

English - englantti



# Becoming an Entrepreneur in Finland



Network at your service

**Finnish Enterprise Agencies**

# Preface

Setting up your own business is a good way for immigrants to find work in Finland. At the moment, there are around 6,500 businesses operating in this country that have been established by someone who has moved from abroad. More than half of these businesses are based in the Helsinki metropolitan area.

This guide is intended for those of you who wish to start a business in Finland. You may already have a business idea, but this needs to be developed further. This guide talks about the main issues that you should be familiar with and sort out before you decide to set up your business.

You must do some calculations and prepare some estimates, establish your market and arrange finance. Do you know Finnish law well enough? Also, consider whether you have the right kind of temperament to work as an entrepreneur.

Finland is a good country for the entrepreneur, and a person who is starting up a new business can obtain help in many different ways. The biggest problem for those setting up a business is usually obtaining enough finance.

In addition, it will be difficult for you to work as an entrepreneur if you don't know the Finnish language. It is worth beginning language studies as soon as you arrive in Finland. Also, think about whether you need to update your professional skills. Would a course for entrepreneurs help you at the outset?

In this guide, we have tried to be as clear as possible in our use of language. Business terms and words have been explained in a dictionary section presented at the end of this booklet.

Make sure you familiarise yourself with this guide and contact the business advisory services, which are free. In the Helsinki Metropolitan Area, you can contact Enterprise Helsinki or the Vantaa or Espoo regional enterprise agencies. You can also find regional enterprise agencies elsewhere in the country, as well as regional development companies. Together with business advisers, you can consider whether your idea can be turned into a profitable business operation.

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collaboration with Enterprise Helsinki business advisers and experts in plain language from the University of Helsinki Palmenia Centre for Continuing Education. Also involved were the Cities of Espoo, Vantaa and Kauniainen.

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More information is available from the following websites:

[www.uusyrityskeskus.fi](http://www.uusyrityskeskus.fi)

[www.yrityshelsinki.fi](http://www.yrityshelsinki.fi)

[www.vuyk.fi](http://www.vuyk.fi)

[www.espoonseudun-uusyrityskeskus.fi](http://www.espoonseudun-uusyrityskeskus.fi)

[www.yrityssuomi.fi](http://www.yrityssuomi.fi)

[www.sekes.fi](http://www.sekes.fi)



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# What is entrepreneurship?

The aim of a business is that it succeeds and makes a profit. Entrepreneurship, or enterprise, is about identifying the risks relating to a business activity and about preparing for them, i.e. the skill to make a business operation profitable.

Enterprise is also about belief in one's own business idea. Enterprise may be a way of life or a means of providing a livelihood and employing oneself. Enterprise is also about making good use of your professional skills, social skills and language skills, and immigrants can use these to enrich our business world and bring an international quality to it.

## What is an entrepreneur?

The official definition of an entrepreneur in Finland depends on the authority concerned. The term "entrepreneur" is defined in different ways in corporate law and in pensions and unemployment matters. Here is an example: The entrepreneur is a person who, alone or together with others, carries out activities in a business whose objective is to make a profit. These activities include a degree of risk taking.

**Enterprise is also about making good use of your professional skills, social and language skills.**



From the viewpoint of unemployment benefit, a person is regarded as an entrepreneur when (s)he:

- is liable to take out insurance as specified by the Self-Employed Persons' Pensions Act, or
- works in a managerial position (managing director or member of the board of directors) in an enterprise where (s)he owns at least 15 % or where (s)he together with

family members owns at least 30 %, or

- works in an enterprise where (s) he, his/her family members or all of them together own at least 50 %.

When the share of ownership is calculated, indirect ownership via other enterprises and organisations is also taken into account.

# So could you become an entrepreneur?

Personal qualities and skills lay the foundation for a successful business. Different fields require different qualities and skills. Think about your own strengths. What do you still have to develop?

## Good qualities for an entrepreneur to have include:

- hard-working
- creative
- bold, works on one's own initiative
- strives for good results
- determined
- knows how to sell his/her product
- prepared to take risks
- can cope with uncertainty

## Things that motivate people to become entrepreneurs:

- you can become your own boss
- you can determine your own work tasks

- you can determine your working hours
- there is the opportunity to make a financial success
- you can fulfil your dreams
- you can employ others

## Challenges in starting up as an entrepreneur:

- arranging finance
- lack of expertise and experience
- lack of knowledge of legislation, taxation and setting up contracts
- insufficient skills in the Finnish language
- lack of familiarity with Finnish business culture
- time management (work/study, family/spouse, free-time, etc.).

A person planning to set up a business must be familiar with the field where (s) he intends to establish the business.

In addition, (s)he must also know the bases for financial management, pricing, budgeting and marketing. It is possible to gain or improve such skills and knowledge with the help of training or experts.

It is worth remembering that becoming an entrepreneur does not mean that you have to work as an entrepreneur for ever. You can think of this as one phase of your life and as a part of your whole career.

**To be an entrepreneur can be a part of your whole career.**





# The various forms of entrepreneurship

## Establishing a new enterprise

### Completely new business idea

An enterprise may be set up to commercialise a completely new business idea, product, service or invention. This is the most challenging way to start a business, and it includes the most risks.

### Existing business idea

The most typical way to start a business is to use an existing business idea but implement it in a new and more competitive way or in a new market area.

### Buying a business that is already operating

In Finland, there are many businesses that need someone to continue their operations. The unearthing of such a business could be the impulse to start up as an entrepreneur. The acquisition of a business always includes risks, but this provides the new entrepreneur with a simple way of setting up and the possibility of starting business operations straight away, as the business will already have customers and sales.

#### The options are:

- 1) to buy the whole of a working enterprise
- 2) to buy part of an enterprise (one function)
- 3) to just buy the enterprise's business operations
- 4) to buy part of the business operations.

You can find details of companies for sale by using the search service of the Federation of Finnish Enterprises at <http://yritysporssi.yrittajat.fi>, for example.

If you intend to buy an enterprise or business, make sure you use experts to help you assess the financial situation



of the enterprise and the risks relating to its business. Financial-management professionals (accountants, auditors and corporate acquisition consultants) will advise you on whether the business's operations are profitable and whether its accounting is reliable. Before you sign the contracts and other documents, you should also seek advice from a legal expert.

However, buying the business operations alone is a safer option than buying the whole enterprise, because then the old liabilities and debts of the enterprise are not transferred to the new owner.

### Entrepreneurship as a franchisee

Working as a franchisee allows you to start up a business without having your own business idea. Franchising is a long-term collaborative agreement between two independent enterprises. The franchisor grants to the franchisee (of whom there may be many) the right to use, in return for payment and in ac-

cordance with the terms of reference, the business idea that the franchisor has developed and devised, and which it controls. The basic principle in a franchising business is that the franchisor can duplicate an idea, i.e. set up many enterprises using the same idea, for example in different areas. Franchising enterprises operate in Finland in the kiosk, cleaning and restaurant trades, for example. Further information is available from the Finnish Franchising Association's website, [www.franchising.fi](http://www.franchising.fi).

### Part-time entrepreneurship

Starting up a business part-time, for example in addition to a main job or studies, is recommended if the person is not sure whether the business will be profitable – at least to begin with. Working on a part-time basis, you can test first whether there are enough customers and assess how the business will develop and whether there is potential to become a full-time entrepreneur. Your own financial risk will be lower because

your income is not totally dependent on the success of the business.

However, you should note that your Employment and Economic Development Office will not grant business start-up funds to part-time entrepreneurs!

### Partnership

Operating as a partner can be a very entrepreneurial activity depending on how the responsibilities and authority are split amongst the partners. For example, in family businesses, the spouse and children may be partners. In small businesses, it may be possible to get key people to commit themselves to the enterprise and its development by transferring stakes in the business to them.

### Team entrepreneurship

Here, several people who wish to become entrepreneurs establish a business together. All these people are responsible for the success of the enterprise. For example, when two businesses merge, the partners of these enterprises may become partners in the new enterprise.

### Social entrepreneurship

A social enterprise may be a sole trader, a general partnership, a limited partnership, a limited company or a co-operative. In addition, a social enterprise must fulfil the following requirements:

- 1) at least 30 % of the personnel are in poor health and/or are unemployed on a long-term basis (the entrepreneur is included in this figure)

- 2) a salary accordant with a collective labour agreement is paid to everyone
- 3) the working hours are more than 75 % and for those in poor health at least 50 % of the maximum working hours in the industry
- 4) public subsidies are less than half of net sales.

### Social enterprises may be granted public subsidies for labour costs.

The Finnish Ministry of Employment and the Economy (TEM) maintains a register of social enterprises. The application form (TM 3.09) for inclusion in the register is available from TEM's website, [www.tem.fi](http://www.tem.fi).



# Stages of establishing an enterprise

**Business idea What? For whom? How?**

**Business plan + Cash-flow statements + Profitability calculations**

**Selection of the form of the enterprise**

**Resolving licensing issues for the business**

**Arranging finance**

**Sole trader**  
(Toiminimi)  
Professional trader

**Partnerships**

- General partnership
- Limited partnership

**Foundation documents:**

- Articles of association

**Limited company**

- Private (Oy)
- Public (Oyj)

**Incorporation documents**

- Memorandum of association
- Articles of association

**Co-operative**

**Foundation documents**

- Memorandum of association
- Articles of association
- Copy of the constitution
- Minutes of the Board meeting; elections for the Chairman of the Board and the Chief Executive Officer

**Registration of a new enterprise**

It is possible to apply for entry to the Finnish Trade Register and the records of the Finnish Central Tax Administration using the same form

**Insurance**

**Organisation of accounting**

Set-up of an enterprise includes all of the stages mentioned above, but often the various stages are sorted out at the same time.



# Turning an enterprise idea into a business idea

An enterprise idea indicates what the new enterprise intends to produce. The enterprise idea is defined in more detail and gradually shaped into a business idea. The business idea indicates what the enterprise will do and to whom it will sell, how the enterprise will implement these things, and in what markets it will operate. The business idea answers the questions **What? To Whom? How?**.

Think about whether your products will be able to succeed in the marketplace? Which markets will you operate in? What is different about your business idea? Make sure you consider your business idea from the point of view of the customer in particular. The product (goods or a service or a combination of these) must be something that the customer is prepared to pay for. Determining customers' needs is important so that it is clear what qualities they value. Is your product, for example, more effective, cheaper, of higher quality, more pleasant or simpler than that of your competitors?

You will get the best insight when you test it in practice, for example with a small market survey. The most genuine feedback about your product will come from your potential customers. Nevertheless, an opinion poll does not always necessarily tell the whole truth about customers' buying habits. Market research can also be bought from external experts, but it is generally expensive.

## The business idea must be viable

Implementation of the business idea requires know-how on the part of the entrepreneur(s) as well as capital that is needed for working capital and initial investments. Know-how and familiarity with the field can be acquired via training, work experience and recrea-



tional pursuits. Be realistic in terms of demand for goods or services. You will improve your chances of success with careful planning. Consider the following:

- customer benefit: what the customer gets, where the customer uses the product, why the customer purchases it
- image: why the customer buys from this enterprise, what kinds of mental pictures are associated with the enterprise or its products
- products: what is produced or supplied, how does it differ from the competitor's products, what is the price, what kind of packaging is used and how is the product delivered, is advice required via the internet, for example?
- customers/customer groups: who are the customers, where are they and how many are there, how are they reached, how much are they prepared to pay, how will they pay
- mode of operation: will products be created in-house or will their production be subcontracted, how will products be marketed, how will they be sold
- resources: business premises, machines and equipment, capital invested, know-how and experi-

ence of the entrepreneur and the employees.

- market size

## Industry and competitive situation

Industry refers to that field in which the enterprise operates, for example catering (restaurants and cafes), financial services (banks), building or cleaning. In some fields, there are a lot of operators, i.e. there is a lot of competition. In such cases, the opportunities to make a profit are small, because the entrepreneurs must sell their product cheaply. The lower the novelty value and the more established the field, the greater the competition faced. That is greater the number of competitors offering a similar product.

Try to find an innovative business idea! The more unique the product, the less competition you will face. On the other hand, in such cases it is difficult to estimate the profitability of the business or compare the business idea to other operators, because there are only a few other operators. In such circumstances, the size of the market and the structure of demand must be estimated, and profitability calculated on the basis of the estimates.

# Business plan

## What is a business plan?

Business plan is a formal set of business goals, the reasons why they are believed attainable and the plan for reaching these goals.

Business plan refers to a written plan for the business. It describes how the business idea will be implemented in practice: the operating environment of the enterprise, and its working practices and objectives. It is a comprehensive and detailed presentation with a specified timescale. The business plan also includes longer-term objectives and quantitative targets in the form of profit budgets and cash-flow statements.

The plan goes through the features of the product, the customer groups, the competitive environment in the marketplace, and training and expertise of the entrepreneur(s) as well as how the enterprise intends to market its products.

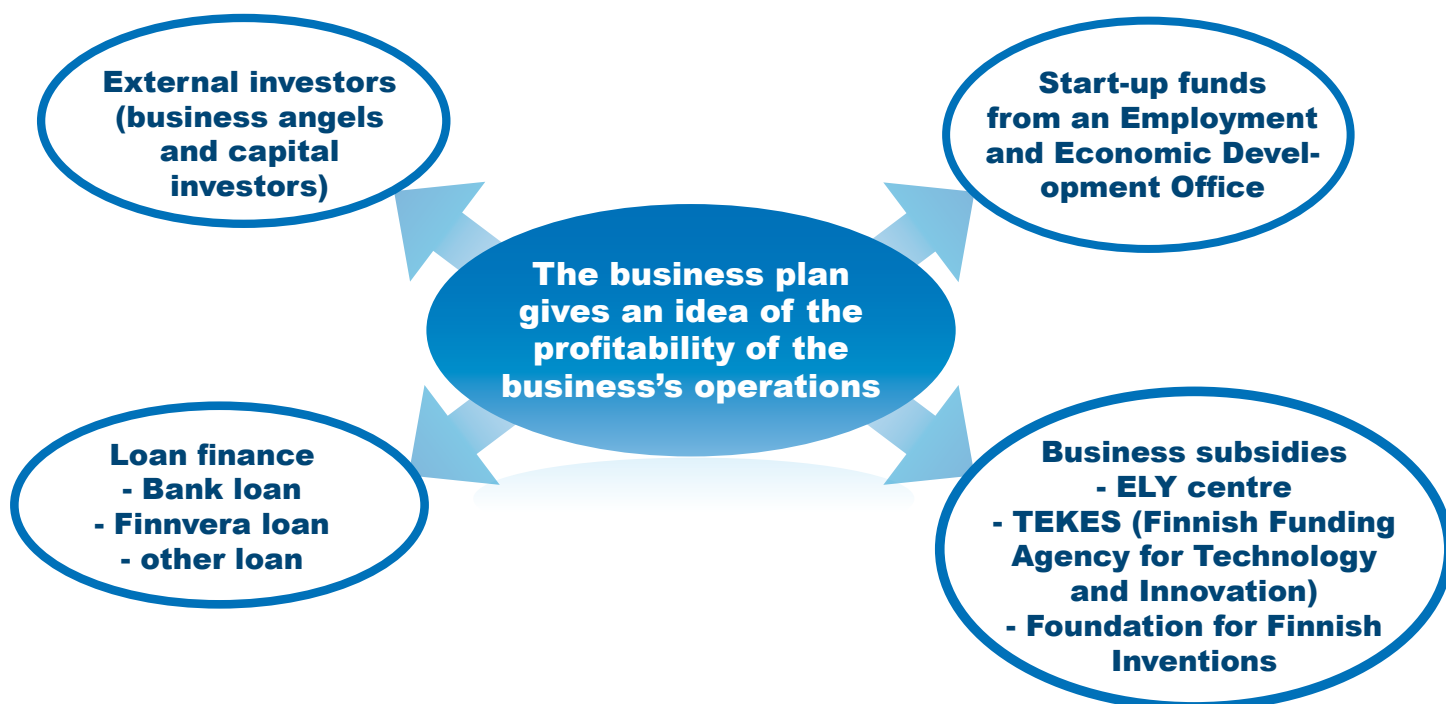
The business plan also estimates, with the aid of calculations, profitability and the sum of money that is needed for starting up the business's operations (investment requirement).

A good plan also highlights the risk factors that may affect the success of the business.

In addition, the business plan is a tool that enables entrepreneurs to plan, and it can also be used in negotiations with possible investors, business partners, lessors or suppliers, for example. With the help of the business plan, the entrepreneur can prove that the enterprise will succeed when, for example, financial-statement data is still not available. A well prepared business plan gives an idea of the profitability of a business and its future prospects, and it helps in sourcing finance.

