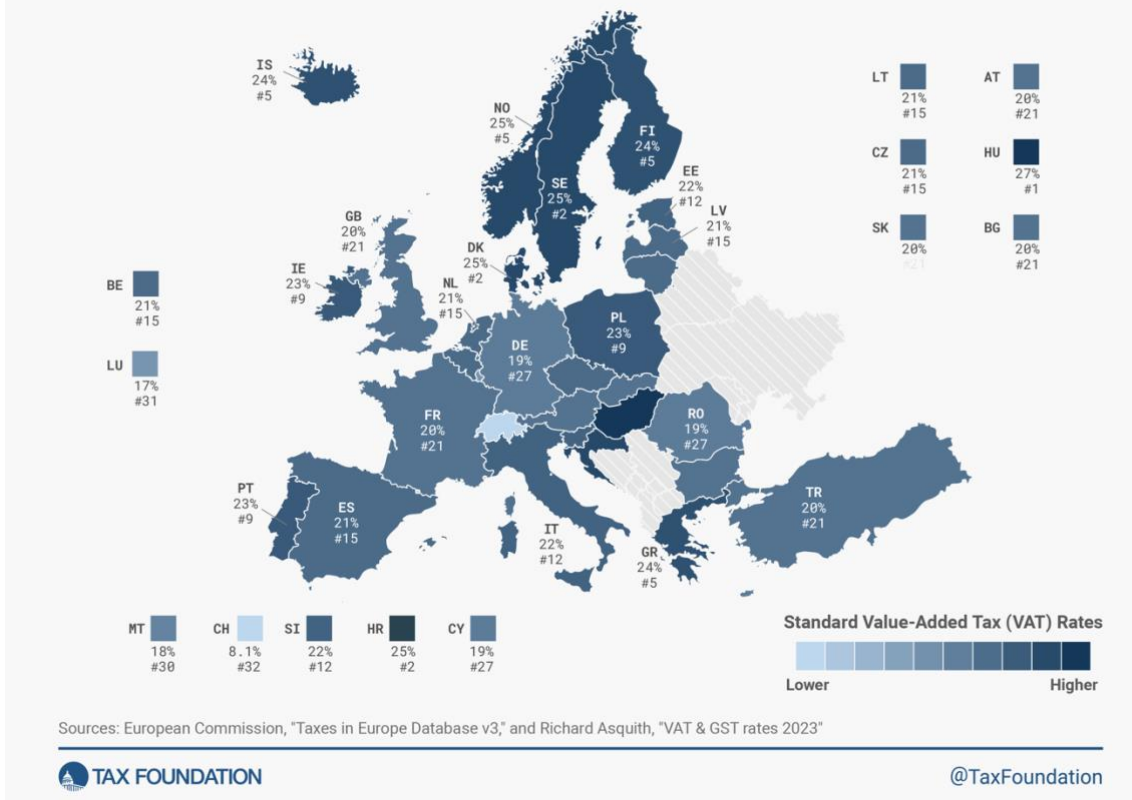


Photo 1. VAT Rates in Europe. (Tax Foundation 2024)

2.3 Value-added tax rates

Value-added tax rates mean value-added tax percentages they determine how much VAT is on each good or service. In 2024, the VAT tax rates in Finland changed on September 1. 2024, the general value-added tax rate in Finland was raised from 24% to 25.5%. (Vero 2024).

The member states of the European Union determine the general rate of VAT and it is applied as a rule to the sale of goods and services unless otherwise provided for by the law. Member States may also apply reduced rates to certain goods. The application of the reduced rate is based on the VAT Directive. In Finland, there are two reduced rates and a zero rate, which are applied to precisely defined goods and services. Sellers subject to these rates are entitled

to make full deductions on business-related purchases. (Äärilä, Nyrhinen & Hyttinen 2015, 238-240).

VAT Rate	Goods and services
The general VAT rate 25,5%	This rate is applied on most goods and services.
Reduced VAT rate 14%	<ul style="list-style-type: none"> • groceries • feed • restaurant and catering services
Reduced VAT rate 10%	<ul style="list-style-type: none"> • books • pharmaceutical products • sports and fitness services • passenger transport services • accommodation services • royalties for television and public radio services
Zero rate (purchases are deductible)	<ul style="list-style-type: none"> • i.a. sales of goods to EU to VAT-liable buyers • exports outside the EU area

Table 1. Rates of VAT. (Vero 2024, edited)

3 THE ROLE AND IMPACT OF VALUE-ADDED TAXATION ON SMALL BUSINESSES

3.1 When is VAT registration optional and when is it mandatory?

Entrepreneurs and companies that sell goods or services are generally liable for VAT if their turnover exceeds 20,000€ during a 12-month accounting period (Accountor 2024). The exceptions are small business operations and activities that are separately defined as tax-free in the VAT Act (Vero 2021). The legal form of the company does not affect the VAT liability.

There are also cases in which a company must register in the VAT register even if it does not carry out VAT-taxable activities. For example, intra-EU purchases of goods between EU countries, such as purchases from another EU country to Finland, may require registration. In addition, a company can voluntarily apply for the VAT register if it wishes. (Vero 2021).

VAT liability includes some sector-specific exemptions, where activities are excluded from VAT. These include, for example, the sale of health and medical services, postal services, vocational and general education and social welfare services. In addition, the rental or sale of real estate and condominiums, as well as insurance and financial services, are not subject to VAT. (Yrityksen-perustaminen.net n.d.).

Applying for the VAT register means voluntarily joining the register of VAT payers, even if the company's operations would otherwise meet the conditions for VAT exemption. This is particularly useful for companies that have a lot of VAT-taxable purchases in the early stages of their operations but whose turnover does not exceed the 20,000 € limit. After registration, the VAT is added to sales prices, but at the same time, VAT on purchases made for business purposes becomes deductible. This may result in the company receiving more VAT refunds from the Tax Administration than paying VAT. (Yrityksen-perustaminen.net n.d.).

3.2 VAT invoicing and reporting

The VAT Act uses the term invoice, which refers not only to traditional invoices but also to other documents that meet the requirements for an invoice. Invoices also include documents and notifications that contain changes to or references to the original invoice. An invoice can be delivered to the buyer either in paper form or electronically. An invoice can consist of several different documents. For this reason, the actual invoice does not necessarily have to contain all the entries required by the VAT Act if the additional information is found in another document that is available to both the seller and the buyer. In such a case, the invoice must contain a clear reference to the document in question. It is important that the documents together meet the requirements of the VAT Act. (Vero 2023).

The invoice is a key document that provides evidence for both the seller and the buyer's taxation. The seller must issue the invoice correctly and by the requirements of the law so that the buyer can exercise his right to deduct and so that tax control is possible. The invoice must contain certain mandatory entries such as the date of the invoice, information about the seller and the buyer, a breakdown of the goods sold and the tax rate and amount of tax. In addition, the invoice must state that the sale is tax-free if the sale is not subject to VAT. The seller's invoicing obligation mainly applies to taxable sales to traders and legal entities but it also extends to certain tax-exempt sales. (Vero 2023).

Invoices are also a prerequisite for the buyer's VAT deductions. If the invoice does not meet the requirements of the VAT Act, an incomplete invoice entry may result in the denial of the right to deduct. Both the seller and the buyer must ensure the authenticity, constancy and legibility of the invoice. Invoices must be kept for at least six years for tax purposes. VAT is reported to the Tax Administration via MyTax and the content and schedule of the declarations are determined by the nature of the company's operations. (Vero 2023).

3.3 VAT deduction

The right to deduct is an important part of the VAT system, as it avoids double taxation and increases in product prices due to hidden taxes. It also allows businesses to operate without adding VAT to production costs. The right to deduct only applies to purchases or imports made by a taxable person for a VAT-taxable business. A taxable business is an activity in which the seller must pay VAT on the goods or services they sell. (Murtomäki 2010, 53).

