

The use of holding companies for tax and investment purpose for small investors

Olli Uronen



Author(s) Olli Uronen	
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<p>This thesis researches the use of a holding company in tax planning and investing for a small investor. There is not much information available specifically about this topic and this research aims to bring some knowledge to the reader.</p> <p>An interview was conducted with one entrepreneur who is currently utilizing a holding company for asset management and tax planning purposes. The interviewee stated that it is very wise to consider using a holding company. Much of the study was conducted as a desktop study by reading quality books and online sources like Tax Administrations web pages. Example cases present the effects of taxation in different cases.</p> <p>The goal of this thesis is to research a few different aspects of tax planning and investing in stocks and provide some recommendations for small investors and for especially those who are planning to use a holding company to gain lighter tax burden while increasing the total value of assets.</p> <p>The main result of this study is that a holding company provides significant benefits when there is no need to withdraw huge amounts of assets quickly and when those assets are instead used to grow businesses or they are invested to grow asset value. Postponed tax burden when withdrawing money from a holding company is so heavy that for most cases the use of a holding company is not recommendable.</p>	
Keywords Tax planning, Holding company, Dividend, Limited liability company	

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1 Introduction

This thesis will discuss tax planning by using a holding company from the viewpoint of small investor and investigate a few cases where it would be possible to gain some benefits from this set up. Thesis is part of Bachelor's Degree Programme in International Business.

The thesis consists of 4 chapters and each chapter has sections and subsections.

The first chapter will introduce the topic and how the research was conducted. Starting with thesis background questions like why the topic was chosen to be researched and what kind of motivations drove me into writing it. Research question subchapter will pinpoint the topic more precisely together with the demarcations. International aspect describes what other country was chosen to be studied in this thesis and the reason why it was chosen. Benefits briefly describe the benefits for the writer and for anyone who is wondering how they could benefit from a holding company as a small investor. Key concepts act as a sort of introduction to the topic and risk management is more for the writer as how risks are managed during the writing process.

The second chapter gives introduces and presents the necessary theoretical framework of this research and it will help anyone who reads it to understand the key elements in this topic. This knowledge acts as the basis on which the research was conducted.

The third chapter presents the research methods and research design. It uses the theoretical framework to present the reader with how research data was collected and how analysis was conducted providing information for the final chapter

Chapter 4 concludes the study. It provides reader with key findings and recommendations. Chapter 4 will be the go to place for anyone who desires to learn this topic with a glance.

1.1 Background

Purpose of this thesis is to find out when using a holding company is a good option for a small investor from taxation viewpoint. It discusses the topic by considering tax planning, dividend taxation and asset management from the point of view of a small investor. Every investors situation should be estimated case by case.

Why I chose this topic is that my friend was thinking the best way to take care of his assets since he owned a part of a few companies and he already had a holding company for this purpose. The idea is to give more information about how useful this setup would be for his purposes. After a quick search and a call to the tax official, we did not have any useful information and the only way to get information would be to hire a tax lawyer or some other consultant.

For the reader, the thesis will describe some of the different possible benefits that can be acquired by using a holding company. The reader will find out the possible advantages as well as disadvantages. I hope that clear limits are found that define what size of operations must be involved to gain the benefit and what kind of limitations or risks are involved.

For myself the thesis is going to provide valuable information of a holding company. If the findings show that it could provide meaningful benefits to small investors, I will provide the information to the entrepreneurs that are participating in the thesis process via interview and provide them with insights of my findings. This thesis will provide networking and possible business opportunities.

1.2 Research question

This thesis aims to examine the scale and scope of opportunities a holding company can provide to start-up owners. The thesis investigates possible advantages and disadvantages by analysing example cases by considering taxation, asset management and opportunities provided.

This thesis is trying to clarify to its reader when and how a holding company could offer beneficial results. Related important topics are taxation, asset management and dividends. Small investors face difficulties when trying to find out if a holding company would be the right option for their needs. This research question and the investigative questions are produced to explain opportunities provided by a holding company.

To find answer to these problems I have chosen the following research question: **How can a small investor use a holding company to its advantage in Finland?** The research question is then divided into following investigative questions (IQ):

IQ 1. What kind of tax planning can you do with a holding company?

IQ 2. What advantages and disadvantages there are in managing assets using a holding company?

IQ 3. What motivations there are for using a holding company?

IQ 4. What kind of benefits there would be for a Finnish person to set up a holding company in Estonia from tax perspective?

Table 1. Overlay matrix

Investigative question	Theoretical Framework	Research Methods	Outcome
IQ 1. What kind of tax planning can you do with a holding company?	Literature on tax planning and financial accounting, holding company legislation	Desktop study, Qualitative Interview	Limitations and possibilities. Minimum limits to understand where taxation benefits are acquired.
IQ 2. What advantages and disadvantages there are in managing assets using a holding company?	Literature on tax planning and financial accounting, holding company legislation	Qualitative Interview, Desktop study	An increased idea of possible advantages and disadvantages.
IQ 3. What motivations there are for using a holding company?	Literature on tax planning	Qualitative Interview, Desktop study	Descriptions of the situations and motivations when these are used.
IQ 4. What kind of benefits there would be for a Finnish person to set up a holding company in Estonia from tax perspective?	Literature on financial accounting, tax planning and previous research done by peers	Qualitative Interview, Desktop study	Estonian tax from investing point of view for a small investor.

1.3 Demarcations

The thesis discusses small investors using a holding company to invest and grow assets. The topic is self-restricting and applies only to a very small group of small investors in Finland. At first, I was attracted to research the use of a holding company for small to medium sized enterprises, but focusing on just small investors narrows the research. This will make the thesis more focused to provide better and reliable information.

Thesis is not talking about setting up a holding company for everyone; instead, thesis is focusing on small investors. Thesis is going to be discussing from a Finnish point of view.

Thesis is going to introduce and research Estonian taxation as a possible alternative to setting up a holding company in Finland.

The topics investigated provide a good idea of a holding company and opportunities it provides to a small investor.

1.4 International aspect

To address the international aspect, thesis will compare a holding company opportunities from taxation perspective in Estonia and compare them to a Finnish taxation. Estonia has been chosen for several reasons. Estonia is known for very modern way of utilizing internet very efficiently in handling e-citizenship related issue, banking and other bureaucratic tasks. Taxation differences and very bureaucracy light entrepreneurship make it an appealing option for Finnish entrepreneurs and many have chosen to set their businesses there.