**Create a business plan using our handy online service at [www.business-plan.fi](http://www.business-plan.fi)**

A business plan is also needed when start-up funds are applied for from the Employment and Economic Development Offices or when business subsidies are applied for from the centres for Economic Development, Transport and the Environment (ELY).



## Elements of the business plan

It is worth revising and updating the business plan on a regular basis.  
Model plan

### 1) Description of the business idea:

The business idea says what the business will do, to whom it will sell its products, and how the business will implement these things. What is the novelty value of your business idea (i.e. what is new about it) and why would customers be interested in your product? A SWOT analysis should also be included in this section, see page 15.

### 2) Description of expertise:

Expertise among the entrepreneur and the employees must support the business's operations. List their educational backgrounds, their work experience and their strengths and weaknesses.

### 3) Description of the product:

Describe the product critically from the customer's point of view. Explain the product's features compared to the competitors': pricing, advantages, uses and weaknesses.

### 4) Customers and customer requirements:

Describe who your customers are, how many there are, where they are, on what basis they decide to make a purchase, what customers value in your product. What is the customer problem or requirement for which you have a solution?

### 5) Industry and competition:

Describe your industry and the competitive environment. Will you bring innovation (something new) to the industry? Or will you offer the same as your competitors? Try to stand out from the competition. Are you able to set up, for example, an organic hairdresser's instead of a conventional hairdresser's?



Analyse the strengths and weaknesses of your key competitors, and compare your own business idea against them.

### 6) Scope and development of the market:

Give details of the number of customers in your product's market, the competitive environment and the prospects for growth. Explain which markets you are targeting: a certain area, the domestic market, Europe or the global market. Could your business possibly be extended to new markets later on? How would this happen? Explain what obstacles there may be for entry to the marketplace: regulations, constraints, customs duties and other risk factors.

### 7) Marketing and advertising:

Write down what marketing measures you would use to reach your customers and inform and convince them of the benefits of your own product. Also, pay attention to how your customers will find you, for example via the internet. How will you direct your advertising at specific customer groups? Consider what the look and name of your enterprise, amongst other things, say to the customer and what your enterprise's brand comprises. How do they stand out from the competitors? How do you arrange your sales work?

### 8) Risks:

A business's activities are subject to all kinds of risks. Analyse the business's risk factors in the short- and the long-term. How will you get a key person to commit to your business and what will happen if (s)he decides to leave? Can your business idea's features be copied? And how sensitive is your business idea to fluctuations in the economy? Risks can not be completely eliminated, but with effective planning they can be reduced.

### 9) Intellectual property rights:

Plan for the safeguarding of your key ideas in accordance with legislation on intellectual property rights. This will help you reduce the risk from copying. Do you need, for example, a patent for a technical invention (which lasts 20 years), utility-model protection (i.e. a four-year "small patent"), trademark protection (an identifying mark for a good or service that is registered for a specific area, such as the Apple trademark) or a design right that protects the appearance of an item? Only copyright protection does not need to be applied for separately. Non-disclosure agreements are one way to prevent a customer or collaborative partner from telling others about your unprotected business idea.

## 10. Estimates: Funding, Profitability and Sales

**a) Investment CALCULATION:** This is used to show the sources of funding and the expenditure requirements for the business in its initial stages. Expenditure requirements include those investments that must be made in order to launch the business's operations. Among other things, initial stock purchases, machines required for production, registration fees and security deposits as well as working capital for a 3-month period (for instance) would be included in expenditure requirements. In the working capital provision, an estimate is made of those fixed costs (wages and salaries, rental, insurance, bookkeeping, etc.) that must be paid even when the business does still not generate sufficient sales to cover costs. For this reason, working capital is added to investment requirements for the initial stages. In addition, in the funding calculation, the sources of funding are shown for an amount equal to the investment sum; the sources of funding must cover the expenditure requirements. The sources of funding may comprise shareholders' equity and property given as a capital contribution, loans, business subsidies and external equity investments. Remember that business start-up funding should not be regarded as one of these sources of funding as it is intended for the entrepreneur's own subsistence!



EXPENDITURE REQUIREMENTS	Eur
Decoration costs	1,200
Means of production	2,000
Equipment installations	500
Computers and software	1,500
Car	
Phone/fax/internet	200
Office supplies	300
Furniture	1,000
Property given as a capital contribution (existing machines, work tools and supplies)	500
Marketing investment	800
Security deposits	1,500
Initial stock purchases	1,000
Cost of establishing the business	100
Working capital	3,200
Cash reserve	700
<b>TOTAL EXP. REQUIREMENT</b>	<b>14,500</b>

SOURCES OF FUNDING	Eur
<b>Equity</b>	
Share capital	2,500
Personal cash investments	5,500
Property given as a capital contribution	500
Loans from shareholders	
<b>Loan capital</b>	
Bank loans	6,000
Finnvera loans	
Other loans	
<b>TOTAL SOURCES OF FUNDING</b>	<b>14,500</b>



### b) PROFITABILITY CALCULATION:

The profitability calculation is used to estimate where the break-even position (critical point) arises for a given price level and profit margin, as sales volume is varied. This can be used to analyse whether a sales target is realistic. The sales target (net sales) can also be calculated as a monthly, weekly or hourly sales target. Alternatively, it is possible to analyse whether it would be worthwhile changing the margin and sales price, if the sales volume seems unrealistic. Thus, a simple sensitivity analysis can be created, showing how big an effect there is on the profit forecast if the price is changed.

### c) SALES CALCULATION:

In the sales calculation, the minimum invoiced sales target indicated by the profitability calculation can be apportioned among the various customer groups. This makes it easier to assess the importance of the customer relationships; any discounts and variable costs for products being sold shall be taken into account.

EXAMPLE OF A PROFITABILITY CALCULATION:	Monthly EUR	Annually (12 months) EUR
= Target profit (incl. Entrepreneur's own target salary)	1,500	18,000
+ Loan repayments	100	1,200
<b>INCOME AFTER TAXES</b>	<b>1,600</b>	<b>19,200</b>
Taxes 18%	329	3,951
= Funding requirement	1,929	23,148
+ Loan interest	27	324
<b>A. OPERATING MARGIN (required)</b>	<b>1,956</b>	<b>23 472</b>
Fixed costs		
Self-employed persons' pension insurance 15.9 % (annual work-related income EUR 12,000)	159	1,908
Wages and salaries		
Indirect remuneration costs		
Costs relating to premises	545	6,537
Repairs and maintenance	30	360
Leasing payments		
Communication costs (phone, internet, etc.)	80	960
Office expenses	20	240
Travel and car expenses, daily expense allowance	50	600
Marketing expenses	200	2,400
Bookkeeping, auditing, tax returns, etc.	100	1,200
Unemployment fund, trade association, etc.	30	360
Other costs	100	1,200
<b>B. TOTAL FIXED COSTS</b>	<b>1,314</b>	<b>15,768</b>
SALES MARGIN REQUIRED (A+B)	3,270	39,240
Purchases +materials and supplies (net of VAT)	915	10,980
<b>NET SALES REQUIRED</b>	<b>4,185</b>	<b>50,220</b>
VAT 23 %	963	11,550
<b>TOTAL SALES / INVOICED SALES REQUIRED</b>	<b>5,148</b>	<b>61,770</b>

SALES CALCULATION (Monthly)	Product Cleaning (daily)	Cleaning (evenings and weekends)	Window cleaning	Floor waxing	Spring cleaning	Other work	TOTAL VAT 0%
Sales price	€ 24	€ 30	€ 35	€ 40	€ 120	€ 28	
Costs			€ 5	€ 10	€ 10	€ 0	
Margin	€ 24	€ 30	€ 30	€ 30	€ 110	€ 28	
Sales quantity	80 units	32 units	12 units	8 units	10 units	8 units	
Total sales	€ 1,920	€ 960	€ 420	€ 320	€ 1,200	€ 224	<b>€ 5,044</b>
Total purchases	€ 0	€ 0	€ 60	€ 80	€ 100	€ 0	<b>€ 240</b>

	Monthly	Annual (12 mths)
NET SALES (VAT 0%)	€ 5,044	€ 60,528
NET SALES REQUIRED	€ 4,185	€ 50,220
DIFFERENCE	€ 859	€ 10,308

You should also note that it is good for the entrepreneur to take some holiday, and because of this annual sales will be lower (around 11 months' worth).

*Notes concerning the business plan*

# SWOT analysis

The SWOT four-field analysis is a simple and widely used technique for analysing business operations. A SWOT analysis shows the Strengths, Weaknesses, Opportunities and Threats for the business idea, the entrepreneur and the enterprise. It is suitable for use in all forms of enterprise. The review may concern either the whole business or just part of its operations in greater detail.

The top row of the table shows the current situation and issues within the business. The bottom row represents the future and external matters. The left side shows positive factors, while the right side shows negative factors.

The analysis helps with examining how the strengths can be developed, how the weaknesses can be eliminated, how the opportunities can be exploited and how the threats can be countered.

## Example of a SWOT analysis

### Strengths

- strong expertise
- experience
- knowledge of the industry
- innovative product
- international contacts

### Weaknesses

- weak language skills
- insufficient personal funds
- no experience of working as an entrepreneur
- family situation
- new culture

### Opportunities

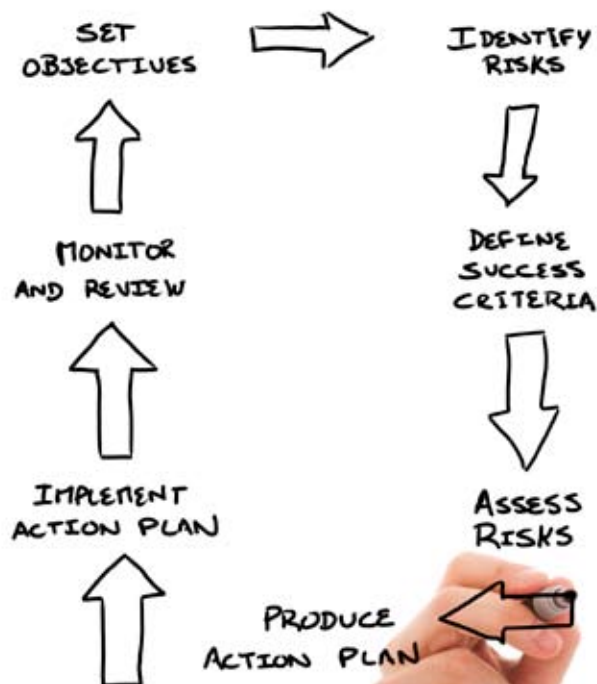
- globalization
- potential for growth
- new products/services
- new market areas

### Threats

- entrepreneur's ability to run the business
- increasing competition
- changes to legislation
- political situation

# Risk management

There are many ways in which an enterprise may be harmed or suffer losses, i.e. the business is exposed to various risks. However, risk in a business may also be an opportunity. The entrepreneur must be prepared to take risks in order to succeed. Risks must be identified, and the business must tackle them, prepare for them and protect itself against them. In other words, the risks must be managed.



The risks in a business may be, for example, business risks, personnel-related risks, contract and liability risks, data-security risks, product risks, environmental risks, risks from interruptions to operations, and risks from crime and fires. Good risk management is anticipatory, it takes all the available information into account, and it is systematic and well organised. Further information about risk management is available from [www.pk-rh.fi](http://www.pk-rh.fi).

# Marketing and advertising

Success in the marketplace demands good knowledge of the operational environment and the competitors, and it also requires that the business stands out from its competitors. In marketing, a business strives to influence the consumer's idea and experience of the goods or services provided by the business – “we are better than our competitors”. Marketing is indeed an important part of an enterprise's planning.

Firstly, it is good to know the difference between marketing and advertising.

In **marketing**, a business strives to influence the behaviour of consumers. The aim of marketing is to create, maintain and develop customer relationships. Maintaining customer loyalty is important, because acquiring new customers is often much more expensive than keeping old ones. Loyal key customers also usually create the majority of sales volume.

With **advertising**, the business strives to directly influence the purchasing decisions of the consumer and to make the product well-known. A satisfied cus-

tommer will come back readily. But if the advertising does not provide the right information about the product's features, it may be that the customer will not return.

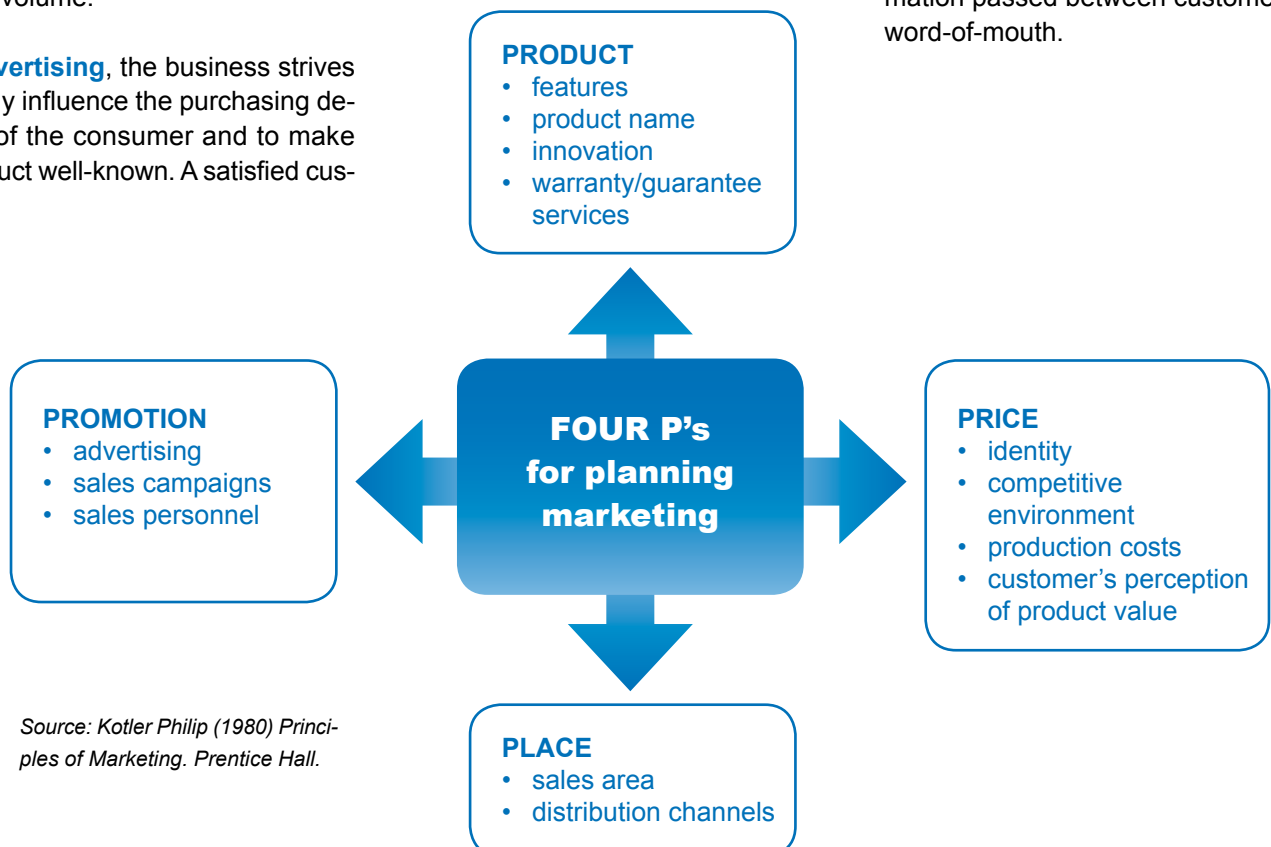
A good work-tool to help plan marketing is the so-called “marketing mix” model. It comprises the 4 P's based on the corresponding English words: Product, Price, Place and Promotion. From these, you can choose the marketing mix desired according to your customer target group, and you can focus on using these in the marketing of your enterprise.

**Product:** The goods or services and their features, the product name, guarantees/warranties, novelty value and how the goods/services stand out from competing products.

**Price:** The monetary or other compensation paid by the customer for the product. The determining factors include the competitive environment in the marketplace, market share, the customer's perception of the product's value, production and material costs as well as discounts.

**Place:** The location where the product may be bought. Often, the term “distribution channel” is used. This refers to both concrete business locations (i.e. stores) and virtual business locations on the Internet, such as an online store.

**Promotion:** All means of communication via which the marketer, i.e. the enterprise, can promote its product. This includes, amongst other things, advertising, communication at the point of sale or on the internet, sales campaigns, public relations and the information passed between customers via word-of-mouth.



Source: Kotler Philip (1980) *Principles of Marketing*. Prentice Hall.