In practice, the right to deduct works in such a way that the seller pays the VAT on sales to the tax authority but is allowed to deduct the VAT paid on their purchases from that amount. However, the right to deduct does not apply to tax increases. (Murtomäki 2010, 53).

4 LATEST CHANGES AND IMPACTS ON SMALL BUSINESSES

4.1 General VAT changes

In spring 2024, the Finnish government decided on significant changes to value-added tax, which partially entered into force in September 2024 and which will possibly be supplemented with new regulations at the beginning of 2025. These changes will have a broad impact on the daily operations of both companies and entrepreneurs. (Accountor 2024).

In April 2024, the government decided to increase the general VAT rate from 24 percent to 25.5 percent. The increase applies to most products and services sold in Finland. (Valtiovarainministeriö 2024).

The reduced VAT rates of 10% and 14% may also change. In early 2025, consideration is being given to increasing the 10% rate to 14% for several products and services, such as medicines, books, passenger transport, accommodation services and sports and cultural services. In addition, an increase in the value-added tax on sweets has been on the agenda. (Vero 2024).

VAT increases have a wide-ranging impact on business. They affect strategic decisions, sales, marketing, pricing and financial management processes. Companies need to update their financial management systems, invoicing, reporting and accounting to reflect the new VAT rates. (Accountor 2024).

4.2 VAT changes for small businesses

The changes to Finnish VAT are based on the EU Small Business Directive, which aims to promote international trade and reduce the administrative burden on small businesses. The reforms under the directive apply to all small businesses, regardless of their legal form. (Accountor 2024).

In 2025, the turnover threshold for VAT liability for small businesses was raised from 15,000€ to 20,000€. Thanks to the change, companies will continue to be

able to sell their products and services without VAT if their turnover is below this limit. (Vero 2024).

The way turnover is assessed has changed since the beginning of 2025. In the future, turnover will always be assessed on a calendar year basis and the previous year's turnover will also be taken into account. This means that a company that wants to remain VAT-free in 2025 must ensure that its turnover has been below 20,000€ also during 2024. (Vero 2024).

However, companies still have the option of voluntarily registering for VAT. This can be useful, for example, in situations where using VAT deductions is economically viable. (Vero 2024).

5 RESEARCH METHODOLOGY

This thesis studies the impact of new VAT regulations on small businesses in Finland through qualitative research. The research aim is to determine how these regulations affect the operations of small businesses from an economical and administrative perspective. The work also examines the challenges small businesses face in adapting to new regulations. This chapter discusses the research methodology, data collection method and analysis phase.

Research methodology refers to the methods used to collect data in order to achieve reliable and relevant results. Regardless of the field of research, one of two main research methods is usually used: qualitative or quantitative methods. (Indeed 2024).

5.1 Research Design

The research design is based on a survey, which provides a systematic way to collect numerical data from small businesses across industries. The questionnaire is divided into several sections that map basic company information, challenges set by the VAT changes and the impact of the changes on different areas of business, such as costs and administrative work. Small businesses have been selected as the target group, as they represent a significant part of the Finnish business sector and are often sensitive to changes in legislation. The survey will be sent electronically in order to reach the widest possible range of respondents.

A research design is an overall strategy that guides the consistent and logical integration of different areas of research. It aims to ensure that the research problem is effectively addressed. The plan includes principles and guidelines for data collection, measurement and analysis. (Sacred Heart University n.d.).

5.2 Data Collection Method

The research data will be collected using an electronic questionnaire, which is designed to be user-friendly and easy to complete. The survey will mainly contain closed questions using Likert scales and multiple-choice options but will also include a few open-ended questions for additional comments. The survey will be distributed via email and social media to small businesses whom the VAT changes are relevant. This method has been chosen because it allows for rapid data collection and reaching a large number of respondents.

Quantitative surveys are designed to collect feedback that is easily measurable and quantifiable. They consist of closed questions with predefined answer options for respondents. These types of surveys allow for statistical analysis and hypothesis testing. They are usually used when the research is targeting a large group of respondents. (Surveysensum 2024).

5.3 Data Analysis

The collected data is analyzed using Excel, which offers a variety of tools for processing numerical data. The analysis focuses on organizing and summarizing the responses for clarity. The results of the analysis are presented clearly in the form of tables and graphs, which helps to illustrate the effects of the VAT changes on small businesses.

Analysis means breaking down a whole into smaller parts for closer examination. Data analysis is the process of transforming raw data into useful insights that can be used to make informed decisions. The process involves collecting and analyzing data to answer questions, confirm hypotheses, or refute theories. (Simplilearn 2024).

6 FINDINGS

This chapter presents the key findings of the survey related to the effects of the new VAT regulations on the operations of small business owners in Finland. The survey's main objective was to determine how the regulations that entered into force on September 1, 2024, have concretely affected small businesses. In addition, entrepreneurs' views on the effectiveness of regulation and development needs were surveyed.

The following subchapters present the results by theme. Each theme is illustrated visually and presented based on the findings of the study.

6.1 Background information

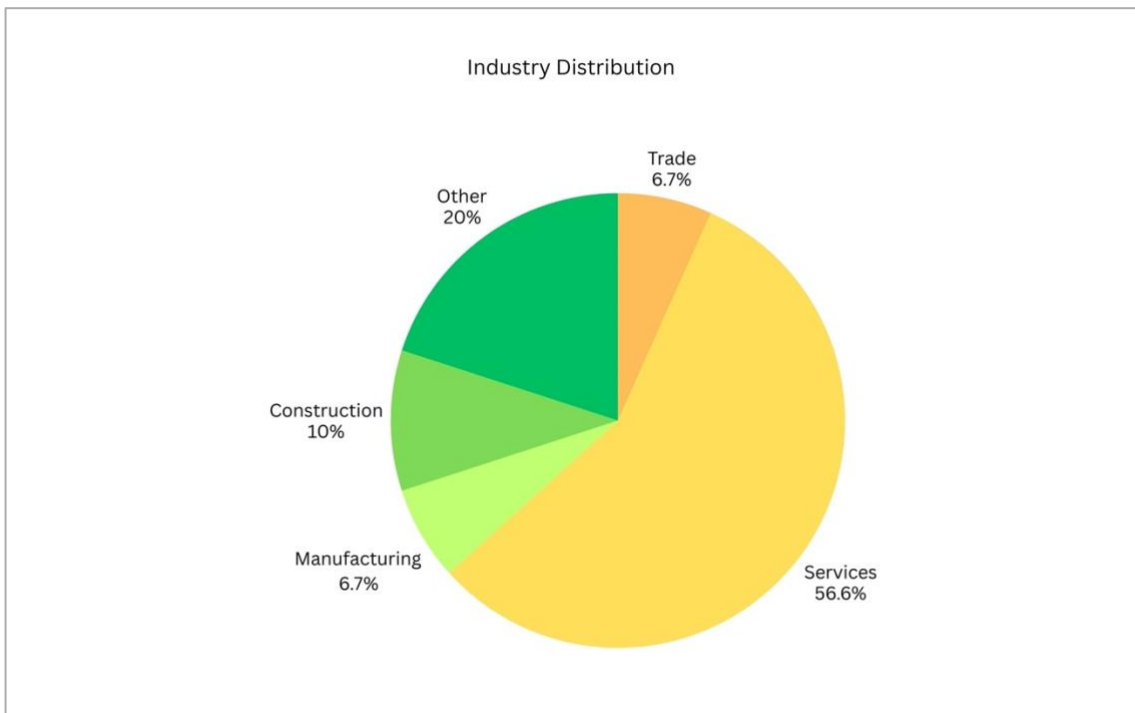


Figure 2. Industry distribution.

