Entrepreneur’s Salary and Dividend Solutions in Private Limited Company

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This thesis examines the taxation of an entrepreneur's salary and dividend income in a private limited company. The overall focus of the study was to determine the most tax efficient ratio between salary and dividend in different case scenario settings that reflected the circumstances of a single business owner in Finland.

The form of the thesis is qualitative. However, the characteristics of a case study are also present in the empirical calculations used to demonstrate the total tax burden accumulation of different salary and dividend solutions. The theoretical framework reviews the Finnish taxation laws regarding income taxation and the taxation of dividends distributed from private limited companies. Furthermore, the legalities regarding the distribution of assets, the capital structure, net assets, and the mathematical value of the shares in a limited company were clarified as they affect the planning and execution of salary and dividend solutions.

The study utilized various professional publications and the Tax Administrations guidelines in addition to the current effective Finnish legislation. To gain dimension on this topic entrepreneurs in private limited companies were interviewed to enlighten the motives and preferences behind their needs to receive salary and dividend. The case calculations were used to practically demonstrate the impact of different net asset levels in the accumulation of the overall tax burden. The usage of different cases made the analysis of the overall ratio of how much salary and dividend should be distributed in different situations simpler and more approachable. The calculations also help entrepreneurs to see the main effects of taxation, and more importantly recognize the levels at which they should pay dividends instead of salary.

It was acknowledged through the entrepreneurs' interviews that tax optimization acts as the main driver for salary and dividend planning. Based on this view, the calculations were set to find the most tax efficient solution for an entrepreneur to receive salary and dividend within different values of net assets and profit before taxes. It was discovered that with low level of income and net assets the option of salary is the most efficient solution. However, the higher the net asset value grows the quicker the option to include dividends alongside salary will accumulate the lowest tax-burden possible.

While the results provided a clear analysis of the tax efficiency of salary and dividend, the inclusion of entrepreneurs and the company's individual circumstances will always make a difference in the final outcome of the salary and dividend planning. Nevertheless, the thesis helps the commissioning company and the entrepreneurs in Finland to better plan and understand the determinants behind taxation and the distribution of assets in private limited companies.

Keywords
salary, dividend, distribution of funds, private limited liability company, tax planning

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Abbreviations

ArvL	Laki varojen arvostamisesta verotuksessa (1142/2005)	Act on Valuation of Assets
EVL	Laki elinkeinotulon verottamisesta (369/1968)	Act on Income from Professional Activities
MVL	Maatilatalouden tuloverolaki (543/1976)	Act on Income from Agriculture
OYL	Osakeyhtiölaki (642/2006)	Limited Liability Companies Act
SVOP	Sijoitetun vapaan pääoman rahasto	Invested unrestricted equity reserve
TVL	Tuloverolaki (1992/1535)	Income Tax Act
TyEL	Työntekijän eläkelaki (395/2006)	Employees Pension Act
VML	Laki verotusmenettelystä (1558/1995)	Tax Assessment Procedure Act
YEL	Yrittäjän eläkelaki (1271/2006)	Entrepreneurs Pension Act

1 Introduction

Entrepreneurs who work and own shares in limited liability companies can generate their personal income not only from the payment of salary but also from dividends distributed from their companies. The taxation regulation differs between salary and dividend, the former is regulated by a progressive income tax and the latter is taxed by proportional capital income tax. Entrepreneurs therefore quickly face the question of how to withdraw the funds they need in the most tax efficient way to maximize their income and minimize the total tax burden of the distribution both to the company and to themselves as individuals. After all, one of the main purposes of a business is to generate income to its shareholders (Limited Liability Companies Act 624/2006).

The total tax burden of an entrepreneur is the sum of all the taxes they pay, though there are a lot of components that need to be considered when the tax burden of an entrepreneur's individual income is planned. The taxation laws in Finland, especially the taxation regulation around dividends from limited companies, have been reformed multiple times over the years, the last reform being enforced in 2014. The constant reforms can make it hard for entrepreneurs to stay up to speed in the interpretation of the regulation and the application of it in practice. Accounting agencies often support small business owners with financial administration tasks and thus also engage in consultation matters such as tax planning with their clients. The careful planning of a business owner's income from their companies is not only a means of bringing significant savings to the entrepreneur and the company, but it also acts as a part of long-term profit planning that the company and its owner can engage in.

This research based-thesis is commissioned by a Finnish accounting agency and it is conducted as a part of the Degree Programme in International Business. The thesis follows the traditional report structure; introduction will be followed by a theoretical framework after which the results of the empirical study are analyzed and discussed. The first chapter introduces the research objectives, the demarcation of the topic, and the commissioning company. The theoretical framework presents the relevant theory and legislation regarding taxation and the distribution of assets in a private limited company. Research methods that were used to gather data for this thesis are also clarified before the results are presented and discussed.

1.1 Objectives and demarcation

The main objective of the research was to investigate the most optimal ratio between salary and dividend from a tax point of view and answer the research question that was worded as follows: How much and in what ratio should an entrepreneur withdraw salary and dividend in a private limited company?

The investigative questions (IQ) were used to divide the topic into sub-questions that helped to formulate an answer to the research objective:

IQ 1. How does taxation in Finland steer entrepreneurs' salary and dividend options?
IQ 2. What are entrepreneurs' motives in salary and dividend solutions?
IQ 3. What is the most tax efficient ratio between salary and dividend?

This thesis has been demarcated to only include private limited companies with one business owner who works in their company and is thus able to receive salary and pay dividends from the company's profit to him/herself. The business owner owns 100% of the shares of the company. The distribution of assets with multiple owners has been demarcated out of the scope of this thesis because it changes the dynamics of fund distribution.

The thesis will not study any other form of a company other than private limited companies due to the fact that the scope of the thesis would grow too large as the taxation treatment between different forms of company differs significantly. The taxation of other forms of asset distribution to its business owners, such as shareholder loan, rent or interest income, will not be of focus as they would open a whole new perspective on the tax optimization of fund distribution. Moreover, as salary and dividend are the most common ways for a business owner to withdraw funds, they have been selected to be the focal point of this study.

The empirical part of the thesis will be centered around micro-sized and small-sized companies as it is the biggest client group at the commissioning company. The calculations are based on exemplary, yet realistic case settings that most small-sized companies operate within Finland. The case scenarios were also made to represent the majority of the small-sized business owners that are clients at the commissioning company. The Excel spreadsheet presents the calculation of earned income, capital income as well as the final taxes to be paid from dividend and salary income. Only automatically granted deductions are considered in the entrepreneur's individual taxation.

The demarcation of the information used in the calculations is further specified in chapter 6.

It is important to take into account that the taxation of an individual is always circumstantial, and one should only take the calculations presented in this thesis as exemplary for entrepreneurs in private limited companies. Also, this thesis focuses on the full payment of the profit to the owner. However, each business owner in a limited company has the power to choose whether they want to pay salary, dividend, or both to themselves. They can also choose to invest the company's profit back to the company and to not distribute any funds to themselves.

1.2 Commissioning company

This thesis is commissioned by Yrityspalvelu Profitcount Oy, a small accounting agency in Helsinki. The commissioning company was founded in 1993 and currently has seven employees. The commissioning company offers its clients financial administration services, namely accounting services and preparation of the financial statements, filing of tax returns and other tax forms, payroll services, and different consultation services. The author of this thesis is also working in the company.

The commissioning company is actively offering their clients consultation services including the planning of salary and dividend solutions of entrepreneurs because it brings additional value to the clients as well as look out for their interests. The majority of the customer base at the commissioning company consists of private limited companies that are considered to be micro-sized companies, in other words employee less than 10 people. This also happens to represent the majority of the businesses operating in Finland. There are 264 519 micro-sized companies in Finland alone, excluding forestry, agriculture and fishing industry, which as a group comprises 93.3% of all the companies in Finland (Yrittäjät 2017). The commissioning company requested that this thesis would represent this group of entrepreneurs to whom the research could offer a practical introduction to the topic, especially foreign entrepreneurs in Finland who may not be familiar with the topic as the it revolves around Finnish legislation, and help them understand the benefits of salary and dividend planning and demonstrate the impacts of it via practical case examples. The empirical calculations were performed with Excel and also hoped to be adaptable to the commissioning company's usage. The topic was designed together with the author's manager.

1.3 Key concepts

Dividend is company's distribution of its earnings that is prescribed by the Limited Liability Act 624/2006. The distribution of dividends is based on the latest confirmed financial statements and the decision to distribute dividends is made at the General Meeting. (Verohallinto 2014.)

Distribution of assets means the legal ways for a company to distribute its assets to its shareholders. There are four legal ways for a company to distribute its assets and they are the distribution of dividends or assets from the unrestricted equity reserves, reduction of share capital, the acquisition or redemption of own shares, and dissolution and deregistration of a company. (Limited Liability Companies Act 624/2006.)

Limited liability company is a form of corporation, where the company is a legal person separate from its shareholders. A limited liability company is established by registration and its share capital must be 2 500 euros. (Limited Liability Companies Act 624/2006.)

Salary is defined according to the Finnish Prepayment Act (1118/1996) as any wage, compensation or benefit that is received in an employment or public service relationship. Honorariums or other compensations received from acting as a member of an administrative organ or other position of trust is also considered as salary.

Tax planning is the means of minimizing the tax burden of a taxable person by anticipating and designing business operations in a way that the result of the tax burden is the most optimal for a company. In tax planning only the legally approved methods are accepted. (Verohallinto 2016.)

2 Income taxation

In Finland, the taxation of income is mainly prescribed by the Income Tax Act (1535/1992). The act regulates the taxability of income in state taxation, personal income taxation, the division of income to earned and capital income, the accrual of income and costs, and the balancing of loss in taxation. The income that is generated from business activities is confirmed by the Business Taxation Act (360/1968). The taxation of agricultural income is regulated by the Income Tax Act for Agriculture (534/1967). (Myrsky 2013, 43.)

There are two main concepts when it comes to the taxation of natural persons and domestic death estates: the source of income and the type of income. The vitality of the source division is to ensure that different business activities are kept separate according to different tax laws. Profitable income from different income sources is calculated differently according to their respective tax laws. (Myrsky & Räbinä 2014, 81.)

The first step in calculating taxable income is to divide the income to its income sources. There are three different sources of income that a taxpayer can have: personal income, income from agriculture, and income from business activities. This division is equivalent to the three main tax laws in Finland: TVL, MVL, and EVL. (Tomperi 2018, 30.) The nature of the activities decides, which income tax act is used to calculate the net taxable income of that income source.

TVL is the most fundamental law when it comes to the income tax system and it is the main act applied in personal income taxation. EVL is applied to the calculation of taxable income from business activities and MVL to the calculation of agricultural income. In the taxation of natural persons, after the taxable income has been group into their sources of income, the earnings of natural person and estates are divided into two types of income: capital income and earned income. In the taxation of a natural person three different types of incomes are calculated for taxation purposes: taxable capital income, taxable earned income in state taxation, and taxable earned income in municipality taxation. (Myrsky 2013, 44.)

2.1 Earned income

All income, which is not legally regulated as capital income or tax-free income, are taxed as earned income (Tomperi 2018, 26). Most commonly earned income comprises of salary income from employment, pension, or from benefit or compensation earned. The third section of the Prepayment Act (1118/1996) defines salary to be any kind of wage, bonus, benefit, and compensations that is received under employment or service relationship. Furthermore, some specific compensations, such as meeting fees or honorariums, received without an employment relationship are considered as salary. (Kukkonen 2010, 188.) Disguised dividend and dividends that are to be treated as earned income are also considered as earned income (TVL § 62). Disguised dividend will be discussed in more detail in chapter 3.5.