## Segmentation of customer groups and selection of a target group

It is good for a business to investigate which product group it wishes to sell a product to. Even though acquiring a large group of customers is tempting, it is worth focusing on the most important customer group that generates the greatest sales for the enterprise with the least effort. Marketing to a certain segment (i.e. group) will reduce the number of customers, but at the same time it will increase the effectiveness of marketing. There are various ways of specifying a certain segment. For example, age, place of residence or purchasing power, i.e. how much money customers have available, can be used. When advertising children's toys for instance, it is worth focusing on areas where there are lots of families with children or on a baby magazine that is read by new parents.

### It is worth segmenting a market if:

- the market has enough potential customers
- a group's customers have common features and requirements
- the customer groups differ from each other
- marketing will reach the chosen segments economically and effectively.

## Selection of advertising media

It is worth looking for those media for your business, via which you can get a message, i.e. your advertisement, to the desired recipient as economically and effectively as possible. Familiarise yourself thoroughly with the main features and prices of the various advertising media. The prices may vary strongly depending on the media.

### The various media include

- newspapers, local and free papers, and magazines
- the Internet
- television
- outdoor advertising and business advertising media
- radio
- films (including product placement).

Direct marketing is one common way to reach customers. For example, a pizzeria entrepreneur may distribute adverts him/herself to letterboxes of residents in the neighbourhood. All brochures, business cards, etc. to be distributed directly to people either in person or electronically are forms of direct-marketing media. However, in direct marketing, you must take account of authorisation issues, i.e. whether you need customer authorisation for marketing or, in the case of minors, parent/guardian authorisation, if you use e-mail for example.

A really important marketing channel is communication among people, i.e. so-called word-of-mouth. Customers often tell each other about their good and bad experiences, so information about a product spreads on Facebook, for example. In marketing, it is also worth paying special attention to how you treat a customer in a service situation. For example, are you able in a sales situation to provide added value for a product, which creates a positive image (amongst other things, appearance of packaging, discounts, home delivery, items thrown in for free)? Or how, for example, will you deal with complaints?

The marketing plan for the business will help make the marketing coherent and clear. Using the plan, you can monitor fulfilment of the objectives and develop marketing in the future. It is worth reviewing both the marketing

**A really important marketing channel is communication among people, i.e. so-called word-of-mouth.**

mix and the customer groups at regular intervals. For example, you can consider the following questions: have you achieved what you wanted with the measures implemented? Or should you make changes or adapt your style of marketing or advertising? Has the key customer group changed its purchasing behaviour (changed requirements)? Who are your customers now, and who do you want as customers in the future? And what are your competitors doing?

Nowadays, people search for products and businesses using the Internet. Web visibility can take the form of ready media space on chargeable internet search services, a business's own website or an online store. If you introduce your own website, it is important to remember to update and maintain it. An online store, like other internet pages, is a good way to collect information and build a customer register. You must always tell customers what you are using data for and how they can prevent its use for purposes other than that desired by them.

## Trademark

A trademark is the characteristic feature that distinguishes the goods and services produced or provided by a business from the products of other businesses.

It is worth the enterprise protecting its trademark by registering it with the National Board of Patents and Regis-

tration of Finland. After registering it, the business has the exclusive right to use the trademark to represent its goods or services. The trademark may be, for instance, a word or a figure or a combination of these. It may also be a slogan, a combination of letters or a sound or some other emblem that can be represented graphically. A trademark granted in Finland gives protection only in Finland. If the entrepreneur wishes to protect his/her products abroad too, (s) he must arrange this separately.

Internet network ID (domain)

A domain name is a worldwide-web address that is written in the address field of a web browser. The domain name does not need to be the same as the name of the enterprise. It might be, for instance, just part of the name or an abbreviation, preferably something short and memorable.

The domain name must not be based on the protected name or trademark of another party or the name of an actual person, and it must not contain

offensive terms or expressions that incite people to commit crimes. The domain name can be ordered directly from a service provider or with the help of a so-called web hosting service, in which case you get everything you need all at once. The Finnish Communications Regulatory Authority ([www.ficora.fi](http://www.ficora.fi)) grants use of the Finnish country code .FI.

Pricing

Before you price your products, consider whether your service is better or of higher quality than the competitors'. Thus, will you sell your products at a higher or lower price than your competitors? What added value are customers prepared to pay for? Will they pay, for instance, for the image, product quality, good customer service, a warranty/guarantee or location?

Think carefully about the price level, and set it so that it is in line with the product image. A quality, i.e. high-priced, product requires a high-quality setting. When you have started to offer a product, negotiate on its price and then sell it at a certain price, it is very difficult in the future to raise the price. Also remember that many customers will expect there to be "room for negotiation" on the price.

The pricing of expert services can be based on time required. However, the hourly rate does not tell the customer the total price, because they will not know how much time will be required for the work. Use a pricing model as an aid in which you give details of the work contents and the time used for the work.

In pricing, you can also use devices such as introductory offers, contract prices, "fast purchase" offers and special-offer periods (for example during a quiet period). With these devices, you can set your basic tariff at the level you desire. Examples of pricing models are restaurant lunch prices or early booking rewards at travel agents. There are also customers who want to pay the price specified by the tariff without any negotiations or bargaining.

Pricing is an important competitive factor but not the only one. Often people only think about price competition, i.e. they sell at a cheaper price than their competitors. Think carefully about what is the right price for your product. Part of the product's sales price must represent a profit for your business. If you sell at a higher price (i.e. with a greater profit margin), you don't need to sell so many to make a profit. Whereas if the margin is lower, you must sell

a higher volume to achieve the same profit level.

**Example:** You sell a product that costs EUR 28 to produce. Your competitor sells the same product to customers at a price of EUR 55 (incl.VAT). Look what effect it has on the profit margin if you sell the product at a price that is 20% lower than your competitor's.

Always keep your prices on view to your customers. A good price list tells the customer both the product price and what the price includes. The consumer will only be interested in the final price, including VAT. The corporate customer will be interested in the price net of VAT, because VAT on purchases can be deducted from VAT on sales.

EXAMPLE ON PRISING	Competitor's price EUR	Price that is 20 % lower EUR
Sales price	55.00	44.00
- VAT 23%	- 10.28	- 8.23
Price net of VAT	44.72	35.77
Purchase price (VAT 0%)	28.00	28.00
Profit margin	16.72	7.77

## Sales margin

Price your products correctly. How much sales margin is generated for each product or service sold? Is the margin sufficient given the quantity sold? Also, remember the fixed costs and total time usage. With the help of the profitability calculation, you can get a good idea of the lower limits for your pricing.

Example of the calculation of sales price		EUR
Total costs of the product		150.00
+ Target sales margin (35 %)		52.50
= Sales price net of tax		202.50
+ VAT 23 %		46.58
= Sales price including tax		249.08

## Example of the schedule according to which the business gets money from its sales:



When the customer orders the product, depending on the business, 1 - 5 days may elapse before the product is sent to the customer. Often, the invoice for the product is sent 1 – 5 days after delivery. The terms of payment may be 7 – 21 days. If the customer pays the invoice on the due date, the money will reach the business's account two days later. In other words, even in the best-case scenario, almost two weeks will pass from the order date before the money reaches the business's account.



# Funding for a new business start-up

In the initial stages of a business, money is almost always needed to start up operations. The amount of money initially required depends on the business idea, and it fluctuates greatly depending on the industry. If operations are based on selling the entrepreneur's expertise as a service and the use of his/her time (for example, in interpreting and translation work), the initial investment required is much less than if a restaurant or a company manufacturing goods is being established. The initial investment enables establishment of the enterprise and the start up of operations. When the business is profitable, future investment requirements can be covered by the income generated by the business's operations.

With the help of the funding calculation, the investment requirements and the sources of funding in the early stages will be determined. The sources of funding are now considered.

## Equity capital

Entrepreneurs may invest in the business their own money or other assets that they own and possess (property given as a capital contribution). The entrepreneur's own savings, work tools or machines are referred to as self-financing. Generally, lenders (i.e. banks) require that around 20 % of the finance provided comes from the entrepreneur before they consider granting a loan.

Equity capital can also be invested in the business by the entrepreneur's friends, family members and acquaintances. As a result, they can gain a share of ownership in the business.

## Loans

Normally, an entrepreneur needs, in addition to equity, external capital, i.e. loans. Loan financing is mainly granted by the commercial banks and the special financing company, Finnvera.

**Loan financing is mainly granted by the commercial banks and the special financing company, Finnvera.**

([www.finnvera.fi](http://www.finnvera.fi)). Interest is paid on a loan, which may be linked to the Euribor reference rate, for instance. In addition, the finance provider must obtain a return for itself, i.e. an interest margin, and a handling fee for the loan. The loan repayment terms vary depending on the finance provider. Often the banks require a real security for the loan capital, such as the pledging of a home or other assets. You should always ask many different banks for quotes on loans.

Also, funds from other external investors, such as acquaintances or family members, may be capital in the form of a loan that must be paid back with interest. It is always worth agreeing in writing on loans and their associated interest and repayment terms.

It is worth the entrepreneur remembering that short-term financial aid can also be obtained by paying for supplies later (supplier credit), leasing, bank accounts with overdraft facilities, and credit cards. Leasing finance is long-term rental where the item for which finance is provided acts as security. However, in the cases mentioned above, the entrepreneur must pay attention to the annual interest rate, which may be substantially higher than a normal bank's interest rate, i.e. the loan will be more expensive.

## Capital investments

A capital investor (business angel or capital-investment company) invests money in a target business in return for a share of ownership (typically less than 50 % of the shares). Capital investors take a significant risk when they make an investment, and therefore they expect a significant return from the investment as compensation. The terms of the investment will be specified in detail in the shareholder agreement.

## Business subsidies

The Centres for Economic Development, Transport and the Environment (ELY centres) can grant subsidies for business ventures and the planning of them, depending on the line of business and the location of the enterprise. Business subsidies or aid are generally discretionary and require that the business's operations are profitable. There is no need to pay back the subsidy or aid. Business aid must be applied for and a decision received before any investment is made. Aid for purchases made is generally only paid in arrears. ([www.ely-keskus.fi](http://www.ely-keskus.fi))

Support for innovative business ventures can also be obtained from the Foundation for Finnish Inventions ([www.keksintosaatio.fi](http://www.keksintosaatio.fi)) and the Finnish Funding Agency for Technology and Innovation ([www.tekes.fi](http://www.tekes.fi)).

If the business is geared towards developing countries, it is possible to obtain a subsidy with the help of the Finnpartnership business-partnership programme. ([www.finnpartnership.fi](http://www.finnpartnership.fi))

When planning the business, it is good to remember that its operations must not be reliant on subsidies. The business must be profitable without any aid.



# Start-up grants

Business start-up grants are a form of discretionary support that can be paid to someone starting up as an entrepreneur, and they are available in the initial stages of a business operating on a full-time basis. Start-up grants help with the entrepreneur's subsistence at a time when the business is only just starting its operations and establishing itself.

It is worthwhile for someone considering setting up a business to contact their local Employment and Economic Development Office ([www.mol.fi](http://www.mol.fi)) in good time before starting their operations and to establish the possibilities for obtaining start-up grants. Operations must not be commenced before the Employment and Economic Development Office has made a decision on the start-up grants.

Start-up grants are taxable income, i.e. tax is payable on them. Start-up grants can be granted at the same time to several entrepreneurs who are working in the same start-up business.

## Conditions for granting support

Start-up grants can be granted if the entrepreneur is able to establish profitable business and (s)he has experience as an entrepreneur or has business training. The support must be necessary for the entrepreneur's subsistence. The entrepreneur must work in the business full-time.

An application for start-up grants must be accompanied by the business plan and profitability calculation. Help with preparing these can be obtained from business advisory experts. In addition, a so-called tax-liability certificate is required, i.e. a statement on whether the applicant has outstanding taxes to pay. A certificate may be ordered via the website of the Finnish Central Tax Ad-



ministration ([www.vero.fi/verovelkatodistus](http://www.vero.fi/verovelkatodistus)), for example, or one may be collected from a tax office.

Start-up grants can be paid for a period of up to 18 months. However, usually start-up grants are granted for a period of six months. After this period, start-up grants may be granted on a case-specific basis so that the entrepreneur's livelihood is secured.

In 2011, the amount of start-up grants available is around EUR 550-880 per month gross (i.e. tax is still payable on this sum). Start-up grants are paid once a month retroactively and an application must be made to the Employment and Economic Development Office for this.

## The conditions of granting start-up grants are that:

- 1) the applicant has experience as an entrepreneur or the necessary training in entrepreneurship, which can also be arranged while support is paid
- 2) the applicant has, in other respects, sufficient skills for the business operations that (s)he is planning; the nature of the operations is taken into account here along with how demanding they are

- 3) the business is able to operate profitably
- 4) the applicant is not receiving state support for his/her labour costs
- 5) daily unemployment benefit or unemployment assistance (as specified by the Finnish Act on Unemployment Benefits) is not paid to the applicant for the same period
- 6) the business's operations have not been started before a decision has been made on the granting of support
- 7) it would clearly not be possible to commence operations unless support was granted to the applicant
- 8) the provision of support will not distort competition between those offering the same products.

# Licensed industries

In Finland, there is freedom of trade. This means that here you may engage in business operations that are lawful and in accordance with good practice without requiring a licence from the authorities. However, for certain industries, you do need a licence for the sake of the community, the environment and consumer safety. In other fields, you must notify the authorities of your operations, even though an official licence is not required.

Licences are granted by local authorities (municipalities and cities) and regional administration offices along with government departments, local environmental-protection authorities and other licensing authorities.

Before operations are commenced, it is always important to check whether a special licence or declaration is needed for the business and what else is required from a trader in this field. To acquire a licence the applicant must gen-

erally be professionally competent and qualified to enter into legal contracts and have a good reputation. Also, the applicant's financial situation will have an impact on whether (s)he can obtain a licence. The licences required by businesses that provide a service are shown on the following webpages: [www.yrityssuomi.fi/palveluyritykset](http://www.yrityssuomi.fi/palveluyritykset).

A licence is generally for a fixed period, and it can be revoked if the person does not comply with the provisions of the licence. Application for a licence is usually subject to a charge. In some cases, a licence is needed from many different authorities.

For example, in the catering industry, hygiene certification and licences to serve food and alcohol are required, and declarations must be made to the health inspector, the rescue services, building-regulation departments and the police, amongst other things.

The National Supervisory Authority for Welfare and Health in Finland, Valvira ([www.valvira.fi](http://www.valvira.fi)) grants the right to carry out work in the healthcare profession in Finland to healthcare professions trained abroad, subject to application. Such people include doctors, nurses, dentists, qualified chemists, midwives, speech therapists and psychologists.

Import-related licences are granted by Finnish Customs, [www.tulli.fi](http://www.tulli.fi).

The Finnish Food Safety Authority, Evira ([www.evira.fi](http://www.evira.fi)) monitors the safety and quality of food products. Food premises, such as restaurants, shops and kiosks must be approved by the local food authority before operations begin. The approval procedure specified by the Finnish Health Protection Act concerns, amongst other things, hairdressers' and barbers' salons, beauty or foot-care premises and tattoo businesses. The local health protection authority is responsible for approving such businesses.

For playing music (radio, TV, CDs, live music) in public places, such as a business's customer premises, it is necessary to pay a fee to the copyright organizations. The Finnish Composers' Copyright Society, Teosto ([www.teosto.fi](http://www.teosto.fi)) collects fees payable to composers and lyricists, and the Copyright Society for performing artists and producers of recordings, Gramex ([www.gramex.fi](http://www.gramex.fi)), collects fees due to musicians, singers, conductors and producers of recordings.

In the municipality or the city, there may be different regulations concerning outdoor advertising and sales, for instance.

N.B. Always establish whether you need a licence before you commence operations!



