

The effect of Value Added Tax change on health care services

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<p>The aim of this thesis was to examine the effect of value added tax (VAT) change on certain health care services. VAT is a consumption tax which is added on the value of goods and services. The Finnish Tax Administration changed the value added tax (VAT) on Health care services and personnel renting (Terveystenhoitoalan työvoiman luovutus) to 0% instead of the previous 24% on 19 December 2013. Based on the same decision, VAT on some services such as aesthetic surgery rose from 0% to 24%.</p> <p>The reason behind this sudden change of VAT was explored, as well as how taxation affects business supply and demand, health care service sector employment and how this change of VAT will affect them. The implementation of this VAT change is also evaluated, mainly to see if there have been any interpretational issues.</p> <p>Primary data for this thesis was obtained from interviews with informants such as tax authorities, aesthetic health care business owners and other related business people (consultants and the like).</p> <p>Secondary data was collected from Finnish law (on VAT and corporate tax), EU law, court decisions (Supreme Administrative Court and The Court of Justice of the European Union), and other publications available (other VAT related theses, articles and recommendations).</p> <p>Health care personnel renting and aesthetic treatments such as plastic surgery were evaluated separately and the opposite change of VAT in their services was estimated. In personnel renting, the effect on profitability was only temporary and the service sector was able to recover quickly due to increase in prices and other moderate activities. Aesthetic surgery, on the other hand, suffered a great deal from this change of VAT. It was not possible to add the whole 24% of VAT into customer prices but fees still rose in such a way that customers were lost. This, in turn, had an effect on revenue and business employment rate.</p> <p>Secondary data analysis revealed a correlation between taxation and business profitability in general. When calculating competitiveness, businesses have to take into account different taxes and their effect on profitability. They can choose to provide services in-house or outsource some of the functions. They can also make acquisitions offshore that do not involve VAT.</p>	
Keywords Taxation, VAT, supply and demand, cost, employment, health care, EU legislation	

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ABBREVIATIONS

CJEU	Court of Justice of the European Union
MSAH	Ministry of Social Affairs and Health
VAT	Value added tax

1 Introduction

Finland, as well as most of the European countries, is battling with decreasing domestic production, weak economic performance and increasing public debt. Indirect taxes such as VAT are becoming great means for governments of collecting revenue leaving its role in merely monitoring the VAT process.

VAT being a transaction based tax has impact on all business operations. While VAT is a great revenue tool for governments, for health care businesses it is a significant cost factor. Usually businesses are able to add VAT in prices, but in health care sector VAT is a cost. They have to pay VAT from purchased materials and services and it is not refundable.

In Finland health care services are undergoing change (Piha 2016). While public expenditure is increasing, government is facing a challenge to cut the costs in order to enhance nominal GDP growth. Structural shift from public sector health care to private sector usage can be already seen. Therefore, VAT on health care services is both strategic asset as well as significant tool for national economy (Piha 2016).

VAT has impact on national competitiveness (measured by the ratio of export to import prices) (European Commission 2010). It is reduced on exports thus making it easier for companies to compete in global markets. In contrast corporate taxes increase the cost of capital (and cost of production) and make it more difficult for businesses to compete in international markets. In general consumption taxes such as VAT are better for economic growth since they don't effect on labour supply or savings (Bumpei 2011, 1).

VAT increases inequality. Income taxes are usually progressive but consumption taxes are the same for everyone (Bumpei 2011, 3). Multiple-rate VATs can be used but there are more effective redistributive instruments such progressive income-tax and expenditure policies like in the areas of health and education (Carroll, Cline & Neubig 2010, 44). In a Finnish study though it was stated that in the long run the effects are almost the same: people with less income do not usually spend so much on goods that people with better income (Honkatukia, Kinnunen & Rauhanen 2011). On the other hand, people with less income spend most of their income on necessities such as food.

VAT rate is an effective tool for government to regulate consumption, business competitiveness internationally, inflation and money supply. It is sometimes also an important political factor in elections. Usually it is stated that the raise of VAT is bad for economics because it increases prices and thus affect negatively on consumption. On the other hand,

the rise of VAT will bring more money to government and they can make economic decisions like debt amortization or redirect public expenditure. It is also said that the negative effect of VAT rise is only temporary and will even out in the long run. It might be also that before expected VAT rise people will stock items and create increase in aggregate consumption just before the rise (Bumpei 2011, 3).

When UK raised their VAT by 2, 5% in 2011, it was calculated that in theory this will lead to 250 000 job losses due to decreased consumption (CIPD 2010). It is however not clear; how these theoretical figures reflect reality. It is true that many businesses are unable to recover this rise of VAT (Accountingweb 2011).

1.1 Background

A value-added tax (VAT) in European Union is a form of consumption tax. It applies to most of goods and services (European Commission 2014). It is calculated as a percentage of a price. In practise it means that the buyer pays increased purchase price. From the perspective of the seller, it is a tax only on the value added to a product, material, or service.

Even though legislation is still country specific, being a part of European Union sets some requirements for local regulations. The essential EU VAT legislation since 1 January 2007 has been Directive 2006/112/EC. Each Member State's national VAT legislation must follow the provisions of EU VAT law. VAT is a very complicated tax regards to its simple purpose. It keeps changing because Supreme Administrative Court and The Court of Justice of the European Union (CJEU) gives recommendations, regulations and directives, which have direct effect or indirect effect on the laws of European Union member states such as Finland.

The purpose of VAT is to generate earnings to the government like other taxes such as the corporate income tax or the personal income tax. Governments gain more and more revenue on intermediate taxes such as VAT compared to more traditional taxation (European Commission 2010, 13). For example, in Finland year 2012 total VAT revenue was EUR 17, 99 billion which equals 21% of total tax revenue. Corporate tax revenue was EUR 4, 2 billion (OECD 2014). Table below shows how government gains expenditure from different taxes, first in € million and then relative to GDP. Comparison to European Union mean value is also shown in the table.

Table 1. Government finance. Statistics Finland 2016

	2010	2011	2012	2013	2014*	2015*
	€ million					
All taxes	76 315	82 750	85 269	88 688	90 021	92 144
State taxes	34 997	39 635	40 480	42 179	42 680	43 419
Income taxes ¹⁾	9 758	11 386	11 132	11 453	11 828	12 127
Value added tax	15 533	17 315	17 987	18 888	18 948	19 019
Municipal taxes	18 535	19 166	19 359	20 726	21 174	21 864
Social security funds	22 631	23 759	25 245	25 616	25 996	26 695
European Union	152	190	185	167	171	166
	Relative to GDP, %					
All taxes	40,8	42,0	42,7	43,6	43,9	44,5
State taxes	18,7	20,1	20,3	20,7	20,8	21,0
Income taxes ¹⁾	5,2	5,8	5,6	5,6	5,8	5,9
Value added tax	8,3	8,8	9,0	9,3	9,2	9,2
Municipal taxes	9,9	9,7	9,7	10,2	10,3	10,6
Social security funds	12,1	12,1	12,6	12,6	12,7	12,9
European Union	0,1	0,1	0,1	0,1	0,1	0,0

1) Incl. duty on interests and church tax of corporations

* preliminary data

1.1.1 VAT change in health care sector

Behind this change of Finnish VAT for health care services was Supreme Court decision KHO 7.3.2013 T 819. This was based on Court of Justice of European Union judgement of 21 March 2013 re C 91/12 (PFC Clinic vs. Skatteverket). This decision rules scope of exemption for medical services. The Court of Justice ruled that the subjective understanding of the person who undergoes plastic surgery or a cosmetic treatment is in itself not decisive in order to determine whether the intervention has a therapeutic purpose. According to the CJEU, it depends on a medical assessment, which must be based on findings of a medical nature made by a person qualified for that purpose (Loyens & Loeff 2013.)

The CJEU decision as it was stated according to VAT Resource (2016):

The ECJ gave its decision in the case of Skatteverket v. PFC Clinic AB (C 91/12) on March 21, 2013 regarding the application of the exemption on medical services consisting in plastic surgery and other cosmetic treatments. The Supreme Administrative Court of Sweden had requested a preliminary ruling from the ECJ on February 17, 2012. There was no opinion of the Advocate General.

The ECJ decided that:

Article 132(1)(b) and (c) of EU VAT Directive (2006/112) must be interpreted as meaning:

– supplies of services consisting in plastic surgery and other cosmetic treatments, fall within the concepts of "medical care" and "the provision of medical care" within

the meaning of Article 132(1)(b) and (c) of the EU VAT Directive where those services are intended to diagnose, treat or cure diseases or health disorders or to protect, maintain or restore human health;

- the subjective understanding that the person who undergoes plastic surgery or a cosmetic treatment has of it are not in themselves decisive in order to determine whether that intervention has a therapeutic purpose;
- the fact that services are supplied or undertaken by a licensed member of the medical profession or that the purpose of such services is determined by such a professional may influence the assessment of whether interventions fall within the concept of "medical care" or "the provision of medical care" within the meaning of Article 132(1)(b) and (c) of the EU VAT Directive respectively;
- in order to determine whether supplies of services are exempt from VAT pursuant to Article 132(1)(b) or (c) of the EU VAT Directive all the requirements laid down in subparagraphs 1(b) or (c) thereof must be taken into account as well as the other relevant provisions in Title IX, chapters 1 and 2, of the EU VAT Directive such as, as far as concerns Article 132(1)(b), Articles 131, 133 and 134 thereof

In brief, the decision above states that it is not the person (subject) himself, who decides whether plastic surgery is "medical care" as such or done for cosmetic reasons. Moreover, the criteria are solely neither the fact that the treatment is given by licenced medical professional. Medical care as such is VAT exempt. If the treatment is not classified as medical care, it is VAT liable.

1.2 Thesis topic

VAT is a broad topic. It has interpretative aspects and its implementation is partly depending on court rulings. This gives a lot of room for discussion. There is need to define for instance in this case what is the difference between plastic surgery for medical purpose and for aesthetic purpose.