A total of 30 entrepreneurs participated in the survey, whose companies represented a wide range of industries. The majority of respondents were in the

service sector 56.6% and construction 10%. Other sectors represented were production 6.7%, trade 6.7% and other industries 6.6%.

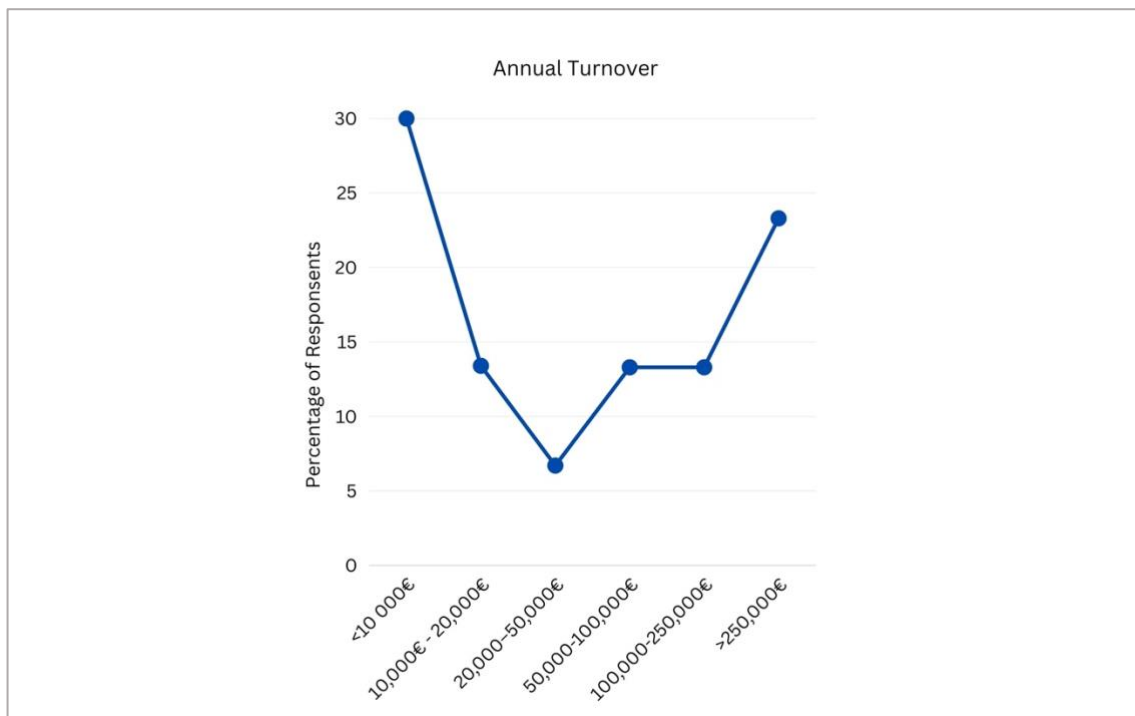


Figure 3. Annual turnover.

In terms of turnover, the majority of respondents (30%) reported that their company had an annual turnover of less than 20,000 euros. This group was below the lower threshold for VAT liability, reflecting the focus of the survey on small entrepreneurs. The remaining respondents were divided into turnover categories of 20,000–50,000 euros (6.7%), 50,000-100,000 euros (13.3%), 100,000-250,000 euros (13.3%) and over 250,000 euros (23.3%).

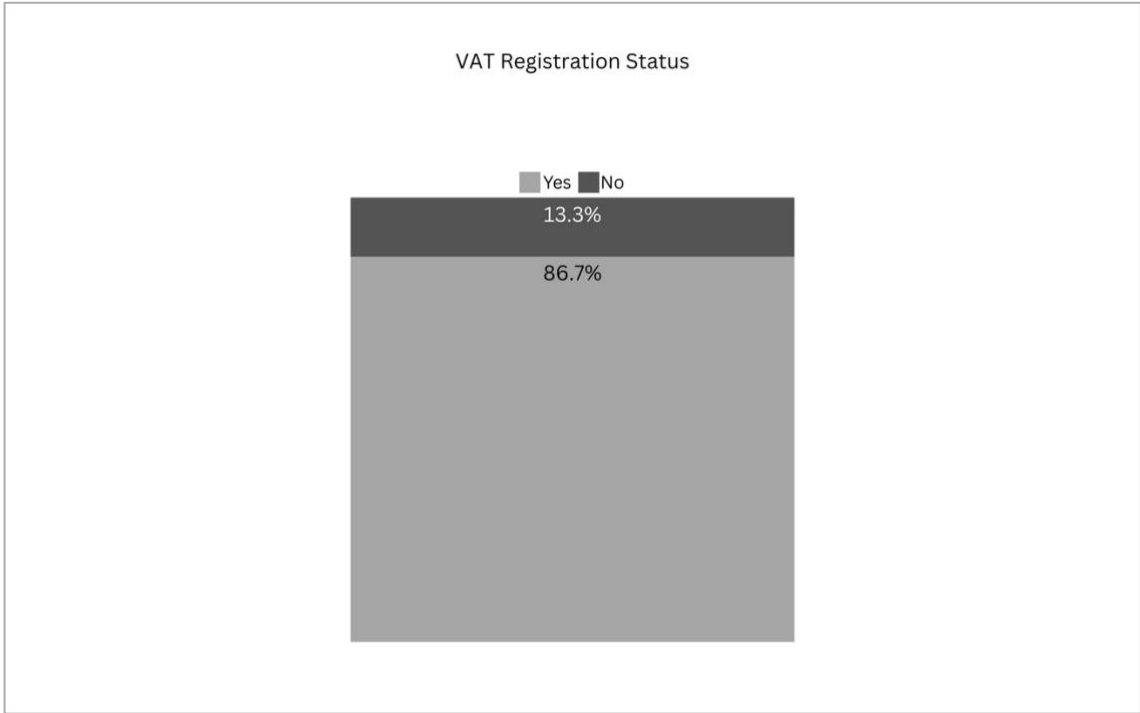


Figure 4. VAT Registration status.

The survey also asked whether respondents were registered for VAT. 86.7% of respondents were VAT registered, while 13.3% were not registered, either due to low turnover or the nature of their business.