## Industries where a licence or notification of intention to trade is required

Industry	Licence or registration authority	Link
Inspection of vehicles	Finnish Transport Safety Agency - Trafi	<a href="http://www.trafi.fi">www.trafi.fi</a>
Serving alcoholic drinks in restaurants, etc. and the sale of alcoholic drinks (medium-strength beer, cider and very light wines) in food stores	The Finnish Regional State Administrative Agencies	<a href="http://www.avi.fi">www.avi.fi</a>
Manufacture and import of alcoholic drinks	National Supervisory Authority for Welfare and Health - Valvira	<a href="http://www.valvira.fi">www.valvira.fi</a>
Sales of firearms and ammunition	Finnish Police Administration	<a href="http://www.intermin.fi">www.intermin.fi</a>
Pharmacies, pharmaceutical plants, pharmaceutical wholesale businesses	Finnish Medicines Agency - Fimea	<a href="http://www.fimea.fi">www.fimea.fi</a>
Estate agents	The Finnish Regional State Administrative Agencies	<a href="http://www.avi.fi">www.avi.fi</a>
Driving schools	Finnish Transport Safety Agency - Trafi	<a href="http://www.trafi.fi">www.trafi.fi</a>
Right to use sponsors' marks on precious-metal products	Finnish Safety Technology Authority - Tukes	<a href="http://www.tukes.fi">www.tukes.fi</a>
Mining operations	Finnish Ministry of Employment and the Economy	<a href="http://www.tem.fi">www.tem.fi</a>
Credit, financing and investment activities	Financial Supervisory Authority	<a href="http://www.finanssivalvonta.fi">www.finanssivalvonta.fi</a>
Transport of patients	The Finnish Regional State Administrative Agencies	<a href="http://www.avi.fi">www.avi.fi</a>
Electrical and lift contractors	Finnish Safety Technology Authority - Tukes	<a href="http://www.tukes.fi">www.tukes.fi</a>
Goods traffic, taxis, public transport	Centres for Economic Development, Transport and the Environment (ELY)	<a href="http://www.ely-keskus.fi">www.ely-keskus.fi</a>
Telecommunications	Finnish Communications Regulatory Authority - Ficora	<a href="http://www.ficora.fi">www.ficora.fi</a>
Sales of tobacco	Local authorities	<a href="http://www.kunnat.net">www.kunnat.net</a>
Hiring of labour	Regional administration offices, responsibility for occupational safety	<a href="http://www.avi.fi/tyosuojelu">www.avi.fi/tyosuojelu</a> <a href="http://www.tyosuojelu.fi">www.tyosuojelu.fi</a>
Large-scale industrial processing and storage of hazardous chemicals	Local environmental-protection authority	<a href="http://www.kunnat.net">www.kunnat.net</a>
Minor industrial processing and storage of hazardous chemicals	Rescue services	<a href="http://www.pelastustoimi.fi">www.pelastustoimi.fi</a>
Insurance brokerage, insurance companies	Financial Supervisory Authority	<a href="http://www.finanssivalvonta.fi">www.finanssivalvonta.fi</a>
Package-tour companies	Consumer Agency	<a href="http://www.kuluttajavirasto.fi">www.kuluttajavirasto.fi</a>
Security companies	Finnish Police Administration	<a href="http://www.intermin.fi">www.intermin.fi</a>
Private healthcare services	The Finnish Regional State Administrative Agencies	<a href="http://www.avi.fi">www.avi.fi</a>
Private schools and day-care centres	Local Authorities, The Finnish Regional State Administrative Agencies	<a href="http://www.kunnat.net">www.kunnat.net</a> <a href="http://www.avi.fi">www.avi.fi</a>



# Forms of enterprise

In Finland, it is possible to carry out business operations in the following forms of enterprise: sole trader, general partnership, limited partnership, limited company, co-operative, branch of a foreign enterprise. The following forms of enterprise are less common: *Societas Europaea*, European co-operative society and European Economic Interest Grouping (EEIG).

When determining the most suitable form of enterprise for you, business advisory experts will help you.

## Factors affecting which form of enterprise is selected:

- number of people establishing the business
- the need for capital and its availability
- responsibilities and decision making
- operational flexibility
- continuity of operations
- attitude of finance providers
- profit sharing and covering losses
- taxation

## Sole trader (own firm)

An individual with permanent domicile in the European Economic Area (EEA) may operate as a sole trader in Finland. A person who lives outside the EEA needs a licence from the National Board of Patents and Registration of Finland ([www.prh.fi](http://www.prh.fi)) for establishing a business.

Operating as a sole trader means that the person carries out business operations alone or together with their spouse. Even though the couple set up the business together, the business is registered only in the name of one person.

The entrepreneur him/herself makes decisions, and (s)he is fully liable for the business's commitments (concerning loans, for example) means all his/her assets are at risk. Thus, the

entrepreneur is personally liable for the business's losses, but (s)he will also receive any profits made from the business's operations.

The firm will not have a Board of Directors or a Managing Director, and audits are not required.

The entrepreneur may invest money in the business, but this isn't compulsory either. The entrepreneur is not able to pay a salary to him/herself, to his/her spouse or to his/her children under the age of 14, but money may be withdrawn from the business account as so-called personal drawings. Tax is paid annually based on the business's result for the period.

Even though the entrepreneur owns the firm, his/her personal finances must be kept separate from the business's finances with the help of bookkeeping.

Sole-trader entrepreneurs can be divided into professionals and traders, both of whom do work on their own account. The difference is that professionals generally do work independently without using external manpower. A trader may have external manpower, and the bookkeeping is more wide-ranging than for a professional.

A professional is an entrepreneur who can operate in his/her profession without a permanent workplace and without external manpower. The biggest difference from a trader is the right to use single-entry bookkeeping. A professional may be, for instance, a seamstress, carpenter or interpreter.

A trader is an entrepreneur who has a permanent workplace or who can employ other staff. A trader must use double-entry bookkeeping.

## Establishing your firm

Establishing the firm is simple. Separate documents are not necessary. However, you must notify the Finnish Trade Register and the Finnish Central Tax Administration of commencement of your operations. This is done

using the Y-3 form available from the website, [www.ytj.fi](http://www.ytj.fi). There is a charge for registration, and for the year 2011 this is EUR 75. You may begin operating immediately once you have notified these organisations, unless your trade requires a licence or you are applying for business start-up funds.

## Who is a firm suitable for?

A firm is easy to establish and the simplest of the forms of enterprise to establish. Often, a firm suits a small-scale entrepreneur who is just starting off.

## Partnerships: general partnership and limited partnership

To establish a partnership, you need at least two partners (i.e. people). Generally, these are natural people, but a partner can also be a legal person (an enterprise or organisation). There are two types of partnership: general partnerships and limited partnerships.

In general partnerships, at least one partner, and in limited partnerships, at least one active partner must have permanent residence, or if the partner is a legal person, domicile, in the EEA area. If they don't, for all partners that are not in the EEA area, a licence must be sought from the National Board of Patents and Registration of Finland.

The partners invest a contribution in the partnership, and this will consist of money, assets or work. In a general partnership, a contribution in the form of work from partners will suffice as an investment. In a limited partnership, money or other assets are required from a sleeping partner as a contribution. However, the law does not specify how large this contribution must be.

In a general partnership, all the partners are fully liable for the partnership's commitments, meaning their personal assets are at risk, and they decide together on issues relating to the partnership unless agreed otherwise.



In limited partnerships (ky), there are two kinds of partner: active and sleeping. In a limited partnership, there must be at least one active and one sleeping partner. Active partners are fully liable for the partnership's commitments, meaning their personal assets are at risk, and they decide together on issues relating to the partnership.

Sleeping partners invest money or assets of monetary value in the partnership, and they receive interest on earnings. A sleeping partner does not have the right to participate in the partnership's decision making, and (s)he is not liable for issues relating to the partnership, unless specified otherwise in the articles of association.

### Establishing a partnership

The partners create the articles of association which show the partnership's business name, its domicile, line of business, the names and addresses of the partners and their investment in the partnership. In addition, there is an agreement on who has the right to sign in the name of the partnership, how a managing partner would be elected, what is the duration of the accounting period, how auditors would be elected, what is the partners' share of the partnership's assets and earnings, and how the articles of association can be terminated or annulled.

The articles of association must be produced in writing and with great care, and it is worth using an expert to help out.

The partnership must be registered in the Finnish Trade Register and with the Finnish Central Tax Administration. This is done using the Y2 form. These are available from the website, [www.ytj.fi](http://www.ytj.fi). Notification of the partnership must be accompanied by the original articles of association. There is a charge for registration, which is EUR 180 for the year 2011.

### When are partnerships suitable?

Partnerships are suitable for family enterprises. You must remember that, in a general partnership, the partners and, in a limited partnership, the active partners are liable for the partnership's commitments together equally. If one partner makes a commitment, the others are also liable for it. Therefore, there must be a very high level of trust among the partners. However, the liability of the partners can be limited in the articles of association.

### Limited company (oy)

A limited company may be established by one or more people or organisations. When the company is being set up, the founders register all the company's shares. In a private limited company, the share capital must be at least EUR 2,500. The Finnish Companies Act does not specify anything about the residence or domicile of the shareholders, i.e. the founding shareholders of a limited company may also be from outside the EEA area.

The shareholders are liable for the company's commitments only to the extent of the capital that they have invested in the company, unless they have guaranteed loans on behalf of the company.

Issues relating to a limited company are decided on by the shareholders. A person who has more shares also gets more decision-making power (and more voting power). A limited company must have a board of directors that the shareholders appoint. The board takes care of management of the company, and it represents the company. The board may elect a managing director for the company, who takes care of its day-to-day management. However, the appointment of a managing director is optional. The managing director can also be elected in the initial agreement created on foundation of the company

or at a meeting of the board held at a later date.

If the board of a limited company comprises less than three members, at least one deputy member must also be appointed. At least one of the board members and one of the deputy members (calculated separately) must have permanent residence in the EEA area. If they don't, a licence must be sought from the National Board of Patents and Registration of Finland for all ordinary members or deputy members who are from outside the EEA area.

### Establishing a limited company

In order to establish a limited company, a foundation agreement is created, to which the articles of association are appended. The articles of association comprise in their minimal form three items: the name of the business, its domicile and the line of business. The line of business may be shown as general commercial activities, which includes all lawful business operations (i.e. you don't have to indicate a specific line of business).

The foundation agreement generally includes details on the members of the board of directors, the managing director, audits and the accounting period, as well as the number of shares, their price and the date of payment. In addition, the founders of the limited company allocate the shares.

A limited company must be registered with the Finnish Trade Register before it becomes legally valid. This is done using the Y1 form and its appendix. There is a charge for registration, and in 2011, this is EUR 350. The Finnish Trade Register must be notified within three months of signing the founding agreement, otherwise the foundation of the company becomes void. The necessary forms are available from the following website, [www.ytj.fi](http://www.ytj.fi).



Notification of foundation must also be accompanied by the original foundation agreement and a duplicate copy of the articles of association, if these do not form part of the foundation agreement.

Before registration of a limited company, the share capital must be paid to the bank account of the new company. If shares are paid for using non-cash assets, there must be a term in the foundation agreement stating that the share subscriber has the right or duty to pay the subscription price using non-cash assets. Also, in the foundation agreement, there must be a description of the non-cash assets. In the Finnish Trade Register, there must be an auditor's statement on the description of the non-cash asset capital contribution and on whether the assets had a financial value to the company that was at least equivalent to the price.

This statement may be given either by a chartered accountant (KHT or HTM) approved by the Central Chamber of Commerce of Finland or by a firm of chartered accountants.

If the company has more than one founding member, it is worthwhile creating a written shareholder agreement that explains the relationships between the shareholders and their relationship with the limited company. The shareholder agreement helps to control in advance the legal risks that may arise in relationships between the shareholders and the company. In this way, unnecessary disputes that impede the business's operations can be avoided. When creating the shareholder agreement, it is worth consulting a legal expert. The shareholder agreement does not need to accompany the registration forms.

### When is a limited company suitable?

All types of business are suited to being a limited company.

The limited company is, along with the firm, the only form of enterprise that can be established by a single person. In this case, a second person is required as a deputy member of the board. An advantage of limited companies is the limited liability, which is restricted to the shareholder's capital holding, unless a guarantee has been given on behalf of the company.

For large enterprises, a public limited company is a suitable form of enterprise. For this, the minimum possible share capital is EUR 80,000. With public limited companies, their shares are offered to the public and traded on the stock markets.



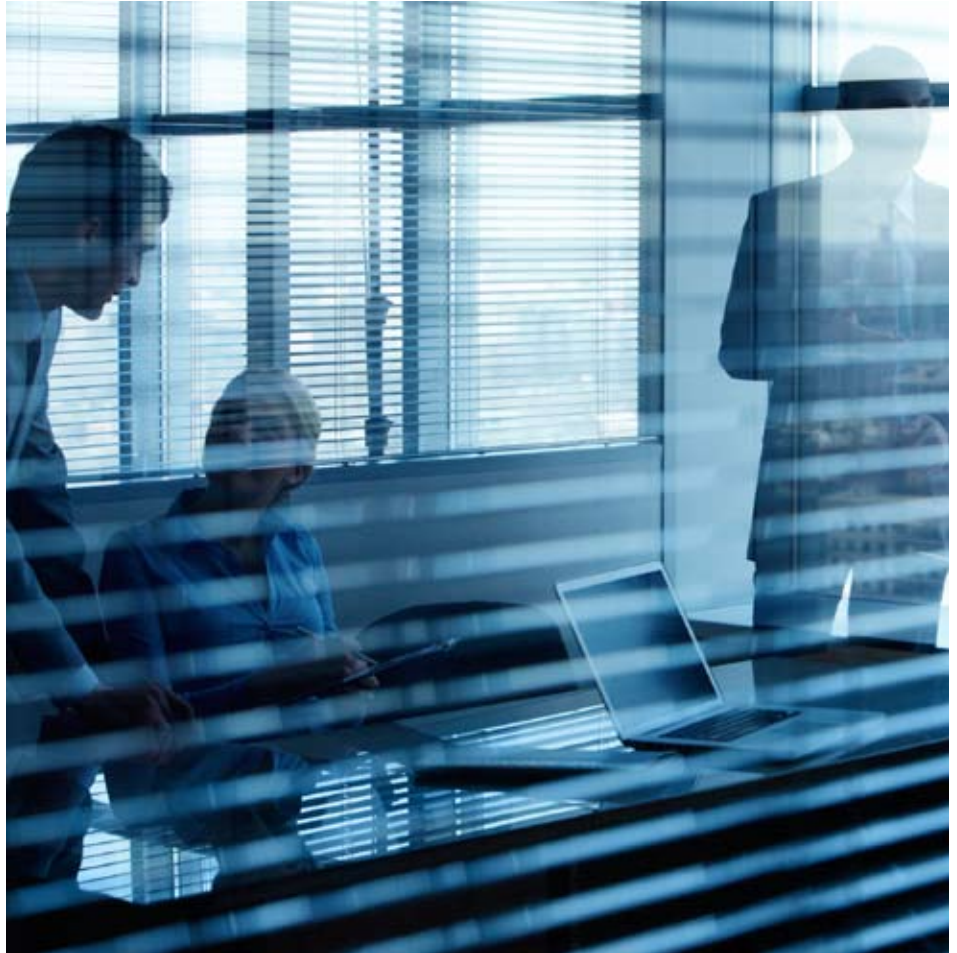
## Co-operative

A co-operative is an independent association of individuals. The members manage the co-operative together and democratically, and by means of it they realise economic, social and cultural aims. To establish a co-operative at least three people or organisations are needed. The owners of a co-operative are referred to as members, and its capital is referred to as co-operative capital.

A co-operative pays the capital back when a member resigns or is removed from the co-operative. The members are liable for the commitments of the co-operative only to the extent of the capital that they have invested in the co-operative, unless they have made commitments on behalf of the co-operative. The members decide on issues relating to the co-operative, and each member generally has one vote. The members elect the board of the co-operative. The board takes care of management of the co-operative, and it represents it. Generally, the board elects a chief executive officer (CEO) for the co-operative. However, this is not mandatory. The CEO takes care of the day-to-day management of the co-operative. The CEO can be elected when the co-operative is established in the memorandum of association.

## Establishing a co-operative

In order to establish a co-operative, a memorandum of association is created to which the regulations of the co-operative are appended. The regulations must specify, as a minimum, the name of the co-operative, its domicile, the line of business, the accounting period and the amount of each contribution, the term of payment and the method of payment. The co-operative must also be registered with the Finnish Trade Register. This is done using a Y1 form and its appendix. Notification of the co-operative must be made within six



months of the memorandum of association being signed, otherwise establishment of the co-operative becomes void. There is a charge for registration, and in the year 2011, this was EUR 350.

## Who is a co-operative suitable for?

Often, a co-operative is suitable for expert entrepreneurs such as those providing cultural and well-being services, or translation and interpreting services. For example, each member of the co-operative can carry out his/her own job, and the co-operative just takes care of billing, bookkeeping and marketing.

## Branch of a foreign enterprise

A branch is a part of a foreign organisation or foundation that engages in

business or professional activities on a constant basis in a permanent office in Finland. The name of the branch must include the name of the foreign trader in the registered form together with an addition that indicates it is a branch. The addition can be, for example, “sivuliike Suomessa” (branch in Finland), “filial i Finland” or “filial”.

When a branch is established, notification of this must be sent to the Finnish Trade Register. Notification must be given before operations commence. If the foreign organisation or foundation is from outside the EEA area, a licence must be sought from the National Board of Patents and Registration of Finland to establish a branch in Finland.

# Registration issues

## Finnish Trade Register

The Finnish Trade Register ([www.prh.fi/en.html](http://www.prh.fi/en.html) > [Trade Register](#)) is the official, public register for information about enterprises. The majority of Finnish businesses are limited companies and sole traders. Generally, all businesses must enrol in the Finnish Trade Register. There is a charge for registration of the business.