To make thesis topic more accessible, following research question was created. Investigative questions were formed in order to get more insight of the research.

Research question: Does the change of VAT have effect on health care services?

Investigative questions:

IQ 1: How does taxation affect business supply and demand?

IQ 2: What was the reason behind VAT change on health care services?

IQ 3: How has VAT change in health care services been implemented?

IQ 4: How the change of VAT change will affect health care business employment rate?

For each investigative question relevant literature was studied in order to get more background knowledge of the topic. Secondly, empirical study was done by using both primary and secondary data collection methods. Primary data was collected by interviewing key

respondents that included senior tax advisor, owner of esthetical clinic and the field specialist doctor of medical science. An overview of the theoretical framework and expected results are presented in the overlay matrix below.

Table 2. Overlay matrix

Investigative Questions (IQs)	Theoretical Framework (concepts & models)	Expected results (Chapter number in survey or interview frame)
IQ1. How does taxation affect business supply and demand?	Cost and demand	Direct taxes inhibit business competitiveness and labour supply; indirect taxes do not necessarily have negative effect (Chapter 5.1 and 6)
IQ2. What was the reason behind VAT change on health care services?	Tax regulation, EU law, court decisions, ECJ suggestions, equal treatment	Request for preliminary ruling to European Court of Justice (Chapter 5.2)
IQ3. How has VAT change on health care services been implemented?	Primary data collection	There has been interpretational issues (Chapter 5.3 and 6)
IQ4. How the change of VAT will affect health care business employment rate?	Demand and supply, recession, inflation, government regulations	There will be a slight decline in employment rate due decreased demand (Chapters 5 and 6)

1.3 Structure of thesis

First phenomenon in general will be explored and then the role of taxation and VAT specifically is briefly discussed in introduction chapter. Then background of health and social care in Finland is studied. This is needed in order for reader to understand the business environment and how VAT is related to health care services. Then theory of VAT and more specific cases of VAT will be covered. Regulations and suggestions made by European Court of Justice are studied. Research methods including investigative questions are studied in chapter 4. For textual sources thematic analysis will be used. Results can be found in chapter 5 and discussion in chapter 6.

1.4 Demarcation

Taxes can be seen from economic, social or political point of view. Taxation is widely used fiscal tool for governments to gain expenditure that they can use for benefit for the citizens and for the benefit of state finance. VAT is only a part of tax programme in Finland, but yet it also has many aspects such as output VAT, input VAT, VAT on different services and goods, VAT exempt etc. Therefore, for this thesis it was meaningful to concentrate only a certain topic of VAT, namely the change that came into being 19.12.2013. This change

had opposite effects for two sectors of health care; personnel renting and aesthetical surgery. These sectors will be evaluated separately.

Next figure shows the demarcation process from general taxation to this specific VAT change.

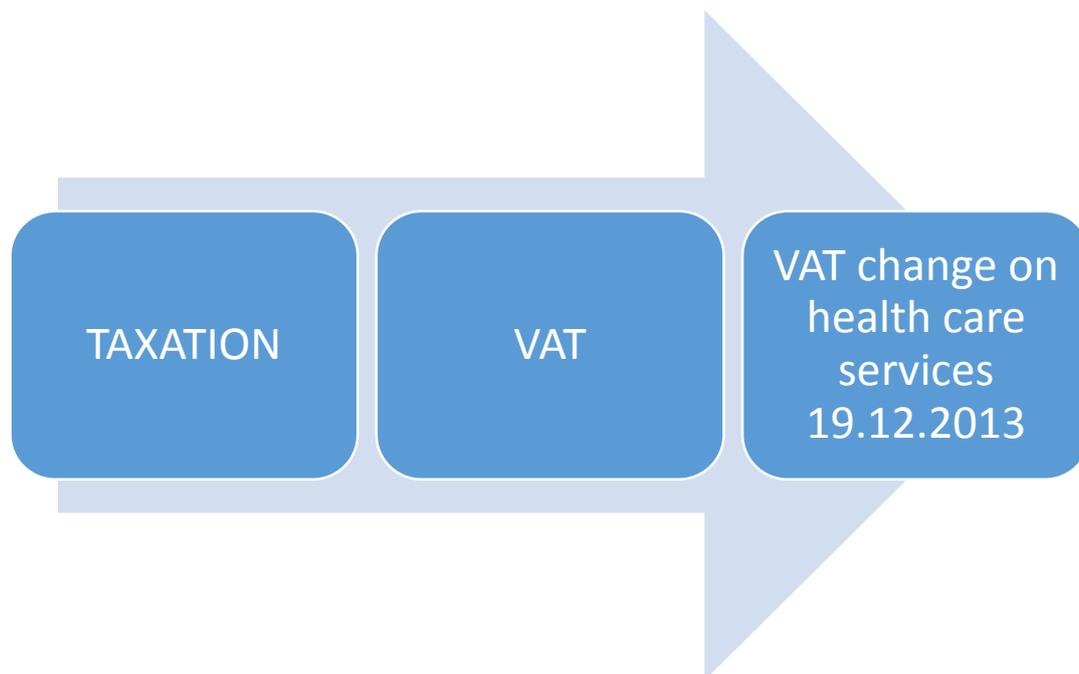


Figure 1. Demarcation process

1.5 International aspect

VAT is widely implemented consumption tax. All OECD countries except USA have VAT (Wikipedia 2016). In European Union VAT is regulated by EU VAT directive (Council Directive 2006/112/EC of 28 November 2006 on the common system of value added tax). All member countries must follow this directive. How VAT is implemented, different rates and VAT exemptions vary from country to country, so the findings in this thesis cannot be applied as such. VAT is an international phenomenon and this thesis can give an idea how interpretation issues can sometimes effect on collection of VAT.

1.6 Key concepts

Interpretative nature of VAT. Implementing regulations to the EC VAT Directive have resulted in an interpretation issue with VAT fixed establishments. EU Council Implementing regulation (EU) No 282/2011 was adopted because the terms of “VAT Directive” were in-

clusive in some cases. This directive is immediately applicable. The purpose of this directive is to clarify somewhat vague interpretation of VAT in member states (Finnish Tax Administration 2013).

Personnel renting. In this context by personnel renting we mean business that evolves around renting health care professionals e.g. doctors and nurses, to other instances such as public health care centres and hospitals. They are under a supervision of the instance they work for, the personnel renting company.

This kind of services are needed when due to one reason or another, these instances are unable themselves to provide enough personnel to fulfil their legal responsibility in health care services.

Taxation. Tax is a fee levied by government on a product, income or activity. It can be direct (income, corporate) or indirect (product, good or service). Taxes are collected in order to cover government expenditure, like financing public goods and services (health care, social welfare, street lightning, cleaning etc.). According to Tax Administration in Finland, we pay taxes also for changing peoples' behaviour -> e.g. tax relief is given to products that are environmental friendly. Taxes are also paid in order to support production in less favourable regions and reducing inequity of income (Tax Administration 2014). Tax rules are part of the law.

VAT is a consumer tax that is added on the value of good, service or product. It is an indirect tax that is paid by the end consumer. VAT is collected by the seller whose responsibility is to report it to tax authorities. VAT is added at every point of a production chain on the value added. Its' accumulation is prevented by means of deduction system (Ministry of Finance 2009, 105.)

1.7 Anticipated benefits

This thesis is part of Bachelor of Business Administration degree in Haaga-Helia University of applied sciences. The topic chosen was relevant by the time of the beginning of the thesis writing process. VAT change in health care sector was newly implemented and no research had done on the subject. It was hoped to see the results of this implementation on business operations and employment. Personally the author hoped to gain some knowledge of taxation and perhaps have proposal for tax authorities and/or tax consultants how to interpret certain aspects of VAT regards to health care services. There is need to define for instance in this case what is the difference between plastic surgery for medical purpose and for aesthetic purpose.

2 Social and health care sector in Finland

Finland is classified as a welfare state. The universal right to health care services and social welfare is granted to everyone. Development of this model has been long-term and systematic. The objective is socially sustainable society (Ministry of Social Affairs and Health 2013).

According to Constitution of Finland everyone must be guaranteed adequate and equal social, medical and health care services and this is the duty of public sector. Main focus is promoting the health of population (Ministry of Social Affairs and Health 2013). This system is founded on government subsidised municipal social and health care services.

The system is regulated for example by legislation, interactive guidance (regulations, recommendations and guidelines) and supervision (licenses, complaints). The Ministry of Social Affairs and Health prepares legislation and supervises its implementation. It also directs and guides the development and operation of the sector. There are tools like National Development Program for Social Welfare and Health Care

Local authorities are responsible for organizing the services. They can organize them independently, form joint municipal authorities or outsource services to a third party (other local authorities, non-governmental organization or private sector). The state supports local authorities by certain transfers that are dependent on e.g. municipal population and population structure.

The services are mainly financed through state and municipalities (general taxation and state grants 79%), user fees (16%) and employers (5%) (Nordic Health Care Group 2015).

2.1 Health care

The Municipally provided health care covers primary care (mainly in health care centres) and specialized hospital care. Private health care sector complements municipal care especially in areas such as dental care and occupational health (Nguyen, Häkkinen, Pekurinen, Rosenqvist & Mikkola 2009, 9). Health care system is also much decentralized where local authorities are supposed to act with local preferences in order to increase welfare (Nguyen & al. 2009, 7). Local authorities can also decide the tax level, consumption of funds and organization of services themselves.

In 2013 health care spending in Finland was approximately EUR 18,5 mrd. This is 9.1 per cent of gross domestic production (National Institute for Health and Welfare 2015). Health

care expenses have increased EUR 4, 4 mrd between years 2005-2013. Majority of the growth of expenses (EUR 3, 6 mrd) was in public sector even though the usage of this sector has decreased 5% yearly (Nordic Health Care Group 2015).

Year 2013 public funding was 75, 6% and private funding 24, 4%. The percentage of private funding is constantly growing. This means that people use more private sector services than previously. It is paid by users themselves (user fees), by Kela (National Health Insurance) and by insurance companies (insurance paid in most cases by users themselves or employers). Figure 2 below covers multi-channel production model of health care services as presented by Ministry of Social Affairs and Health.