Income taxes and other statutory payments are paid from earned income. TVL section 1 states that taxes from earned income is to be paid to the state, the municipality, and the church. Natural persons and estates must settle their income tax to the state based on the progressive tax scale, which the parliament decides upon each year (table 1).

Table 1. State income tax schedule for the year 2019 (Verohallinto 2019a)

Taxable income €	Tax at the lower limit €	Tax rate exceeding the lower limit %
17 600 – 26 400	8.00	6.00
26 400 – 43 500	546.00	17.25
43 500 – 76 100	3 485.75	21.25
76 100 –	10 413.25	31.25

Tax paid to the municipality is proportional and it is paid from the taxable income confirmed in municipality taxation according to the municipality's current tax percentage. The municipalities can decide the tax percentage themselves. (Tomperi 2017, 27.) The municipality tax rates for the year 2019 are between 16.5% and 22.5% (Verohallinto 2019b). The members of the Evangelical Lutheran Church and the Orthodox Church are liable to pay church tax. The church tax percentage varies between different parishes, however it is usually between 1 to 2 percent. (Verohallinto 2013). The amount of the church tax will be the church tax percentage times the earned income confirmed at the municipality taxation (Tomperi 2017, 27).

Since 2013 a public broadcasting tax of 2.5% has also been withheld from the total net earned and capital income when it exceeds 14 000 euros. The maximum tax payable is set to 163 euros. There is no tax liability if the total net earned income is less than 14 000 euros, one is under 18 years old, or has Aland as their home municipality. The tax is personal, and it will be included in the individual income tax percentage or in prepayment taxes. (Verohallinto 2017a.)

TVL prescribes the rules on how the taxes from earned income are calculated for natural persons. According to TVL section 30, the net taxable earned income is calculated by deducting the expenses from the production of income, i.e. natural deductions, from the total earned income. The net taxable income will be the base for both state and municipality taxation calculation. The calculation of a natural person's earned income in taxation is presented in figure 2 to help understand the calculation process.

<table>
<tr><td colspan="2">EARNED INCOME
+ wage income
+ taxable social benefits
+ pensions
+ earned income dividends
+ other earned income
+ earned income share from business activities
+ earned income share from agriculture</td></tr>
<tr><td colspan="2">- Expenses from the production of income (natural deductions)</td></tr>
<tr><td colspan="2">= NET TAXABLE EARNED INCOME</td></tr>
<tr><td>State income taxation
- state and municipality taxation deductions
- state taxation deductions</td><td>Municipality income taxation
- state and municipality taxation deductions
- municipality taxation deductions</td></tr>
<tr><td>= Tax year's taxable earned income in state taxation</td><td>= Tax year's taxable earned income in municipality taxation</td></tr>
<tr><td colspan="2">- certified earned income losses from previous tax years</td></tr>
<tr><td>= Taxable earned income in state taxation, from which the amount of tax in calculated from</td><td>= Taxable earned income in municipality taxation, from which the amount of tax in calculated from</td></tr>
<tr><td>- deductions from tax (e.g. tax credit for work income)</td><td>- deductions from tax</td></tr>
<tr><td>= Payable earned income tax in state taxation</td><td>= Payable earned income tax in municipality taxation</td></tr>
</table>

Figure 1. Earned income calculation of a natural person (adapted from Myrsky 2014)

The tax year's total taxable income considered in state taxation is the net earned income minus the deductions possible to be made in state taxation. Similarly, the tax year's total taxable income is reached in municipality taxation after the deductions in municipality taxation are made from the net taxable earned income. The tax payable is calculated from the total taxable earned income reached, however, the final tax payable is not obtained until possible deductions from the payable earned income tax are done.

The deductions from income can affect the amount of taxes an individual has to pay for the tax year. Hence, it is important to be aware that because of the possible personal deductions, income taxes vary between individuals. The deductions made in taxation can be systemized differently. They can be separated into two groups based on the viewpoint of whether the deductions are made from the income or from the amount of income tax. Deductions in a natural person's income taxation are made from either earned and capital income or from the amount of taxes from earned and capital income. On the other hand, the tax deductions can also be systemized into different groups based on their purpose and whether or not the deductions will be granted automatically by the Tax Administration or if the taxpayer has to demand them in their tax return. (Myrsky & Räbinä 2014, 89-90.)

The deductions from earned income follow the division set in TVL:

- natural deductions, i.e. deductions from the production of income § 31 and § 93-95
- deductions made from net earned income in state and municipality taxation § 96-98
- deductions made from net earned income in state taxation § 100
- deductions made from net earned income in municipality taxation § 101-106

According to TVL section 29, all taxpayers have the right to deduct the expenses that were caused by the production or retention of income. These expenses are called natural deductions and they can be, for example, the membership fees of labor organizations or unemployment funds. The natural deductions also include commuting expenses and the standard deduction for work-related expenses. Deduction for commuting expenses can be claimed when the commuting expenses exceed the threshold of 750 €, however, the maximum allowable deduction for commuting expenses is 7 000 €. The standard deduction for work-related is 750 € since 2017 and it is granted automatically to all wage-earners. If the actual work-related expenses exceed the standard limit, it is possible to deduct the exceeding expenses in the tax return if all the expenses are strictly related to the production of the income received. (Verohallinto 2019c.)

Automatic deductible expenses in both state and municipality taxation include the deduction for the mandatory insurance payments. A taxpayer has the right to deduct from the net taxable earned income the statutory employee pension insurance payment, the unemployment insurance payment, and the health insurance payment (TVL § 96). Also, the mandatory pension insurance payments, typically entrepreneur's own pension insurance payments, can be deducted in the taxpayers or in their spouse's taxation. (Myrsky & Räbinä 2014, 477.)

The automatic deductions in municipality taxation include the standard earned income deduction, the basic deduction for low-income taxpayers, a pension-deduction, the deduction for disability, and a student grant deduction. The most common ones for a normal taxpayer are the standard earned income deduction and the basic deduction for low-income taxpayers. The standard earned income deduction is 51% until 7 230 € and 28% for the exceeding income. The maximum deduction is 3 570 €. If the net taxable earned income is above 14 000 €, the deduction for the exceeding income will be decreased by 4.5%. The deduction will not be granted if taxable earned income exceeds 93 333 €. The basic deduction for low-income taxpayers is granted if the total amount of net taxable earned income is less than 21 700 €. The maximum amount of deduction is 3 305 € and the deduction is decreased by 18% from the portion of income exceeding 3 305 €. (Verohallinto 2019d.)

An automatic standard credit for work income is granted from state income taxes if net taxable income is less than 127 800 €. The deduction is 12.2% from the income above 2 500 € that is entitled to the deduction. If the net taxable income is more than 33 000 €, the deduction from the exceeding income will be decreased by 1.72%. Should the deduction be greater than the amount of income taxes payable, the deduction can be used to decrease municipality, church, and other mandatory taxes. (Verohallinto 2019d.)

2.2 Capital income

Capital income is the income generated through the possession of wealth according to TVL section 32. The section 32 considers the following to be capital income: gains received from the disposal of an asset, dividend income, interest income, rental income, proceeds from a life insurance contract, profits from an investment fund, forestry income, and the capital-income portion of business income.

The capital gains are taxed via proportional capital income tax. The tax rate for capital income is 30% until the threshold of 30 000 €. When the capital income exceeds 30 000 euros, the exceeding income is taxed with an increased tax rate of 34%. (Verohallinto 2019e.) Figure 3 demonstrates the calculation of capital income in taxation. Similarly as in earned income taxation, the taxpayer has the right to deduct the expenses occurred from the procurement and maintenance from their capital income (TVL § 54). Deductible expenses are for example interest expenses and exchange rate losses. The amount of net capital income is reached after the natural deductions are made from capital income. If the taxpayer still has other tax-deductible losses set in TVL sections 54-60, they are deducted before the final taxable capital income for the tax year is reached. The capital tax is applied to the income received after possible certified losses have been taken into account.

CAPITAL INCOME + dividend income + interest income + rent income + other capital income	
- Expenses from the procurement and maintenance (natural deductions) TVL § 54	
= NET TAXABLE CAPITAL INCOME	
+ shareholder loan taken during the tax year - repayment of shareholder loan - income source loss from deductible from capital income TVL § 59 - interest expenses from mortgage, procurement, and guarantee loans TVL § 58	
= Tax year's taxable capital income	
- certified capital income losses from previous tax years	
= Taxable capital income, from which tax is calculated from	
30% tax until 30 000 €	**34%** tax from the amount over 30 000 €

Figure 2. Calculation of a natural person's taxable capital income (adapted from Myrsky & Räbinä 2014)

If the taxpayer has more deductible expenses from capital income than the total amount of the capital income, the negative difference will be capital income deficit (TVL § 60). The amount of credit from the capital income deficit is obtained by multiplying the share of the deficit by the capital tax rate. The maximum amount of credit for the deficit can only be 1 400 € per person. Although, this maximum amount of credit can be increased if the taxpayer or their spouse are supporting underage children. The credit for the deficit can be under certain conditions deducted from the amount of taxes payable in earned income. Also, if a taxpayer has more deficit than the maximum amount of the credit, the deductibility of the remaining amount will not be lost for good. The remaining amount is recorded by the tax office as loss in capital income, which will be carried forward for a subsequent of 10 years and it is available to be claimed from capital income during those years. (Verohallinto 2019f.)

3 Distribution of funds in limited liability company

This chapter will further discuss the corporate form of a limited liability company and the legal ways for a limited liability company to distribute its funds. Specifically, this chapter will focus on dividends and the general legislation regarding dividend taxation in Finland. Due to the fact that entrepreneurs have the option to withdraw funds as dividends, we will further concentrate on the taxation rules regarding dividend income received by a natural person from an unlisted limited company.

3.1 Limited liability company

A limited liability company is form of corporation where it is a separate legal entity from its shareholders and the shareholders are not personally liable for the liabilities of the company (Viitala 2018, 20). In Finland, limited liability company is the most popular form of corporation and there are circa 272 000 limited liability companies registered in the Finnish trade register in 2019 (PRH 2019). A limited liability company can either be private or public.

The general principles such as the incorporation and the shares of a limited liability company are set in the Limited Liability Act (624/2006). OYL sets eight principles that the operations of a limited liability company should base on. They are the legal personality and the limited liability of the shareholders, capital and the permanence of the capital, transferability of shares, purpose, the principle of majority rule, equal treatment, the duty of the management, and discretion of shares. A limited company is incorporated by registration to the trade register after a written Memorandum of Association is signed by all shareholders. (Viitala 2018, 20.)

It is enough to have one shareholder to incorporate a limited company. Although, the company form of a limited liability company was initially established so that it could raise high share capital with multiple shareholders to finance its business operations (Mäkinen 2014, 106.) Chapter 1, section 5 of OYL declares that the purpose of the company is to generate income to its shareholders unless the Articles of the Association state otherwise.

Shareholders are entitled to shares against the amount that they have invested, and the shares in turn entitle the shareholders for profit distribution. The shareholder can sell or otherwise dispose their shares to another person or corporation. The deciding power in limited companies usually is determined by the number of shares, though it is possible for companies to issue different kinds of shares with different voting power. The General

Meeting is the decision-making body in limited liability companies, and it will choose the Board of Directors. The Board of Directors will appoint the CEO. (Mäkinen 2014, 106.)