With the same declaration, you can also enrol in the registers of the Finnish Central Tax Administration, comprising the register for collection of tax at source, the register of employers and the register for those liable to VAT. There is no charge for enrolment in these registers.

## Registration fees for businesses in 2011

Sole trader	<b>EUR 75</b>
General partnership and limited partnership	<b>EUR 180</b>
Limited company, co-operative, branch, EEIG	<b>EUR 350</b>

## Business ID

The business and organisation ID is a unique ID that the authorities give to businesses and organisations. The business ID is provided once the foundation of a business is recorded in the Finnish Business Information System ([www.ytj.fi](http://www.ytj.fi)). A business ID consists of seven numerical digits, a hyphen and a check digit, for example 1234567-8. The business ID is required on invoices and contracts, and when using the Finnish Trade Register or dealing with the Finnish Central Tax Administration, among other things.

## Name of the enterprise

It is essential to choose a good name for the business. The name must be sufficiently individual. The name can not just contain general words or a service description and the names of

people or places. The name must differ sufficiently from other names and trademarks that are in the register. Using your own name or place name in the name of the business will help ensure that it is individual. Registering the name of the business gives the exclusive right to that name throughout the country, i.e. no-one else may use this name.

The form of enterprise is also apparent from the name of the business. A sole trader may use the identifier “tmi” or “toiminimi”, but this isn’t mandatory. Limited partnerships use the abbreviation “ky”. The identifier for a limited company is “oy” and for a public limited company, “oyj”. The identifier for a general partnership is “avoin yhtiö” – the abbreviation “ay” may not be used. The name of a branch will include the term “sivuliike Suomessa” or “filial i Finland” as well as the name of the foreign enterprise.

The name is registered either in the Finnish language or the Swedish language. The name may include, in addition to the Finnish- or Swedish-language identifier for the form of enterprise, identifiers in other languages, for example, Ab Finntex Oy or Oy Finntex Ltd. The name may also include parallel business names in different languages, i.e. translations of the Finnish- or Swedish-language name. The possible parallel business names for a limited company must be included in the articles of association. The parallel business names for a general partnership or a limited partnership must be included in the articles of association, and those for a co-operative must be included in its regulations.

## Auxiliary business name

An entrepreneur may carry out part of his/her operations using an auxiliary business name. This is conven-

ient when the same enterprise has operations in completely different fields. For example, the owner of “Jokinen’s florist’s” may run cleaning operations under the name “Näppärä”. There is a charge for registration of an auxiliary business name, and this name can only be used for those activities that it is registered for. Several auxiliary business names may be used. However, an auxiliary business name can not be used for the operations of the whole business. Thus, by using auxiliary business names, the same enterprise may comprise different operations with different business names. This can help with operations and marketing. However, there will only be one set of accounts and one business ID for all of the enterprise’s operations.

## Line of business

The line of business of an enterprise is always declared when the enterprise is registered with the Finnish Trade Register and the Finnish Central Tax Administration. It is also possible to register so-called “general commercial activities” with the Finnish Trade Register, meaning that the business may engage in all kinds of lawful business activities that are accordant with good practice. However, it is advisable to state the line of business explicitly so that the nature of the business’s operations is clear.

It is also possible to include the following type of declaration in the Finnish Trade Register: “yleistoimiala” (general commercial activities), including repair, servicing and trade of motor vehicles, amongst other things. In this case, the customers will understand more easily which areas the business operates in.

However, you must notify the Finnish Central Tax Administration of your main line of business. The enterprise may have only main line of business, and this must clearly describe what field the enterprise operates in along with the form of the operations: for exam-



ple, repair, servicing and trade of motor vehicles. It is not possible to record a main line of business in the register that is too general.

### Register for collection of tax at source

Starting up business operations generally requires that the business enrolls in the register for collection of tax at source maintained by the Finnish Central Tax Administration. You can enroll in the register for collection of tax at source using the same form that is used for notifying the Finnish Trade Register of your new business. When a business is in the register for collection of tax at source, the business commissioning work does not need to withhold tax from the remuneration paid by it. A business that is in the register for collection of tax at source takes care of its taxes itself by paying tax levied in advance.

### Advance tax bill

A new business will pay advance tax on the basis of how large the enterprise's estimate of its taxable income for the first accounting period is. The business gives this estimate in its declaration of foundation. The Finnish Central Tax Administration determines the advance tax on the basis of the business's own estimate and sends the business an advance tax bill and bank-transfer forms for payment of the tax.

### Register of Employers

The Register of Employers is maintained by the Finnish Central Tax Administration ([www.vero.fi](http://www.vero.fi)).

The business must enroll in the Register of Employers, if it has:

- 1) at least two permanent employees during the calendar year, or
- 2) at least six temporary employees at the same time.



If payment of salaries and wages is temporary, or these are paid to only one employee, the business does not need to enroll in the Register of Employers.

### Register of those subject to VAT

Businesses that are subject to VAT enroll in the Finnish Central Tax Administration's register via their declaration of foundation. At the same time, such businesses also state the date of commencement of their operations that are subject to VAT. It is possible to enroll in the VAT register even when the business is not liable to charge VAT based on the law, for example if sales for the accounting period are less than EUR 8,500. A business that is in the register may deduct the VAT included in the business's purchases from the VAT payable on sales.

A foreign business is subject to VAT in Finland if it has a fixed place of business in Finland. A foreign business is recorded in the register of businesses subject to VAT in the same way as Finnish businesses are. A foreign business may also apply to be subject to VAT in Finland. In some special situations, a foreign business is always liable to charge VAT.

If, in the opinion of the entrepreneur, the business is not subject to VAT, (s)he should mark a cross on the declaration of foundation against "Ei katso olevansa arvonlisäverovelvollinen" (I do not believe I am liable to charge VAT) and (s)he should explain the reasons for this.

# Bookkeeping and financial statements for the enterprise

According to the Finnish Accounting Act, all businesses have a legal obligation to keep accounts. It is worthwhile for entrepreneurs to outsource their bookkeeping, i.e. to pay for a service from a firm of accountants, so that they can concentrate on earning their income.

## Day-to-day bookkeeping

Day-to-day bookkeeping, which is dealt with during the accounting period, is based on corroborative documents. These include sales invoices, purchase invoices, payslips and bank statements. Entrepreneur professionals may use single-entry bookkeeping if they so wish. This is essentially the recording of just the business's income and expenditure. All other forms of enterprise must use double-entry bookkeeping. This means that every business transaction is recorded in two accounts, i.e. in a debit account and a credit account.

Nowadays, financial-management systems tend to take the form of computer systems, and paper is used less and less. Invoices can be sent and received electronically, and payments and statements are also delivered in electronic form.

## Accounting period

A business's accounting period is normally 12 months. The first accounting period may be longer than 12 months but can never exceed 18 months. Also, the first accounting period may be shorter than 12 months. Also, a business's accounting period does not have to be a calendar year (for example, 1 April – 31 March). However, the accounting period for an entrepreneur professional must always be a calendar year (1 January – 31 December), if the entrepreneur uses single-entry

**It is worthwhile for entrepreneurs to outsource their bookkeeping, i.e. to pay for a service from a firm of accountants, so that they can concentrate on earning their income.**

bookkeeping. Entrepreneur professionals generally operate small-scale businesses that are based on the entrepreneur's personal professional skills and that do not require large investments to set them up.

## Firms of accountants

It is always worth entrepreneurs using a firm of accountants or an accountant to deal with the bookkeeping, so that they can use their own time for earning income. Generally, firms of accountants are experts in statutory bookkeeping, VAT and business taxation. A firm of accountants may also, when necessary, take care of payroll computation and

payroll accounting. Expertise in cash-flow planning is also important for small businesses. In choosing a firm of accountants, it is worth paying attention to all of these matters. Further information is available from: [www.taloushallintoliitto.fi](http://www.taloushallintoliitto.fi) > Tilitoimiston asiakas (Customers of firms of accountants) > Ostajan opas (Buyer's guide).

## Financial statements

When the accounting period has ended, the financial statements and annual report are created. The financial statements for a small business comprise a profit and loss account, a balance sheet and the notes to the financial statements. All these documents should comply with the specific formal requirements of the Finnish Accounting Act, the Finnish Accounting Decree and Community Law. The board of a company or co-operative, the active partners of a partnership or a sole trader accept the financial statements and annual report with their signatures. If the business has an auditor, (s)he will check the bookkeeping and the governance of the company, and (s)he will write an auditor's report.

In a limited company, the shareholders ratify the financial statements and annual report in the general meeting or with

### Entrepreneur professional:

**1) if single-entry bookkeeping:**  
The accounting period must be a calendar year

**2) if double-entry bookkeeping:**  
The accounting period does not have to be a calendar year

### Entrepreneur trader:

**Double-entry bookkeeping must be used: the accounting period does not have to be a calendar year.**

**For example: the period starts at the beginning of March and finishes at the end of February.**

a written document. In a co-operative, the members ratify the financial statements and annual report in the general meeting or with a written document. In a partnership, a formal meeting is not required, as the financial statements are signed by the active partners. The same applies to sole traders.

#### Audits

The requirement to have a regular audit applies to general partnerships, limited partnerships, limited companies and co-operatives. Sole traders, i.e. firms and entrepreneur professionals do not need to appoint an auditor.

However, according to the Finnish Audit Act, an auditor does not need to be appointed in small businesses, if no more than one of the following has been fulfilled in the last accounting period and the period that immediately preceded it:

- 1) the total sum of the balance sheet exceeds EUR 100,000
- 2) net sales or the corresponding income figure exceeds EUR 200,000 or
- 3) on average, there are more than three employees.

Thus, an audit is mandatory in those companies and co-operatives where the limit(s) given above are exceeded. A provision concerning the use of an auditor can be included in the articles of association, regulations or memorandum of association for a new enterprise, even when the law does not require the use of an auditor. However, if you do not wish to appoint an auditor, there is no point in including provisions about the use of an auditor.

If an auditor is appointed by virtue of the law or voluntarily, an approved auditor must be appointed, i.e. a chartered



accountant (KHT or HTM) or a firm of chartered accountants (KHT or HTM). Further information is available from [www.tem.fi/tilintarkastus](http://www.tem.fi/tilintarkastus).



# Income taxation and VAT

The business pays income tax based on its taxable income. Income tax is paid in advance and, when necessary, in arrears and as supplementary payments. The form of the enterprises impacts on the taxation of income.

VAT is generally paid monthly on the basis of sales and purchases. The form of the enterprise is not relevant when considering VAT.

In the entrepreneur's income tax calculation, there may be both earned income and capital income.

Capital income means income from sales of assets, rental income or returns on capital. Such income includes, for example, interest income and rental income, capital gains and dividends received from public listed companies. Also, part of the business income of entrepreneur professionals and entrepreneur traders, the income share of partners in general partnerships and limited partnerships and the dividends issued by a normal limited company are regarded as capital income. It depends on the business's assets how big this proportion is. The tax on capital income is always 28 %.

Earned income includes, amongst other things, wages and salaries, pensions, benefits (for example benefits-in-kind, such as a company flat for employees) and other payments (such as unemployment benefit). Tax on earned income is progressive, i.e. the tax percentage rises as income rises. In other words, high earners are charged a higher percentage of tax than lower earners. The tax deducted from earned income comprises state tax, municipal tax and possibly church tax. The levels of municipal tax and church tax depend on the municipality and the parish. In addition, there are two further forms of

taxation. These are based on the individual's earned income according to the Self-Employed Persons' Pensions Act: there is a nursing charge of 1.19 % of earned income, and there is a daily allowance charge of 0.92 % of earned income. (figures for 2011)

## Taxation of income in different forms of enterprise

### Sole trader (firm)

The income earned from a sole trader's business is taxed as his/her own income. Part of the business's income is capital income, and part is earned income. The business's income is divided into earned income and capital income on the basis of the net assets of the business (net assets = assets of the business – liabilities of the business). Capital income is 20 % of net assets for the previous year, and the rest is earned income. Alternatively, the entrepreneur can decide that capital income will only be 10 % of net assets or that all of the business's income is earned income. In the year of foundation of the business, the capital-income share is calculated according to net assets on the last day of the first accounting period.

If spouses work in the business together, the business income is divided between them. The earned-income share of the business's income is divided between the spouses in proportion to their work contribution, and the capital-income share according to their share of net assets.

Tax on the capital-income share is calculated at the rate of 28 %. The earned-income share is added to other earned income of the entrepreneur, and the entrepreneur pays tax on the total earned income figure according to the progressive tax scale.

### General partnership and limited partnership

A general partnership and a limited partnership are not regarded as separate taxpayers for the taxation of income. They do submit their own tax return, according to which the taxable income of the partnership (the income on which tax must be paid) is calculated. This income is split amongst the partners, and the partners pay tax on this. However, the partners are not taxed on the personal drawings made by them or the share of profit belonging to them according to the accounts.

Part of each partner's income share is capital income and part is earned income. The earned income is divided into the earned income and capital income on the basis of the net assets of the business in the previous year and the asset share belonging to each partner.

Tax is charged at the rate of 28 % on capital income. The earned-income share is added to the partner's other earned income, and the partner pays tax on the total earned income figure according to the progressive tax scale.

A sleeping partner in a limited partnership generally receives interest from the partnership on the capital invested by him/her. This kind of income is capital income for the sleeping partner.

### Limited company

A limited company is regarded as an independent taxpayer. This means that the limited company's income is taxed as the company's own income, and the company's income does not affect the taxation of individual shareholders. At the moment, a limited company pays tax of 26 % on its income.



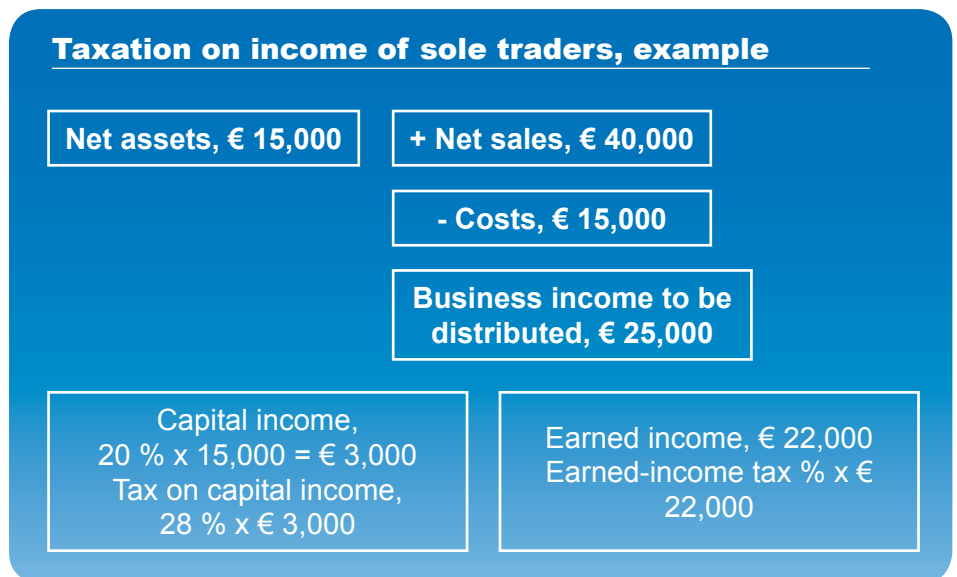
A limited company's shareholders can withdraw funds from the limited company either as a salary or as dividends. In addition, the company can issue a loan to shareholders, but the loan is regarded as capital income in the taxation of the shareholder, if it has not been paid back by the end of the year. Tax-free drawings are not possible in a limited company.

A company may distribute its profit as dividends to its shareholders. Taxation of dividends depends on how much in dividends a company distributes and what the mathematical value of its shares is. The mathematical value of its shares is calculated on the basis of the company's net assets. If a company distributes less than 9 % of the mathematical value of its shares as dividends, the dividend is deemed as totally tax-free income for a shareholder up to a value of EUR 90,000. For any element exceeding EUR 90,000, 70 % is regarded as taxable capital income and 30 % as non-taxable income. If the company distributes more than 9 % of the mathematical value of the shares as dividends, for the element exceeding 9 %, 70 % is regarded as taxable earned income and 30 % as non-taxable income.

### Register for collection of tax at source

An individual or enterprise that carries out business activities is entered in the tax-prepayment register of the Finnish Central Tax Administration. The individual or enterprise is admitted to the tax-prepayment register if the enterprise or the people managing the enterprise have not demonstrated negligence in taxation issues.

When an entrepreneur has been entered in the tax-prepayment register, his/her employer does not need to send the tax deducted from remuneration



paid. Inclusion in the tax-prepayment register also affects the household deduction granted to the entrepreneur's customers. The right to a household deduction is only given when the entrepreneur receiving remuneration for work has been entered in the tax-prepayment register. It is possible to check whether someone is listed in the tax-prepayment register using the free YTJ (Joint business information system) data service ([www.ytj.fi](http://www.ytj.fi)) or at an office of the Finnish Central Tax Administration.