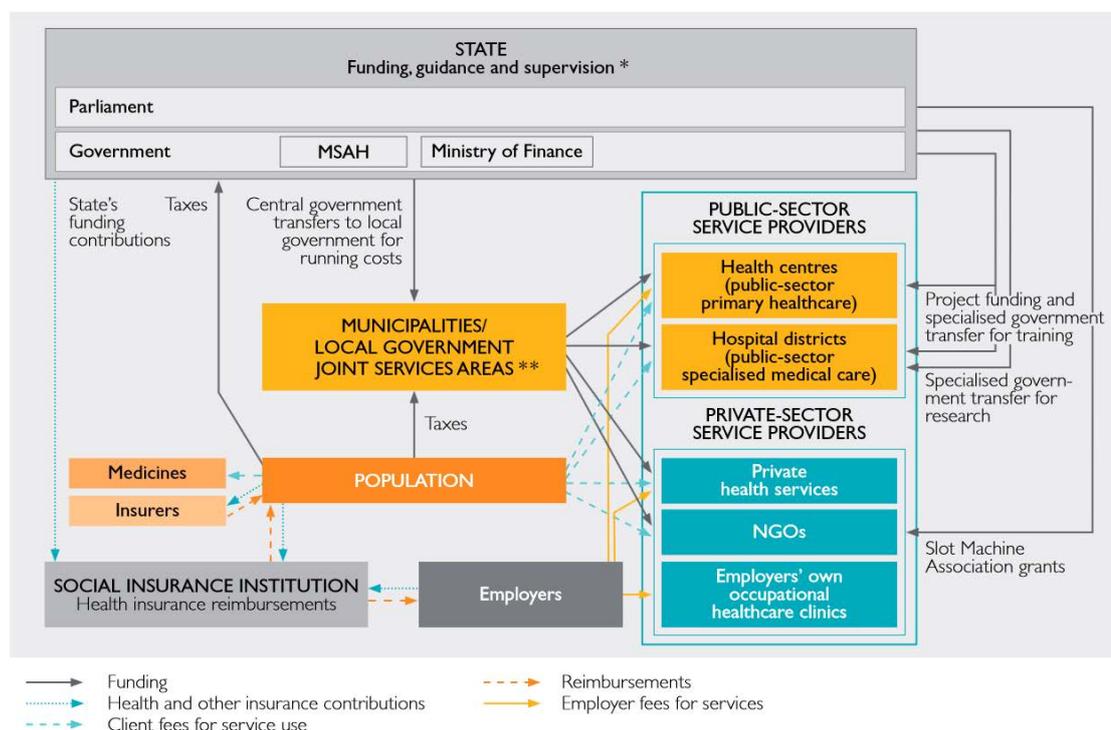


Figure 2. Organisation, funding, provision and supervision of health care services (MSAH 2013)

The state guides client charges by legislation. It also subsidises services by means of transfers from central government to local authorities. This is done in order to prevent too high client fees that could prevent people from seeking help.

There is statutory health insurance that covers the entire population. The Social Insurance Institution of Finland (SII) coordinates health insurance. SII is under authority of Parliament.

State finances public health care in the means of government transfer for municipalities. Year 2012 it was EUR 8, 3 mrd (31, 8% of total finance). Government itself gains this revenue from different taxes, VAT being one of them (National Institute for Health and Welfare 2014, 11). Year 2001 government financed health care by EUR 1,6 mrd from which VAT calculated EUR 600 million (~27%) (Klavus, J., Pekurinen, M. & Mikkola, H. 2004, 113).

2.2 Health care services

Health care services are divided into primary health care and specialized health care.

There are approximately 160 health care centres in Finland (2013). They are mainly responsible for primary health care and health care prevention. One health care centre can have several units and wards for inpatient care. Primary health care also covers maternity and child welfare clinics, school health care, medical rehabilitation, and dental care (HUS 2014.)

Municipalities form hospital districts that are in charge of specialized medical care. Currently there are 20 hospital districts in Finland. Each hospital district belongs to one of the five university hospital catchment area. These coordinate the provision of specialized medical care, information systems, medical rehabilitation and procurement. The most demanding treatment as well as the treatment of rare diseases is centralized into these five University Hospitals. The figure below shows the localisation of these hospital districts as they are at present moment.

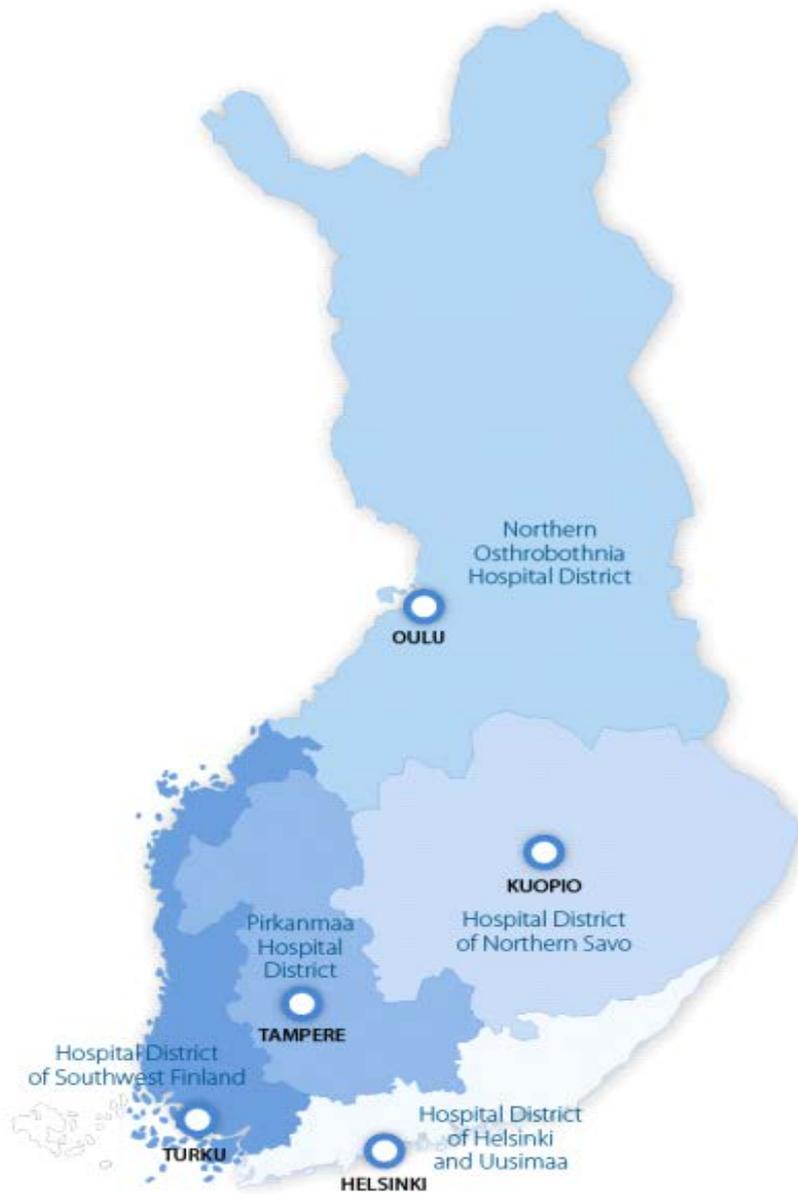


Figure 3. Five University Hospital Areas in Finland. Clinical Trials Finland 2014

2.3 Social welfare

Finnish social welfare is based on Nordic welfare state model. Law requires municipal authorities to provide social services. It is a part of social security system. This system constitutes of social services and components of income security like unemployment and pension security (MSAH 2006). Stress is on protecting the dignity of human life and aim is to guarantee everyone universal right to be treated equally and in a way they can participate in everyday life at its various stages. Social policy focuses on prevention because that is seen as most humane and effective way. Long term policy is set out in a document Socially Sustainable Finland 2020 (MSAH 2013).

Social services are mainly funded by taxes and government subsidies. It is seen as extensive public responsibility to take care of the citizens. Insurances paid by employees and employers as well as membership contributions are used to cover e.g. earnings-related pensions.

In 2013 social protection expenditure in Finland was EUR 63.2 billion. Per capita expenditure was EUR 11 086 which is EU average. In real terms expenditure grew 3.0 per cent. Employers paid 34.6 per cent and state 28.0 per cent of the total expenditure. Figure below presents financing of social services.