3.1.1 Taxation of limited companies

In Finland, limited liability companies and other entities are taxed separately from their shareholders. Thus, the company's taxation will not affect the taxation of an individual shareholder. Limited liability companies are taxed by the profit they make and its shareholders by the assets that the company distributes to them. Limited liability companies pay as an income tax a corporation tax set in section 124 of the Income Tax Act. The current tax rate applied is 20%. (Verohallinto 2017b.)

Limited companies can have three different sources of income: income from business activities, agricultural income, or personal income. The taxable income of each source is calculated separately. The taxable income of limited companies is calculated by deducting the deductible expenses from the taxable income from the financial period. If the expenditures are greater than the income, the company will realize a loss for the period. When the income is greater than the expenditures the company will have taxable profit to which the corporation tax will be applied to. Any certified losses in the three sources of income may be deducted in taxation during the next 10 tax years. The certified losses will be allocated to the same source of income at which the loss was emerged. (Verohallinto 2017b.)

Since 2013 limited liability companies are also liable to pay YLE-tax, a public broadcasting fee, if they are in the business of industrial and commercial activity or agriculture. The tax is based on the taxable income of the company. If taxable income is 50 000 euros, the tax is 140 euros. The amount exceeding is taxed with 0.35%. However, the tax in total cannot exceed 3 000 euros per year. The maximum amount of 3 000 euros is paid by all corporations with taxable income 867 143 euros or more. (Verohallinto 2018a.) Both the corporation tax and the public broadcasting fee will be shared between the state and the municipalities according to the Tax Statement Act (532/1998).

3.1.2 Capital structure

The minimum share capital for a private limited company is 2 500 euros and for public companies 80 000 euros as stated by chapter 1, section 3 of OYL. However, this requirement for 2 500 € share capital in private companies will be removed in July 2019.

Afterward, no minimum share capital is required in private limited companies. The removal of the requirement was made on the basis that the state wanted to facilitate the founding of new companies especially micro-sized companies and strengthen the overall business conditions in Finland. (HE 238/2018.)

The structure of the equity of limited companies in Finland is prescribed in OYL chapter 8, section 1, which appoints that the equity in a limited company is divided into restricted and unrestricted equity. Restricted equity consists of the share capital, the revaluation reserves, and the fair value reserve. Unrestricted equity consists of the other reserves and from the profit made in the current and previous financial periods. The division of the equity to restricted and unrestricted equity is related to the protection of the creditors and to the ranking of the claims between the company's liabilities and equity (Immonen, Ossa & Villa 2013, 10).

Unrestricted equity is mainly accumulated from the profits made by the company. Unrestricted equity also holds the investments made to the company's invested unrestricted equity fund (SVOP) by the shareholders. The amount of the share issue price that is not credited as share capital after the minimum requirement for share capital has been fulfilled can be credited to the unrestricted equity fund. Additionally, the SVOP-fund can be used for other equity inputs that are not to be credited in some other reserve. It is also possible to credit the fund with the amount of share capital reduction if there is no need to cover any losses or distribution of assets. (Raunio, Romppainen, Ukkola & Kotiranta 2018, 34.)

The owner's investment in SVOP-reserve is a tax-free capital investment to the company. The investments made to SVOP-reserve increases the company's net assets and indirectly benefits all shareholders' value of the shares regardless of who has made the investment. (Immonen & al. 2013, 82.) In the taxation of the business owner the investments to SVOP-reserve can be added to the acquisition costs of shares (Tomperi 2017, 74).

The SVOP-reserves can be distributed if the general meeting so decides. From a tax point of view the funds received from SVOP-reserve are either seen as a dividend or a return of equity in the shareholder's taxation. The main rule applied is that the distribution of funds from SVOP or any other unrestricted equity reserve will be treated as dividends in taxation. (Tomperi 2017, 74.)

Equity returns from a public company to its shareholder is always taxed as a dividend. However, private companies have the opportunity to treat the distribution of funds as a gain on the transfer. As stated by TVL section 45, the distribution of funds is seen as a transfer if the shareholder's shares or options that have had their subscription price recognized in the SVOP-reserve are being paid back to the shareholder. The return of other investments made by the shareholder to the SVOP-reserve can also be considered as a transfer. The requirements for a transfer are that a detailed clarification is made to prove that the distribution is in fact based on previous shareholder investments to the SVOP-reserve and that the return is made to that same shareholder who initially made the investment. Additionally, no more than 10 years should have been passed since the initial investment was made to the SVOP-reserve. If these conditions are met a private company can freely return the investments from SVOP-reserve to its shareholder. (Tomperi 2017, 74.)

3.2 Distribution of assets in limited liability company

As determined earlier the purpose of a limited liability company is to generate income to its shareholders. To attain that purpose the company can distribute assets to its shareholders. Chapter 13, section 1 of OYL sets four legal ways for companies to distribute their assets to its shareholders:

1. distribution of profits as dividend and the distribution of assets from the reserves of unrestricted equity
2. reduction of the share capital
3. acquisition and redemption of own shares
4. dissolution and deregistration of the company

The first and the most common way for companies to distribute its assets is to distribute dividends to its shareholders. In other words, the company distributes the profits made from the current financial year or the previous financial years. If the assets are distributed from the unrestricted equity reserves, the company is not distributing accumulated profits but other equity in the reserve. The indication of the type of assets and the amount that is distributed needs to be pointed out when the distribution of assets is announced. (Raunio & al. 2018, 15.)

The second way to distribute assets in a limited liability company is to reduce amount of the share capital. This may be necessary for instance in a situation where the share capital needs to be modified to better suit operational needs. The general meeting decides on the reduction of the share capital and its possible transfer to the unrestricted equity reserves. The general meeting can also decide to use the reduced share capital to cover such losses that the unrestricted equity cannot cover. The share capital shall not be reduced below the minimum share capital. (Raunio & al. 2018, 16-17.)

The acquisition and redemption of the company's own shares is prescribed in OYL Chapter 15. A private limited liability company cannot acquire or redeem all of its shares. If the company's equity is lowered due to acquisition or redemption the company must follow the rules regarding the reduction of share capital. (Raunio & al. 2018, 16.) If a limited liability company is set for dissolution and deregistration, the company's capital, both unrestricted and restricted equity, can be distributed to its shareholders. Dissolution of the company requires the authorities to issue liquidation before any assets can be distributed. (Kukkonen 2010, 141.)

Chapter 13, Section 1 of OYL sets that the assets of a limited company cannot be distributed before the company has been registered to the trade register. Furthermore, it is stated that any transaction without a solid business reason, which reduces the assets of the company and increases its liabilities, is seen as unlawful distribution of assets. Chapter 13, section 6 of OYL determines that the unrestricted equity may be distributed in other manners than referred in section 1 if all of the shareholders give their consent and the articles of association do not otherwise deny it. Restricted equity, such as share capital and revaluation reserve, is non-distributable.

Chapter 13, Section 3 of OYL sets that the distribution of assets must be based on the latest confirmed financial statements. If the company is required to have their financial statements audited, the financial statements must be audited. For a company to be able to distribute its assets one must pass the solvency test according to the OYL section 2. The company cannot distribute its funds if the company knows or should have known during its decision-making regarding dividends that the company would be insolvent or that the distribution itself would cause insolvency. The section is compelling because it protects the creditors. A company does not need to have the cash to carry out the distribution, it is considered sufficient enough that the company has the unrestricted equity available for distribution, and that the distribution decision will not cause insolvency. (Viitala 2018, 24.)

OYL has not defined specific ways for a company to verify its solvency. Chapter 12, Section 3 of OYL sets that when evaluating solvency not only the essential changes in the company's financial position is to be included but also any future changes after the completion of financial statements must be considered as well. A cash flow forecast is often required to prove that the company has the required liquidity to pay dividends. The verification of solvency can also be supported with a set of liquidity ratios such as current ratio, quick ratio, and operating cash flow ratio. (Aho 2007.)

3.3 Dividends

Dividends are the company's profit distribution to its shareholders. The maximum amount of dividend to be distributed is confirmed by the company's amount of unrestricted equity in its balance sheet and the company's solvency. The board of directors must present a proposal about the actions taken regarding the profit or loss of the company. However, the general meeting is the decision-making body when dividends are distributed. (Verohallinto 2017c.)

The decision to distribute dividends is often made when the general meeting goes through and adopts the financial statements of the previous year (Koponen 2014, 9). It is also possible to distribute dividends during the current financial period as interim dividends. The distribution of interim dividends must be based on an additional interim financial statement adopted by the general meeting. Any interim dividends paid during a financial period must be presented in the final notes to the financial statements. (Verohallinto 2017c.)

Shareholders who own a minimum of one-tenth of all shares can demand the company to pay minority dividend. This means that the company must share as dividends at least a half of the current financial year's profit deducted by the amounts not to be distributed if a shareholder with such share ownership so demands. However, a shareholder cannot demand the distributed profit to be more than 8% of the equity of the company or what without the consent of the creditors would be possible to distribute. (Raunio & al. 2018, 16.)

3.3.1 Taxation of dividends

In Finland, the taxation treatment of dividends is dependent of the fact whether the distributor of dividends is a publicly traded company or other than a publicly traded company, and if the received of dividends is a natural person or another company. The dividend taxation also takes into account the home country of the company distributing dividends. (Raunio & al. 2018, 23.) When the resolution for the distribution of dividends is made the right to the receive the dividends is born for the shareholder. The dividends will the income of that tax year when the dividends have been available for distribution. (Verohallinto 2017c.)

According to TVL section 33a, the dividends that a shareholder receives from a publicly traded company are 85% taxable capital income and 15% tax-free capital income. The withholding tax from these dividends is 25.5% (30% x 85%). TVL section 33b sets the dividend taxation rules when a shareholder receives dividends from a privately-owned company. Dividend income received by natural persons such as shareholders from other than publicly traded companies is 25% taxable capital income and 75% tax-free capital income if the mathematical value of shares is equal or less than 8% and stay below 150 000 € in total. If the mathematical value of shares remains under 8% but the dividend income exceeds 150 000 €, the dividends received after the threshold of 150 000 € will be 85% taxable capital income and 15% tax-free capital income. If the mathematical value of the shares exceeds 8%, the exceeding dividend income is treated as 75% taxable earned income and 25% tax-free earned income. (Verohallinto 2017c.) The above-mentioned rules can also be observed from figure 3.