Entrepreneurs included in the tax-prepayment register take care of their taxes themselves usually by paying their tax in advance on a monthly basis. Enrolment in the tax-prepayment register requires submission of a notification of foundation of the enterprise. This notification also includes an estimate of the business's net sales and taxable income for the first accounting period. The tax office determines the advance taxes payable by the enterprise on the basis of the enterprise's own estimate, and it sends the business an advance-tax bill and account-transfer forms for the advance taxes. If the final result differs from the estimate, the entrepreneur can apply for an amendment to

the advance tax or cancellation of the advance tax completely. If the result for the accounting period shows that too little tax has been prepaid, the tax can be made up by paying a supplementary advance-tax payment. Tax prepayments and advance-tax supplementary payments are taken into account in the final taxation for the accounting period.

The tax office can remove an enterprise from the tax-prepayment register if that business does not take proper care of its payment of taxes or it does not fulfil its accounting obligations or other obligations relating to taxation.

### Tax account

At the beginning of the year 2010, tax accounts were introduced. All taxes that entrepreneurs are responsible for paying at their own initiative (indirect taxes), except for capital-transfers tax, are declared using a **periodic tax return**. Taxes paid at one's own initiative include VAT, tax prepayments and employers' social security contributions, for instance.

A periodic tax return is submitted and indirect taxes are normally paid once a month. However, **small enterprises**

may opt for a less intense timetable for returns and payments, if they have always had a good record in submitting returns and paying taxes.

If the enterprise's net sales **do not exceed EUR 50,000** in a calendar year, VAT, tax prepayments, employer's social security contributions and tax withheld at source can be paid and returns submitted **in quarterly instalments**, i.e. once every three months.

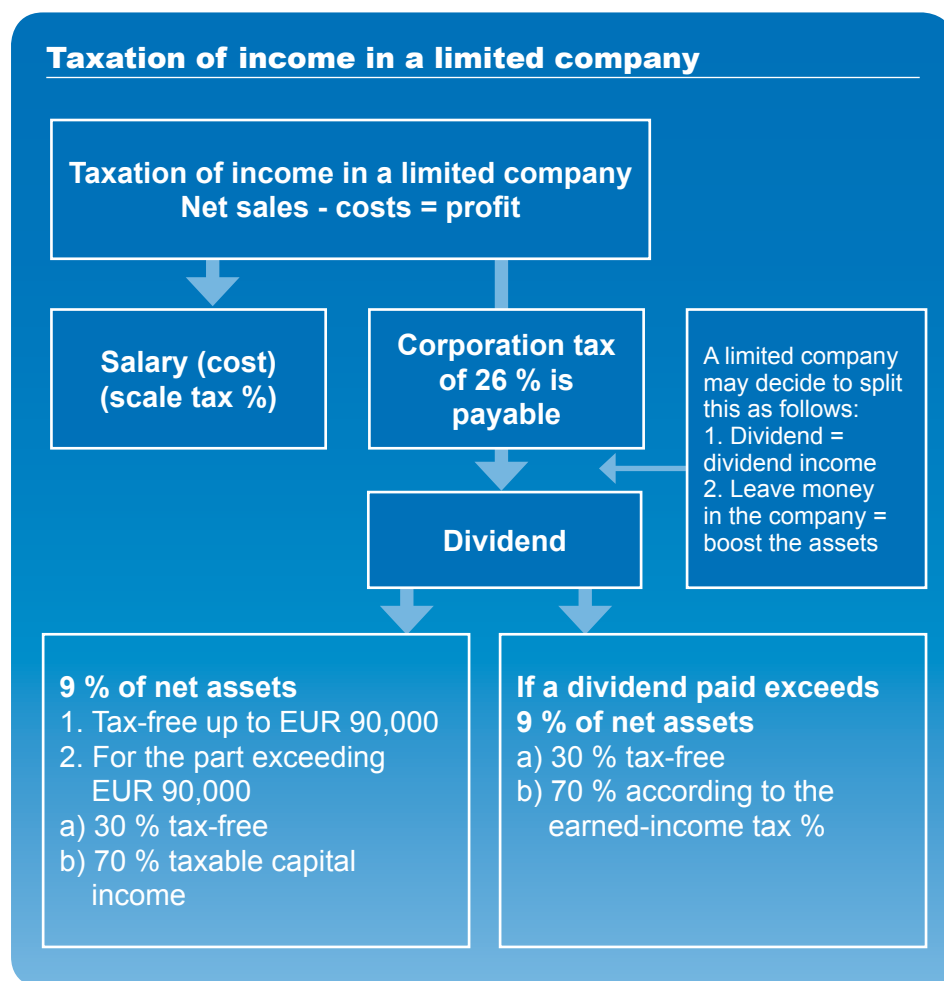
If net sales do not exceed **EUR 25,000**, VAT can be paid and returns submitted **every calendar year**, i.e. once a year. Primary producers and artists can pay VAT once a year regardless of their net sales. Additional information is available from: [www.vero.fi/verotiliohjeet](http://www.vero.fi/verotiliohjeet).

## VAT

VAT is a tax on consumption, which the seller adds to the sales price of goods or services. The intention is that the consumer ultimately pays the VAT. In transactions between entrepreneurs, the entrepreneur that buys the goods or services can deduct the VAT that the other entrepreneur has charged him/her. This can be done if the product is used in a business that pays VAT.

Those liable to VAT are all businesses that sell goods or services. The sale of services includes, for instance, catering, consulting and transport services.

For most goods and services, VAT is 23 % as from 1 July 2010. For food supplies and animal feed, VAT is charged at 13 %. The VAT on restaurant and catering services is also 13 % nowadays, but for the sale of alcoholic drinks and tobacco products it is 23 %. VAT on books, medicine, fitness services, showings of films, transport of passengers, accommodation services, cultural and entertainment events, and television licences is 9 %. For hairdressing



services and minor repair and alteration work too, the VAT rate has been reduced to 9 %, and this rate will continue to apply until the end of 2011. Minor repair services include repair services for bicycles, shoes and leather goods as well as clothes and bed linen. The entrepreneur pays the state any VAT that (s)he has collected from sales. Sales on goods and services are generally subject to VAT. Those lines of business that are not subject to VAT are specified separately in legislation. These include, for example, the sale of real estate and owner-occupied flats, healthcare and medical services, and social welfare services. If an enterprise only sells goods or services on which VAT is not charged, the enterprise is not liable for VAT.

If a business's net sales in an accounting period remain below EUR 8,500, it does not need to register itself as liable for VAT. It is worth the entrepreneur being realistic when (s)he estimates the level of the business's net sales. If the EUR 8,500 limit is exceeded, even though the entrepreneur has estimated that net sales would be lower, (s)he must pay VAT backdated from the start of the accounting period. In addition, delayed-payment fees will be charged. The entrepreneur can also apply to be subject to VAT even though net sales will remain below EUR 8,500 in the accounting period.

With VAT, lower-limit relief is available if the enterprise's net sales for an accounting period fall below EUR 22,500. When the enterprise's net sales for an

accounting period do not exceed EUR 8,500, the enterprise gets relief on the whole tax chargeable for the accounting period. If net sales exceed EUR 8,500 but fall below EUR 22,500, the relief is calculated as followss:

$$\text{Tax - } \frac{(\text{net sales} - 8,500) \times \text{tax}}{14,000}$$

For example: Net sales are EUR 19,000, and the VAT that should be paid is EUR 3,426. The relief is calculated as  $((19,000 - 8,500) \times 3,426) / 14,000 = \text{EUR } 2,569.50$ , and this is deducted from the tax. So, the relief is EUR 856.50.

If an entrepreneur who is liable to VAT buys goods or services from another who is liable to VAT and VAT is included in the price, (s)he may deduct this VAT from the tax that (s)he pays to the state. This can be done providing these goods or services are used in the business. In such cases, the entrepreneur must have a purchase invoice that shows that tax is included in the price.

There are separate regulations about VAT for imports, exports and other international business. In these cases, it is worth clarifying matters with your tax office or an accountant.

Further information about taxation is available from: [www.vero.fi](http://www.vero.fi)

Monthly	Including tax	Net of tax	VAT 23%
Sales	6,150	5,000	1,150
Purchases	1,845	1,500	345
VAT payable			<b>EUR 805</b>





# Insurance

It is important before establishing a business to carefully determine what kinds of insurance the business and the entrepreneur need. It is worth the entrepreneur, together with a representative from an insurance company, assessing the risks relating to the new business and how these can be reduced with the help of insurance.

The only mandatory form of insurance for an entrepreneur is personal pension insurance (as specified by the Self-Employed Persons' Pension Act), if the entrepreneur's work-related income exceeds EUR 6,896.69 in a year (2011 figure) and the business has operated for at least four months.

## **Optional insurance includes the following, among others** **The entrepreneur's voluntary accident insurance**

- this also covers leisure time
- this is a deductible cost for the business

## **Business-interruption insurance**

- the aim is to safeguard against a loss of income arising from interruptions to the business

## **Personal liability insurance**

- compensates, with certain conditions, losses caused to a third party as well as rectification of the loss and any legal expenses
- often a customer, for example in the construction and cleaning sectors, will require that the supplier has personal liability insurance.

## **Legal-expenses insurance**

- covers legal expenses that may arise from, for example
- supply agreements, sales contracts or piecework contracts
- disagreements on the validity of balances payable or receivable
- disputes on dismissal of staff or wages and salaries
- rental-agreement relationships

It is also good to insure property and business premises against theft, burglaries, fire and water damage. Ask for quotes from various insurance companies, thoroughly familiarise yourself with the terms of their policies and only then make a final decision on what insurance you will take.





# Entrepreneur's pension insurance - self employed persons' pensions act (YEL)

The only form of insurance that entrepreneurs must take is entrepreneurs' pension insurance (i.e. YEL insurance). This is available from pension insurance companies. On the basis of the Self-Employed Persons' Pensions Act, an old-age pension is paid to entrepreneurs, as well as sickness benefit from the Social Insurance Institution of Finland (Kela, [www.kela.fi](http://www.kela.fi)), and maternity, special maternity and paternity allowances and maternity benefit (based on the Sickness Insurance Act) or rehabilitation allowance. The size of the YEL payment is based on the **entrepreneur's work income**. The YEL work income must match that salary that should be paid to professional individuals for similar work. Also, the entrepreneur's unemployment-fund mem-

bership fee and any earnings-linked daily allowance are determined on the basis of YEL work income. YEL insurance also affects dependents' pension security, which is paid to relatives after the death of an entrepreneur. YEL insurance must be taken from a pension insurance company once four months have elapsed from commencement of the business's operations.

Just owning a business does not entitle you to a self-employed person's pension. Instead, the pension insurance requires that you actually work as an entrepreneur. Also, the status of ownership and the different forms of enterprise impact on whether the entrepreneur must take YEL insurance or employees' pension insurance.

- 18-67 year olds falling within the scope of YEL insurance who work as entrepreneurs in Finland
- Operations last at least four successive months
- The estimated income from work is at least EUR 6,896.69 a year (2011 figure)
- The payment is 21.6 % of work income, and 22.9 % for those who are over 53 years of age
- The new entrepreneur gets a 25 % discount on payments for the first 48 months
- This is paid 1-2, 6 or 12 times a year.

## YEL Entrepreneur's pension insurance

**Sole trader /  
firm  
(Tmi)**

**General  
partnership**

Active partner

**Limited  
partnership  
(Ky)**

Sleeping partner

Working in a managerial position, owns more than 30 % of the shares or number of votes alone or more than 50 % with his/her family

**Limited company  
(Oy)**

Working in a managerial position and owns 30 % or less of the shares alone or owns 50 % or less together with his/her

## TYEL Employee's pension insurance

# Entrepreneur's unemployment benefit

The entrepreneur may voluntarily become a member of the entrepreneurs' unemployment fund, if (s)he would like earnings-linked unemployment benefit. In such cases, it is possible for the entrepreneur to apply for an earnings-linked daily allowance, if the business's operations end and (s)he remains unemployed. The entrepreneur may become a member of the entrepreneurs' unemployment fund, if (s)he has at least EUR 8,520 in work income a year (2011 figure). However, the insurance level of the entrepreneurs' fund can not be higher than the YEL work income.

If the entrepreneur is a member of the employees' fund, it is worth joining the entrepreneurs' unemployment fund as soon as (s)he starts the enterprise's operations. It is possible to apply for a daily allowance from the entrepreneurs'

unemployment fund if the individual has operated as an entrepreneur for 18 months during the last four years and (s)he has been a paying member of the unemployment fund at the same time. If the entrepreneur transfers from an employees' fund to an entrepreneurs' unemployment fund, (s)he can get a daily allowance after 12 months as an entrepreneur.

The business operations are regarded as ended, when the enterprise is declared bankrupt or is sold. The entrepreneur also has the right to a daily allowance if the business's operations have been demonstrably suspended for at least successive four months. The enterprise is regarded as closed when the entrepreneur has terminated his/her pension insurance, submitted notice of termination to the Finnish Cen-

tral Tax Administration and the Finnish Trade Register, vacated his/her business premises and sold his/her business assets or submitted details of its value to the unemployment fund.

A decision on whether the entrepreneur is regarded as unemployed or the business as suspended is always made by the Employment and Economic Development Office for the entrepreneur's home municipality, where an entrepreneur who remains unemployed must register as an unemployed job seeker.

Further information on unemployment benefit is available from:

[www.mol.fi](http://www.mol.fi)

[www.ayt.fi](http://www.ayt.fi)

[www.syt.fi](http://www.syt.fi)



# Employment of employees

When a business starts to pay wages and salaries on a regular basis, it must enrol with the Finnish Central Tax Administration's Register of Employers using the declaration of foundation form or the notification of change form, if the enterprise already has a business ID. When the business has been listed in the register, the tax office sends the business tax-account guidelines for the payment of tax deducted at source and social-security contributions and the submission of returns for these.

An employer that employs staff permanently (as a contractual employer) organises pension security for its employees with a separate insurance policy. Pension insurance must be paid during the month following the payment of salaries and wages. The enterprise is regarded as a temporary employer if it pays salaries and wages of less than EUR 7,518 (2011 figure) during a six-month period and the enterprise does not have a permanent employee. A temporary employer does not need to arrange a separate insurance agreement. In such cases, (s)he pays insurance premiums by the 20th day of the month following payment of salaries and wages to that pensions insurance company that (s)he has selected. Also, a casual employer pays the tax withheld at source from its employees and the social security contributions at its own initiative to the Finnish Central Tax Administration via a tax-account process.

A more flexible way for a business to operate than employing its own staff is to pay for the necessary resources from another business (a recruitment agency). The agency pays the employee's salary and looks after all its other duties as an employer, but it is the responsibility of the recruiter to supervise and guide the employee. The recruitment agency must comply with the collective labour agreement binding the recruiter to its temporary employees. The

recruiter also monitors the work done by the employee.

## Indirect staff costs (in 2011)

- For salaried employees, employees' pension insurance (as specified by the Finnish Employees' Pensions Act) must be taken, if a salary of EUR 52.49 a month or more is paid to them. The pension contribution paid to the pension insurance company is 22.5 % of the employee's salary. For temporary employers, the pension contribution is 23.0 % of the salary. The employee's share of the pension contribution that the employer withholds from the salary paid is 4.7 % for employees under 53 years of age and 6.0 % for employees of 53 or older.
- The social security contribution is 2.12 % of the salary.
- The unemployment insurance contribution is 0.80 % of the salary when the employer pays no more than EUR 1,879,500 in wages and salaries in a year. The insurance contribution is 3.20 % of that part of wages and salaries that exceeds this. The employee's unemployment-insurance contribution is 0.60 %.
- The accident insurance premium is 0.3–8.0 % of the salary depending on the line of business, and the average figure is 1 %.

- The group life assurance premium is on average 0.071 % of the salary.

It is worth arranging for a firm of accountants to take care of payroll computation and submission of employer returns.

If the periodic tax return is submitted on paper, the return must arrive at the Finnish Central Tax Administration by the 7th day of the month. A business that is liable to VAT and works on a calendar-year basis must submit a periodic tax return and must pay the tax no later than the 28th day of February following the calendar year in question.