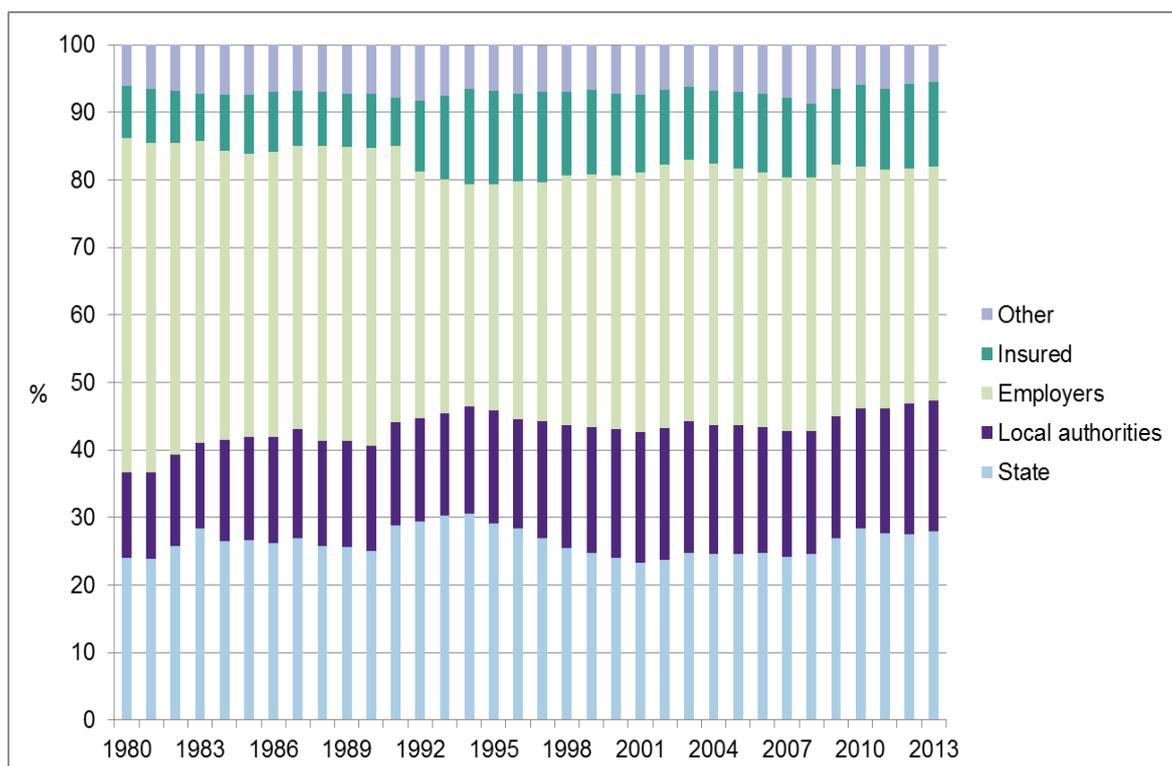


Figure 4. Financing of social expenditure 1980-2012. Source: THL

For MSAH great problem is economical dependency. Growing number of older people in the population and the rising of average life span contributes growing pension expenditure. The amount of old-age pensions paid out in 2013 was EUR 23, 7 billion (National Institute for Health and Welfare 2016). Positive outlook in employment rate can cover some of this rising expenditure.

Whereas Ministry of Social Affairs and Health oversee the social welfare system, municipalities are responsible in implementing the system in local level. Therefore, in 2013 municipal social and health expenditure was 53% of total municipal spending. Entitlement of these services is based on residence. All residents in Finland are covered by national health insurance.

2.4 The future of social welfare and health care

New Social welfare and Health Care Reform (SOTE-uudistus) will change the operations in health care sector. Meaning of this reform is “a solution for key provisions of the act on the arrangement of social welfare and health care services and the next steps in the process were reached on 25 June 2014” (Ministry of Social Affairs and Health 2014.) There will be five SOTE regions in Finland that are responsible for arrangement of social welfare and health care services. The arrangement and the provision of the services will be separated. The decision of services provision will be evaluated every fourth year. The municipality or joint municipalities have the responsibility of providing the services to the residents of the sector. In the “old model” basic health care and special health care were arranged separately. The aim is to present the Government’s proposals to Parliament by May 2017 and the legislation will come into being by 2019.

The reason behind this reform is that the old fashioned model does not serve its’ purpose any longer. The inequality between residents has increased and the population pyramid is polarised -> population is getting older and this creates further pressure for financing the health care services. This also means that more and more people are retired and there is not enough working-age population to fill in the certain positions such as doctors and dentist. This also leads to often distorted competition for specialist and in many cases communities cannot appeal to young generation and therefore loose even more labour.

The quest for this reform is to reduce inequality, allocating personnel resources on equal basis, undertake efficient and cost-saving structure and strengthen social- and welfare services. After this reform system is still based on public production. Customers will have more freedom of choice though. Services that are acquired from private sector must go through competitive bidding.

Recently credit rate company Fitch has dropped Finland’s credit rate to AA+ following Standard and Poor’s’ rating drop in 2014. This is due Finland’s poor economic growth (GNP growth only 0, 4 per cent in 2015). According to Nordea chief economist Aki Kangasharju this rating was a clear sign to government to start implementing necessary reforms (Yle Uutiset 2016). It is expected that government’s fiscal consolidation package 2016-19 and pension reform 2017 will bring some positive forecast but yet are vulnerable to any delays or setbacks.

In health care sector cost-effective solutions are on demand. Field is very labour intensive and staff costs are a biggest part of expenditure. It is almost impossible to reduce salaries

or raise existing staff contribution due to high corporate culture and political reluctance. There is political pressure at the moment to reform labour law with so called “social contract” (yhteiskuntasopimus) introduced by current Prime minister Juha Sipilä.

According to specialists, public sector services are unable to respond to this reform and unable to renew their models. At the same time customer’s freedom of choice is increasing (Pasanen 2014, 3). This creates space for new operating models such as outsourced services. The whole reform will cause transition in public health care services business environment. This transition will provide plenty of new business opportunities for private sector organisations (Pasanen 2014, 4).

In this reform new model “money will follow customer” is implemented. This means that the compensation the service provider will get comes with the customer, and is not defined by other criteria such as location, owner etc. Customer fee will be the same whether the service provider is public or private sector. This is assumed to even out the polarization and inequality of health care sector.

State will keep collecting tax revenue as well as regulate the amount of VAT. Private sector is expected to continue its growth and therefore the role of VAT is important. Whilst many public sector service providers are entitled to VAT reductions, this is not the case in many private sector companies. Therefore, they have to pay VAT for their business related purchase without being entitled to VAT deductions. This makes VAT purely an expense. The decisions made regards health care VAT can thus be seen as means of protecting public health care production (Piha 2016).

3 VAT and health care sector

Act on Value Added Tax 1501/1993 defines the principles of VAT collection in Finland. It complies with the specific EU VAT directive (No.2006/112). Every member state must implement this directive. However, it allows states to have exceptions and revocations. Neither does EU VAT directive set any rate for VAT, only minimum rate which is 15 per cent. Currently EU VAT rates vary from 15% to 27% (European VAT –Business and Taxation Guide 2013, 7).

3.1 Examples of VAT rates

Current VAT rates in Finland are as follow:

- 24 %: The general rate
- 14 %: The reduced rate for the supply of foodstuffs, animal feed and restaurant and catering services (labour-intensive services)
- 10 %: The reduced rate for the supply of books, pharmaceutical products, services creating opportunities for physical exercise, passenger transportation, accommodation, the remuneration received by Yleisradio Oy from the TV and radio fund and by Ålands Radio and TV based on the TV licence fees, the entrance fees to cultural and recreational events, the supply and import of works of art in certain situations, the subscriptions of newspapers and periodicals and the remuneration relating to a copyright where received by an organization representing the copyright owners (Tax Administration 2016.)
- 0%: sale of goods outside EU, sale and hire of certain vessels, sale of certain transport and ancillary services relating to goods sent outside the EU, education, health and welfare, general post services, sale of a certain newspaper in order to promote the public good

In EU there are several different VAT rates applicable, also areas with VAT exempt (like Canary Islands or Åland). Complete list of current VAT rates can be found in Appendix 6.

3.2 VAT calculations

Example: Price for product X is EUR 150. Calculate price with VAT when VAT is 24%.

VAT from price X:

Price without VAT x VAT rate

EUR 150 x 24%= EUR 150 x 0, 24%= EUR 36

Thus price with VAT 24% added is EUR 150 + EUR 36 = EUR 186

Price X without VAT:

Price including VAT/ (VAT rate + 100%)

EUR 186/ (24%+100%) = EUR 186/124% = EUR 186/1,24 = EUR 36

Price without VAT is EUR 186- EUR 36 = EUR 150

VAT amount from price X:

Price including VAT-(price including VAT/ (VAT rate+100%))

EUR 186 – (EUR 186/ (24%+100%)) = EUR 186-(EUR 186/1,24) = EUR 36

3.3 Social welfare VAT

The newest Tax Administration guideline on VAT Act (1501/1993) regarding VAT on social services is dated 1.10.2011 (604/40/2011). This taxation guideline was updated due to the new amendment 922/2011 on Act on Social Welfare 710/1982. This amendment was written on supervision on private social welfare. According to this, private service provider needs a permission granted either by Valvira (National Supervisory Authority for Welfare and Health) or Regional State Administrative Agency. Valvira is Finland's national supervising authority on social welfare and it cooperates with six regional administrative agencies (Valvira 2014.) These administrations supervise that the social welfare is harmonized throughout the country.

In general, social welfare services are VAT exempt. They are exempt when utility is municipality, joint municipality, state or registered private social welfare provider. Therefore, there is no VAT deduction on procurements. However, there is a special VAT refund system for municipalities. At the moment municipalities buy more services from private sector. In order to minimize hidden impact on VAT for the prices for private sector procurement, there is a special imputed 5% VAT refund for municipalities on these services (Tanskanen 2012, 3).

3.4 VAT on health care

Health care services are defined as tasks that define health, as well as the operational ability and ability to work, or tasks that restore health and ability to work. VAT liability is defined by who performs the service and by the nature of the service. Health care services are VAT exempt in general if given circumstances are met.

The latest version of VAT guideline for Health Care Services is dated 17.6.2014 (A86/200/2014). In this guideline Chapter 3.4 was amended to respond CJEU's judgment 21 March 2013 re C 91/12 (PFC Clinic vs. Skatteverket). It defines now more precisely the VAT treatment concerning aesthetical surgery, injections and peeling treatments

in Finland. Guideline aims to distinguish the difference between aesthetical and reconstructive surgery. Basically reconstructive surgery is without VAT and VAT will be added when it surgery is defined aesthetical and other different aesthetical treatments such as filler injections, botulin injections, laser hair removals etc. These aforementioned treatments can nevertheless be VAT exempt if they are done on medical purpose. This evaluation is always done by a person who is qualified health care professional. Whenever the person who is treated is entitled to KELA sickness allowance, the service given is VAT exempt. Then it is a KELA authority who gives the final judgement whether the VAT is to be added on the price.

Many doctors are concerned that this new implementation of VAT will fundamentally interfere with their freedom of practice. It is no longer the medical professional who decides whether treatment given to patient is medically justified but the decision is done by KELA or tax authority.