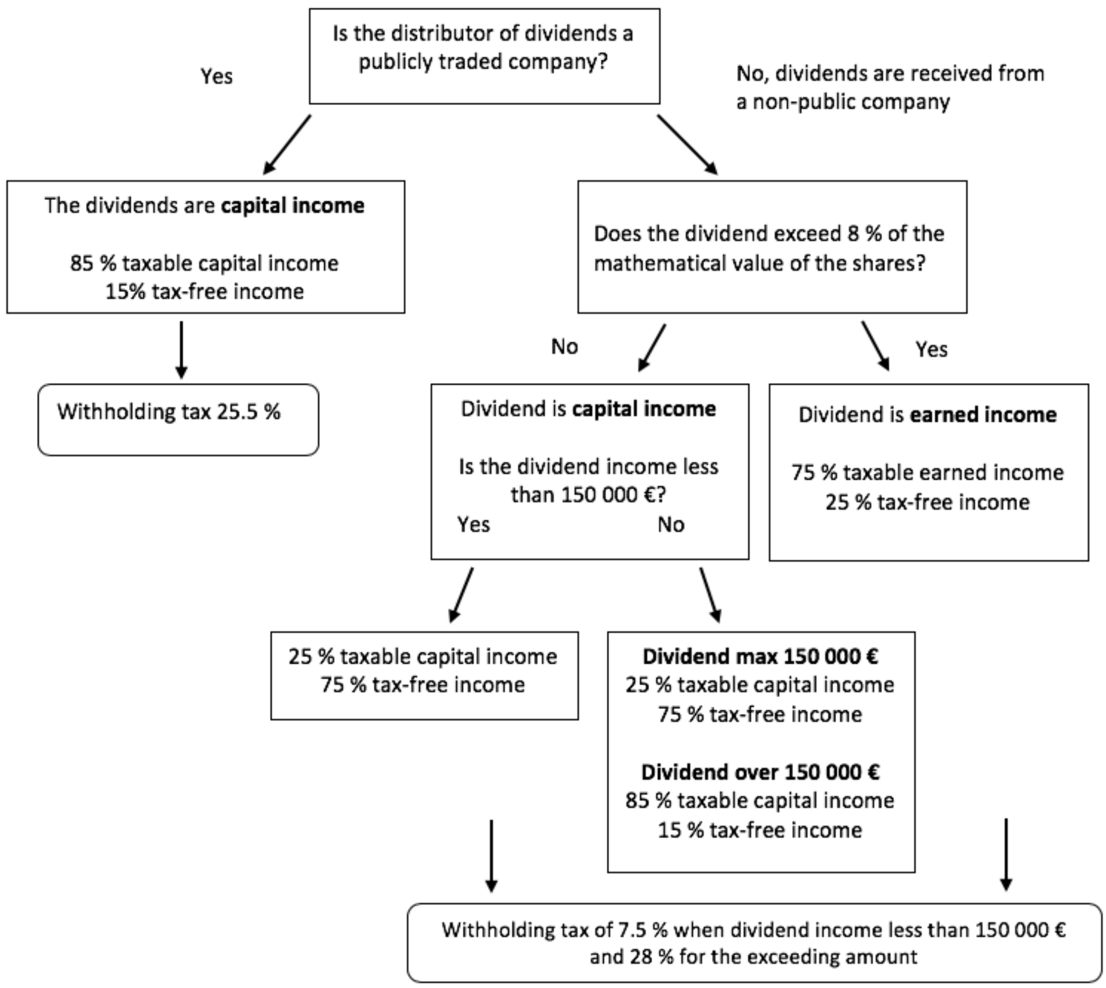

Figure 3. Taxation of dividends (adapted from Verohallinto 2017c)

In essence, there are three ways dividends received by a natural person can be taxed: as 25% capital income, 85% capital income, or 75% earned income. Capital income dividends are taxed by the capital tax rate of 30% and 34% for the portion of taxable capital income exceeding 30 000 €. The earned income dividends are taxed by shareholder's individual income tax. (Raunio & al. 2018, 24.)

The funds distributed by limited companies are under double taxation as the profit of the company is taxed via corporation tax after which the profit distributed as dividends is taxed again via the shareholder's personal income taxation. The total tax burden between the company and its shareholder is thus at least 20% as long as the funds are not distributed to shareholders. (Leppiniemi & Walden 2014, 173.)

The minimum tax burden for a shareholder receiving dividends from an unlisted company is 7.5%. That is, if the mathematical value of the shares does not surpass 8% and dividend income distributed is less than 150 000 euros, which leads the dividends to be taxed as 25% capital income and to which the 30% capital tax rate is applied (25% x 30% = 7.5%). The distributor of the dividend is responsible for calculating the 7.5% withholding tax from the dividend income and deduct the tax from the amount of payable dividend income. The withholding tax should then be settled to the Tax Administration by the distributor. (Verohallinto 2017d.)

When the dividend income exceeds 150 000 € but remains still within the 8% of the mathematical value of the shares, 85% of the dividends are taxable capital income and taxed by 30% until 30 000 euros and 34% for the exceeding amount. The tax rate for dividends over the 150 000 € limit is 25.5% or 28.9% depending on the amount of capital income (85% x 30% or 85% x 34%). Since 2015 the withholding tax to be paid to the Tax Administration is 28% for the dividends exceeding 150 000 €. The purpose of this is that the withholding taxes and the final taxes payable from the tax year would match each other as well as possible when the dividends received from the same company exceed 150 000 euros. (Verohallinto 2017d.)

The 150 000 € dividend income limit is per recipient so all the capital income dividends a private person receives from unlisted companies are calculated together as a sum. Hence, the diversification of shares to multiple companies will not raise the 150 000 € dividend income limit. (Raunio & al. 2018, 25.) The companies distributing dividends are responsible for following the previously mentioned limit and from 2014 onwards they must settle the withholding taxes from dividends to the Tax Administration if the recipient of dividends is a natural person or estate (Verohallinto 2017d).

3.3.2 Net assets

The precise calculation of net assets is prescribed in the Act on Valuation of Assets (2005/1142). The company's net assets are reached when the company's total liabilities are deducted from its total assets. The net asset value is used in the calculation of the mathematical value of the shares, which affects the dividend taxation of the shareholder. The net assets of the company are calculated from the previous year's balance sheet. (Verohallinto 2017b.)

When calculating the net assets of a limited company all assets and liabilities are acknowledged including those assets and liabilities that belong to the agricultural or personal income source (Verohallinto 2017b). According to ArvL section 2, the company's assets include all current, trading, investment, and financial assets, and all other assets or long-term expense items that have net asset value. As for liabilities, all items recognized in the liabilities of the balance sheet are included. However, in Finland in accordance with the Accounting Act (1336/1997) chapter 5, section 18, the deferred tax liabilities are not seen as part of the liabilities and similarly deferred tax assets or long-term expense items that do not have net asset value, will not be included in the assets of the company. (Leppiniemi & Walden 2014, 175.)

The total tax burden of the dividends distributed by a limited company will first and foremost depend on the shareholder's mathematical value of the shares. In a situation where there is no positive mathematical value, i.e. the company has no net assets, the dividend income will always be considered as 75% taxable earned income. The dividend taxation system is thus fundamentally bound to the net assets of the company. The wealthier the company, the higher the mathematical value, and with higher mathematical value more dividends can be distributed without any effects from the shareholder's personal income taxation. The increasing of the net assets is optimal for at least to the point where a shareholder's ownership of the company's assets is 1 875 000 € (1 875 000 € x 8% = 150 000 €). After this, the increasing of the net assets will not necessarily be beneficial because it will not increase the portion of dividend income that can be distributed to a shareholder tax-free. (Kukkonen & Walden 2014, 84-85.)

3.3.3 Mathematical value of the shares

An important factor in the taxation of dividend income received by a natural person from a private limited company is the previously mentioned mathematical value of the shares. ArvL section 9 articulates that the mathematical value of a share is calculated by dividing the revised net assets by the company's shares outstanding. The outstanding shares refer to the shares not possessed by the company i.e. shares that have not been redeemed or retained by the company (Immonen & al. 2013, 210).

In limited liability companies the mathematical value of the shares is based on the company's net asset value of the previous year's financial statements. For example, if the financial year of the company is the same as the calendar year, the mathematical value of the shares for the year 2019 is calculated from the financial statements dated 31.12.2018. (Koponen 2014, 47.)

When calculating the taxation of dividends, it is noteworthy to remember that the calculation requires two steps. First, the net assets of the company need to be determined so that the mathematical value per share can be calculated. Second, the mathematical value of the shares owned by each shareholder is calculated. After the company's net assets and the shareholder's mathematical value of the shares have been calculated, certain shareholder specific deductions set in section 33b of TVL may be needed to be included before a single shareholder's dividend income is calculated further to earned and capital income. (Koponen 2014, 63.) The shareholder specific deductions mean certain deductions that are only performed to that very shareholder's value of the net assets of the company. As a result, the mathematical value of the shares of different shareholders can differ, and the total earned income and capital income dividends may not be equal between shareholders. (Immonen & al. 2013, 219.)

There are two types of deductions that can be recognized as a deduction in the shareholder's mathematical value: an apartment used by the entrepreneur or their family that is owned by the company and recognized in its balance sheet, and a shareholder loan taken by a shareholder or their family member. For the apartment the deductible value is the same value that has been used in the calculation of the company's net assets. If the apartment has only been in partial use, a deduction reflecting the usage is used. The value of a shareholder loan is deducted from the mathematical value of the shares if the shareholder alone or together with family member owns more than 10% of the company shares or if they hold a similar portion of the company's voting rights. (Koponen 2014, 63-66.)

3.4 Unlawful distribution of assets

OYL Chapter 13, section 1 states that transactions shall constitute as unlawful distribution of assets if they reduce the assets of the company or increase its liabilities without a sound business reason. The distribution of funds can also be unlawful if there were not any distributable funds available for the asset distribution, or if the procedural provisions were not followed when the distribution of the assets was performed (Tomperi 2018, 79).

The provisions regarding fund distribution in OYL and the legal sanctions against unlawful distribution are placed in an attempt to ensure the equal treatment of all shareholders as well as protect the company creditors as a limited company forms its own circle of wealth and no shareholder is personally liable for the company's commitments or other liabilities. The restrictions aim to secure the permanence of the share capital as well as limit the shareholders possibilities to move company funds to themselves either as money or as other property. (Kukkonen 2010, 138.)

If funds are shared to the owners against the provisions of the law, it will always be considered as unlawful practice. Also, the distribution is considered unlawful if the company did not have the needed solvency to distribute assets or the decision on asset distribution was not based on audited financial statements. If any accounting standards or provisions were violated to show a profitable balance sheet item to distribute funds, the distribution will also be considered as unlawful. (Sillanpää & Koski 2018.)

If any company funds have been illegally distributed to a shareholder or any other party, the receiver must return the amount they have received with annual interest at the current reference rate set in the Interest Act (633/1982). The refund obligation applies to both direct unlawful distribution as well as disguised distribution. (Sillanpää & Koski 2018.)

3.5 Disguised dividend

The tax authorities have the right under the general provision of the Tax Assessment Procedure Act (1558/1995) to interfere in situations where a shareholder or a member of their immediate family have been directed with privileges holding financial value that diverge from the regular business operation principles. VML section 29, subsection 1, states that disguised dividend is a monetary benefit that the company is giving to its shareholder or to their family member based on the position they hold in the company and the benefit significantly differs from regular pricing or is given gratuitously. VML section 29, subsection 2, also confirms that share buy-backs and redemptions, or the reduction of share capital, reserve funds, or share premium reserves, to avoid taxes payable from dividends is considered as disguised dividend as well. Any bargaining price arrangements between the company and the shareholder to avoid taxes is also seen as a disguised dividend (Viitala 2018, 110).

The most common situations to which the tax authorities interfere in are usually those where the shareholder's private expenses have been booked as the company's expenses. The authorities also interfere if the company's property has been in the private usage of the shareholder without having the fringe benefit accounted for in the shareholder's pay (e.g. car or a housing benefit), or if trade deals between the company and the shareholder are made where the shareholder is being overpaid or charged below current price, or if the company has issued loan to the shareholder with no payback plan and no indication that the loan was intended to be paid back. All of these above-mentioned situations include a disguised benefit with financial value that has been given to a shareholder based on their position in the company. (Raunio & al. 2018, 186.)