Because taxation is constantly changing as it is a major tool to steer a countries economy this topic is ever evolving and extra study on the topic is recommended already when this thesis is not more than a year old. Differences in taxation in Finland compared to Estonia are mostly investigated in this thesis and it will provide information to key factors when a small investor is deciding different strategies for their endeavours.

1.5 Benefits

Thesis will provide answer to a question in investor community and will give an idea what kind of situation investor would have to have to gain advantages from using a holding company. Currently there are no compact up to date information available for this topic.

To myself it provides interesting learning process and maybe some future possibilities in helping others to evaluate their situation, to set up and to use a holding company as a way of asset management.

If executed well, thesis will tell to reader how and when a holding company would be the right option to execute their tax planning and asset management and should they consider setting up the company in Estonia instead of setting it in Finland.

1.6 Key concepts

Tax planning is a way for company, or individual, to optimize its paid taxes and assets in available in the way that is most efficient for the company and the owners of that company. For example, tax planning happens in companies when choosing a suitable company form, making investments decisions, choosing financing methods and deciding what amount of asset is taken out as capital income and earned income. Two main categories of tax planning are strategic and operative level. (Vilkkumaa 2014, 187.)

Decision of what company form to use and what is the structure and ownership relationships are both part of the strategic tax planning. On operative level the planning is more practical and it includes, among others, consideration of taxation law changes and timing financial moves to suit the wanted taxation effects. (Vilkkumaa 2014, 189.)

It is hard to define when tax planning ends and **tax avoidance** starts. Normally tax avoidance is done with the motivation of trying to avoid paying taxes. If the decisions are done with this motivation of tax avoidance and against the meaning or purpose of the law, the act can be taxed within the law. Predetermined legal practices give mostly good advice how to interpret the law but sometimes there are no predetermined legal practice on the issue and this creates a problem from the tax-planning point of view. The way to avoid any unwelcome surprised from the tax office is to ask and pay for preruling on the specific issue or question. (Tax Administration 2013.)

Limited liability company (LLC) is the most common form of business in Finland since the trade register had registered at the beginning of years 2018 a total of 270,553 limited companies, or about 40% of all registered companies. (Patent and Registration Board 2018a.)

One of the most significant strengths of a limited liability company is a limited liability company and its shareholder separate tax treatment. The taxation of a limited liability company and a shareholder is complicated, but when the tax planning succeeds, the overall tax burden is more favorable than in other business forms.

Shareholders are not personally responsible for the company's obligations because the limited liability company is independent legal person. However, the shareholders are responsible for the obligations, to which they have committed themselves before the company has been entered in the Trade Register and given collateral on loans taken by the company.

A holding company is a LLC that has been founded for holding and managing of assets for the owners of that company. A holding company's taxation works in the same way as any other company's taxation. It must hold at least one other company's stocks but there are no limits on its other businesses nor limitations on its relative holdings percentage on other companies. A holding company may do other business than just hold and manage assets.

Capital income tax is progressive. Tax rate is 30% for capital income up to 30 000 euros and any amount exceeding 30 000 euros the tax rate is 34%. Dividends are subject to capital income. Dividends are taxed differently based on first if the receiver is an individual or a company and is the dividend payer a LLC or listed LLC.

1.7 Risks and risk management

Taxation is topic that is constantly changing and should be always checked if the information is up to date. Demarcation has been done in a way that I feel is proper and the topic fits my ambitions perfectly. I believe that information gathering for research is going to be easy because there is information available for things like tax planning, asset management and taxation from official websites.

2 Efficient taxation by considering the laws, operations and goals.

The focus in this thesis is to find to most efficient way for an investor to use or not to use a holding company for tax planning purposes and the government official website Vero.fi provides the most reliable information to research this. High quality literature will be used to show that the relevant concepts and theories are used to research the topic comprehensively and that the result are reliable.

Taxation planning is the focus of the thesis and it will be the key point of any research made in theory or otherwise. Taxation planning using a holding company is narrowing our focus more but still many of the rules that apply to any limited company apply also to a holding company and therefore should be studied to understand the subject more.

Two sub categories in theoretical research will be asset management and tax law. Both with their own sub categories. Concentrating on these two sub categories hopefully limits the scope enough to keep thesis a tight but rewarding topic and enables that results are useful recommendations for small investors who are using or going to use a holding company to their benefit.

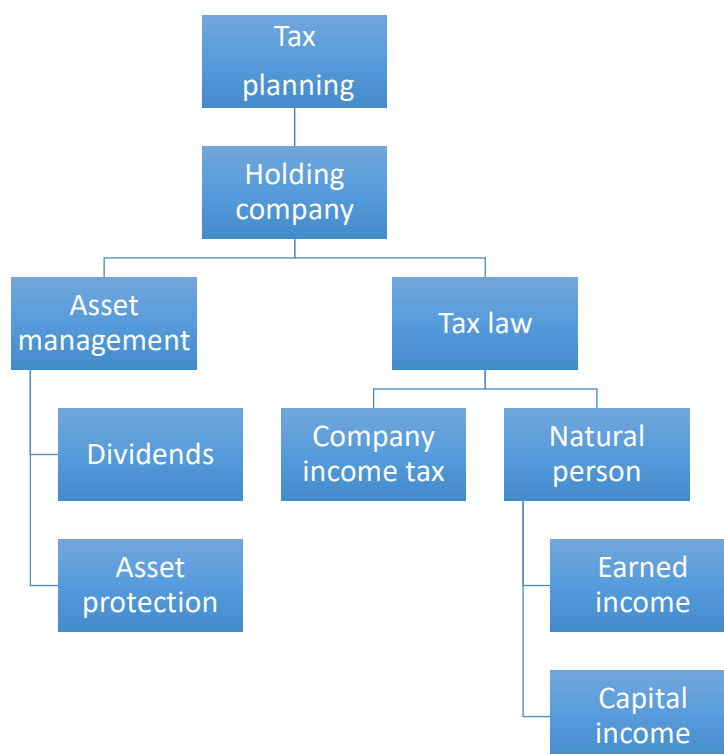


Figure 1. Theoretical framework

Figure 1 displays the key concepts and the core of this thesis. The aim here is to clarify to the reader how the thesis will discuss the topics by providing clear boundaries to what is meant by tax laws, dividends, loans and asset protection is in this thesis.