It is also expected that increase in aesthetic surgery prices in Finland will evict customers seek treatments elsewhere, for example in Estonia where prices are significantly lower. This in turn will cause decrease of corporate tax revenue. Also possible failures in surgery will be corrected in Finland which causes extra burden and costs to public health care sector (Markkanen & Repo 2013).

3.5 VAT refund in health care

VAT refund in health care personnel renting sector is somewhat problematic. Business providers have to pay VAT from their own expenditures yet they cannot reclaim input purchases. Therefore, it might be more cost-efficient to provide some functions "in-house" or vertically integrate instead of outsourcing or buying them as to reduce the amount of irrecoverable input VAT. This is not desirable since it distorts production process and creates an artificial commercial environment. It is especially true when exempt firms compete with non-exempt firms. If VAT was a neutral tax; it should not be a factor in decision-making process. Yet more, businesses cannot concentrate solely on their core products.

Those service providers who are owned by community are entitled to calculator 5% VAT input deduction. This can be seen as unfair treatment in bidding competition since they can afford cheaper invoicing due this special VAT treatment.

3.6 VAT and EU legislation

Definition of EU is somewhere between an international organization (membership is voluntary, decision making is consultative and procedures are based on consent) and a state

(internationally recognized external borders, system of law to which all member states are subject, balance of power and policy areas are shifted to European level and like areas of trade, the EU functions as a unit) (McCormick 2011.)

Several bodies and institutions are involved in EU decision-making process. In general, European Commission proposes the legal acts, which are adopted by European Council and the European Parliament (Europa 2014.)

EU legislation can be:

Binding: regulations, directives and decisions

Non-binding: resolutions and opinions

Other: EU Institutions' internal regulations, EU action programmers etc.

There are three sources of European Union law: primary law, secondary law and supplementary law.

Primary law consists of Treaties that are binding agreements between EU countries. They are the supreme source of law in EU. Main Treaties are the ones establishing European Union, the Treaty on the EU and the Treaty on the Functioning of the EU (Hokkanen et al. 2013, 12).

Primary law will be applied as it is in the Member State, as soon as the Treaty enters into force. It is to be applied in all territories of a Member State, including overseas islands and in territories where Member State is responsible for external politics (Åland, Gibraltar).

Secondary law (secondary sources) are legal instruments based on the treaties. These help interpret and concretize those principals stated in the primary law. Secondary law comprises of Unilateral Acts and Conventions and Agreements.

Unilateral Acts are either those listed in Article 288 such as regulations, directives, decisions, recommendations and opinions.

Regulations are normative acts defined by Article 288. They are binding as such, have general application and are directly applicable in the Member State. No measures to incorporate it into national law are needed (Hokkanen et al. 2013, 12). Legal effects are simultaneously, unilaterally and automatically binding in all national legislations (Europa 2014.)

Directives are more flexible instruments; they oblige the Member State to reach a certain result but leave the means of implementation up to each Member State (Hokkanen et al. 2013, 12). It is binding to whom it is addressed. It is also binding in its entirety, meaning it cannot be applied partly or selectively. Example is VAT Directive.

Decisions are adopted following a legislative procedure. It is entirely binding to the Member State in concern. For example, Article 395 of Directive 2006/112/EC gives Member States authority to derogate special deviations of common VAT rules.

The Council, acting unanimously on a proposal from the Commission, may authorise any Member State to introduce special measures for derogation from the provisions of this Directive, in order to simplify the procedure for collecting VAT or to prevent certain forms of tax evasion or avoidance (Article 395)

A decision may be addressed to a Member State or to individuals. Decision has acquired a broader definition especially in the field of Common Foreign and Security Policy adopted by the Commission.

Opinions and recommendations are not binding.

Those not listed in Article 288 of the Treaty of the Functioning of the EU are not typical acts like communications, recommendations, white (official policy document) and green papers (first draft document that is circulated among parties that are involved in the specific policy process).

Conventions and agreements on the other hand are agreements or consensus between EU and a third country and European Institution. They can be international agreements (Article 216 of TFEU) or interinstitutional agreements.

Supplementary sources (non-written law) are Court of Justice case-law, international law and general principles of law (Europa 2014.) It aims to help with the gaps in and/or Primary and Secondary Law. Public international law and general principles of law are taken as series of rules by Court of Justice. Fundamental rights on the other hand are generally becoming part of primary law. There are three sources for this: Charter of Fundamental Rights, the European Convention of Human Rights and (Europa 2014). After Treaty of Lisbon the Charter of Fundamental Rights is now adopted as part of primary law.

3.7 Conclusion

Main finding in this chapter is, that whereas every EU member country in theory are allowed to modify EU VAT Directive in correspondence with their own needs, every decision

and recommendation made by Court of Justice of European Union (CJEU) must be studied carefully. The role of CJEU is to ensure that every member country applies and interprets EU law in the same way. It can be used by individual, company or organization (European Union 2015). Hence, all complaints about VAT in health care services for example can lead to change in interpretation of VAT in certain member country.

In Finland, Tax Authorities follow EU legislation and CJEU rulings and act accordingly. Latest update of VAT on health care services was amended 17.6.2014. At present, no new rulings or recommendations are in course of preparation. The consequences of this latest ruling for health care sector in Finland concern profitability of the sector and VAT refund namely. These will be evaluated later in chapters 5 and 6.

4 Research methods and challenges

This study is done based on qualitative analysis. The qualitative method investigates the why and how of decision-making. In this thesis existing theory will be used in order to guide and qualify the research question and expected results. Theory is included in all parts of the thesis, in order to have more “conversational” aspect with the material and theoretical framework. This is more interesting way of approach.

Other hypothesis than working hypothesis will not be set. It acts as a guide to organize the investigation (Kaplan 1964, in Shields 1998, 211). Especially in public administration working hypothesis is often used as conceptual framework for explanatory research. Conceptual framework cannot be invented as such; instead existing theory is used. Theory is also used as an organizing device (Shields 1998, 203-212).

Some results are expected to see regards to VAT change; increase in prices and thus decrease in demand. Work will be conducted around expectations (hypothesis), study theory and court cases as sources of evidence to support expected findings. Literature and experience will be incorporated.

In this thesis secondary data will be collected from law and court decisions. These are as accurate as any information can be without being classified as numerical quantitative data. Relevant literature, study books and public statistics will also be used.

Interviews are primary data. They are conducted with key recipients. Interviewees were chosen mainly due the information they can provide on the matter on hand (key informants). Interviews are open-ended, focused and exploratory type. Interview questions were sent by email to selected recipients. Questions were open and no scale of choices was given. There was no more than 5-6 questions to each respondent, in order to enhance the willingness to answer.

4.1 Research methods

Investigative question one in this thesis explores how does taxation affect business supply and demand. Research was based on expert interview (Ph.D. Pakkanen from Sairaala Siluetti), which classifies as primary data collection. Literature sources used for secondary data was relevant study books, working papers and statistics from high quality institutions such as Ministry of Finance and Institute for National Health care and Welfare.

MD Timo Pakkanen is well renowned plastic surgeon, who co-owns Hospital Siluetti located in the centre of Helsinki. He has worked widely abroad and is a member of several

associations related to aesthetical surgery (International Society of Aesthetic Plastic Surgery, American Society for Aesthetic Plastic Surgery, Chirurugi Plastici Fenniae). He has an extensive knowledge of aesthetical surgery field in Finland. Interview was conducted in person; questions can be found in appendix 5.

To gain more insight of *investigative question two*, what was the reason behind VAT change on health care services, secondary data was collected from several sources. Data was from Finnish law (VAT and corporate tax), EU law, court decisions (Supreme Administrative Court and The Court of Justice of the European Union), and other publications available (other VAT related thesis, articles and recommendations). First phenomenon in general was explored, especially the role of taxation and VAT. Then theory was conducted into more specific cases of VAT. Regulations and suggestions made by CJEU were studied, how they affect decisions made by Supreme Administrative Court and how these decisions are transferred into local legislation. For textual sources thematic analysis was used.

Primary data for this question was obtained from Senior Tax Advisor Päivi Taipalus from Tax Office. She is a head of Value Added Tax Department and widely cited expert regards VAT (e.g. Helsingin Sanomat 2013). Interview questions were sent to her by email. Questions are in appendix 4.

Field expert Dr. Kustaa Piha, M.D., M.Sc.Econ. , M.Soc.Sc. was interviewed both in person and by email several times during thesis process. He holds a vast knowledge of both public and private health care sector. He previously was CEO for the company Med Group that offers e.g. personnel renting services.

Investigative question three surveyed the implementation of VAT change. No previous written data was available on this specific matter. All three interviewees were asked this question separately.

Finally, it was hoped to see if the change of VAT has had an effect on health care business employment rate (*investigative question four*). In general, this question has the same aspect that investigative question one (how does taxation affect business supply and demand). To get full overview of this topic, it would have required intensive field study. Some results were seen, as are stated in the following chapter 5.

5 Results

The results have been divided into four segments according to investigative questions. Some theory has been added to each question to cover the relevant secondary data. The first subchapter discusses how taxation affects business supply and demand in general and related to investigative question four, has this VAT change affected health care business employment rate. Second subchapter discusses the reasons behind this VAT change and covers also EU legislation. Third subchapter reveals how this VAT change has been implemented and whether there have been any problems as such.