The tax consequences of disguised dividend will fall upon both the limited liability company and the shareholder. In addition, a penalty tax will be often issued to both parties. VML section 29 states that if the company has distributed a disguised dividend as referred in subsection 1, the taxation shall be processed as if the current price had been used and the shareholder's taxable income shall be the difference between the current price and the price used. If the funds have been shared in the form referred in subsection 2, all of the shared funds shall be considered fully as the shareholder's taxable income.

TVL section 33b regulates the tax treatment and the revenue type of disguised dividend received by a private person. TVL section 33b prescribes that disguised dividend is 75% taxable earned income and 25% tax-free income to the shareholder. If the disguised dividend is received from a foreign entity, it will be taxed fully as earned income. If disguised dividend has been received by the shareholder's family member, the tax treatment will always fall upon the shareholder. VML or legal practice do not set a clear definition for an immediate family member, however, case-by-case discretion is used to reach a decision. (Viitala 2018, 112-113.)

4 Entrepreneur’s salary

Salary is often paid to the majority of entrepreneurs who actively work in their own companies. Therefore, the option of salary as a way of fund distribution is also examined in this chapter even though it technically is not a form of asset distribution set by the Limited Liability Company Act.

4.1 Payment of salary and social security contributions

Salary is compensation to an employee in an employment relationship. Salaries and their social security contributions are a deductible expenses for the employers. The primary ground for wage deductibility is that the received work contribution is relevant to the business operations. The employer is responsible to withhold the income taxes and the social security contributions from their employees’ salaries and settle the payments to the Tax Administration. The employer contributions become payable after the wage has been paid. (Kukkonen 2010, 189-191.)

The current legal social security contributions include the health insurance contribution, the pension insurance contribution, the unemployment insurance contribution, and the accident and group life insurance contribution. The employer will withhold the employee’s contribution to pension and unemployment insurance from their salaries. The accident and group life insurance payments vary between companies because the wages and the risk of the work determine the contribution rate. From a YEL-insured entrepreneur’s salary the only social contribution cost for the company is the mandatory social security payment i.e. health insurance payment. The payment is 0.77% for all employees aged between 17-76 in 2019. (Verohallinto 2018b.)

In the company’s taxation, the salaries paid to the entrepreneur are booked on an accrual basis in the year when the work has been performed. To the entrepreneur the salary will be considered as that year’s income when the salary is initially booked. If the entrepreneur’s salary for the work they have done has not yet been paid at the end of the financial year when the work was performed, the salary can be booked to debit the salary expense account and credit the accrued liabilities at the time of the closing of the accounts. This creates a salary debt to the entrepreneur. In the case of salary debt to a business owner, the tax authorities will examine whether the debt has been used for tax avoidance purposes. For example, the usage of salary debt is acceptable in situations where the company is struggling with solvency at the time when the salary is booked. If insolvency has prevented the payment of the salary, the entrepreneur’s salary will be considered taxable income of the tax year when the salary has been available for payment or from the moment that the company no longer has been insolvent to pay the debt to the entrepreneur. (Verohallinto 2018c.) If the payment of salary and the reporting of employer contributions from salary has been postponed without any founded reason, the employer contributions will become payable at the time the salary was initially booked because it is seen that the booking was used as a profit adjusting entry to the financial statements (Kukkonen 2010, 191).

4.2 YEL-insurance

YEL insurance, an entrepreneur's pension insurance, is mandatory to all entrepreneurs when they meet the criteria of belonging to the pension system set in the Entrepreneur's Pension Law (1272/2006). YEL section 3 determines as an entrepreneur a person who is self-employed and works without an employment relationship, or a shareholder who solely owns more than 30% of the company's share capital, or a shareholder who together with a family member owns more than half of a company's share capital. Other conditions required for the mandatory pension are that the entrepreneur is between the ages 18-86, the business operation has been running for four months, and the minimum income of the entrepreneur is estimated to be at least 7 799.37 € in 2019 (Eläketurvakeskus 2018).

YEL insurance payment is set according to the insured person's age and therefore is graduated. YEL payment in 2019 from the confirmed income for ages below 53 and above 62 is 24.10% and 25.60% for ages between 53-62. The YEL-insurance payments are deductible expenses in taxation. YEL-income is the base for calculating the insurance and it is used to calculate the entrepreneur's pension and social security as well as the amount of insurance payments. The YEL-income should correspond to the work contribution of the entrepreneur not the company's actual financial results. Although, the company's turnover or the earned income confirmed in taxation can used as a determiner for the YEL-income. (Eläketurvakeskus 2018.) YEL chapter 9, section 112 states that the work contribution should correspond with a salary that would reasonably be payable if the entrepreneur had to hire someone just as qualified to perform equivalent work. In 2019 the minimum limit for work contribution is 7 799.37 € and the maximum 177 125 €.

Entrepreneurs pension is accumulated from all of the confirmed YEL-incomes during entrepreneurship. Therefore, the work contribution should be on a correct level throughout the entrepreneur's career because it is not possible to correct small accumulated pension security right before starting to reach the pension age. YEL-income is also the base for social security, for instance, unemployment compensation, daily medical care allowance, and parenthood allowance all use YEL-income as the calculation base. (Eläketurvakeskus 2018.)

4.3 Planning of salary and dividend solutions

In family companies, the profit made is often wanted to be distributed directly to the shareholders in the most tax efficient way. Instead of distributing dividends the funds of the company can also be received as salary, fringe benefits, rent or interest income, or as a shareholder loan. There is no one model that suits all, the specific circumstances of each company and shareholder should be considered. However, in an entrepreneur's tax planning the calculations should include both the company's taxation as well as the individual taxation of the business owner. Otherwise, if the taxation is not looked from the bigger perspective, the avoidance of taxes in one side may result on the fact that the total tax burden of a solution is not actually the most optimal. (Koponen 2014, 94.)

With low-income levels, the best possible solution is to pay salary. This is because the salary with its social security costs is a deductible expense for the company while dividends are not. YEL-insured entrepreneur's salary is often taxed with a lower rate than the lower taxed capital income dividends (Koponen 2014, 100-101). However, the raising of salary alone will not create an incentive for entrepreneurship because technically from the taxation point of view the situation is the same as if one was an ordinary salary earner and the risks for being an entrepreneur will not be compensated (Kukkonen & Walden 2014, 91).

When estimating the attractiveness of salary and dividend from both owner and company perspective it is worth noticing that from salary the mandatory employer's health insurance payment and other possible social security contributions must be paid. The amount of the contributions differs depending on whether the entrepreneur is insured by the entrepreneur's pension insurance (YEL) or by the employees' pension insurance (TyEL). From a YEL-insured entrepreneur's salary the only indirect cost is the health insurance payment. If the owner is TyEL-insured, the mandatory employee pension payment will increase the social security costs significantly and decrease advantageousness of salary income as more social security payments must be paid by the company. A TyEL-insured employee's pension payment is 25.2% in 2019 from the salary income. Because of the high pension costs of a TyEL-insured person, the total cost burden of salary can often raise relatively high even with reasonable income levels. Table 2 summarizes the comparison of salary and their social security costs, and dividends and their deductibility in taxation.

Table 2. Salary or dividend (modified from Kukkonen & Walden 2014, 91)

	Salary	Dividend
Income type	100% earned income	25% capital income 85% capital income 75% earned income
Taxation start level	0	20% corporation tax
Social security contributions	yes	no
Production of income deduction	yes	no
Municipality taxation earned income allowance deduction	yes	yes
Pension payments	YEL-owner yes TyEL-owner no	no

The lowest tax burden possible for dividend income is 26% if one considers both the corporation tax rate of 20% and the entrepreneur's tax from the dividend 7.5% (Koponen 2014, 100-101). When the income level is higher the raising of the partially tax-free dividends should be considered as the progressive tax scale starts to raise the income tax. For TyEL-insured entrepreneurs earned income dividends can be a solution from a tax optimization perspective as no social security cost are related to earned income dividends. (Viitala 2018, 143). Earned income dividends will be strained by the corporation tax rate and the personal income tax that is to be paid from 75% of the dividends distributed (Kukkonen & Walden 2014, 85).

Any paid salary will not affect the entrepreneur YEL-insurance payments as it is formed by the yearly YEL-income reported to the entrepreneur's insurance company. Hence the amount of salary will not directly impact the pension accumulation of a YEL-insured owner whereas a TyEL-insured owner's pension security will accumulate only from the insurance payments made from salary income. Therefore, the pension security of a TyEL-insured entrepreneur will need to be obtained in another way if for example earned income dividends are used to compensate for salary income. (Raunio & al. 2018, 31.)

5 Research methodology

This chapter further clarifies the research methods that were used in this thesis and presents the ways data was gathered and analyzed. The chapter also addresses the potential risk factors that were identified with the research.

5.1 Research methods and design

According to Ghauri & Gronhaug (2010, 196) qualitative research is used when there is a need to understand the purpose or gain insights about a certain phenomenon. Qualitative research is more flexible in structure than quantitative research and emphasizes understanding, and there are various approaches and methods to it. Data collection and the analysis of it is often made in an interactive way such as interviews or conversations to gain insights and explanations into the problem area. (Ghauri & Gronhaug 2010, 196.)

The qualitative research method was chosen for this study because the need for understanding how entrepreneurs can tax-efficiently withdraw funds in their limited liability companies was set as the research question. The empirical part of the thesis revolved around the calculations with salary and dividend solutions in different case scenarios because that was the most practical and illustrative way to bring out the subject of the thesis. Additionally, it was of interest to find out from entrepreneurs themselves the different motives and preferences they have regarding the distribution of funds from their own companies.

During the research process, both primary and secondary data was collected. Primary data being the specific data collected for this research and secondary data meaning the data that originally were gather for some other purpose, however the data can be further analyzed and used to offer different knowledge and interpretations (Saunders, Lewis & Thornhill 2016, 3). Secondary data collected for this thesis mainly consisted of Finnish tax legislation and published books around the topic. Primary data included a scenario calculation approach to demonstrate salary and dividend solutions in practice and a semi-structured qualitative interview with entrepreneurs to gain more information on the set themes.

My research design (figure 2) illustrates the research plan that was used to gather data and their relations to my investigative questions. Phase 1 consisted of a semi-structured qualitative interview to entrepreneurs, following a thematic analysis that was used in the analysis of the interview results. The results of the semi-structured interview were set to answer IQ2 that related to entrepreneurs' motives and thoughts regarding salary and dividend solutions.