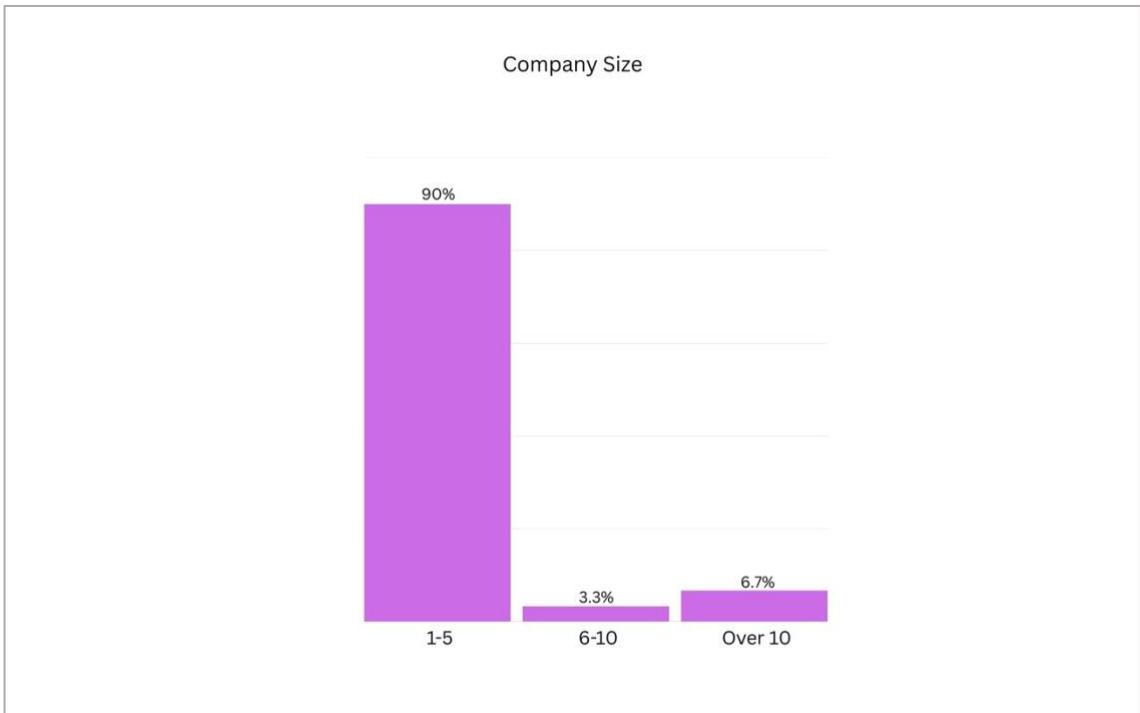


Figure 5. Company size.

When looking at the size of the company, most of the respondents (90.0%) had 1–5 employees, reflecting the dominance of micro-enterprises in the Finnish small business sector. Of the remaining respondents 10.0% employed over 6 people.

6.2 Awareness and sources of information

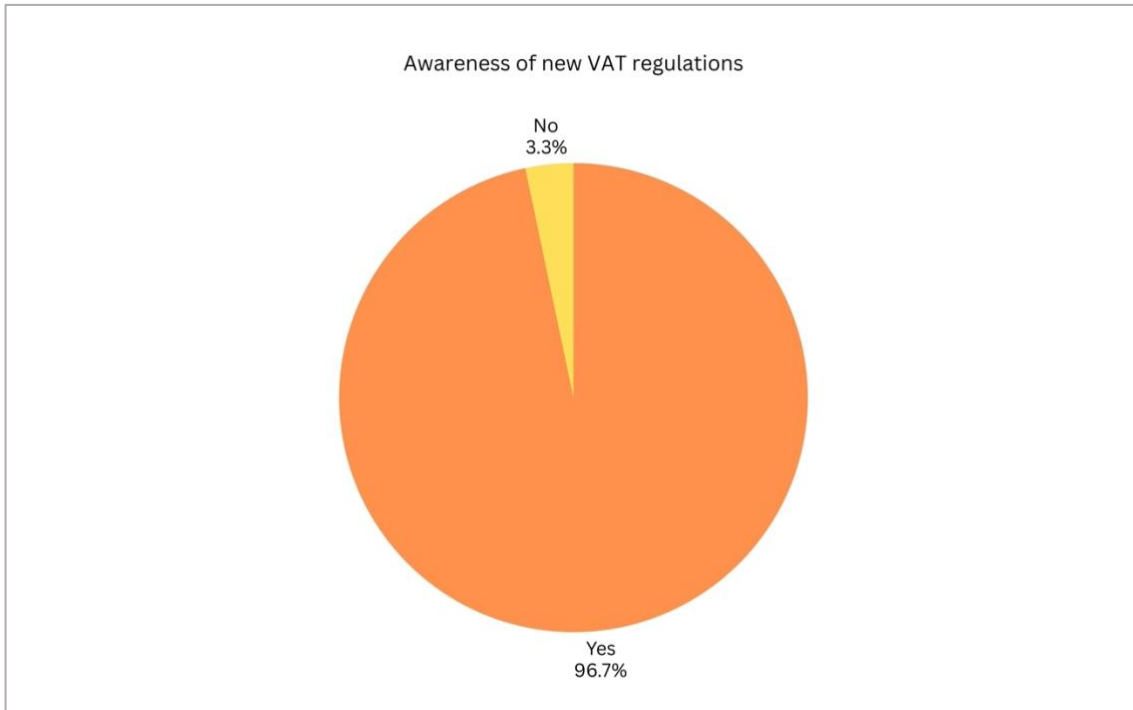


Figure 6. Awareness of new VAT regulations.

The first question examined entrepreneurs' awareness of the new regulations. The results seen in Figure 6 indicate a remarkably high level of awareness of new regulations, with 96.7% of respondents confirming they are aware of the new regulations, while only one (3.3%) reported being unaware.

This high awareness level suggests that the dissemination of information has been highly effective and that the majority of small business owners were reached. The small percentage of respondents who were not aware of the new regulations highlights a minor gap in the information dissemination process. This gap could be due to limited access to information or demographic factors.

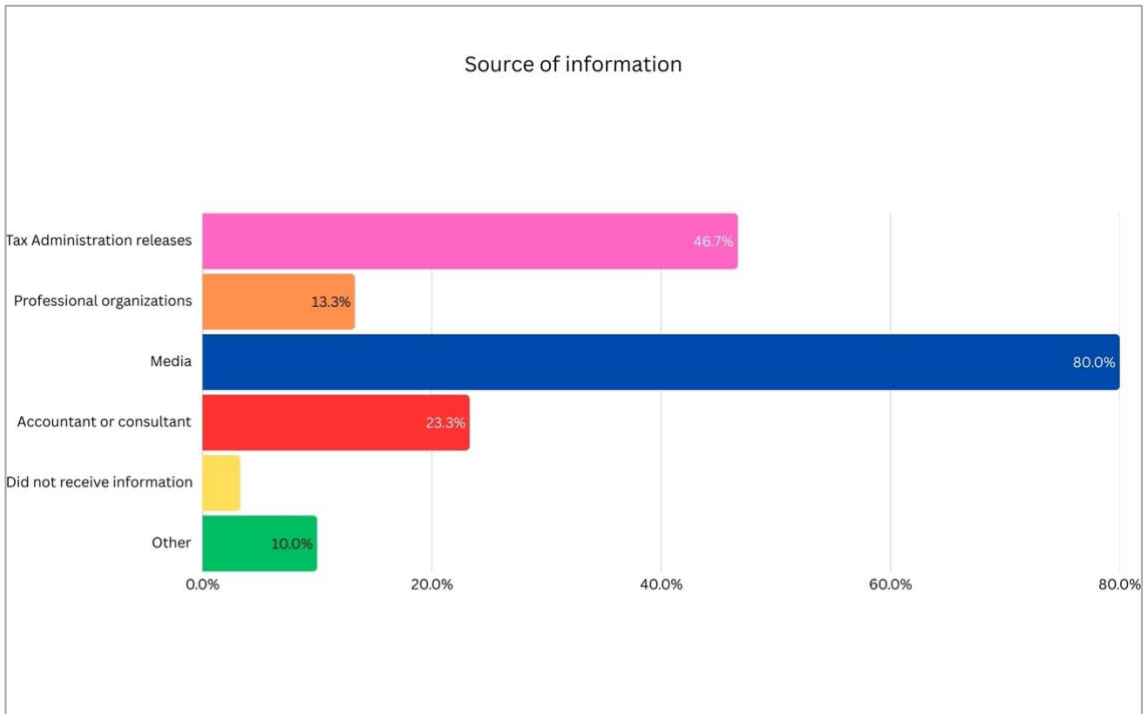


Figure 7. Source of information.

The survey also attempted to identify the sources from which respondents obtained information about new regulations. The results show that the media was the most common source, with 80.0% of respondents citing it as their primary source of information. This high percentage highlights the significant role of the media in disseminating important regulatory information to the public.

Tax administration bulletins were the second most common source, with 46.7% of respondents obtaining information through this channel. This suggests that official government communications are also a crucial source of information for many individuals.