2.1 Tax planning

The purpose of tax planning is to anticipate the various options attached to it tax penalties so that the goal of the entrepreneur is also considered. Tax planning the aim is to find a consistent and long-term operation for the accounting obliged to abide by the principle of continuity, and thus the change of chosen accounting way needs always reasoning.

Key part of a company's financial planning is to plan for financial statements and profit distribution. A part of this is tax planning that is meant to prevent tax inefficiencies and uncontrolled emergence of tax implications. Tax planning aims to find the most tax efficient option for the company (Siikavuo 2016, 161.)

In Finland the two main purposes of financial reports are: First is to calculate distributable profits and to convey information to a company stakeholders. The second is to determine the taxable income. In terms of taxation, accounting reliability is essential. The tax authorities measure this reliability with the accuracy of the financial statements, based on an auditor's opinion, balance sheets continuity and compliance with deadlines. (Siikavuo 2016, 162.)

The most important tax planning for a company is:

1. Anticipating tax implications.
2. Finding ways to operate that allows achieving the most beneficial tax cost.
3. Predicting and minimizing the owners' tax penalties.
4. Forecasting the timing of the tax payment and monitoring liquidity.
5. Preventing the formation of uncontrolled situations. (Siikavuo 2016, 162.)

The Law on limited liability companies stipulates that one of the limited liability company's main objective is to accumulate profit. Thus, it is natural for the management to pay attention to the tax aspects of the company. Limited company pays taxes only on its positive result, that is, the difference between the income and expenses of the company. In 2019, the corporation pays a 20% corporation tax on its profits. A limited company can deduct the wages and benefits in taxation as long as they are deemed reasonable. Care should be taken with the benefits in kind, as the tax authority can estimate the benefits as covert dividends, which would result in residual taxes or even legal actions.

2.2 Levels of tax planning

When describing a company's management system, it is often referred to as strategic planning, tactical planning and operational planning. The purpose of the plans is to point out the way in which a company can reach its long and short-term goals. These levels apply to tax planning too and are described as strategic, tactical and operational levels. It is difficult to draw definitive lines between these levels as they are interconnected in many ways. Separating different actions and decisions on their own levels is beneficial because it helps when issuing actions and responsibilities.

Decisions are thought being more strategic when implementing those decisions are more irreversible. For example, big investments or industry change are strategic. Strategic level decisions are considered as the foundation of company's business endeavors where many of the base components of the future are laid. Strategy implies the company goals and how it has planned to be achieved. Tax driven strategy decision is, for example, company form because it has effect on how the company and its owners are taxed. Mergers, selling of operations or shutting down the company are all possible strategic options. (Leppiniemi & Walden 2014, 148.)

Choosing the company's fiscal year and company's short-term activities, among others, are more easily changed and therefore are tactical or operational decisions. Those tactical and operative decisions are also usually done quickly and so that they do not have long-term effects.

Tactical decisions in tax planning are meant to provide means to achieve targets. It is common that companies have targets set by their owners, where it's determined how much dividends are distributed. Tactical tax planning decision could be also when company pays dividends to owners as well as salary. The goal in this is to size the amount of earned income and capital income in the most tax efficient way. Other tactical tax planning decisions are, for example, fiscal year timing, moving, investment timing and financial relations planning. These could be rental of property, loans between parties and so on. (Leppiniemi & Walden 2014, 148.)

Operative tax planning includes the continuing and systematic following of tax law legislation and case rulings. Operational tax planning should be implemented in accordance with the above principles so that the latest legislation and case rulings are respected in the company's ongoing operations and in the financial statements. Operational tax planning is the starting point for tactical and strategic tax planning as well as reviewing tax planning.

Operational planning also involves taking care of that accounting, business transactions and financial statements are well dealt with. In practice, operational tax planning means that the activities needed for tax planning are properly done and the staff responsible for them, such as financial administration and the CEO, have sufficient information and skills for their success. The general question in operational tax planning is that the organization has received enough education and training regarding the matter. (Leppiniemi & Walden 2014, 149.)

If the desired accounting or tax requirement can be achieved by several alternatives in the way, it is important to note the company's flexibility in the selection. (Leppiniemi & Walden 2014, 147.) This thesis suggests that an individual who owns or is planning to set up a holding company is seeking flexibility as well as efficient taxation and that is why they have made the strategic decision of using a holding company to manage their assets.

2.3 Limited liability company

A limited liability company is an association of one or more persons or legal entities. Limited Liability Company has a share capital of at least 2500 euros. The company's purpose is to produce profit to shareholders, unless otherwise stated.

The only compulsory body of a limited liability company is the board. Board members and potential the alternates have been entered in the Trade Register's information and their term of office is valid for the time being. The Board consists of one to five members, unless the above-mentioned not otherwise provided in the articles of association. If there is only one owner in the company, there is no need to choose the board member.

The owner of Limited Liability Company is liable with only money they have invested in the company. This also means that often the company is not able to get loans without the owner personally guaranteeing the repayment of the loan.

A holding company is founded to hold assets on behalf of the owners of the company. This doesn't limit the possibility to do business itself and it can be very useful when doing extra work such as consultation work and the owner can just do the invoicing using a holding company and relief the partner of complicated employer paper work.

2.4 Corporate tax

The aim of business operations is to generate profits, as defined in the limited liability company law. However, deviations from the above may be made in the articles of association by describing the company as non-profit. Business activity is subject to direct taxes. The direct taxes are taxes that are always levied directly from the taxpayer. Predominant Immediate tax is income tax. Immediate taxes remain as the company's own burden.

2.4.1 Corporate income tax system

In recent years, the tax base of limited liability companies has been significantly reduced. In 2013, the corporate tax rate was 24.5% and currently it is only 20%, which on the other hand is less than half of what it has been in the 1980s. Calculation of the corporation tax rate aims to influence international competitiveness.

A limited liability company is independently taxed on the result and shareholder separately at the point of profit distribution in form of salary or dividend. However, an exception may be, for example, where the owner-entrepreneur's income, such as salary income or other similar earned income has been transferred to a limited liability company; this income may exceptionally be considered taxable as an entrepreneur's income instead of a limited liability company.