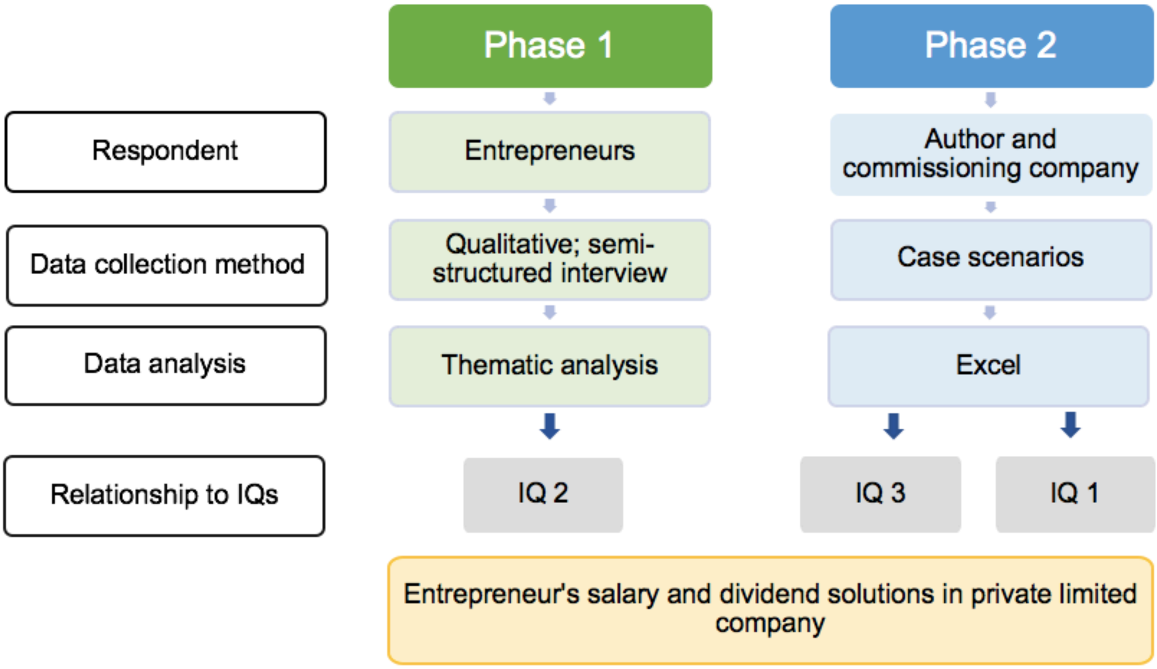

Figure 4. Illustration of the research design

Phase 2 of the research design related to the empirical part of this thesis where the different salary and dividend solutions were investigated. The case scenarios were planned together with the commissioning company. Microsoft Excel was used to perform the calculations. Via the practical calculations, the remaining investigative questions were answered. The final outcome of all investigative questions then together answered the research question set for this thesis.

5.2 Interview

Interview as a research method demands real interaction between the researcher and the interviewees (Gauri & Gronhaug 2010, 125). Interviews can help researcher gather credible and trustworthy data relevant to the research question and objectives in hand. The interviews can be either structured, semi-structured or unstructured interviews (Saunders & al. 2016, 388). The interview method selected for this study was a semi-structured interview.

In semi-structured interviews the interviewer has already determined the themes and possible key questions to be covered, although additional questions may be required to explore given that specific context is needed from the interviewees, which relate to the research question and objectives. The questions may also be asked in a different order depending on the flow of the conversation. (Saunders & al. 2016, 391.) In semi-structured interviews the aim is to discuss the predetermined focal themes rather than asking very detailed questions. This allows the interviewee's voice to be heard. Semi-structured interviews consider the interpretations or focus points that the interviewees make to be of importance. (Hirsjärvi & Hurme 2008, 48.)

The initial plan for the interviews was that they would include entrepreneurs that were either sole owner or a majority owner in their own companies and acted as a YEL-insured entrepreneur working in their respective companies. This would ensure that they have the possibility to make the necessary decisions regarding the distribution of salary and dividend themselves. The informants were encouraged to participate because it could hopefully increase and challenge their knowledge in these topics as well as add value to the financial consultation that they receive already from the commissioning company. To many entrepreneurs, the planning of their yearly income from their companies is an important element and can at best have a considerable impact on their lives and business operation.

The target number for initial respondents was set to five participants. The themes identified for further interview discussion during the research process were salary, dividend distribution, and profit planning. The objective of the interviews was to discover the entrepreneur's knowledge and preferences regarding the way that they distribute funds from their companies. More specifically it was of interest to understand the motives for choosing a certain option for the distribution of funds.

Saunders & al. (2016, 392) describe semi-structured interviews to be used to gather data that is normally analyzed qualitatively. The data is likely to be used in the effort of trying to understand the 'what' and 'how' as well as place emphasis on the 'why'. The data analysis method chosen to analyze the interview data gathered for this thesis was thematic analysis. Thematic analysis can be used to analyze qualitative data, and the idea of the analysis is to find themes or patterns that occur in the data gathered. (Saunders & al. 2016, 579.) The interview results for this thesis were first transcribed after which a memo was written putting together all the key answers in the three main themes (salary, dividend, profit distribution). Any identical or similar answers were highlighted within each category. The interview results are discussed in detail in chapter 6.

5.3 Risks and risk management

Potential risk factors that could arise during the process of this thesis were identified when the research design was planned. The identified risks mostly related to the research methods of this thesis where the possibility of failed interview results was present. To manage this beforehand, the commissioning company was consulted about approaching clients with the interview. Active communication was present to ensure the process of identifying willing participants who fit the demarcation to answer the interview questions. Additionally, the issue of time management was noted early on as, for example, the interview respondent’s as well as the commissioning company’s timetables needed to be considered. To ensure the successful conduction of the interviews, open communication and scheduling were used to manage any time-sensitivity.

The empirical study also presented some challenges with the risks of presenting over complicated calculations and staying within the demarcation criteria. It was also noted that the empirical part was the most valuable part of the thesis so the successful implementation of it was crucial. The commissioning company was present throughout the process of the thesis writing and was able to assist with any problems relating to the scenario calculations and offer practical knowledge around the topic.

6 Data result and analysis

The objective of this thesis was to demonstrate the distribution of funds via salary and dividend, and how with the planning of these two ways to distribute funds substantial savings in taxes could be brought to an entrepreneur. The aim was also to gain information on the entrepreneurs' motives in fund distribution and compare what they are doing against the results achieved by the calculations. This chapter will first introduce the interviews and their results. Thereafter, the practical salary and dividend solutions in different case settings will be presented with the help of an Excel spreadsheet.

6.1 Entrepreneur's views on salary and dividend planning

Interviews were conducted on entrepreneurs in private limited companies who were sole shareholders and worked as an YEL-insured entrepreneur in their companies. This demarcation was to ensure that the opinions of other majority shareholders when distributing funds needed not to be taken into account. The respondents' companies were either micro or small-sized companies and had all been operating at least for two years. The net assets of all the companies varied, and they all operated in different industries in Finland. The final number of respondents was six of which two were not clients at the commissioning company. The interviews were conducted during spring 2019 in a face-to-face setting. The interviews followed along with the prepared questions (Appendix 1). However, if a topic was of interest to the interviewee or specification was needed around a theme they could be discussed further.

At first, the interviewees were asked to describe what influences the amount of money that they withdraw from their companies on a yearly level. Entrepreneurs most common influencer in the distribution of funds is their personal yearly need for money but not more than that. Owner's often wanted to receive reasonable salary and dividend to ensure the financing of their personal expenses throughout the year. To some a reasonable income tax percentage, a maximum of 30%, was used to determine the level of salary income. Other factors that many respondents brought up that influenced the planning of yearly income level and fund withdrawals from their company were the company's revenue and liquidity. The revenue was sometimes used as a determiner for their salary as the salary expenses reduce the amount of revenue along with other operating expenses. Challenging liquidity issues to some opposed problems when it came to the steady payment of salary and hence the payment of salary was tied with the company's cash situation.

When moving towards dividend distribution, the interviewees were asked to elaborate on what things influenced the decision to distribute dividends in their companies. To many, it was self-evident that their accountants would calculate and suggest the most tax efficient way to distribute funds based on their need for money. Given that their company's financial position and solvency allowed, almost all entrepreneurs said that they often distributed the 8% annual return on the mathematical value of the shares in addition to a reasonable salary income. The partly tax-free dividend income was seen as a good addition to salary income as it carries the low tax burden of 7.5% or 8.5% depending on which capital income rate is to be applied. Dividends exceeding the 8% mathematical value of shares were only distributed if the entrepreneur's yearly need for money was substantial. If the entrepreneur had already received a decent amount of salary income and there was no need for the company to for example lower the current year's profit with salary expenses, the option for dividend income that is only 75% taxable earned income became something worth considering.

The obstacles mentioned for dividend distribution often formed from the lack of net assets or the company's liquidity issues. However, cash or cash equivalents as such does not prevent the company from distributing dividends. If the company does not have the liquidity to pay out the dividends, the dividends can be recognized as a liability to the shareholder. The obligation to pay the withholding tax from the dividends on the other hand is formed when the distribution decision has been made, and the withholding tax needs to be paid from the total amount of dividend income distributed even if the dividends are paid out partially or later in full.

The third theme of the interview was profit distribution and when asked if planning took place in their companies all of the interviewees answered positively. However, it became quickly clear that the majority of the profit planning responsibility was outsourced to the accountant agency of the company. The entrepreneur's main motivation for profit planning was to optimize taxes. Some entrepreneurs saw it good that the salary and dividend solutions were made to lower the net profit of the company. In other words, if the profit of their companies at the end of the financial year corresponded to a decent yearly income level and their need for money and no other needs such as investment plans were in sight, the simplest option for them was to use salary or the combination of salary and dividend to lower the company's profitable income and thus avoid paying high corporation tax from a high profit. The decision to use profits as a way to increase the company's net assets was also discussed by some entrepreneurs whose companies had low net asset values. The decision to not distribute profits and rather invest the profit of the year back to the company often stemmed from the company's future growth or investment plans.

Sometimes the owners wanted to raise the equity of the firm to improve the solvency of the firm or to use retained earnings as a way to increase the net assets of the firm and pay a bigger low taxed dividend next year if no need for personal financing was present.

The entrepreneurs all seemed to be on the consensus that dividends in addition to salary were an efficient way to distribute funds to themselves. However, the most optimal ratio between salary and dividend was unclear to many. The role of accountants and their professional knowledge in small companies also proved itself to be crucial, as for many entrepreneurs the practicality of salary and dividend solutions was unknown. Two of the interviewees who were not clients at the commissioning company did not have accountants that assisted with the distribution of funds and therefore they only received salary from their companies. Many entrepreneurs found the regulation around dividends complex, and professional help was required to execute the dividend distribution. This may be part of the reason why some entrepreneurs choose not to use dividends alongside salary to efficiently withdraw funds in their own companies because they simply don’t know how.

6.2 Salary or Dividend?

To discover the best ratio between salary and dividend that would achieve the most tax benefit this study examines distribution of funds via three different cases each with different net asset value. The three different net asset values for the scenarios are 0 €, 50,000 €, and 100,000 €. The three net asset values were chosen to highlight the link between dividends and net assets in the Finnish dividend distribution system. In the three case scenarios there are four different profit before tax values, a profit that would be realized before any salary bookings or taxes have been considered, and they will act as the starting point for the calculations. The values are 30 000 €, 50 000 €, 70 000 €, and 100 000 €. These profit values were selected because the majority of the clients at the commissioning company operate between these selected values, and the need was to examine salary and dividend solutions for these types of companies.

The case scenario calculations demonstrate the distribution of profit to a YEL-insured entrepreneur owning 100% of their private limited liability company. The entrepreneur works in their own company and is able to determine the size of their salary as well as withdraw funds via dividends. The information that is used in the taxation calculations are as followed:

- State income tax is calculated according to the current state tax schedule for 2019.