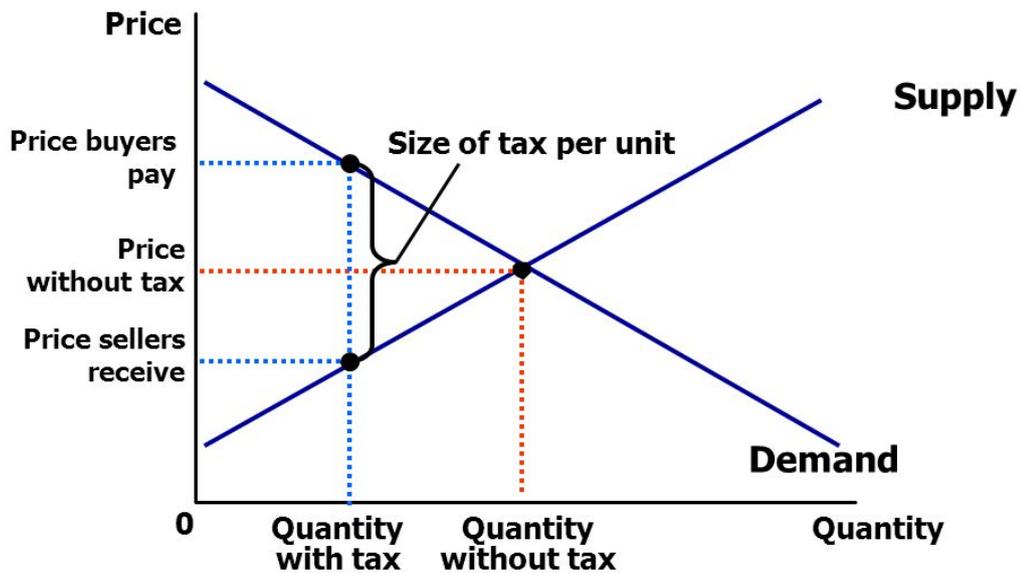
5.1 The effect of taxation on business supply and demand

According to OECD (2012) “a functioning tax system is increasingly recognised as the most critical factor in allowing countries to build a strong civil society, competitive economy and social wellbeing”. Business consider that numerous key elements are essential to still progress in this area: volume construct, effective transfer pricing agenda, transparency, contradicting international tax evasion and interchanging information (OECD 2012).

According to study conducted in the University of Michigan, corporate taxation encourages entrepreneurs to lead their business operations in a way designed to avoid taxes. Corporate taxation increases the cost of producing corporate output, thereby raising output prices, depressing demand, and shifting output from the corporate sector of the economy to the no corporate sector (Hines 2001, 2-7.)

Two core effects of tax are: reduction in amount of traded goods and alteration of income to the government. Taxes reduce both demand and supply as can be seen from the figure 6 below (SlidePlayer 2016).

The Effects of a Tax...



Market price is higher and demand lower with taxes. If customers have more choices regards goods, they tend to choose the one with lower price (Investopedia 2016). In demand and supply theory, tax reduces the traded quantity. Customer has to pay higher price (but not always as high as the amount of tax) yet supplier gets less profit (both effects similarly are called *incidence of tax*). Therefore, tax reduces the quantity traded (McAfee, P. & Lewis, T. 2016). Businesses have two choices when sales tax or VAT is introduced. They can keep prices as they were and thus earn less profit. They can also choose to add tax to customer prices which can have impact on supply and demand.

Ernest & Young conducted a survey in US 2010 to analyse the macroeconomic effects of implementing a VAT. According to this, in the span of ten years US economy would lose 1 550 000, 00 jobs, of which 850 000 in the first year. This is due reduced retail spending by \$2, 5 trillion (Carroll & al. 2010, 4). Notable is that US does not implement federal VAT on goods and services. Although it can be seen that there is political reluctance in this matter, it is clear that VAT has significant effect on economics.

Regards thesis topic, it is expected that this VAT change will affect consumer prices. This may mean that it becomes more difficult for business to profit from services they sell. Consumer behaviour can also change into the direction of less expensive services. E.g. in aesthetic surgery companies have to add this extra 24% now to prices. This will most likely lead to decline in demand which will cause closing down some businesses and leave unemployed staff.

5.2 The reason behind VAT change in health care services

According to Senior Tax Advisor Päivi Taipalus there was several reasons behind this change, only one of them being on Court of Justice of European Union judgement of 21 March 2013 re C 91/12 (PFC Clinic vs. Skatteverket). At first 12.19.2013 the VAT instructions were written over, then update 17.6.2014 added more specific instructions for esthetical surgery. Conclusively, 8.5.2015 there was some amendments regarding VAT on different therapies, occupational health care and clinical supervision. The effect of EU legislation and CJEU decisions are discussed in more detail next due to their immediate effect on Finnish legislation and taxation.

5.2.1 The effect of EU on Finnish law

The Treaty of Accession 1994 (accession of Finland to European Union) was incorporated into the Constitution of Finland in Blanco (in force as it has been agreed upon) even though it was in conflict with the Constitution of Finland due to its incompatibility with Finland's sovereignty and transfer powers to EU (Ojanen 2006, 210). Act of the Accession Treaty 1540/1994 came into force 1.1.1995 when Finland joined EU. After that few other amendments were made about arranging the division of decision making powers (Ojanen 2006, 211).

New Constitution of Finland entered into force 1.3.2000. There is an entire new understanding of sovereignty even though the textual formation is exactly the same than in the old Act of Constitution of 1919. This is due the fact that Finnish sovereignty is obliged by its EU membership.

VAT Directive 2006/112/EC of 28 November 2006 summarizes the introduction of common system of VAT in the European Union. Finland as a member state must follow this Act. Even though this is binding by only its' result, in practice there is very little margin in implementation due to sixth VAT Directive 77/38/EEC (17 May 1977). This sixth directive includes very detailed regulations on how the Member State can enact VAT Act (Hokkanen & al. 2013, 15).

It must be noted that the relationship with Finnish law and EU law is bi-directional; the characteristics of Finnish legal order shape the implementation of EU law in Finland (Ojanen 2006, 224).

5.2.2 Interpretation

Because there have been several European Court of Justice solutions needed in interpretation of VAT Directive and its national implementation, the Council of the European Union approved the Council Implementing Regulation (EU) No 282/2011 where it did lay down implementing measures for Directive 2006/112/EC on the common system of value added tax and in particular Article 397 (Eur-Lex 2014).

In this particular matter of VAT implementation, senior tax advisor Päivi Taipalus was asked about the problems in interpreting this new amendment of VAT. She admitted that in the beginning when implementation came into force (19.12.2013) there was some questions regards new rules and therefore new amendment was given 17.6.2014. She didn't specify these questions. After that inquiries have decelerated (Taipalus 4 April 2016). Other peers have confirmed that there are no longer interpretational issues due to distinct guidelines published by tax authority (Pakkanen 2 May 2016).

5.2.3 Examples of European Court of Justice decisions about VAT

One of the main principles of European Union taxation is "fiscal neutrality". That signifies the requirement that VAT should be neutral in its effect both on and as between taxable persons. VAT has to be applied equally to similar services and goods in order to avoid distorted competition. Therefore, such national regulation or policy that would treat differently health care service providers depending on their status would be against European legislation (Hokkanen et al. 2013, 197).

Examples of fiscal neutrality is Judgment of the Court of 27 April 2006 joined cases C-443/04 and C-444/04. (H. A. Solleveld (C-443/04) and J. E. van den Hout-van Eijnsbergen (C-444/04) v Staatssecretaris van Financiën). The conclusion was following:

Case C-444/04

Article 13A(1)(c) of the Sixth Directive confers on the Member States the discretion to define paramedical professions. In the exercise of that discretion, the Member States must observe the objectives of the Sixth Directive and the general legal principles, in particular the principles of equal treatment and fiscal neutrality. It is for the referring court to consider whether the Member State concerned has exceeded its discretion by refraining from exempting from VAT services provided by psychotherapists but exempting corresponding services provided by psychiatrists and psychologists.

Case C-443/04

Under Article 13A(1)(c) of the Sixth Directive, a Member State has the power to define which forms of medical care are to be regarded as being activities falling within a particular medical or paramedical profession and, as such, exempt from VAT. However, those definitions must be sufficiently flexible to allow alternative and interdisciplinary methods of treatment recognised as medical care likewise to be classified as falling within the ambit of one or more professional groups. In the exercise of that power, the Member States must also observe the principle of fiscal neutrality. (Judgment of the European Court of Justice Court of 27 April 2006)

General principles are unwritten sources of law. These principles include *legal certainty* and *legitimate expectation*, which contribute the interpretation of VAT Directive. This means that “application of legislation must be foreseeable to those subject to it” (Judgment of the Court 348/85 Kingdom of Denmark vs. Commission of the European Communities, section 19). In judgment C-524/10 European Commission vs. Portuguese Republic of 8 March 2012, Portugal did apply a special VAT scheme for farmers, which led Portugal exempt VAT payment for the Commission (uniform bases of the assessment of VAT Directive). These special schemes have been revoked in Portuguese legislation since 1992. According to decision farmers were entitled to flat-rate compensation of VAT because otherwise it would have been against the principle of legal certainty (Hokkanen et al. 2013, 38).

One issue is also the principle of protection of legitimate expectation. This means that taxpayers have a legitimate expectation to a particular form of treatment (e.g. certain percentage of VAT). The taxpayer has a right to believe that tax decisions are not regressive. This principal is also abused when legislation is altered without proper transitional provision. Could this principal also be implemented in the case of VAT change of health care personnel renting where the transition time was merely non-existent and thus unfair treatment (KHO 7.3.2013 T 819).

5.3 Implementation of the VAT change in health care services

Presentation of Tax Authorities valid instructions dated 17.6.2014 can be found in subchapter 3.4 “VAT on health care”.

5.3.1 Aesthetic surgery

When quickly looking at the implementing of new VAT procedures in aesthetical surgery, practises are varied. For example, in their web-page Laser Tilkka Hospital lists both prices, aesthetical treatments with 0% VAT and prices including 24% VAT. Nevertheless, the prices are increased only by 9-10%. (Laser Tilkka 2015). With turnover EUR 6 million (2012) they can afford to recover the negative difference from other operations.

Eira Hospital then the other hand lists only prices without VAT and states in their pages that the nature of the operation is always evaluated by doctor who also makes a decision whether the operation has medical purpose or is it for aesthetical reason only. If it is for the latter, whole 24% will be added to price (Eiran Sairaala 2016). Both companies give good information on the new VAT procedures.