## Further details on recruitment of employees are available from:

Entrepreneurs in Finland  
([www.yrittajat.fi](http://www.yrittajat.fi))

[www.tyosuojelu.fi](http://www.tyosuojelu.fi)

Employment and Economic Development Offices, [www.mol.fi](http://www.mol.fi) > Työsuhteasiat (Employment matters)

Employer unions  
([www.ek.fi](http://www.ek.fi), [www.yrittajat.fi](http://www.yrittajat.fi))

Insurance companies  
([www.tyoelake.fi](http://www.tyoelake.fi))

## Entrepreneur's key dates

**12th day**  
Finnish Central Tax Administration  
- pay VAT, tax deducted at source and social security contributions and submit returns for these

**20th day**  
Insurance company  
- pay TyEL and YEL contributions (employees' and self-employed pension contributions) and other insurance premiums

**23rd day**  
Finnish Central Tax Administration  
- pay the business's tax prepayments



# Business culture in Finland

To succeed in business it is important to know Finnish business culture, attitudes and customs. Then it is possible to serve customers better and also understand what your customers expect.

The Finns like to use their time effectively. They happily plan timetables and stick to the times agreed. In written Finnish, the 24-hour clock is used. It is still good to check agreed meeting times by e-mail for instance.

The working day generally starts in the morning around 8 a.m. and ends in the afternoon around 4 p.m.. Lunchtime is around 11 a.m. – 1 p.m..

All people are valued as equal regardless of age, gender, profession and religion. Women are equally involved both

in corporate life and as public servants. Addressing people using the familiar form of “you” in Finnish is very common. It is good to remember to be polite when talking to people in meetings, phone conversations and e-mails.

It is good to thoroughly prepare yourself for meetings and to arrive on time. On arriving at a meeting, a firm handshake while looking at your colleague’s eyes creates a trustworthy first impression. Finns drink a lot of coffee, and it is also often provided in business meetings. At the end of a meeting, people shake hands.

In Finland, businesses encounter little bureaucracy. Decisions are made quickly, and businesses act efficiently after careful planning and preparation.

**The Finns like to use their time effectively. They happily plan timetables and stick to the times agreed.**

Finland is among the world’s least corrupt countries, so gifts, of either goods or money, must never be offered to officials or business partners. However, a small reminder of a good acquaintance is allowed, such as giving a card or a small gift of minor value, for example at Christmas.





# Environmental responsibility of the business

When you decide on the line of business for your enterprise and you begin operations, it is good to take account of environmental matters. All operations have an impact on the environment, but by complying with legislation, regulations and guidelines, you minimise the harm caused to the environment. In addition, monitoring of electricity consumption, for example, and sorting of waste also save business costs.

Environmentally responsible operations are also a marketing tool and a competitive factor for small businesses. Nowadays, consumers are very informed, and they respect enterprises that take account of environmental matters in their operations. Everyday purchasing decisions may be made in accordance with these values.

## Take care of the environment

### 1) Establish what environmental legislation there is concerning your business.

As an EU country, Finland has a lot of environmental legislation and regulations that concern businesses and various industries. For example, does it impact on your business's operations that a manufacturer and importer of products is responsible for organising and paying for the waste disposal of products when products are taken out of use? Further information is available from the environmental authority for your own municipality and from [www.ymparisto.fi](http://www.ymparisto.fi) > Yritykset ja yhteisöt (Businesses and organisations) and [www.yrityssuomi.fi/ymparisto](http://www.yrityssuomi.fi/ymparisto).

### 2) Identify harmful environmental impacts. Establish how they can be reduced.

A business does not necessarily have to make large investments. Instead, it



can just implement changes to existing practices to create the desired impact. For example, electrical appliances consume a lot of energy while on standby: a computer's electricity consumption may reduce by as much as 60 % when energy-saving measures are introduced (source: Motiva). Monitor energy consumption in your business systematically, so that you notice any areas of unnecessary consumption.

### 3) Familiarise yourself with waste-disposal regulations in your business's area.

The sorting and reduction of waste generated by business operations is really important. Waste that has been well sorted and delivered to the waste collection point can be used again. Generally speaking, the same sorting regulations apply to businesses operating in a residential building as they do to residents. If a business operates in its own business premises or property, it will create an independent waste-disposal agreement.

The best solution for the environment is the reduction of waste; mixed waste that has not been sorted is money that is pointlessly carried to a waste tip.

More guidance on recycling is available from: [www.kierratys.info](http://www.kierratys.info).

### 4) Respect the environment if you use dangerous materials.

Chemicals and other dangerous materials must be used and stored in accordance with regulations. Hazardous waste must always be delivered to a separate collection point ([www.ongelmajate.fi](http://www.ongelmajate.fi)). Additional information about chemicals is available from: [www.tukes.fi](http://www.tukes.fi).

### 5) Think about the environment when you make purchases.

Use eco-label products that have been produced nearby, and try to use Fairtrade or organic products. Buy products that are in economy-size packs or that are recycled. You can also buy green (environmentally friendly) electricity. New fridges, freezers and dishwashers are more energy efficient than old ones. Savings can also arise by using less electricity, water or even detergent. Familiarise yourself with the eco-friendly labels such as the Swan mark, the Flower mark, the Energy mark, as well as "Luomu" (Organic), the EU organic mark, Demeter, Norppaenergia and the "Reilun kauppa" (Fairtrade) marks.

# Checklist for the new entrepreneur

## Your personal qualities and professional skills

Do you have sufficient professional skills and expert knowledge to operate as an entrepreneur? Are you persistent and can you cope with stress? How does your family feel towards starting up a new business?

## Business idea

Plan your business idea precisely and get help from experts. Also establish whether you need a special licence to start up a business in the field intended, i.e. whether such operations would be subject to licence.

## Business plan

Adapt your business idea into a written business plan. You will need this when you are arranging finance for your business, such as bank loans, and when you applying for business start-up funds or other public support.

## Sales and Marketing

Is the market big enough for your products and where is it? What is the competitive environment in the industry, and who are your competitors? Will your business idea bring something new and unique, something that will help you to defeat the competitors? What are the best ways to reach your potential customers?

## Funding

How much money do you need to start up the business? There are many alternatives for arranging funding, such as banks, the special finance company Finnvera and external investors. Remember that external investors must be certain of the viability of your business idea before they will finance its operations. Discuss the options with experts.

**Adapt your business idea into a written business plan. You will need this when you are arranging finance for your business, such as bank loans, and applying for business start-up funds or other public support.**

## Profitability

How much invoiced sales will there be in a certain period, and is it possible for you to achieve sufficient sales volume? What is the sales margin for your products? Who are your customers and how many are there? Determine your break-even point where your income and your costs are equal.

## The right form of enterprise

There is always risk attached to starting a new business. Are you prepared to expose your personal assets to this risk? Is the intention to expand the business's operations? Will there be other associates in the enterprise, and what are your relationships with each other? Establish what your responsibilities and liabilities are in the various forms of enterprise. Taxation is just one and often the least relevant factor affecting the choice of form of enterprise.

## Accounting

All businesses are legally obliged to keep accounting records. The law lays down requirements for bookkeeping in a business, and taking care of this requires expert knowledge. Accounting

firms charge you for their services, but then you will have more time to concentrate on the essential things, i.e. running your business.

## Binding agreements

What agreements are needed, and which of these are essential? Before you sign an agreement, establish precisely what you are committing yourself to and what will ensue from it. Always prepare a written contract on matters that concern your business!

## Insurance and assessing risks

What risks are there in your business? What forms of insurance are on offer? Do your customers require some kind of insurance in the business? In addition to statutory insurance, it is worth you establishing the risks in your own line of business and considering carefully what voluntary forms of insurance your business and you yourself need. For example, personal accident insurance is not statutory, i.e. mandatory, for the entrepreneur, but it is definitely recommended. Examine the options and ask the different insurance companies for quotes.

## Entrepreneur's support network

It is not good for the entrepreneur to be alone. Do you have entrepreneurs in your circle of friends who are familiar with the problems associated with running a business? Do you know any experts in this line of business? Are there any entrepreneur associations or organisations in this field? ([www.yrittajat.fi](http://www.yrittajat.fi))

# 10 Steps to success

10) Look after your own well-being. As an entrepreneur, you can arrange occupational healthcare for yourself. The Social Insurance Institution of Finland (Kela) will reimburse the entrepreneur for any necessary and reasonable costs arising from occupational healthcare.

9) Continually develop your business operations. Eliminate products that it is not worth selling. Try to reduce your costs and increase your visibility.

8) Pay special attention to your best customers.

7) Pay attention to your commitments as prescribed by the law. Pay taxes and official payments by the due date, and submit returns to authorities on time.

6) Always do your work as agreed with the customer, or do it even better.

5) Marketing alone is not enough: you must also know how to sell your products. Take the initiative and try to address your customers' changing needs.

4) A good reputation is important for the business. Pay attention to its image.

3) The business can only work when supported by products for which there is a big enough market.

2) You must study entrepreneurship. The Employment and Economic Development Offices (TE offices) and the Centres for Economic Development, Transport and the Environment (ELY centres), for example, organise courses for entrepreneurs. Also you can get help from business advisory experts.

1) You must be familiar with the line of business in which you intend to establish an enterprise. Remember to keep abreast of changes happening in your industry.

# Business dictionary

**SUBCONTRACTING** is work procured from an independent manufacturer or supplier outside the business.

**PROFESSIONAL** This is an entrepreneur who operates in his/her profession without a fixed workplace and without external manpower. The biggest difference from a trader is the right to use single-entry bookkeeping. Examples of people who might operate as a professional are a masseur/masseuse, a seamstress or a carpenter (NB: See definition of trader).

**GAINFUL EMPLOYMENT** Work via which financial income or income with a monetary value is sought.

**PROPERTY GIVEN AS A CAPITAL CONTRIBUTION** means assets put into a business as a non-monetary investment. Property given as a capital contribution may only be assets that have a financial value to the enterprise. A commitment to perform work for the enterprise can not be regarded as property given as a capital contribution. The subscription price of shares can be paid as property given as a capital contribution when a limited company is established. Valuable work tools and a car to be used in the business, for example, can also be property given as a capital contribution.

**VALUE ADDED TAX (VAT)** is a tax on consumption which the consumer pays to a business as part of the price for a product or service. The VAT is paid by the business to the Finnish Central Tax Administration. The entrepreneur adds the VAT to the sales price of the product or service. The general rate of tax (tax percentage) is 23 % in Finland (as from 1 July 2010). Businesses can deduct the VAT on products or services bought by them in their own accounting. Only businesses listed in the register of those liable to VAT can make the deduction mentioned above.

**BUSINESS ANGEL** This is an individual who invests his/her own money in growth enterprises. A business angel may, in addition to making capital investments, act, for instance, as a member of the board of directors or as a business mentor or help in finding contacts and creating collaborative relationships.

**GROSS PRICE** The total price without any discounts and including tax.

**BUDGET** This is an operational plan that the business aims to fulfil during the period in question. In this, the profit and cost targets are presented numerically, in euros, for instance.

**BUSINESS-TO-BUSINESS** means between businesses. For example, a marketing campaign may be just directed at businesses, i.e. business-to-business.

**DEBIT** In bookkeeping, transactions are recorded in different accounts. Charges are shown on the left (debit) and income on the right (credit).

**PRODUCT LIFE-CYCLE** A business's products have a life cycle which begins with development work and ends when sales of the product fall and keeping it as part of the range of products becomes unprofitable.

**ENTREPRENEURS** are divided into professionals and traders.

**BUSINESS ACTIVITY** This is a way that someone earns money to live off. Businesses include, for example, transport, hotel and bookkeeping services and catering activities.

**PREPAYMENT OF TAX** can happen when tax is withheld from an employee in accordance with the personal withholding rate shown on the tax card, or it may be an advance payment made on receipt of an advance-tax bill.

**TAX DEDUCTED AT SOURCE** is a deduction of tax made from a salary or work remuneration.

**DUE DATE** is, for example, the last date of payment on an invoice.

**EEA AREA** This includes Iceland, Liechtenstein and Norway, plus the member states of the European Union. EEA means European Economic Area.

**EUROPEAN UNION MEMBER STATES** (in 2011): The Netherlands, Belgium, Bulgaria, Spain, Ireland, Great Britain (the United Kingdom of Great Britain and Northern Ireland, and Gibraltar), Italy, Austria, Greece, Cyprus, Latvia, Lithuania, Luxembourg, Malta, Portugal, Poland, France, Romania, Sweden, Germany, Slovakia, Slovenia, Finland, Denmark, the Czech Republic, Hungary and Estonia.

**BENEFIT** This is generally money to which an individual has a right on the basis of legislation, for example. Benefits include pension benefits, amongst other things.

**PRICE** Compensation payable in money for goods themselves, for use of them or for a service.



**GOODS** Bread, milk and other products that are used directly are consumer non-durables. Consumer durables include, for example, washing machines and televisions whose operating life is long. With the help of capital goods, these consumer goods are produced, or new capital goods. Capital goods include, for example, raw materials, machines and fuel.

**INCORPOREAL RIGHTS** protect immaterial rights, such as technology, design, trademarks and other characteristics. An incorporeal right is an exclusive right, i.e. only the holder of the right or someone licensed by him/her may use, for instance, a patented invention or a utility model in commercial operations. Incorporeal rights can be generally divided into copyrights (written or artistic works) and industrial property rights (for example, patent rights, utility models, design rights, trademarks and rights to use a business name). **INNOVATIVE** means new, novel or fresh.

**INVESTMENT** Long-term expenditure that is expected to generate income over a period of more than one accounting period. An intangible investment may be in training, research or environmental protection. Tangible investments may be in machines and equipment, for example.

**PUBLIC SECTOR** Municipal and state bodies that are responsible for tasks relating to management of the country as well as teaching, national defence and healthcare, amongst other things.

**RETAILER** This is an importer of goods or a business that handles retail sales of products of industrial enterprises.

**DOUBLE-ENTRY BOOKKEEPING** See Bookkeeping.

**PROFITABILITY** A business's operations are profitable when the difference between the business's income and expenditure is positive, i.e. money is left for the business (profit).

**CAPACITY** means ability to perform or produce. For example, how many goods a business is able to produce in a certain time period.

**CASH-FLOW** is money that comes into the enterprise's funds from products or services sold and also money that flows out.

**BALANCE** This refers to the financial resources available in an account. Sales margin refers to the difference between sales revenue and direct variable product costs.

**FIXED COSTS** are the costs of a business that are not dependent on the level of production over a short time period and instead remain constant. Typically, fixed costs include, amongst other things, rental of premises, wages and salaries, bookkeeping and costs arising from the use of machines.

**COMPETITION** In its marketing, a business can use various means by which it differentiates itself from other similar enterprises. These may be, for instance, location, products, quality, price and availability. The opposite of competition is a monopoly where only one enterprise engages in a specific activity and thus it is able to set prices for its products at the level it wishes because there is no competition. Economic competition is regulated by competition legislation. See also Direct and indirect competition.

## **BOOKKEEPING**

**- DOUBLE-ENTRY BOOKKEEPING** means that every business transaction is recorded in two accounts, i.e. a debit (charges) and a credit account (income). The account entries in double-entry bookkeeping explain on one hand the reason for the movement of money and on the other hand the account that is being used. The financial statements are prepared on the basis of double-entry bookkeeping, using invoice dates and the date of receipt of services (the accruals basis). The financial statements comprise the profit and loss account for the financial period and the balance sheet, along with notes to the accounts and an analysis of the balance sheet. All forms of enterprise other than entrepreneur professionals must use double-entry bookkeeping.

**- SINGLE-ENTRY BOOKKEEPING** In single-entry bookkeeping, expenditure, income, interest, taxes and personal use of goods and services are recorded on the basis of movement of cash (the cash-payment basis). This describes the business's income and expenditure. In single-entry bookkeeping, the financial statements include a profit and loss account, but a proper balance sheet is not required. An entrepreneur professional may use single-entry bookkeeping if (s)he wishes.

**BANKRUPTCY** is where the business's operations end and all distrainable assets are converted into cash to pay debts that have arisen from the business's operations. Bankruptcy proceedings may be initiated by the debtor itself or the creditor.

**INTEREST** is income, presented as a percentage, that is charged for use of money given as a loan. As a borrower

and payer, it is worth choosing as low an interest rate as possible, while as a depositor, it is worth searching for as high an income as possible for your money. A fixed interest rate stays the same for the whole loan period, but a variable interest rate is linked to the reference rate of interest so that it is reviewed at specific time intervals. The reference rate of interest may be, for example, the Euribor rate. Euribor is a reference rate of interest that is published daily and that the banks use when they offer unsecured loans to other banks on the euro money market. In practice, Euribor is the interest rate used when a bank receives loans from other banks, and the bank then lends these funds to others using an interest rate that is higher than Euribor (Euribor + margin).

**CREDIT** In bookkeeping, financial transactions are entered in accounts for whose right side the term “credit” is used and for whose left side “debit” is used.

**BREAK-EVEN POINT** means the theoretical level of net sales where the business has a zero result, i.e. it makes no profit and no loss.