Professional organizations were chosen by 13.3% of respondents, indicating that these organizations play a role in informing their members about regulatory changes. Accountants or consultants were mentioned by 23.3% of respondents, highlighting the importance of professional advice in understanding and complying with new regulations.

In addition, 10.0% of respondents reported receiving information from other sources not mentioned in the survey. This category includes various informal or

less common information channels such as family members and other stakeholders in the company.

In summary, the survey results reveal that the media and official government bulletins are the primary sources of information about new regulations for the majority of respondents. However, there is a need to ensure that information reaches all segments of the population, including those who may rely on professional advice or other sources.

6.3 Extent of impact

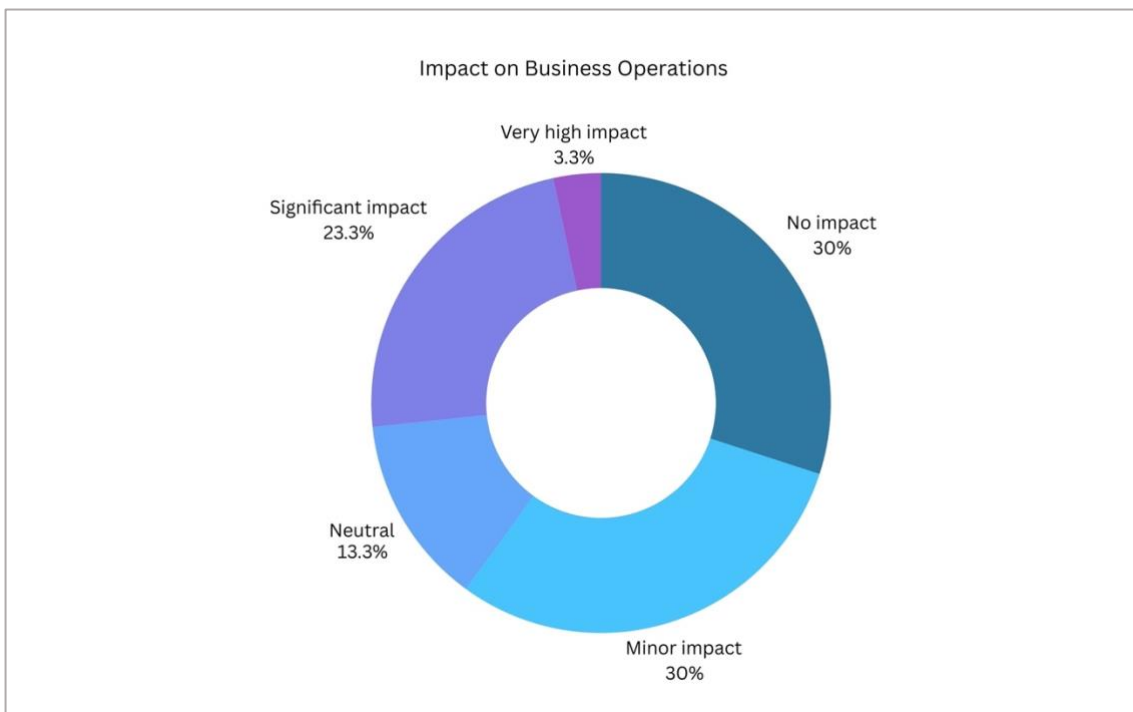


Figure 8. Impact on business operations.

The survey's third question explored the impact of the new regulations on business operations. The results show a varied response among the participants.

30% of respondents reported no impact, suggesting the changes were manageable or irrelevant to their circumstances. Another 30% indicated a minor impact, implying some adjustments were needed but without significant disruption.

A smaller group, 13.3%, felt neutral about the impact, indicating that the changes neither positively nor negatively affected their operations.

However, 23.3% of respondents reported a significant impact on their business operations. This substantial percentage highlights that nearly a quarter of the businesses faced considerable challenges due to the new regulations. These challenges could include increased administrative burdens, financial strain, or operational disruptions.

A small percentage, 3.3%, reported a very high impact on their business operations. This indicates that for a few businesses, the new regulations posed severe challenges, potentially threatening their viability.

While some companies reported that the new regulations had no or only minor impact, a prominent number faced significant challenges. These findings suggest that targeted support is needed to help businesses navigate and adapt effectively to regulatory changes.

6.4 Impact on business

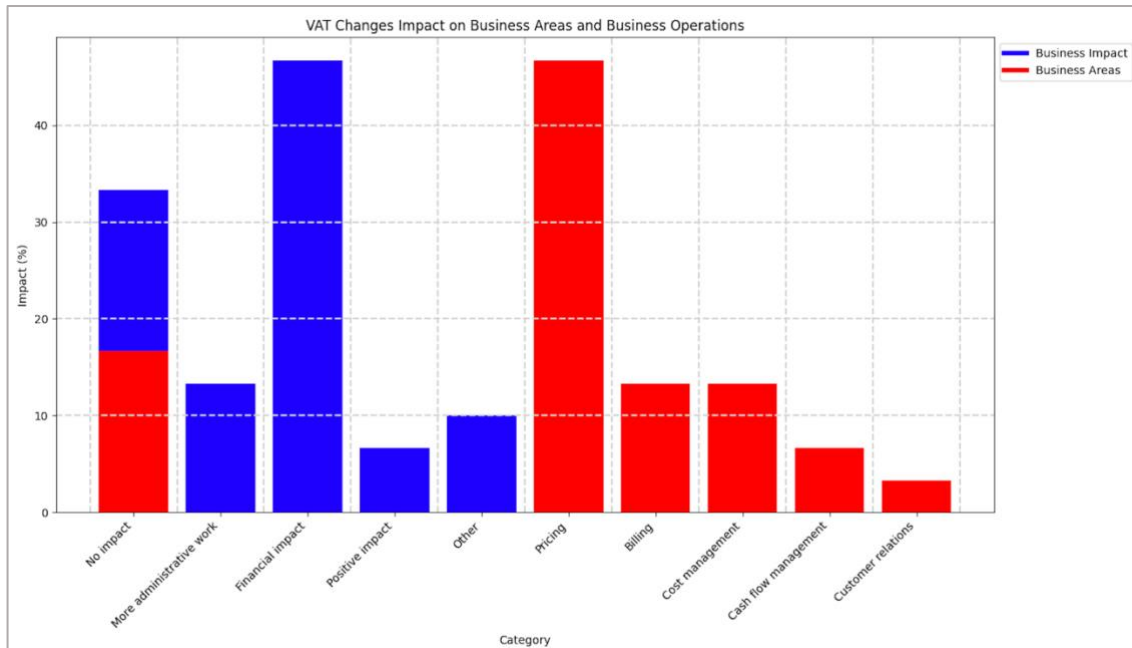


Figure 9. VAT changes impact on business areas and business operations.

The survey further examined the specific ways in which VAT changes have affected business operations. The results indicate that 13.3% of respondents experienced an increase in administrative work, such as reporting, paperwork and monitoring tax obligations. This suggests that the new regulations have added to the bureaucratic burden for some businesses.

A significant 46.7% of respondents reported a financial impact, such as increased costs. This highlights the economic strain that the VAT changes have placed on nearly half of the surveyed businesses. Contrary to this, 6.7% of respondents noted a positive impact, indicating that the changes have provided some relief, particularly for small businesses. However, 33.3% of respondents reported no impact, suggesting that the changes were either manageable or irrelevant to their operations. Additionally, 10.0% mentioned other impacts, which were not specified in the survey.

When asked about the specific business areas most affected by the VAT changes, 46.7% of respondents identified pricing as the most impacted area. This indicates that businesses have had to adjust their pricing strategies in response

to the new regulations. Billing was affected by 13.3% of respondents, while cost management was also a concern for another 13.3%. Cash flow management was impacted by 6.7% of respondents and customer relationships were affected by 3.3%. Notably, 16.7% of respondents reported no impact on any specific business area.