When consulting MD. Pakkanen, managing director of Siluetti Hospital, he made a clear statement, that due to the rise of VAT, profitability of the sector has decreased somewhat dramatically. Key concern is customer flow to other countries, namely Estonia, where prices are a lot cheaper (Pakkanen 02 May 2016). No VAT is added to plastic surgery prices in Estonia. This is apparently because plastic surgery is seen as health care service which is VAT exempt in Estonia.

It is also notable, that aesthetical clinics were not able to rise customer prices entire 24%, and therefore they suffer even more profitability loss. Turnout is fractioned since doctors working in certain clinic are usually private practitioners who will pay certain percentage from their earnings to the clinic.

5.3.2 Personnel renting

When considering the effect on other health care services such as personnel renting, the affect was immediate due to almost non-existing transition time. The change decreased industry's contribution margin since the operators did not have enough time to negotiate the prices with their customers. The state gives however still calculator 5% VAT deduction for municipalities even when they operate with 0% VAT. This can also be seen as favour for municipal sector instead of private sector operators (Piha 25 Oct 2014).

Change in VAT rates has affected the personnel renting companies in such way that they are no longer allowed to deduct the VAT on their own purchases. Thus, the short-term costs increased. Parallel, the removal of value added tax was affected in such a way that the public sector organizations received a refund of 5% from the state tax, so-called "piilo-arvonlisävero". In practice short-term income transfer 5% took place from staffing companies to customers (usually public sector organizations). Some of the actors tried to raise prices accordingly, but this was only partially successful. Tax effects were taken to the prices. In the long term, the effect is neutral or slightly positive. In the private sector the VAT rate is now equal to the health care production (Piha 24 Apr 2016).

Various business actors know how to calculate the effects of taxation on prices, so business-to-business services will be less affected. Different VAT rates have effect on consumer services, e.g. no VAT increases demand compared to situation where VAT of 24% is transferred into consumer prices.

Implementation in both cases was done by increasing customer prices. It is noticeable that the customers of health care personnel renting companies are mainly municipalities or local federation who operate mostly on public finance. They have a legal responsibility

to provide health care services. Whereas aesthetical surgery clinics are private and majority of their customers are end users who can choose whether to use these services or not.

5.4 The effect of VAT on health care sector employment rate

As stated previously this is a part that would have required more intensive field study. Health care business itself is somewhat incoherent sector regards labour. Main categories of labour in this field in Finland are doctors, nurses and practical nurses. Their employment rate is notable different. According to YLE news (2014 & 2015) the unemployment rate for both nurses and practical nurses is increasing. Year 2013 (latest statistics) the unemployment rate for practical nurses was 3, 4%. The increase was 22% between years 2013 and 2014 (YLE 2014). June 2014 there was 200 unemployed doctors, yet the same year there was only 0, 4 applicants per each vacant position. For nurses there was 0, 7 applicants per each vacancy (Helsingin Sanomat 2015).

In short, employment in health care sector is dependent on numerous factors. There is strong difference in regional distribution. Where e.g. in Northern Finland there might be shortage of doctors, in capital area there could be temporary unemployment. This is because some areas in Finland are not appealing to workforce. This is also where personnel renting companies come along. They are able to attract labour force by giving enough compensation and other inducements.

New SOTE reform has delayed staff recruitment in many regions. The funding of public sector health care is somewhat uncertain and municipalities are holding back many financial decisions. More information about SOTE reform can be found in chapter 2.4.

Even though one company stated that they have had redundancies (Pakkanen 2 May 2016), this result cannot be applied to entire health care sector employment. Therefore, the answer to this investigative question is not defined.

5.5 Reliability and validity of the study

This study is reliable in the sense that if it was done again at the same time with the same questions to exactly same people, it would yield same answers. Yet it is disputable whether reliability as such has an important meaning in qualitative research. More it is a question of persuading audience the importance of findings (Golafshani 2003). The matter of VAT in health care is alternating and vulnerable to subjective experience. The sample size of this study was neither extensive enough to give real reliable data of the subject.

Validity determines if the study truly measures what it was intended and whether the results are true. In this matter it is reasonable to ask, whether the hypothesis (research question) was correct. Did this study really measure the effect of VAT change on health care business? If the answer is yes, then this thesis is valid.

6 Discussion

The purpose of this study was to explore the effect of VAT change in health care sector (research question). In health care personnel renting VAT changed from previous 24% to 0%. In aesthetic surgery the change was opposite, from 0% to 24%. It was hoped to gain insight of the process behind composing EU laws and what affect they have on Member State's collateral legislation. Moreover, the aim was to see how this change is first implemented and secondly, what affect it has on profitability and employment rate of the sector.

In this research data was collected by using document studies, interviews and key informants. Analysis was done by testing the hypothesis (the change of VAT will have effect on both personnel renting and aesthetical surgery business) against what was found in previous literature and studies. In-depth interviews were conducted in order to see whether the results comply or diverge with the findings.

Following four research questions were used to compose this thesis:

1. How does taxation affect business supply and demand?
2. What was the reason behind this specific VAT change?
3. How has this VAT change been implemented?
4. How the change of VAT will affect health care business employment rate?

These investigative questions were satisfied in chapter 5. The overriding finding revealed that even though in personnel renting business there was a slight bend in business profitability in the beginning, the loss was quickly compensated with the customer price increase or with other moderate activities. Aesthetical clinics on the other hand suffered more from the increase of prices and have encountered profitability loss.

Tax authorities follow carefully the decisions made by European Court of Justice and modify their recommendations and decrees in compliance with European Union law. They do also follow the implementation of decree and publish additional instructions if needed.

CJEU's ruling on this matter was followed and VAT guidelines were updated according to this decision made. After 19.12.2013 there has been two other amendments 17.6.2014 and 8.5.2015 where instructions were made even more precise. According to Taipalus there has not been any questions of interpretation after this. MD. Pakkanen confirmed that decisions are now made by doctors and it is "easy to just follow VAT guidelines" (Pakkanen 2 May 2016). In this assessment the implementation has been successful. In the beginning of the thesis it was one of the ideas whether it will be questionable "where to draw the line" between aesthetical and corrective surgery and who is the authority who

makes relevant decisions. This does not seem to be a problematic issue neither for tax authorities or business operators.

Literature review reveals correlation between taxation and business profitability. This is an immense subject and business profitability itself is dependent on many more matters than just taxation. Therefore, it is not relevant in this context to deeper look into this subject.

When calculating competitiveness businesses have to take into account different taxes and their effect on profitability. They can choose to provide services in the house or out-source some of the functions. They can also make acquisitions offshore that do not attract VAT. Where EU battles against tax fraud and tax evasion, it makes sense to legislate taxation in such way that it does not allure businesses to act in unwanted way. If business is located in EU, it does have a significance what rulings are made in CJEU. Member states are more or less complied to follow these rulings and act accordingly. A small proportion of each state's VAT is paid to EU as levy. EU has set up VAT committee who publishes guidelines and working documents. Although VAT committee itself has no legal force, their publications have some impact on CJEU's decisions. Main concern is to harmonize EU taxation in order to avoid possible tax evasion.

Interview results gave such answers as expected. In health care personnel renting the decline in profitability was only temporarily. Because the question was only about VAT refund on the expenditure, they were able to compensate this with other activities. Many of these companies operate in various sectors other than just personnel renting, having for example own practice or clinic or businesses in other branches. Therefore, this VAT change did affect their operations only partially.

In aesthetic surgery the result of the rise in VAT was much more dramatic. VAT change resulted in decline in demand and decrease in profitability. In one company this meant cutting staff over half from what it was previously. Whether they did find job elsewhere, is not surveyed in this study.

Even though interviewees presented each sector of the study the number of interviewees is weakness of the study. Since there was no time either interest to interview more commissioners than one each sector, this can give somewhat distorted view on the subject. Each individual represents his/hers own subjective understanding on the matter and can have own interests in mind.

No previous studies on this specific matter has been done, so it was not possible to compare findings in this thesis into similar ones. VAT is global phenomenon and thus general studies do apply here.

It would have been interesting to study internal memos e.g. in taxation office to see how these decisions –or this specific decision regards VAT- come into being. Detailed studies of Parliaments legislation preparations would have been also fascinating. Due to the extent of this thesis, it was not relevant this time. It could be a good scope of further studies though. More extensive interviews would have needed in order to study the effect of this VAT change in health care business employment. Questionnaire would have been useful to send to as many representatives of the field as possible.

6.1 Conclusion

Both interviewees in health care sector did mention that decision behind this specific VAT change was made on political bases. Decision did have effect on health care services, but not as great as was thought in the beginning of thesis process. Personnel renting does not present major sector of the health care business, rough estimate is that ~20% of health care personnel are employed by personnel renting companies (Piha 15 May 2016). VAT change had effect on competition neutrality due calculator 5% VAT refund that is given to public sector operators. Ongoing structural changes in health care sector (SOTE reform) do have more powerful effects, VAT being only part of that (Piha 15 May 2016).

Regards aesthetical surgery, loss was greater. Profitability decreased due increase in customer fees which in turn resulted customer flow abroad. Loss of profitability means also less corporate taxes for government. One cannot help but to think whether the extra expenditure gain from VAT will cover the loss in other taxes.

VAT has many aspects and many interactions. It is effective fiscal consolidation tool for governments. At the same time one has to bear in mind that it can and will effect on business profitability and thus revenues that government will gain from corporate taxes and income taxation. If the effect is negative, i.e. sector profitability will suffer, this will also lead to unwanted effect of unemployment which will in turn cause both social and financial burden to community.