2.4.2 Income of a limited liability company

The company's income sources are; business, agriculture and personal income. The income of a personal income source is a property leased by a limited company is not related to business activity. The input of each input source is always calculated separately and here the result may be deducted from previous income tax losses for the same income source. The loss of one input source cannot be deducted from the gain of another revenue source. The taxable income for each income source is calculated and the amount of corporation tax is calculated of this aggregate amount.

2.4.3 Calculation of taxable income

The corporation tax is calculated by deducting the taxable income deductible expenditure. When taxable income exceeds the income deductible expenditure, the company is considered to have taxable income. The salary paid to the entrepreneur is also considered as an

expense, if the pay is reasonable. The estimated earnings of the company are also subject to advance tax, i.e. tax paid in advance. The estimated result based on which advances are determined is formed based on previous financial years. The amount of pre-tax is reflected in the true result the amount of tax claimed. If advances are not enough to cover the actual amount of tax, it is the company's duty to make a supplementary fee, for example an additional payment.

When the company pays too much advances, the tax administration will pay the tax as a tax back later. However, it is not ideal for the taxpayer to pay too much and to wait refund but, if necessary, during the fiscal year to correct the estimate in order to match the advance tax the amount of the actual amount of tax is as precisely as possible.

2.5 Dividend taxation

The taxation is for dividends is evaluated based on four different criteria. First is to define if the receiver is a company or a private person. Second criteria is to check if the dividend distributor is listed LLC or unlisted LLC. Third factor is based on how large the dividends are. The tax treatment for amounts under 150 000 euros is lighter than the amounts over 150 000 euros. Fourth criteria is based on the mathematical value of the stocks and is the dividend under or over 8% of that value. (Manninen & Savander 2018.)

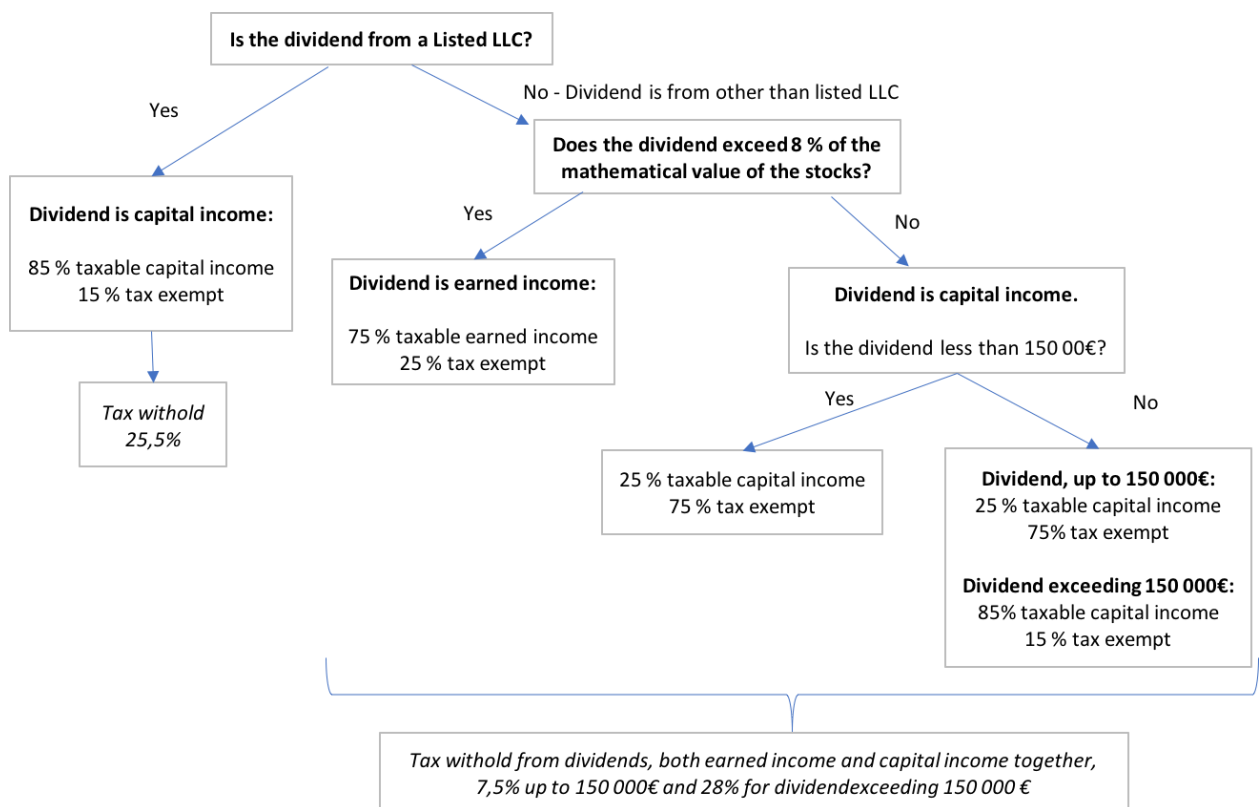


Figure 3: Dividend taxation

Private person receiving dividends from an unlisted company should check if the dividends are less or more than 8% of the mathematical value of the stock. The second thing would be to check if the dividend is under 150 000 euros. If the dividend is under 8 % of the mathematical value, 25% of the it is taxable capital income and 75% tax exempt up to 150 000 euros. Anything over 150 000 euros would be 85 % taxable and 15% tax exempt. Private persons all dividends from unlisted companies are counted together in order to estimate if it's over 150 000 euros. When the dividend for private person is over 8% of the mathematical value, 25% is tax exempt and 75% taxed as earned income based on the persons own tax rate. (Tax Administration 2017b.)

Dividend from listed LLC are 85% taxable capital income and 15% tax-exempt income for a private person. The company paying dividend makes 25.5% tax withhold before paying the dividends. The tax rate for capital income is 30% if the amount is under 30 000 euros and 34% for amounts exceeding the 30 000 euros. (Tax Administration 2017a.)

For a LLC dividend from a listed LLC are fully taxable with corporate tax of 20%. The exception is that if the company owns at least 10% of the total stock of listed LLC all dividends are tax exempt. (The Ministry of Finance 2019.)

2.6 Fiscal year financial planning

Tax planning during the actual fiscal year means that a small enterprise and its owner planned actions during the financial year. One of the most important goals is to increase the net worth, which in turn aims to influence the distribution of profits in the form of dividends. For the for the owner of a holding company the important questions are: do they want to use the money to invest and increase the value assets of that a holding company and when do they need the money and if they need to get some to personal use, whether they should take it out as wages or dividends.