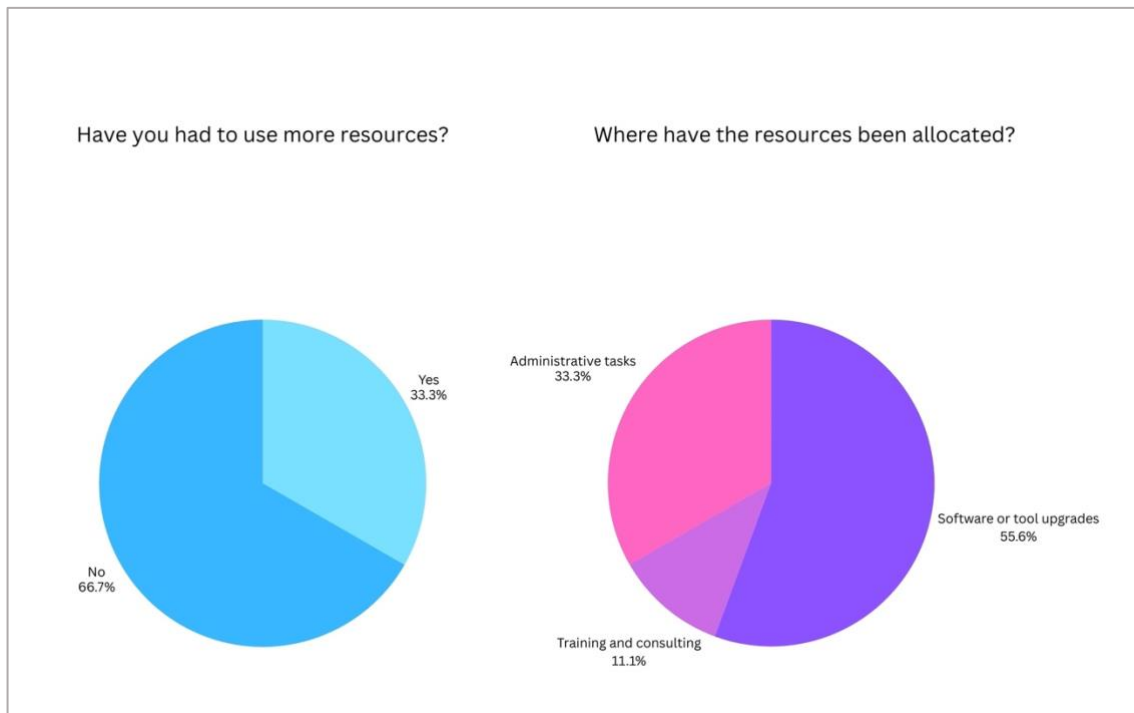


Figure 10. Resource allocation.

Regarding resource allocation, 33.3% of respondents indicated that they had to allocate more resources, such as time and money, due to the VAT changes. The majority, 66.7%, did not need to allocate additional resources. Among those who did, 55.6% invested in updating software or tools, 11.1% in training and consulting and 33.3% in administrative tasks. Interestingly, none of the respondents reported outsourcing their accounting.

The VAT changes have had varied impacts on business operations, with significant financial and administrative effects for many businesses. The need for resource allocation, particularly in updating tools and managing administrative tasks, underscores the challenges businesses face in adapting to regulatory changes.

6.5 Preparation and support

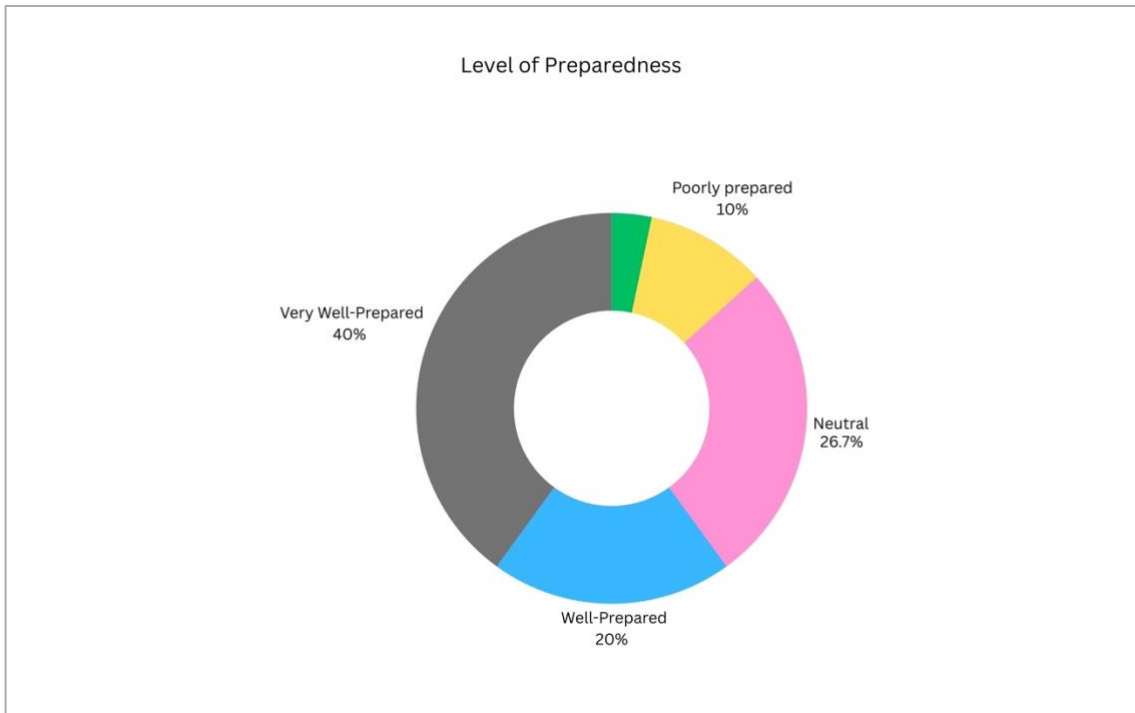


Figure 11. Level of preparedness.

The study also examined business preparation for VAT changes and the level of support they received. In the results, there was a variety in levels of preparedness among respondents. A small percentage, 3.3%, felt their business was very poorly prepared, while 10.0% rated their preparedness as poor. A neutral stance was taken by 26.7% of respondents, suggesting that they neither felt well-prepared or unprepared. On the positive side, 20.0% of respondents felt their business was well-prepared and a significant 40.0% rated their preparation as very good. This indicates that a majority of businesses felt adequately prepared for the changes.