- Other taxes that the entrepreneur must pay include the current municipality tax of Helsinki, the Evangelical Lutheran church tax of Helsinki, and the daily health insurance payment determined for entrepreneurs in 2019. The percentages are: 18.00% + 1.00% + 1.77% = 20.77%.
- Medical care charge that otherwise belongs to the other statutory taxes is not considered the calculations because it is not collected in 2019 due to the Competitiveness Pact that Finnish labor market organizations agreed upon in 2016.
- The entrepreneur is between the age of 18-52.
- The company pays 0.77% social security contribution from the entrepreneur's salary.
- No other personal deductions in taxation are included except the what the Tax office automatically grants. These include the standard deduction for the production of income, the deduction of health insurance payments, the standard earned income deduction and the standard credit for work income.
- The automatic deduction for low-income earners in municipality taxation is not included as it only given to taxpayers with earned income less than 21 700 €.
- The company pays the YEL-insurance payment of the entrepreneur. YEL payment is set by the YEL-income and will stay the same in all cases. The payment does not affect the result of the scenarios. The YEL-income used in the calculations is 7 799.37 €.
- YLE broadcasting fee of the entrepreneur or the company is not included, the effects of it to the solutions are insignificant.
- The entrepreneur has no other sources of income besides the income they receive from his/her company.
- The profit from the period will increase the equity of the company.
- The profit for the year will be distributed fully to the entrepreneur in each scenario.

For simplicity, the analysis will only focus on one financial year. To examine the taxation more specifically, the starting point will be the company's profit before taxes, so before any possible salary bookings are made. By choosing the profit before taxes as a starting point one can evaluate the relation of how the entrepreneur should pay the profit out. The salary and its social contribution costs are deductible expenses for the company. From the operating profit the company pays the corporation tax and the remaining funds are distributable profits from the period. The profit and the net asset value are considered to be the same values in taxation as they are in accounting, meaning no adjustments are made for tax purposes.

The Excel spreadsheet examines five different ratios of division for the company's profit before taxes. The division ratios are 100% salary, 80% salary, 50% salary, 30% salary, and 100% dividend. The best solution is the one carrying the lowest tax burden percentage. The best option also means that it offers the biggest possible net income for the entrepreneur. The Excel spreadsheet has been structured so that after the input values are set the calculator calculates the rest automatically via formulas. The Excel formulas only function when the input net asset value is positive. The input values are the orange colored cells: profit before taxes, unrestricted equity reserve before profit is realized, and the YEL-income. The state income tax schedule and the other taxes that the entrepreneur must pay have been formed on the spreadsheet as separate tables. They are linked via formulas to the actual calculation. The separate tables were used so that the values are easily amendable if the state tax scale or other taxes change.

6.2.1 Case 1. Net assets 0 €

Case 1 takes a look at a company with no net assets. When a company has no net assets the 8% of the mathematical value of the shares is zero unless profit is realized from the current financial period, which increases the net assets of the company and the mathematical value of the shares.

The first profit before taxes to be examined is 30 000 €. When an entrepreneur wants to pay the whole profit out, the best solution is to pay it as salary (Appendix 2). To demonstrate how the salary and dividend solutions are calculated, the Excel spreadsheet used to calculate the tax burden of the solutions is now presented. Table 3 presents the distribution of the income when input values of 30 000 € profit before taxes and 0 € net asset value is inserted to the spreadsheet. The upper row of the Excel shows the ratio of distribution so that different ways to distribute the funds can be easily compared in the Excel.

When the profit of 30 000 € is distributed as salary the entrepreneur's salary income is 29 779.77€. The social contributions for the company from this salary are 0.77% x 29 779.77 € = 229.23 €. This makes the net profit of the company is 0 € as both salary and the social contributions are deductible expenses. When the income is taken out only as salary, the net assets of the company do not increase as no profit is realized. However, in table 3 it can be detected that if the income was distributed via other possible ratios of salary and dividend, the net assets of the company would grow when there is net income realized from the financial period. This means that capital income dividends can be distributed although the annual return on the mathematical value of the shares is very low. In the

100% dividend option (column on the right) where the most net profit 24 000 € is realized, the annual return on the mathematical value of the shares is 8% x 24 000 € = 1 920 €. Only this amount can be distributed as 25% taxable capital income and 75% tax-free capital income while the rest of the dividends will automatically be 75% taxable earned income.

Table 3. Profit before taxes 30 000 €, net assets 0 €

Ratio of division (salary-dividend)		100%	80%	50%	30%	100%
PROFIT BEFORE TAXES		**30 000.00**				
Salary		**29 770.77**	**23 816.61**	**14 885.38**	**8 931.23**	**0.00**
Social contributions	0.77%	229.23	183.39	114.62	68.77	0.00
Operating profit		0.00	6 000.00	15 000.00	21 000.00	30 000.00
Corporation tax	20.00%	0.00	1 200.00	3 000.00	4 200.00	6 000.00
Net income		**0.00**	**4 800.00**	**12 000.00**	**16 800.00**	**24 000.00**
Net assets before profit for the period		**0.00**	0.00	0.00	0.00	0.00
NET ASSETS		**0.00**	**4 800.00**	**12 000.00**	**16 800.00**	**24 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend income		0.00	4 800.00	12 000.00	16 800.00	24 000.00
Return on the mathematical value of shares	**8.00%**	**0.00**	**384.00**	**960.00**	**1 344.00**	**1 920.00**
Return exceeding the 8% mathematical value		0.00	4 416.00	11 040.00	15 456.00	22 080.00
Tax-free capital income	75.00%	0.00	288.00	720.00	1 008.00	1 440.00
Taxable capital income	25.00%	0.00	96.00	240.00	336.00	480.00
Taxable earned income dividends	75.00%	0.00	3 312.00	8 280.00	11 592.00	16 560.00
Tax-free earned income dividends	25.00%	0.00	1 104.00	2 760.00	3 864.00	5 520.00
Tax-free portion of capital income exceeding 150k	15.00%	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceeding 150k	85.00%	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**96.00**	**240.00**	**336.00**	**480.00**

Table 3 also presents how the taxation of dividends proceeds under the current legislation in force. The dividend income limit of 150 000 € is the limit under which the dividends will be 75% tax-free and 25% taxable capital income. If dividends exceed the 150 000 € dividend income limit, the taxation tightens and 85% of dividends will be taxable capital income and only 15% are tax-free capital income. But before dividends can be distributed the annual return on the mathematical value of the shares needs to be determined. The 8% of the annual return on the mathematical value of the shares is calculated by multiplying the net asset value by 8%. The dividend income distributed that exceeds the 8 percent of the mathematical value of the shares is considered to be earned income dividends of which 75% is taxable and 25% tax-free. Earned income dividends will be taxed by the personal income tax percentage and the dividends distributed that are less than the 8% return are 25% taxable capital income to which the capital income tax rate is applied.

After the dividend income has been calculated, the taxable earned income in state and municipality taxation is calculated next so that the entrepreneur's income taxes can be determined. Table 4 illustrates the calculation of earned income when only automatic deductions given by the Tax Administration is taken into consideration. The deduction for the production of income is 750 € and it is deducted from the gross earned income. This will then amount to the net taxable earned income of the entrepreneur. From the net taxable earned income, the health insurance payments that the entrepreneur has paid from the salary income can be deducted in taxation. An entrepreneur will pay the employees (1.54%) and the entrepreneur's contribution to health insurance (0.23%) from the salary income. As the entrepreneurs YEL-income is set to 7 799.37 € and the salary income is 29 770.77 € the amount of the deduction is calculated by multiplying the YEL-income and salary income by the employees' health insurance contribution and adding the entrepreneur's contribution on top, which is calculated by multiplying the YEL-income with the entrepreneur's contribution percentage. Thus, the deduction in the 100% salary option is (1.54% x 7 799.37 €) + (1.54% x 29 770.77 €) + (0.23% x 7 799.37 €) = 596.52 €.

Table 4. Earned income calculation when profit before taxes 30 000 €, net assets 0 €

EARNED INCOME						
Taxable earned income dividends	75.00%	0.00	3 312.00	8 280.00	11 592.00	16 560.00
Salary income		29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total taxable earned income		**29 770.77**	**27 128.61**	**23 165.38**	**20 523.23**	**16 560.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**29 020.77**	**26 378.61**	**22 415.38**	**19 773.23**	**15 810.00**
- Health insurance payment deduction	1.77%	596.52	555.83	494.80	454.11	393.07
Taxable income in state taxation		**28 424.25**	**25 822.78**	**21 920.59**	**19 319.12**	**15 416.93**
- Standard earned income deduction max. 3 570 €		2 894.07	3 012.96	3 191.31	3 310.20	3 488.55
Taxable income in municipality taxation		**25 530.18**	**22 809.82**	**18 729.28**	**16 008.92**	**11 928.38**

The earned income received after the health insurance payments have been deducted is the amount of earned income taken into account in state taxation, and it is the amount of earned income to which the state income tax schedule is applied. To reach the taxable earned income in municipality taxation, an automatic standard deduction for the production of income must be calculated if the net taxable income is below 93 333 €. The deduction is 51% for the income between 2 500 € and 7 230 € and 28% for the income exceeding 7 230 €. If net taxable earned income is more than 14 000 €, the deduction is diminished by 4.5% from the income exceeding 14 000 €. The maximum deduction allowed is 3 570 €. To demonstrate, the standard deduction for the production of income in the 100% salary option is calculated by first calculating the amount of the deduction:

51% x (7 230€ - 2 500€) + 28% x (29 770.77€ - 7 230€) = 8 213.72 €. As this is more than the maximum amount of deduction and the net taxable income of 29 020.77 € is more than 14 000 €, the deduction is diminished by 4.50% x (29 020.77 € - 14 000€) = 675.93 €. The final deduction granted is 3 570 €- 675.93 € = 2 894.07 €.

To reach the amount of taxes payable for the entrepreneur, capital income and earned income taxes are calculated next (table 5). Capital income tax is 30% for the capital income less than 30 000 € and 34% for the exceeding amount. To find out the amount of state income taxes the Excel follows the state taxation schedule 2019. The final payable tax is reached when the final automatic deduction, the standard tax credit for work income, is made from the amount of state taxes that have accumulated. The credit is given if net taxable income is less than 127 800 € and it is 12.2% on income above 2 500 euros. If net taxable income is more than 33 000 €, the credit is diminished by 1.72% from the exceeding amount. The maximum credit granted is 1 630 €. The credit can be used to the municipality and church taxes if the amount of the credit exceeds the amount of state tax payable.

Table 5. Capital & earned income taxes when profit before taxes 30 000 €, net assets 0 €

CAPITAL INCOME TAXES						
Capital income tax rate	30.00%	0.00	28.80	72.00	100.80	144.00
Capital income tax on income exceeding 30.000 €	34.00%	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**28.80**	**72.00**	**100.80**	**144.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		26 400.00	17 600.00	17 600.00	17 600.00	0
Tax at the lower limit €		536.00	8.00	8.00	8.00	0
Income exceeding the lower limit		2 024.25	8 222.78	4 320.59	1 719.12	15 416.93
Tax rate exceeding the lower limit%		17.25%	6.00%	6.00%	6.00%	0
Tax for the exceeding income €		349.18	493.37	259.24	103.15	0.00
Total state income taxes		885.18	501.37	267.24	111.15	0.00
- Standard tax credit for work income max. 1 630 €		1 630.00	1 630.00	1 630.00	1 630.00	1 630.00
Total state taxes payable		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Other (municipality, etc.) taxes payable	20.77%	4 557.80	3 608.97	2 527.31	1 806.20	847.52
Entrepreneur's total earned income taxes		**4 557.80**	**3 608.97**	**2 527.31**	**1 806.20**	**847.52**

In the 100% salary option, the total state income taxes are 885.18 € (table 5). As the net taxable income does not exceed 33 000 €, the deduction is 12.2% x (29 770.77 € - 2 500 €) = 3 327.03 €. However, this is more than the maximum amount of deduction, the granted deduction will be 1 630 €. In this example, the income taxes are lower than the standard tax credit meaning that there will be still credit left after it has been used to state taxes. The remaining credit 1 630 € - 885.18 € = 744.82 € can be used in other taxes. The other taxes are calculated from the taxable earned income amount in municipality taxes. The other taxes after the remaining credit has been taken into account are 25 530.18 € x 20.77% - 744.82 € = 4 557.80 €.