2.7 Transferring stock from a natural person to a company

A natural person usually, when establishing a holding company, transfers his assets to the company. The transfer of wealth can take place in two different ways: cash or as a contribution in kind. Contribution in kinds means transfer of asset, something else than cash, for

the company. Contribution in kind will induce tax burden on the natural person who transfers the assets. According to Supreme Administrative Court (KHO 1993/5330.) ruling the settlement price for contribution in kind is the fair value of the assets at the time of transfer. The transferee, meaning the limited liability company, must pay, as ruled in tax for the contribution in kind, which is 1.6% of the purchase price or some other asset value.

Supreme Administrative Court has two example cases. These cases provide adequate information about how the basic idea of this event works.

Natural persons A, B and C owned together limited liability company X's stocks. A, B and C each incorporated a joint stock company whose shares were acquired by the founder. When A, B and C sold the shares of X Oy to a new company below the fair value of the company, the divestments were deemed to be comparable to investments. The transfer price of the property was therefore considered to be the fair value of X Oy's shares at the time of the transfer considered as such in the taxation of each natural person. Preliminary ruling for 2008 and 2009. (KHO 2009/1634.)

In the second case, the persons residing in Finland were to invest the shares of A Oy, which they hold, to a Swiss a holding company whose share capital they have completely owned. The shares were invested in the company as a contribution in kind. The A Oy stocks were then valued, when the capital gains realized, per their fair value at the time of the transfer (KHO 1993/5330.)

2.8 Estonian taxation

In Estonia, the Corporate Income tax is 20 % but all undistributed profits are tax exempt. The tax is taking effect only at the time of profit distribution. Estonia is famous for its simple flat 20 % tax rate and modern internet services for corporations (PWC 2019.)

3 Research methods

The research is going to be done by conducting a few qualitative research methods. Data was collected mostly by desktop study and one interview done with an entrepreneur who currently is utilizing a holding company. Wide collection of books from respected authors were research to provide a wide a trustworthy theoretical background. Important part was also to research Finnish tax laws by reading the related laws.

Estonian law was mainly studied by using trust worthy websites that provide information related to taxation and business practises used there.

Sources are available largely in libraries and online. Books selection in Helsinki libraries provide a good and in depth knowledge about tax planning in Finland. Laws and tax information is largely available online.

Interview with the entrepreneur using a holding company to manage assets and do tax planning provided very good insight of the practical uses and how he sees several other points around this topic.

3.1 Research phases

This sub chapter will describe how each research phase went, what resources were used and what were the results that each phase produced. The research was conducted in four phases.

3.1.1 Finding reliable and relevant sources

The research was conducted mostly as a desktop study. This consisted of library, online search and tax law readings. Library search provided very good set of books. The books were found by digging through piles of books and utilizing libraries online search engines to search for keywords.

For online search, Theseus and Google Scholar were two most used tools. Tax law and case rulings are very easily accessible online thanks to tax officials' website. This phase provided sound background information and basis to go forward in the research. Theoretical framework was created thanks to these findings.

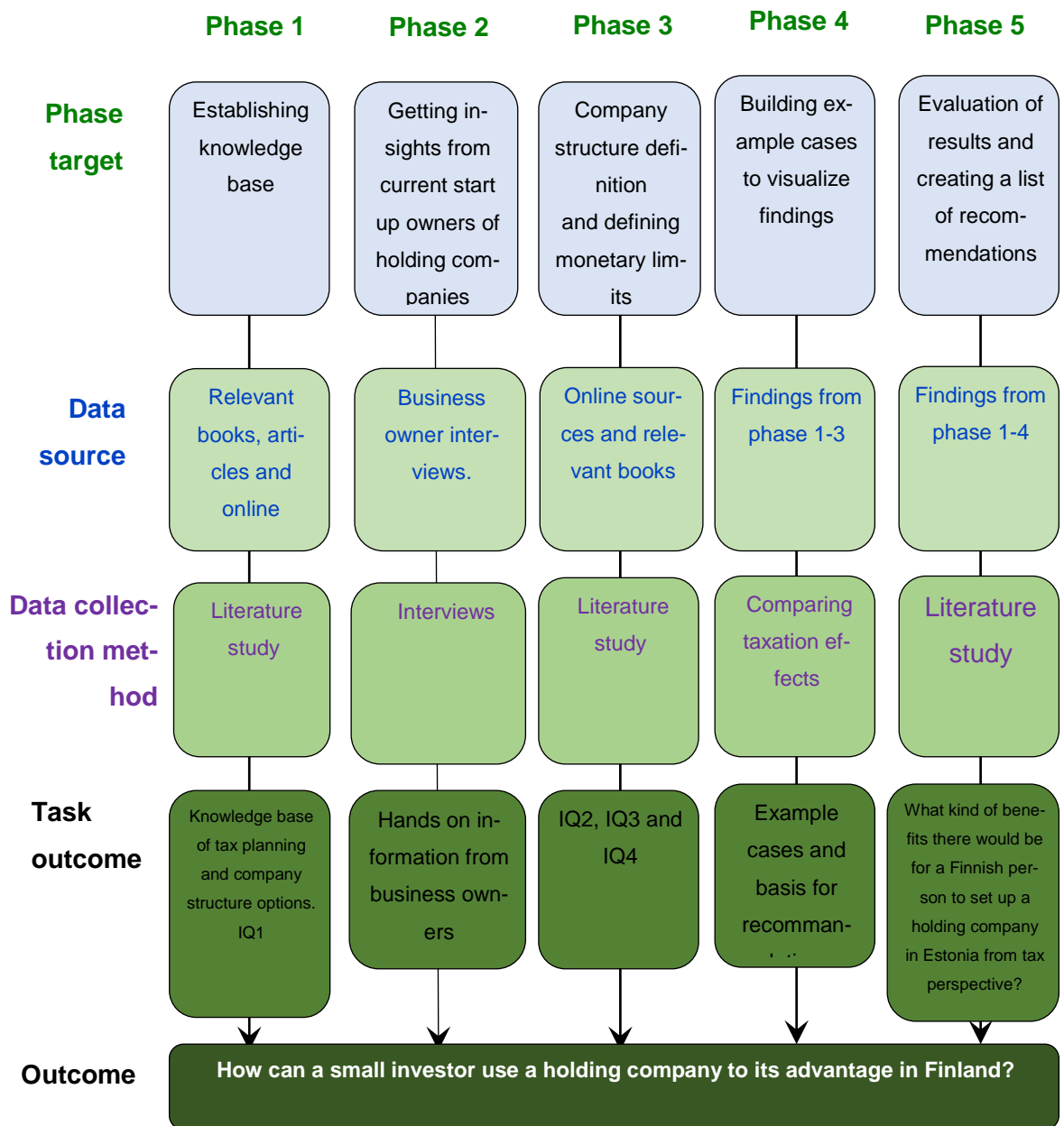
3.1.2 Comparing example cases

Small investors are likely to have their own unique situation with unique, set of assets and objectives for short and long term. That is why each case should be carefully evaluated and the execution methods chosen based on that evaluation.