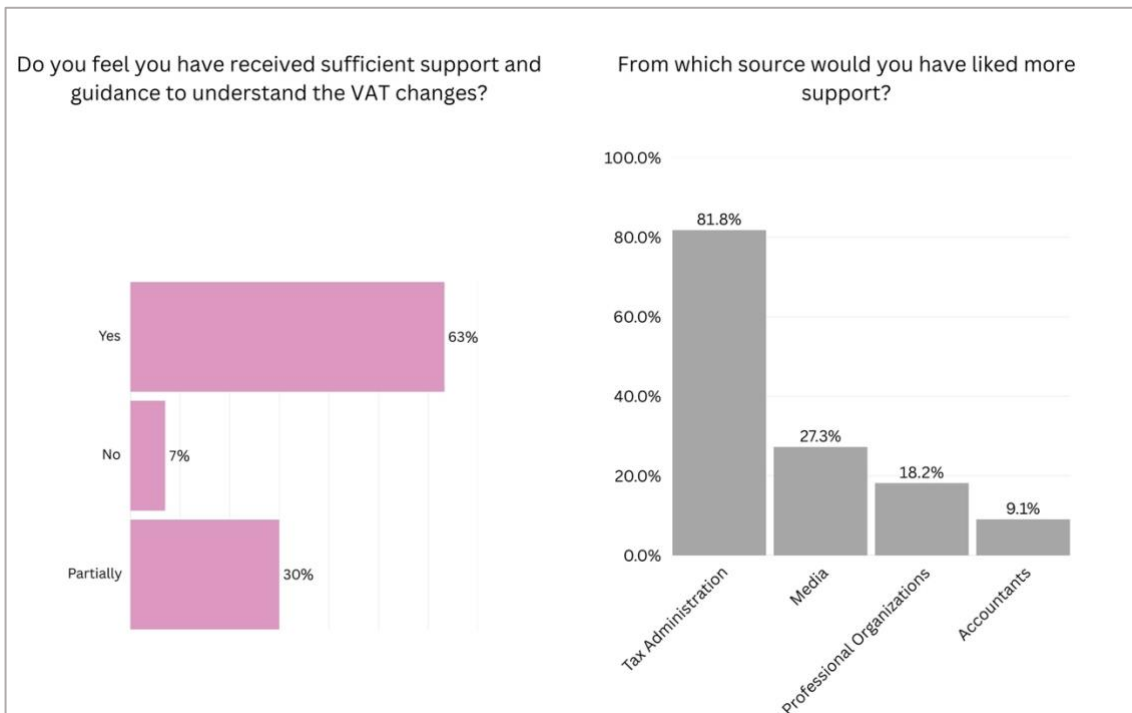


Figure 12. Guidance and support.

Regarding support, 63.3% felt they received sufficient guidance, 6.7% did not and 30.0% received partial support. This indicates that while a majority were satisfied with the support, there is still room for improvement in providing comprehensive guidance. Most respondents 81.8% wanted more support from the tax administration, followed by 27.3% from the media, 18.2% from professional organizations and 9.1% from accountants.

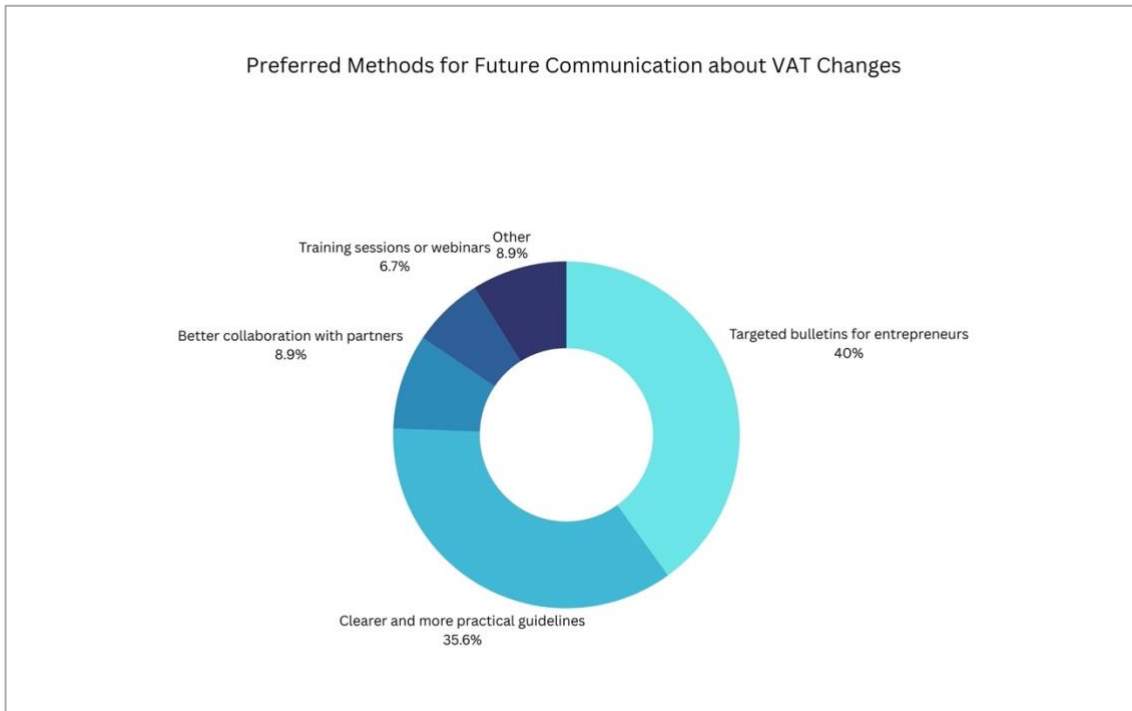


Figure 13. Preferred methods for future communication.

Preferred methods for future communication about VAT changes were targeted bulletins for entrepreneurs by 60.0% and clearer and more practical guidelines were preferred by 53.3%. While 13.3% suggested better collaboration with partners such as accountants. Additionally, 10.0% of respondents preferred training sessions or webinars and 13.3% mentioned other unspecified methods.

In summary, a significant portion of businesses felt well-prepared for the VAT changes and received adequate support, but there is a clear demand for more targeted and practical guidance from the tax administration and other sources. Improved communication strategies, including targeted bulletins and clearer guidelines, could further enhance businesses' ability to adapt to regulatory changes.

6.6 Entrepreneurs' opinions and development suggestions

The survey gathered entrepreneurs' opinions on the new VAT regulations and their suggestions for improvement. Responses varied widely, reflecting diverse perspectives and experiences.

Many respondents expressed concerns about the negative impact of the new VAT regulations. Some noted that the regulations would affect already struggling sectors, such as bookselling and that the increased taxes would suppress growth and investment, pushing businesses to the edge of profitability. Others mentioned that the regulations would increase costs for customers and reduce their willingness to purchase services. The rapid implementation of the changes, especially in the middle of the financial year, was also criticized.

Some respondents highlighted the economic necessity of tax increases, while others felt the changes had no impact on their operations. A few viewed the regulations as contributing to inflation and increasing pressure on wages.

Suggestions for improving VAT regulations included tax relief for sole proprietors, reducing bureaucracy and lowering the VAT rate to boost demand. There were also calls for more support and clearer guidelines from the tax administration, as well as tailored tax solutions for different types of businesses.

A significant concern was the removal of the VAT threshold relief in 2025, which many saw as negatively impacting micro-enterprises. There was also a demand for easier access to VAT advice services.

Most respondents reported no positive impact from the VAT changes, though a few noted that the increase in the VAT threshold had been beneficial.

In summary, while opinions on the new VAT regulations are mixed, there is a clear demand for more targeted support, clearer communication and practical solutions to reduce the administrative and financial burdens on small businesses.

7 DISCUSSION AND RECOMMENDATIONS

7.1 Significance of the results

The results of this study show that the new VAT regulations have had a significant impact on the business of many small entrepreneurs. In particular, the increase in administrative burden and costs was perceived as a major challenge. This is in line with previous studies, which have highlighted that regulatory changes can cause a disproportionate burden on small businesses compared to larger companies. A UN report highlights that VAT compliance for small enterprises is complex and challenging, particularly because these businesses often have limited resources, minimal expertise in navigating tax systems and difficulties complying with VAT regulations (United Nations, 2024). On the other hand, the increase in the threshold was seen as a positive development that can facilitate the operations of micro-enterprises and create new opportunities.

7.2 Challenges

Several respondents highlighted that the complexity of the regulations and the rapid entry into force caused uncertainty and additional work. This shows the need for clearer and more practical guidance directly aimed at small businesses. In addition, the increase in tax rates had a negative impact on consumer behaviour, especially in sectors where it is difficult to raise prices to remain competitive.

7.3 Recommendations

Based on the results of the study, small businesses can utilize several strategies to adapt to the new VAT regulations and minimize the challenges they pose. The aim of these measures is to reduce the administrative burden caused by the regulations, improve business profitability and streamline business processes.