**COST** An expense or part of an expense allocated to a certain accounting period.

**WORKING CAPITAL** Business operations require working capital. This is needed to pay fixed costs, such as leases and wages & salaries.

**THE FORCE OF LAW** means that some decision – a verdict of a court or some other resolution of an authority – will become final and normally it is not possible to appeal against this.

**STATUTORY** There is legislation that relates to specific matters and explains how you should act. For example, there are forms of voluntary insurance where the individual can decide for him/herself whether he/she takes out a policy, but statutory insurance is compulsory for everyone.

**LEASING FINANCE** refers to long-term rental of fixed assets, i.e. a machine or appliance that is acquired is not transferred into the user’s assets. Instead the user pays for its use, and then it is returned to its owner. With leasing finance, you are able to use a machine or appliance without committing a lot of money to it at the time of acquisition, i.e. it is cheaper than buying it.

**BUSINESS IDEA** A business’s operations are based on a business idea, which is a description of the benefit of a prod-

uct or service, its marketing and the line of business, along with how the idea will be commercialised.

**LOGO** This is the registered or established symbol for a business, via which customers distinguish the enterprise from its competitors.

**BUSINESS OPERATING MODEL** This shows what happens in a business, so that a product or service can be delivered. It is a description of the different functions in the business and how they interact.

**BUSINESS PLAN** This is a written plan of the implementation of the business idea in practice. It includes an assessment of the factors affecting profitability as well as estimates of sales, investment requirements and sources of finance.

**NET SALES** is the amount of money (net of VAT) that the business will earn from its operations, such as the sales of goods and services during a given time period, for instance, in one month or one year. Net sales is expressed without any deduction for the variable or fixed costs caused by sales.

**NET OPERATING PROFIT** is an item on the profit and loss account that is calculated by deducting variable costs, fixed costs and depreciation and write-downs from net sales. Net operating profit is the profit on the business’s operations before distribution of profits.

**LIQUIDITY** means the ability of the business to meet payments when they become due.

**TRADER** This is an entrepreneur who has a fixed workplace or who employs other staff. A trader must use double-entry bookkeeping (NB: compare with an entrepreneur professional).

**TERMS OF PAYMENT** establish in an agreement when and how the sales price is paid to the vendor.

**VARIABLE COSTS** are material and outsourcing-service costs that vary according to the volume of the product or service being sold. This means that amount of money that is needed when, for example, raw materials are bought for the product to be sold.

**TERMS OF SALE** These concern the details to be arranged for a deal, such as price, quality and time of delivery.

**SALES MARGIN** Sales margin is that quantity of money that the vendor has left when the direct (variable) costs relating to creating the product or service have been deducted from the price paid by the customer. The sales margin does not take account of the fixed costs of the business. The lower the sales margin percentage, the higher the net sales required by the enterprise, so that operations are profitable.

**NET PRICE** The price of the product, from which all discounts have been deducted, or from which no further deductions are intended.

**NET PROFIT** shows the operating profit for the business after taxes. The net profit is obtained by deducting variable costs, fixed costs and taxes from the business's net sales. The result may be a profit or loss.

**SHARE** This is a part of a limited company's share capital. The shareholders own a certain number of shares, i.e. a part of the business. They have voting rights in the company according to their ownership, and they can receive a dividend consistent with their shareholding, i.e. compensation for the capital invested by them in the company. The articles of association of a limited company may specify what the voting rights of the shares are or the right to a dividend.

**INDIRECT PERSONNEL COSTS** are statutory payments that a business must make to the Finnish Central Tax Administration and to an insurance company in addition to the gross salaries payable to employees. Indirect personnel costs include social security, employee pension insurance, personal accident insurance, unemployment insurance and group life assurance contributions.

**FAMILY BUSINESS** This is that type of business where mainly family members or close relatives work in the business either as shareholders, active partners or as individuals assisting the entrepreneur.

**SME** means small- or medium-sized enterprises.

**DEPRECIATION AND WRITE-DOWNS** The cost of acquisition of fixed assets subject to wear and tear, such as machines and appliances, is reduced in the accounts with depreciation and write-downs over that period during which the assets give rise to an economic benefit (operating life of the asset).

**CUT-RATE PRICE** means an unreasonably low price level compared to production costs and current market prices.

**GRAPEVINE** is a term for unofficial information that people pass on to each other. The grapevine may be, for example, chitchat in the workplace or writing in an internet discussion forum. Information that travels from mouth to mouth is not always true, and sometimes some people may spread this kind of information on purpose.

**DAILY CONSUMER GOODS** are consumer goods used on a daily basis, such as all food products, soap and toilet paper.

**CAPITAL** Money or assets (property given as a capital contribution) that the entrepreneur him/herself or another investor transfers to a business. Capital can be divided into shareholders' equity and liabilities. In addition to equity that has been invested in the business, shareholders' equity comprises capital that has accumulated from operational income. Liabilities comprise capital which an external party has invested in the business and which must be paid back.

**FINANCE** Starting up a new business always requires money. Finance may include the entrepreneur's own money, operational income, loans or state subsidies.

**REFERENCE** This gives details of the results of one's previous work and of former or current customers as evidence of one's competency.

**BALANCE** This is the difference between the sums of the debit entries and the credit entries in the bookkeeping for a business. The balance indicates the amount receivable or payable.

**STREAMLINING** means reorganisation of an enterprise. When a business is streamlined, costs are cut back, for example, by reducing the labour force and trying to increase earnings and improving the flow of capital. Corporate restructuring is a measure sanctioned by a court, via which the operations of a legal person that is overburdened with debts are reorganised. Reorganisation proceedings may concern a sole trader, a general partnership, a limited partnership, a limited company or a co-operative.

**SEGMENT** This is a part of a specific entity. For example, customers can be grouped into different segments according to age, education and income level. Using segments, services or products and the marketing of these can be focused on a specific customer group, and thus a competitive advantage can be gained.

**COMMITMENT** This is a binding promise. It means that the person must do what (s)he has committed to do or what (s) he promised to do.

**START-UP MONEY** is discretionary support for new full-time entrepreneurs. The support can be applied for in Employment and Economic Development Offices. The application must be made before commencement of the new business's operations.

**PUBLIC RELATIONS** A continuous activity via which an enterprise tries to gain the understanding and support of important groups, such as collaborative partners and customers. This is abbreviated as PR.

**DIRECT AND INDIRECT COMPETITION** Direct competition means that another business competes openly with your business and offers the same products and services. Indirect competition means that another business offers different products and services from your business, but they can fulfil the same needs. For example, a pizzeria will compete indirectly with a fast-food outlet selling hamburgers but directly with another pizzeria.

**GUARANTEE** This means that another person (the guarantor) promises to pay a person's debts to the creditor, if the debtor is not able to pay his/her debts. The guarantee may be, for example, a personal guarantee, a joint guarantee, a blanket guarantee or a conditional guarantee.

**GUARANTEE/WARRANTY** In a commercial transaction, the vendor is liable for faults and deficiencies that become apparent in a product. Generally, the vendor gives the customer a new product in place of the faulty one or it returns to the customer the amount paid for the product. The guarantee/warranty period specifies how long the vendor is liable for the product.

**OFFER** This is a binding proposal made to another party (vendor or purchaser) to work out an agreement or deal, with the proposal containing the terms of the deal (such as price and time of delivery).

**BALANCE SHEET** This is a statement of account forming part the financial statements of a business. It shows the assets and debts of the business at a certain point in time. In the balance sheet, the assets owned by the business are listed under the Assets heading (debit) while the shareholders' equity and the business's debts are listed under the Liabilities heading (credit).

**FINANCIAL PERIOD** This is an accounting period (usually 12 months) for which the business's result (profit or loss) is determined. In some (exceptional) circumstances, the business's financial period may be shorter or longer than 12 months (but no more than 18 months), when operations are commenced or terminated or the date of the financial statements is changed (Finnish Accounting Act).

**FINANCIAL STATEMENTS** These are statements of account that are prepared for the financial period. They show the financial result for the business and its financial position at the end of the accounting period. They are usually produced once a year. The financial statements are checked by an auditor, if the business is obliged by law to have its accounts audited or if the business chooses voluntarily to have an audit.

**LINE OF BUSINESS** This indicates what kind of business operations an enterprise engages in, for example, catering activities or retailing of textiles.

**MISSION STATEMENT** This is a description of the aim of the business's operations, i.e. why the enterprise exists. The business idea is an operational plan that explains how the mission statement will be implemented in practice.

**MANAGING DIRECTOR or CHIEF EXECUTIVE OFFICER (CEO)** This person manages the day-to-day administration of an enterprise in accordance with the directions and regulations given by the board of directors. (S)he is responsible for ensuring that the accounting is in accordance with legislation and that the financial management is organised in a reliable way. The managing director or CEO must provide the board and its members with the information that is necessary for them to take care of their duties on the board.

**CUSTOMS CLEARANCE** When goods are imported or exported, tax-related and administrative procedures are associated with this. Customs clearance is taken care of by the customs authority ([www.tulli.fi/en](http://www.tulli.fi/en) > Businesses). For customs clearance, a declaration form is completed, where the authority is provided with information about the goods, such as their value and quantity.

**NET CASH FLOW FROM OPERATIONS** This refers to the difference between income receivable from day-to-day business activities and expenditure.

**PROFIT AND LOSS ACCOUNT** This is part of a business's financial statements. The other elements are the balance



sheet, the annual report and the notes to the financial statements. The profit and loss account presents the income earned in the financial period, and the costs relating to the financial period, in the form of a subtraction calculation. The profit and loss account shows the result for the financial period specified (profit or loss).

**EMPLOYEES' PENSION INSURANCE** is obtained from pension insurance companies. The entrepreneur must take out such a policy when an employee's wages and salaries exceed EUR 52.49 a month (2011 figure).

**UNEMPLOYMENT BENEFIT** Unemployed jobseekers can be paid unemployment assistance, a basic daily allowance or an unemployment-fund earnings-linked daily allowance by the Social Insurance Institution of Finland (Kela).

**UNEMPLOYMENT FUND** This pays its unemployed members an earnings-linked daily allowance. It means that the size of the daily allowance depends on the previous salary earned. Joining an unemployment fund is voluntary. In Finland, there are separate unemployment funds for employees and entrepreneurs.

**DEGREE OF SOLVENCY** The more equity an enterprise has in relation to loan debt, the more solvent the enterprise is.

**SECURITY** By obtaining a security, a lender tries to ensure that it will receive a balance owed to it. An example is a two- or three-month security deposit paid on a lease of premises. Securities can be divided into real securities and personal guarantees. A real security relates to an object-specific liability for debts. A specific asset is assigned to cover the debt. A personal guarantee means that a specific person becomes liable for the debt of another.

**PROMISSORY NOTE** A document issued for a loan that shows the parties involved, the amount lent, the payment schedule and the interest payable on the loan.

**E-COMMERCE** is commerce conducted via internet.

**NETWORKING** A network refers to collaborative partners who bring added value to an enterprise. You can also collaborate with competitors, for example in advertising, by creating a joint newspaper advert.

**PENALTY INTEREST ON LATE PAYMENTS** The interest payable after the invoice payment date, i.e. the due date. This is an additional charge that is levied if the initial sum

has not been paid on the due date, at the latest. According to the Finnish Interest Rate Act, the consumer must not be charged a penalty interest rate that is higher than the general, statutory penalty interest rate. The penalty interest rate is the reference rate specified every six months by the European Central Bank + 7 % points. This is the highest rate of interest that a business may charge its consumers. In 2011, the penalty interest rate may be up to 8 %.

**PROFIT** Net operating profit is an item on the profit and loss account that is obtained by deducting variable costs, fixed costs and depreciation and write-downs from net sales. Net operating profit is the result for business operations before the profit is distributed.

**DISTRIBUTION OF PROFITS** refers to distributable retained profits for a business. After taxes have been paid, any profits from business operations can be paid to the owners.

**SELF-EMPLOYED PERSONS' PENSION INSURANCE** (YEL insurance) is a mandatory form of pension insurance for entrepreneurs, according to which an old-age pension is paid to entrepreneurs, as well as sickness benefit from the Social Insurance Institution of Finland (Kela, [www.kela.fi](http://www.kela.fi)), and maternity, special maternity and paternity allowances and parental benefit or rehabilitation allowance. The entrepreneur's YEL insurance contribution is based on his/her YEL work income. The YEL work income must at least match that salary that would be payable to an individual possessing similar professional skills, if (s)he were employed in that work. Thus, the YEL work income is not taxable income for the entrepreneur or earnings generated by the business. The minimum limit for YEL insurance work income is EUR 6,896.69 per year (2011 figure). Guidelines on the determination of the entrepreneur's work income are available from the website of the Finnish Centre for Pensions: <http://www.etk.fi/Default.aspx?Lang=2> > Pension Insurance > Insurance for self-employed persons > Self-employed person's confirmed income.

**SINGLE-ENTRY BOOKKEEPING** See Bookkeeping

**GENERAL COMMERCIAL ACTIVITIES** means that the enterprise engages in, or that it is able to engage in, all kinds of lawful business activity. General commercial activities can be recorded in the foundation documents for an enterprise and they are declared in the Finnish Trade Register. (Thus, no particular line of business is specified, such as construction or cleaning.)

**ENTREPRENEUR** This is an individual, who alone or together with others, engages in business operations via an enterprise. The aim of the operations is to make a business opportunity profitable whilst being subject to various risks.

**BUSINESS INCUBATOR** This helps a new business so that it can grow and develop. A business incubator provides an enterprise with, for example, premises, advisory and expert services, mentoring, training and networking opportunities. The entrepreneur creates an agreement with the business incubator for a fixed period, usually two years.

**FORM OF ENTERPRISE** The forms of enterprise that can be registered in Finland are a sole trader (firm), general partnership, limited partnership, limited company and co-operative, as well as the less common forms, public limited company and Societas Europaea. The form of enterprise affects limitation of the entrepreneur's liability, the minimum number of people founding the enterprise, taxation and distribution of profits as well as registration payments in the initial stages and the minimum capital required.

# Notes

[illegible]

# Enterprise Agencies in Finland at your service

<b>Espoo</b>	Espoon Seudun Uusyrityskeskus ry
<b>Helsinki</b>	Helsingin Uusyrityskeskus ry, YritysHelsinki, Naisryhtäjyyskeskus ry
<b>Hyvinkää</b>	Hyvinkää-Riihimäen Seudun Uusyrityskeskus Yrityspaja ry
<b>Hämeenlinna</b>	Hämeen Uusyrityskeskus ry
<b>Iisalmi</b>	Ylä-Savon Kehitys Oy
<b>Imatra</b>	Imatran Seudun Kehitysyhtiö Oy
<b>Joensuu</b>	Pohjois-Karjalan Uusyrityskeskus ry
<b>Jyväskylä</b>	Tuhansien Järvien Uusyrityskeskus ry
<b>Kemi-Tornio</b>	Meri-Lapin Startti Oy
<b>Kokkola</b>	Keski-Pohjanmaan Uusyrityskeskus ry Firmaxi
<b>Kotkan-Haminan seutu</b>	Cursor Oy
<b>Kuopio</b>	Kuopionseudun Uusyrityskeskus ry
<b>Lahti</b>	Lahden alueen Uusyrityskeskus ry
<b>Lohja</b>	Länsi-Uudenmaan Uusyrityskeskus ry
<b>Loimaa</b>	Loimaan seutukunnan kehittämiskeskus ry
<b>Loviisa</b>	Loviisanseudun Uusyrityskeskus ry
<b>Mikkeli</b>	Mikkelin Seudun Uusyrityskeskus ry Dynamo
<b>Oulu</b>	Oulun Seudun Uusyrityskeskus ry
<b>Pietarsaari</b>	Pietarsaaren Seudun Uusyrityskeskus Concordia
<b>Pori</b>	Yrityspalvelu Enter, Porin Seudun Yrityspalveluyhdistys ry
<b>Porvoo</b>	Porvoon Seudun Uusyrityskeskus ry
<b>Savonlinna</b>	Itä-Savon Uusyrityskeskus ry
<b>Seinäjoki</b>	Etelä-Pohjanmaan Uusyrityskeskus Neuvoa-Antava
<b>Tammisaari</b>	Eteläkärjen Uusyrityskeskus ry
<b>Tampere</b>	Tampereen Seudun Uusyrityskeskus ry Ensimetri
<b>Turku</b>	Turun seudun yrityspalvelukeskus Potkuri
<b>Tuusula</b>	Keski-Uudenmaan Uusyrityskeskus ry
<b>Uusikaupunki</b>	Vakka-Suomi/ Ukipolis Oy
<b>Vaasa</b>	Vaasanseudun Uusyrityskeskus Startia
<b>Vantaa</b>	Vantaan Uusyrityskeskus ry
<b>Varkaus</b>	Wäläkky Keski-Savon Uusyrityskeskus ry