In this thesis, I provide a few different case examples with calculation to give the reader an idea what could be the suitable way to go with certain objectives for short and long term. Then these cases are investigated and discussed to show what kind of taxation effects and options a small investor has.

3.2 Interviewing a business owner

To ensure that the thesis provides the reader the best possible information an interview was conducted with a business owner who uses his company to hold assets such as stocks and cash. The interviewee gave very useful input of how to use a holding company and how much extra work did this method require. The interview was conduct via Skype. The business owner in question did not need to withdraw any cash from the holding company and had a couple of years of experience



RQ: How can a small investor use a holding company to its advantage in Finland?

IQ 1. What kind of tax planning can you do with a holding company?

IQ 2. What advantages and disadvantages there are in managing assets using a holding company?

IQ 3. What motivations there are for using a holding company?

IQ 4. What kind of benefits there would be for a Finnish person to set up a holding company in Estonia from tax perspective?

Figure 2. Research process

Figure 2 describes how different phases of research are conducted and what outcomes they provide. It also shows what investigative questions are answered during these phases.

4 Research findings

The empirical part of this research consists of four different cases. Each case is its own separate situation that might come up for investors and would be wise to consider beforehand. The purpose of these cases is to provide a clear and thorough understanding of the effects and issues of using a holding company for managing assets and tax planning. Then cases are reflected to the situation when a natural person manages assets.

4.1 Interviewing a holding company owner

In the phase two of the research a business owner was interviewed and the interviewee manages his assets and does his tax planning by using a holding company. The interview questions were sent by email so that the interviewee could have some time to think answers and the actual interview was conducted over the phone. Purpose of the interview was to get more insightful background information about the research topic. The interview was conducted in December 2018.

The first question was how the interviewee did up came with the idea of using a holding company. The interviewee told that in his mind the choice was obvious for three simple reasons.

First reason was that the interviewee knew that he would have stocks from multiple unlisted and listed companies that he wanted to manage through one company. As a serial entrepreneur, he saw this as the optimal way to manage his assets. He could use the assets he in the holding company to provide financing to his other businesses or invest them in some way, mainly stocks and funds, when there was no other use for the money currently.

Second reason interviewee described was that he wanted to avoid paying taxes after every step and this could be avoided by managing assets with a holding company rather than personally. Since dividend from unlisted companies are tax exempt and the tax from listed companies is lower for company than to person the choice was easy.

Third reason was that he wanted to grow his companies in the future and this meant that taxes could be postponed until better time. Own personal financial situation being stable. The risk of suddenly having to withdraw large amount of assets from a holding company was relatively low.

The second question was if the interviewee knew anyone else with the same type of situation and if yes, how they used a holding company to their advantage. Interviewee said that he knew many who have used a holding company for the same reasons and to achieve similar benefits as he has.

The third question was that does the interviewee find it easy or hard to gain the benefits from a holding company. He said that the short answer is that it is very easy. It takes maybe an hour a month to do the administrative task related to a holding company and once a year at the end of the accounting period it takes about three hours to perform accounting period closing tasks. Other tasks like moving money or investing does not take any more time than it would take without the company.

The fourth question was that is he using a holding company to manage asset. Interviewee told that he did this in the ways discussed before and added that if he'd use the asset to fund his other companies to grow them he would loan it with reasonable small interest.

The fifth question was that if the interviewee considered other options than a holding company. He told that he had considered managing the assets personally but it was obvious that he would use a holding company because of relatively easy administrative burden and gained tax benefits.

The sixth question was the interviewee see as the risks of using a holding company. He said that maybe if he would have to get his hand on the assets in a holding company very quickly this would be slower and cause some higher tax burden on the assets. Seeing this as very unlikely event on his part, the interviewee did not think that there are any significant risks for using a holding company.

The seventh question was how the interviewee managed risks. Interviewee told that risks management is done while everything else. In other words, trying to plan and perform other businesses and personal financial life in a way that nothing very surprising happens that could make his financial life unbalanced.

The eight question was that what did the interviewee see as the advantages and disadvantages in a holding company. Since we had discussed this already a little bit before in the interview he mentioned shortly the topics of tax planning and asset management.

The interviewee felt that one very important use of the company was that he could do billing for his extra work. He said that he had regularly some consultation work that he then invoiced with a holding company and this made it more enjoyable for the other party to hire him since they did not have to think about any paper work related to hiring someone on a payroll.

The ninth question was about the structure and what the interviewee thought was best. He just mentioned that as a small business owner with a relatively small portfolio of assets this is a topic that does not concern him at all. His structure with companies is what it is and he would deal with those. It's possible that someday in the future he would had to think about that kind of things but that day isn't going to be any day soon.

The tenth question was about how much assets interviewee thinks that is needed to take advantage of a holding company in which he responded that any amount since it provides advantages in with low number of assets. It may be used even to just do investing but this was mentioned in some research as not very profitable for people without significant amount of money.

The last question was about recommendations interviewee could give to Finnish companies or individual that are thinking to use a holding company. He noted that the important thing is to think what are your goals and how does your future look like. Then think if a holding company could help you to reach your goals and if you think it might help, go for it.

Interviewee suggested that if someone is starting a company it would be smart to start two. One company that does you do that business you had in mind and take risks and then other one for holding. He mentioned that it's much more expensive to change the ownership of the first company later because then the stocks would have real value and the law states that change of ownership from owner to company is cause for tax paid per the stocks real value. If this tax is not paid or it would be valued to have lower value than real value, the tax official might consider this tax avoidance and issue penalties.