First, utilizing financial automation tools can significantly facilitate VAT compliance. Accounting and invoicing software that supports VAT reporting can reduce the amount of manual work and reduce the risk of human error. Automation also speeds up compliance processes, freeing up entrepreneurs' time for other aspects of their business.

Second, entrepreneurs should consider updating their pricing strategy. The new regulations can increase cost pressures that directly affect a company's pricing structure and competitiveness. Especially in service sectors where price increases can be challenging, it is important to assess how tax changes can be taken into account in pricing without significantly impacting customer demand.

Third, the services provided by the Tax Administration, such as advisory services, online training and targeted information, should be seen as an important resource. The support of the Tax Administration provides entrepreneurs with the opportunity to obtain up-to-date information on regulations and their application in practice, which can reduce regulatory uncertainty.

Fourth, it is important to take the lower threshold of VAT liability into account when planning your business. Companies with turnover close to the lower threshold can benefit from anticipating the effects of exceeding the lower threshold and preparing for the related obligations. This can help companies optimize the use of their resources and avoid unexpected costs.

Finally, entrepreneurs can benefit from networking with other small entrepreneurs to share experiences and best practices. Peer support can provide valuable perspectives and practical solutions to regulatory challenges supporting the continuous development of businesses.

Implementing these recommendations can help small businesses manage the impact of VAT regulations and improve business resilience in a changing regulatory environment.

7.4 Regulatory development needs

Based on the results, regulatory simplification and targeted information are key areas for development. The tax administration should provide more sector-specific guidance and ensure that changes are communicated in a timely manner. Raising the VAT threshold should also be examined more broadly in the future, so that regulation better supports the operations and growth opportunities of small businesses.

7.5 Need for further research

Further research would be useful to examine the long-term effects of regulatory changes on small businesses. It would also be necessary to examine how the automation of taxation and administrative requirements could reduce the burden faced by small entrepreneurs. Sector-specific research could also provide a deeper understanding of how different sectors respond to changes and what types of support are needed.

REFERENCES

Accountor 2024. Kaikki mitä sinun on hyvä tietää syksyn 2024 ja vuodenvaihteen 2025 alv-muutoksista. Search date 25.11.2024. URL: <https://www.accountor.com/fi/finland/artikla/alv-muutokset-2024-ja-2025>

European Union 2006. Council Directive 2006/112/EC. Search date 2.11.2024. URL: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A32006L0112>

Figure 1. Tax collection in Finland 2023. Veronmaksajat 2024. Search date 2.11.2024. URL: <https://www.veronmaksajat.fi/tutkimus-ja-tilastot/suomen-verot-ja-menot/verotuotot/#e6d30299>

Indeed 2024. What are the different types of research methodology? Search date 29.11.2024. URL: <https://uk.indeed.com/career-advice/career-development/research-methodology#:~:text=Research%20methodology%20is%20the%20term,the%20topic%20you're%20researching.>

Ministry Of Finance Finland n.d. Value Added Tax. Search date 2.11.2024. URL: <https://vm.fi/en/value-added-tax>

Murtomäki, O. 2010. Yrittäjän arvonlisäverokirja. Vantaa: Verotieto Oy.

Niskakangas, H. 2014. Johdatus Suomen verojärjestelmään. Helsinki: Talentum.

Photo 1. VAT Rates in Europe. Tax Foundation 2024. Search date 12.11.2024. URL: https://taxfoundation.org/wp-content/uploads/2024/01/VAT_Rates_24_updated_2.png

Sacred Heart University n.d. Organizing Academic Research Papers: Types of Research Designs. Search date 29.11.2024. URL: <https://library.sacredheart.edu/c.php?g=29803&p=185902>

Simplilearn 2024. What Is Data Analysis: Examples, Types, & Applications. Search date 29.11.2024. URL: https://www.simplilearn.com/data-analysis-methods-process-types-article#what_is_data_analysis

Statistics Finland 2023. Search date 2.11.2024. URL: https://stat.fi/tup/suoluk/suoluk_yritykset.html

Surveysensum 2024. Explore Whether Surveys are Qualitative or Quantitative. Search date 29.11.2024. URL: <https://www.surveysensum.com/blog/are-surveys-qualitative-or-quantitative#:~:text=Quantitative%20surveys%20are%20used%20to,the%20respondents%20to%20choose%20from.>

Table 1. Rates of VAT. Vero 2024. Search date 2.11.2024. URL: <https://www.vero.fi/en/businesses-and-corporations/taxes-and-charges/vat/rates-of-vat/>

Tax Foundation Europe 2024. VAT Rates in Europe, 2024. Search date 12.11.2024. URL: <https://taxfoundation.org/data/all/eu/value-added-tax-2024-vat-rates-europe/#:~:text=The%20EU's%20average%20standard%20VAT,rate%20required%20by%20EU%20regulation>

United Nations 2024. The VAT treatment of small enterprises. Search date 20.1.2025. URL: <https://financing.desa.un.org/sites/default/files/2024-10/CRP%2021%20Annex%20B%20-VAT%20Small%20Enterprises.pdf>

Valtiovarainministeriö 2024. Hallituksen esitys eduskunnalle laeiksi arvonlisäverolain 84 ja 85 b §:n ja eräistä vakuutusmaksuista suoritettavasta verosta annetun lain 3 §:n muuttamisesta. Search date 27.11.2024. URL: <https://vm.fi/hanke?tunnus=VM086:00/2024>

Vero n.d. Verotuksen historiaa suomessa. Search date 26.9.2024. URL: https://www.vero.fi/globalassets/tietoa-verohallinnosta/esitys--ja-opetusmateriaalit/381v09_verotuksen_historiaa.pdf

Vero 2021. What business operations require or allow VAT registration? Search date 25.11.2024. URL: <https://www.vero.fi/en/businesses-and-corporations/taxes-and-charges/vat/how-to-register-for-vat/what-business-operations-require-or-allow-vat-registration/>

Vero 2023. VAT invoice requirements. Search date 26.11.2024. URL: <https://www.vero.fi/en/detailed-guidance/guidance/48090/vat-invoice-requirements/>

Vero 2024. Arvonlisäverokantoihin ehdotetaan muutoksia vuodesta 2025. Search date 27.11.2024. URL: https://www.vero.fi/tietoa-verohallinnosta/uutishuone/verotuksen_muutoksia/arvonlis%C3%A4verokantoihin-ehdotetaan-muutoksia-vuodesta-2025/

Vero 2024. Liikevaihdoltaan pienen yrityksen arvonlisävero. Search date 27.11.2024. URL: <https://www.vero.fi/yritykset-ja-yhteisot/verot-ja-maksut/arvonlisaverotus/vahainen-liiketoiminta-on-arvonlisaverotonta/#:~:text=Vuodesta%202025%20alkaen%20v%C3%A4h%C3%A4isen%20toiminnan,liikevaihtoa%20nykyisen%20tilikauden%20liikevaihdon%20sijaan>

Vero 2024. Rates of VAT. Search date 2.11.2024. URL: <https://www.vero.fi/en/businesses-and-corporations/taxes-and-charges/vat/rates-of-vat/>

Your Europe 2024. VAT rules and rates. Search Date 25.11.2024. URL: https://europa.eu/youreurope/business/taxation/vat/vat-rules-rates/index_en.htm#inline-nav-7

Yrityksen-perustaminen.net n.d. ALV-rekisteri. Search date 25.11.2024. URL: <https://yrityksen-perustaminen.net/alv-rekisteri/>

Äärilä, L., Nyrhinen, R. & Hyttinen, P. 2015. Arvonlisäverotus käytännössä. Helsinki: Talentum.