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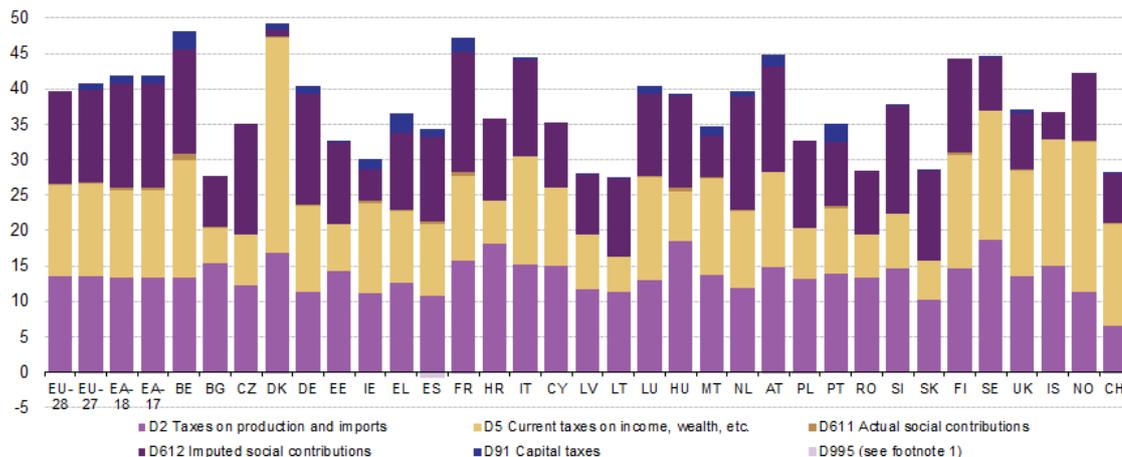
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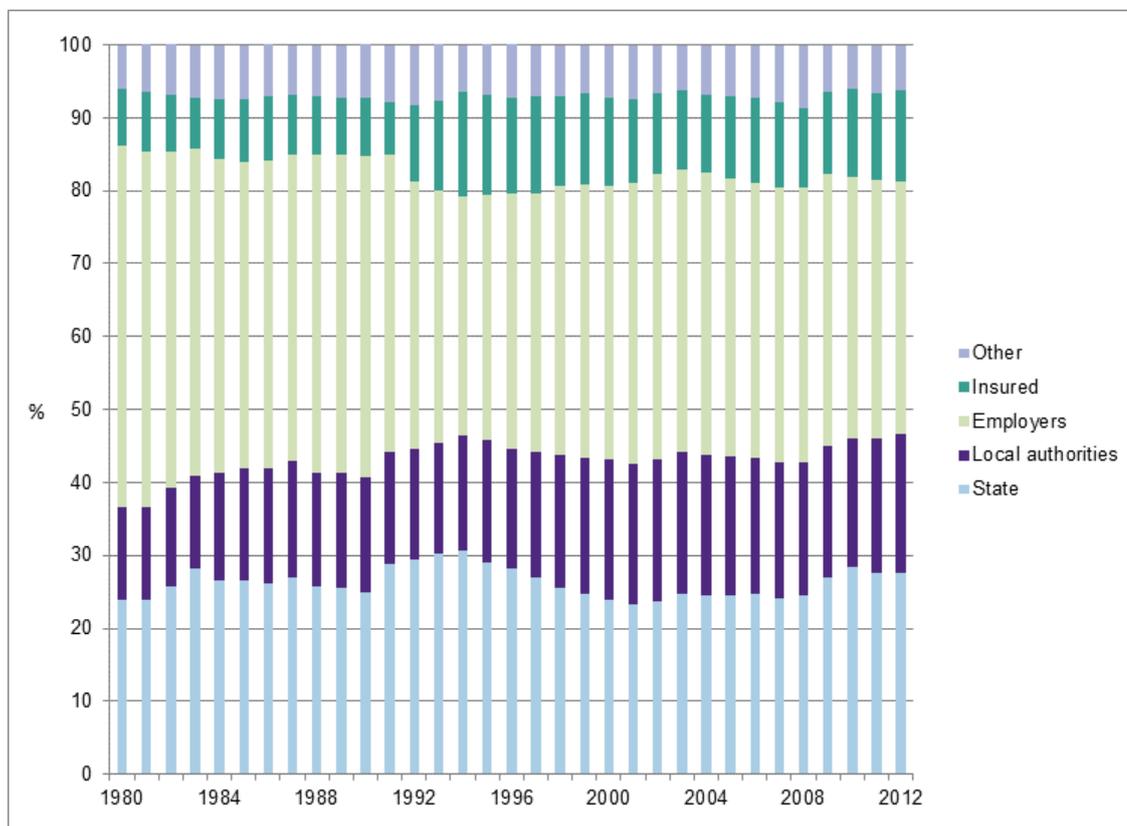
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Appendices

Appendix 1. Breakdown of tax revenue by country and by main tax categories (percentage of GDP). Source: Eurostat March 2014



Appendix 2. Financing of social expenditure 1980-2012. Source: THL



Appendix 3. Original overlay matrix

Investigative Questions (IQs)	Theoretical Framework (concepts & models)	Expected results (Chapter number in survey or interview frame)
IQ1.How does taxation affect business capacities?	Cost and demand	
IQ2.What was the reason behind this specific VAT change?	Tax regulation, EU law	
IQ3.How is VAT in health care services in other EU countries?	EU law, court decisions, ECJ suggestions, equal treatment	
IQ4.How has this VAT change been implemented?	Primary data collection	
IQ5.How the change of VAT will affect health care business employment rate?	Demand and supply, recession, inflation, government regulations	

Appedix 4. Interview information. Interview with Päivi Taipalus.

Interview for the thesis “The effect of VAT change in health care services”

In Finnish

Interviewer: Katja Ylämö, bachelor student of Haaga-Helia University of Applied Sciences

Interviewee: Päivi Taipalus, Senior Tax Advisor, Head of Value Added Tax Department

Interview method: Email

Interview date: 4.4.2016

Interview questions:

1. Mikä oli syy terveystalvelujen arvonlisäveron muutokseen A160/200/2013. Ilmeisesti muutos ainakin osittain pohjautui EUT:n tuomioon C91-12.
 2. Mikä merkitys EU:lla on mielestänne yleisesti terveystalvelujen ALV:n kanssa. Onko tulossa uutta päätöstä, jonka seurauksena Suomen olisi muutettava omaa tulkintaansa.
 3. Miten kyseistä päätöstä on sovellettu. Onko ollut käytännön soveltamis- tai tulkintaongelmia. Jos, niin mitä.
 4. Onko mielestänne tällä päätöksellä muuttaa terveydenhuollon arvonlisäverotusta ollut vaikutusta terveydenhuollon alan työllisyyteen.
 5. SOTE:n tarkoitus on tehdä julkisesta ja yksityisestä sektorista tasaveroiset palvelun tuottajat. Onko tarkoitus muuttaa tai poistaa kuntien laskennallista 5% arvonlisäveropalautusoikeutta.
-

Appedix 5. Interview information. Interview with Timo Pakkanen.

Interview for the thesis “The effect of VAT change in health care services”

In Finnish

Interviewer: Katja Ylämö, bachelor student of Haaga-Helia University of Applied Sciences

Interviewee: Timo Pakkanen, Managing Director, MD, PhD, Plastic Surgeon, Hospital Siluetti

Interview method: Personal interview

Interview date: 2.5.2016

Interview questions:

1. Näkykö ALV:in nousu 0% 24%:iin hinnoissa?
 2. Mikä oli ALV muutoksen taustalla?
 3. Mikä on ollut ALV noston vaikutus liiketoimintaan?
 4. Mikä on ollut ALV nousun vaikutus alan kannattavuuteen?
 5. Onko ollut ongelmia päätöksen tulkinnanvaraisuudessa?
-

Appendix 6. VAT in EU countries. Source: Wikipedia

Country	Standard rate	Reduced rate
 Austria	20%	10% for rental for the purpose of habitation, transportation of passengers, garbage collection, books and periodicals, food, revenues from artistic works.
 Belgium	21%	12% or 6% (for food or live necessary consumables) or 0% in some cases
 Bulgaria	20%	9% (hotels) or 0%
 Croatia	25%	13% (since 1 January 2014) or 5% (since 1 January 2013)
 Cyprus	19%	5% (8% for taxi and bus transportation)
 Czech Republic	21%	15% (food, medicines, books, public transport)
 Denmark	25%	0%
 Estonia	20%	9%
 Finland	24%	14% or 10%
 France	20%	5.5% or 2.1% or 7%
 Germany	19% (Heligoland0%)	7% for foodstuffs (except luxury-), books, flowers etc., 0% for postage stamps. (Heligoland always 0%)
 Greece	23% (16% on Aegean islands)	13% (6.5% for hotels and pharmacies) (8% and 4% on Aegean islands)
 Hungary	27%	18% or 5%
 Ireland	23%	13.5% or 9.0% or 4.8% or 0%
 Italy	22% ^[13] (Livigno0%)	10% (hotels, bars, restaurants and other tourism products, certain foodstuffs, plant protection products and special works of building restoration) or 4% (e.g. grocery staples, daily or periodical press and books, works for the elimination of architectural barriers, some kinds of seeds, fertilizers)
 Latvia	21%	12% or 0%
 Lithuania	21%	9% or 5%
 Luxembourg	15%	12% or 9% or 6% or 3%
 Malta	18%	5% or 0%
 Netherlands	21%	6% or 0%
 Poland	23%	8% or 5% or 0%
 Portugal	23% 22% in Madeira and 18% in Azores (Minimum 70% of mainland rate)	13% or 6% 12% or 5% in Madeira and 9% or 4% in Azores (Minimum 70% of mainland rate)
 Romania	24%	9% (medication, books, bread) or 5% (first time buyers of new homes under special conditions)
 Slovakia	20%	10%
 Slovenia	22%	9.5%

 Spain	21% 7% in Canary Islands(not part of EU VAT area)	10% (10% from 1 September 2012 or 4% 3% or 0% in Canary Islands)
 Sweden	25%	12% (e.g. food, hotels and restaurants), 6% (e.g. books, passenger transport, cultural events and activities), 0% (e.g. insurance, financial services, health care, dental care, prescription drugs, education, immovable property)
 United Kingdom	20% 0% on Channel I	5% residential energy/insulation/renovations products, child safety seats and mobility aids and 0% for life necessities – basic food, water, prescription medications, medical equipment and medical supply, public transport, children's clothing, books and periodicals