4.2 Taxation comparison between small investor and a holding company

This chapter will explain using example calculation the differences in taxation between a private investor and a holding company. While the thesis presents a variety of cases and how the taxation works in these examples, each situation should be considered based on goals and aims of each individual case.

Dividend from listed LLC - Less than 30 000 €

	Holding-company	Private investor
Dividend (€)	5 000,00 €	5 000,00 €
Taxable (%)	100 %	85 %
Taxable (€)	5 000,00 €	4 250,00 €
Tax exempt (%)	0 %	15 %
Tax exempt (€)	0,00 €	750,00 €
Tax rate (%)	20 %	30 %
Total Tax (€)	1 000,00 €	1 275,00 €
Dividend after tax	4 000,00 €	3 725,00 €

Table 1: Dividend from listed LLC – less than 30 000 euros

Table 1 demonstrates taxation differences between a holding company and a private investor when receiving dividends of 5 000 euros. Since the total capital income is less than 30 000 euros, the capital income tax rate for private investor is 30 %. In this example the dividend amount is 5 000 euros. Private investors dividend would be 85 % taxable and 15 % tax exempt and a holding company is subject to income tax of 20 % for the whole amount. Private investor and a holding company would pay 1 275 euros and 1 000 euros of taxes respectively. A holding company would then have 275 euros more after tax.

Dividend from listed LLC - more than 30 000 €

	Holding-com- pany	Private inves- tor
Dividend (€)	50 000,00 €	50 000,00 €
Taxable (%)	100 %	85 %
Taxable (€)	50 000,00 €	42 500,00 €
Tax exempt (%)	0 %	15 %
Tax exempt (€)	0,00 €	7 500,00 €
Tax rate (%) up to 30 000 €		30 %
Tax rate (%) after 30 000 €	20 %	34 %
Total Tax (€)	10 000,00 €	13 250,00 €
Dividend after tax	40 000,00 €	36 750,00 €

Table 2: Dividend from listed LLC – more than 30 000 euros

Table 2 is a situation where the dividends are 50 000 euros. Taxable dividends for a private investor would be 42 500 euros from which 30 000 euros would be taxed with tax rate of 30 % and 12 500 euros for 34% and 7 500 euros tax exempt. A holding company would be 20 % income tax for the whole amount. This would mean that after tax a holding

company would have 40 000 euros and the private investor 36 750 euros. A holding company would have 3 250 euros more after tax.

Dividend from other than listed LLC - less than 8% of mathematical value

	Holding-company	Private investor
Dividend (€)	10 000,00 €	10 000,00 €
Mathematical value (€)	150 000,00 €	150 000,00 €
Taxable (%)	0 %	25 %
Taxable (€)	0,00 €	2 500,00 €
Tax exempt (%)	100 %	75 %
Tax exempt (€)	10 000,00 €	7 500,00 €
Tax rate (%)	0 %	30 %
Total Tax (€)	0,00 €	750,00 €
Dividend after tax	10 000,00 €	9 250,00 €

Table 3: Dividend from other than listed LLC – less than 8% of mathematical value

Table 3 presents a case where the dividend come from another source than a listed LLC. In this case, dividend distributed is less than 8% of the mathematical value. Dividend distributed is 10 000 euros and the mathematical value of the stock are 150 000 euros. Private investor would have 75 % of the dividends tax exempt and 25 % taxed as capital income. A holding company would not have to pay tax for a dividend. After tax the private investor would have 9 250 euros and a holding company 10 000 euros.

Dividend from other than listed LLC - more than 8% of mathematical value

	Holding-company	Private investor
Dividend	20 000,00 €	20 000,00 €
Mathematical value	150 000,00 €	150 000,00 €
Amount up to 8 % of mathematical value	-	12 000,00 €
Tax for dividend up to 8 % of mathematical value (25 % is taxed as capital income 30 %)	-	900,00 €
Amount exceeding 8 % (25 % as capital income and 75 % as earned income (tax rate 27,1 %, with yearly earnings of 36 000 €))	-	8 000,00 €
Tax for dividend up to 8 % of mathematical value (25 % taxed as capital income)	-	2 168,00 €
Total Tax (€)	0,00 €	3 068,00 €
Dividend after tax (€)	20 000,00 €	16 932,00 €

Table 4: Dividend from other than listed LLC – more than 8% of mathematical value

Table 4 presents the fourth case where the dividends would exceed the limit of 8 % of the mathematical value. In this case the dividend is 20 000 euros and the mathematical value of the stock 150 000 euros. Dividends up to 8 %, or 12 000 euros, have 75 % of it tax exempt and 25 % taxed as capital in as capital income with 30 % tax rate. Amount exceeding the 8 %, or 8 000 euros in this case, would be 25 % taxed as capital income, with tax rate of 30 %, and 75 % taxed as earned income, with tax rate of 27,1 based on yearly earned income of 36 000 euros.

As presented in this chapter in all the cases a holding company would have more cash after tax than the private investor. Especially if the dividend payer is unlisted LLC the taxation benefits can quickly form out to be significant. If this money were used to invest in the long term, this would be very beneficial because the compound interest that increases the assets. On the other hand, if the owner of the company would need that money for private use, there would be a tax when the money is withdrawn from a holding company.

4.3 Tax burden on the point of asset withdrawal from a holding company

It is very important to consider the effect of postponed tax burden when money is withdrawn from a holding company because the money that matters most is the cash in the investors' bank account. Even though the amount of assets a holding company accumulates yearly is a bit higher very possible that a need for the cash comes up at a point or another. In this case, the money from a holding company would have to be withdrawn, avoided tax would be due, and it would be very likely that the amount left after tax would be considerably less than when investments is done as a private person.

Yearly investment	10 000 €		
dividend yield	7.00 %		
Value of investments if invested as private investor	Value of investment if invested using a holding company	Cash amount if withdrawn from company	Year
10 522 €	10 700 €	8 421 €	1
21 592 €	22 149 €	17 126 €	2
45 494 €	47 507 €	35 749 €	4
71 955 €	76 540 €	56 012 €	6
101 247 €	109 780 €	77 307 €	8
133 674 €	147 836 €	100 026 €	10
169 571 €	191 406 €	124 223 €	12
209 311 €	241 290 €	153 268 €	14
253 303 €	298 402 €	192 634 €	16
302 003 €	363 790 €	231 079 €	18
355 914 €	438 652 €	277 421 €	20

Table 5. Postponed tax burden comparison. Annual investment 10 000 €

Table 5 presents an example calculation for a situation where a consumer would be able save and invest 10 000 euros annually and at some point, there would suddenly be a need to withdraw all the investment out at once. Earned income tax here was scaled from first year 30% up to 50% by tenth year increasing it 2% each year and then gradually going up to 52.4% on year twenty. Dividend yield in this case is 7%.

As this calculation shows, a private investor would be better of investing privately because the huge taxation burden at the point of withdrawal would make the after-tax cash almost 20 % lower.

4.4 Timing when transferring stocks

Timing for establishing a holding company is important especially if there is an intention to hold other companies stock in a holding company to avoid the tax burden that arises if the stocks have any value. The thought of a holding company awakens when the assets are, more or less, allocated to somewhere else and has increased value.

When the small investor moves his assets as a contribution in kind for a holding company there realizes a tax burden of 1.6 %, in the form of transfer of assets tax. The transfer of assets to the company is therefore likely to result in additional tax consequences, therefore it would be very good, from tax planning viewpoint, to transfer stock of a new company at the time of founding.

When the assets are moved when the company is founded there are no business and therefore no value to be taxed. The situation may also be problematic if there is a lot of capital gains or losses. Future capital gains arise from a holding company, and the shareholder cannot deduct them personal handover losses. The problem can be circumvented by transferring assets company over a longer time horizon. The investor can slowly capitalize on his assets and transfer after-tax return on capital gains to the company. The transfer of funds does not involve tax consequences for the company and the investor pays the normal amount capital gains tax.

4.5 Important differences of short and long term investing

Before deciding to invest by using a holding company an investor should consider the time span of the investment. Possible benefits gained by taxation differences between a holding company and small investors are can be lost very easily if the asset are withdrawn quickly from the company. When using a holding company the owner should always be prepared for a long-term investment for investment purpose. Best way to gain benefits from a holding company is to slowly withdraw assets over tens of years as dividends and salary or just keeping investing a holding company.

4.6 Estonian taxation compared to Finnish

Estonia is known for its very flexible and easy to use e-services in business and it offers a different rate for taxation than Finnish based companies. In Estonia, the tax rate is 20% for capital income. Estonia has a famous flat 20% tax rate in almost everything and profits are taxed when the profits are withdrawn for the owners, not when the profits are made.

5 Conclusion

This chapter will provide the findings of this research discuss the trustworthiness and timeliness and describe the process as a learning experience. Findings in this thesis will be discussed and aims to provide good insight for a small investor using, or planning to use, a holding company to do tax planning and asset management. Estonian taxation will be briefly discussed through key points related to taxation.

Finland is going to launch investments account in the beginning of 2020, its planned to have a maximum limit of 50 000 euros with tax being paid only when the money is withdrawn from the account. This would most likely have an effect on the topic researched because I strongly recommend doing extra study around this subject before making any decisions.

5.1 Recommendations for small investors

Each case is different and should be evaluated separately and there is no easy way to recommend any way of operating their businesses or assets. A holding company seems to offer an interesting option for those who are already doing other businesses and would take the money out of a holding company slowly. Just for investing purposes, I cannot recommend a holding company.

The very first thing anyone should do when thinking of using a holding company for tax planning or asset management is to get to know the basic. Very basic functions on reporting and keeping your financials in check should not take much time when done by the entrepreneur consistently and timely. If in doubt, ask a professional. Interviewee estimated that managing a holding company took him one hour a month and three hours at the closing of the accounting year.

Investing and tax planning by using a holding company is not wise in most of the cases because to get benefits from this the investors would need considerable number of assets and a long and steady investment future.

For most small investors, I would recommend to study the investment account that is planned to be launched in 2020 and to see if it would provide the wanted benefits in a better way than a holding company. The tax burden on quick withdrawal of assets is so heavy that it does not make sense to take the risk if the future looks even a bit uncertain.

After all the amount left to hand for the individual is what matters and in most of the cases it would make more sense to stick to do investing in some other way than by using a holding company.

5.2 Trustworthiness and timeliness

During the thesis process, I have been pushing towards using top quality sources on the field of the topic. Tax acts, rulings and other highly reliable sources were utilized during this thesis to provide reference and ensure that the facts were true. During the writing phase I have tried make sure to stay as objective as possible to provide fair and unbiased research findings for reading. Recommendations were done with the knowledge currently available.

Tax legislation is constantly changing and should be review always from newest sources to make sure that the tax laws and rulings are fresh in memory and up to date.

For reasons stated, I conclude that I think of this thesis as trustworthy research on tax planning and investing for a small investor by using a holding company in Finland.

5.3 Thesis as a learning process

This thesis process has been quite challenging, but worth it. During the thesis-planning phase, I did feel lost from time to time. I would have liked more guidance on the topic during thesis process, but I was taking the task after a long break and I was the only reason I did not receive more help in time. I would have gotten a kick out of the chance to have a session with individuals just from my specialization to talk this thesis topic more.

The overall process was planned well and the way it was divided up into smaller pieces allowed me to have enough time to think about a topic, plan, and then try to carry out that plan. Without the help of my teachers, I would have been even more lost. I am thankful for the help received during this course.

For my own learning experience, I have been able to find concrete and relevant information on a holding company, taxation and many other related topics especially when comes to these topics and challenges inside Finland, which is a subject that I am interested in. Slightly less from Estonian companies.

This thesis allowed me to find information resources that I would have never thought of looking for otherwise. To conclude, I have learned a vast amount of information in a relatively short period and I think I am coming out of this thesis experience with a better understanding of Finnish company taxation in general.

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Appendices

Appendix 1. Interview questions

- 1 How did you come up with the idea of using a holding company?
- 2 Do you know anyone who is doing the same and if yes, how do they use it to their advantage?
- 3 Do you find it easy or hard work to gain benefits from a holding company?
- 4 Are you managing your assets by using a holding company?
- 5 Have you considered other options (than a holding company) and why did not you pick those?
- 6 What are the risks when using a holding company?
- 7 How do you manage risk?
- 8 What advantages and disadvantages there are in a holding company?
- 9 What kind of structure is best for a holding company?
- 10 How much assets are needed to take advantage of a holding company?
- 11 What kind of advice or recommendations can you give to Finnish companies / individual entrepreneurs who wish to use a holding company?