The entrepreneur’s total taxes will accumulate from the state tax payable, municipality and other taxes as well as possible capital income tax if capital dividends are distributed. The company’s total taxes consist of the corporation tax and the social contributions from the entrepreneur’s salary. The total tax burden of paying the profit of 30 000 € as salary is 15.69%. The entrepreneur pays 4 787.80 € in taxes and receives 25 212.96 € as net income. The company’s strain of the 100% salary solution consists of the social contribution costs 229.23 € as no profit is generated. The last section of the Excel spreadsheet sums up the total amounts of gross salary income, gross dividend income as well as the amounts of gross capital and earned income in taxation (table 6). The total taxes for the entrepreneur are also shown, and lastly, the comparison between the entrepreneur’s net income, the company’s total taxes, and the total tax burden of each solution is presented.

Table 6. Profit before taxes 30 000 €, net assets 0 €.

Total dividend income	0.00	4 800.00	12 000.00	16 800.00	24 000.00
Total salary income	29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total capital income	0.00	384.00	960.00	1 344.00	1 920.00
Total earned income	29 770.77	28 232.61	25 925.38	24 387.23	22 080.00
Total payable capital income tax	0.00	28.80	72.00	100.80	144.00
Total payable earned income tax	4 557.80	3 608.97	2 527.31	1 806.20	847.52
Entrepreneur's total taxes payable	**4 557.80**	**3 637.77**	**2 599.31**	**1 907.00**	**991.52**
Entrepreneur's net income	25 212.96	24 978.85	24 286.08	23 824.23	23 008.48
Company's total taxes (social contr. + corporate tax)	229.23	1 383.39	3 114.62	4 268.77	6 000.00
Total taxes of both owner and company	4 787.04	5 021.15	5 713.92	6 175.77	6 991.52
TOTAL TAX BURDEN	**15.96%**	**16.74%**	**19.05%**	**20.59%**	**23.31%**

As table 6 exhibits, the differences between for example the 100% and 80% solution are rather small when looking at the tax burden percentages. That is why it is more perceptive to compare the 100% salary solution to the 100% dividend solution. The tax burden of 100% dividend solution in this scenario is 23.31%. That is 7.35% more than the tax burden of the 100% salary solution. The net income of the entrepreneur would decrease by 2 204 € and total taxes of both the entrepreneur and the company would increase by 7 975 € if the same income was distributed as dividends.

To examine if the situation changes when the income grows, a 50 000 € profit before taxes (Appendix 3) is best to pay out as salary as the lowest tax burden is achieved with this ratio of distribution. The calculations proceed similarly as they have before in the Excel spreadsheet described earlier when the input values are changed. In the 100% salary option the business owner's salary is 49 617.94 € and the social contributions 382.06 € (table 7). No profit is realized after the salary expenses have been deducted and the calculations proceed to the income taxation. The total earned income taxes accumulate to 12 624.55 € after all automatic deductions have been considered. The total taxes for both the company and entrepreneur are 13 006.61 € and the total tax burden of the salary solution is 26.01%.

Table 7. Profit before taxes 50 000 €, net assets 0 €.

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	8 000.00	20 000.00	28 000.00	40 000.00
Total salary income	49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total capital income	0.00	640.00	1 600.00	2 240.00	3 200.00
Total earned income	49 617.94	47 054.35	43 208.97	40 645.38	36 800.00
Total payable capital income tax	0.00	48.00	120.00	168.00	240.00
Total payable earned income tax	12 624.55	10 685.76	8 032.52	6 267.16	3 737.62
Entrepreneur's total taxes payable	**12 624.55**	**10 733.76**	**8 152.52**	**6 435.16**	**3 977.62**
Entrepreneur's net income	36 993.39	36 960.59	36 656.45	36 450.22	36 022.38
Company's total taxes (social contr. + corporate tax)	382.06	2 305.65	5 191.03	7 114.62	10 000.00
Total taxes of both owner and company	13 006.61	13 039.41	13 343.55	13 549.78	13 977.62
TOTAL TAX BURDEN	**26.01%**	**26.08%**	**26.69%**	**27.10%**	**27.96%**

Table 7 also displays the tax burdens of all the examined solutions. The contrast between the 100% salary option and 80% is very little. In the 100% salary option, the total taxes are only 33 € less than what they are in the 80% option. The difference between the lowest and the highest carrying options (100% salary and 100% dividend) is slightly below 1 000 €. It is noticeable that the differences between the different solutions have gotten much closer to one another, yet distinctive differences can be made between the different ratios of distribution.

As the profit grows to 70 000 €, the spreadsheet calculation still demonstrates that the most favorable option is to pay salary to the entrepreneur (Appendix 4). The 100% option carries the lowest tax burden with 31.28%. This solution would mean in practice a salary income of 69 465.12 € to the entrepreneur (table 8). The social contribution cost for the company from this salary income is 69 465.12 € x 0.77% = 534.88 €. The company's tax burden consists only of the social contributions as no profit will be realized and no corporation tax is paid. The entrepreneur's earned income taxes accumulate to 21 362.78€ after all automatic deductions have been granted. The net income of the entrepreneur is 69 465.12 € - 21 362.78 € = 48 102.34 €.

Table 8. Profit before taxes 70 000 €, net assets 0 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	11 200.00	28 000.00	39 200.00	56 000.00
Total salary income	69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total capital income	0.00	896.00	2 240.00	3 136.00	4 480.00
Total earned income	69 465.12	65 876.09	60 492.56	56 903.54	51 520.00
Total payable capital income tax	0.00	67.20	168.00	235.20	336.00
Total payable earned income tax	21 362.78	18 648.47	14 577.01	11 862.70	8 044.96
Entrepreneur's total taxes payable	**21 362.78**	**18 715.67**	**14 745.01**	**12 097.90**	**8 380.96**
Entrepreneur's net income	48 102.34	48 056.43	47 987.55	47 941.64	47 619.04
Company's total taxes (social contr. + corporate tax)	534.88	3 227.91	7 267.44	9 960.46	14 000.00
Total taxes of both owner and company	21 897.66	21 943.57	22 012.45	22 058.36	22 380.96
TOTAL TAX BURDEN	**31.28%**	**31.35%**	**31.45%**	**31.51%**	**31.97%**

Table 8 also portrays that at this level of income the differences between the tax burdens of different ratios of distribution are much smaller than they have in the previous examples meaning that the tax burden of the salary is raising to meet the tax burden of dividends. When the profit is 70 000 € the tax burdens of all of the allocation ways presented fall into between 31% and 32%. The most advantageous option, 100% salary, technically saves only 46 € in taxes in comparison to the second favorable the 80% salary option. If compared to the least advantageous option of 100% dividend, the difference is roughly 483 €.

The option to use earned income dividends does yet not bring enough advantage to supersede the tax burden of full salary as earned income dividends are always under double taxation. The tax burden of earned income dividends will in any event be at least 20% because of the corporation tax rate, the remaining taxes payable depend on the personal earned income tax rate of the business owner. Often more reasonable salary can be paid with a tax burden less than 20% than earned income dividends at the same level. Nonetheless, the tax burdens of these options here are clearly closing in on one another, the benefits of 75% taxable earned income dividends start to arise when the profit grows higher.

The final income to be examined at 0 € net asset value is 100 000 €. Here, the most favorable option is not to pay the income as fully salary anymore but rather use 50% salary and 50% dividend solution to distribute the funds to the entrepreneur. The spreadsheet shows the calculation of the different solutions (Appendix 5). To achieve the lowest tax burden, the salary income of the entrepreneur would be set to 49 617.94 €, the social contributions from this salary to the company would be in turn 382.06 €. The dividend income is 40 000 € after the company has paid 10 000 € tax from the 50 000 € profit that was realized after the salary expenses were deducted from the initial 100 000 € profit.

The mathematical value of the shares is 40 000 x 8% = 3 200 €. From this 8% annual return 75% is tax-free capital income dividend and 25% is taxable capital income dividend to which the 30% capital tax is applied to. The amount of net capital income dividends is thus 3 200 € - (7.5% x 3 200 €) = 2 960 €. The rest of the dividend income 40 000 € - 3 200 € = 36 800 € will be 75% taxable earned income dividends. The total tax burden with the 50% salary option accumulates to 35.40%.

Table 9. Profit before taxes 100 000 €, net assets 0 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	16 000.00	40 000.00	56 000.00	80 000.00
Total salary income	99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total capital income	0.00	1 280.00	3 200.00	4 480.00	6 400.00
Total earned income	99 235.88	94 108.71	86 417.94	81 290.77	73 600.00
Total payable capital income tax	0.00	96.00	240.00	336.00	480.00
Total payable earned income tax	36 493.91	31 797.33	24 776.15	20 898.57	15 082.20
Entrepreneur's total taxes payable	**36 493.91**	**31 893.33**	**25 016.15**	**21 234.57**	**15 562.20**
Entrepreneur's net income	62 741.97	63 495.37	64 601.79	64 536.19	64 437.80
Company's total taxes (social contr. + corporate tax)	764.12	4 611.29	10 382.06	14 229.23	20 000.00
Total taxes of both owner and company	37 258.03	36 504.63	35 398.21	35 463.81	35 562.20
TOTAL TAX BURDEN	**37.26%**	**36.50%**	**35.40%**	**35.46%**	**35.56%**

Table 9 exhibits the tax accumulation, the total taxes payable with the 50% option are 35 463.81 €, the entrepreneur's taxes being 25 016.15 € and the company's 10 382.06 €. The net sum the entrepreneur receives on hand is 64 601.79 €. By dividing the profit to both dividend and salary a lower tax burden is achieved because the taxes are spread more evenly between the entrepreneur and the company. The highest tax burden in this scenario is attained by paying the entrepreneur the whole income as salary. This is due to the fact that the entrepreneur's salary is relatively high and correspondingly the earned income taxes are high because the progressive taxation will hit harder as the income is taxed by the highest category of the state income tax scale.

The 50% salary option gives the entrepreneur 1 860 € more money than if the same income of 100 000 € was to be received as salary. The savings gained may not be remarkably large to some, but for an individual to receive almost 2 000 € more money in a year just by planning can definitely have nothing but a positive impact. Naturally, the impact grows if the savings are to be compounded with multiples years as it would be the case for an entrepreneur who runs their business presumably for many years if not their entire lives.

To sum the behavior of the total tax burden when the company has no net asset value figure 5 presents an overview of the accumulation of the total tax burdens at different profit levels. The figure visualizes the tax burden behavior when the income is distributed as 100% salary, 100% dividend or as a fifty-fifty solution.

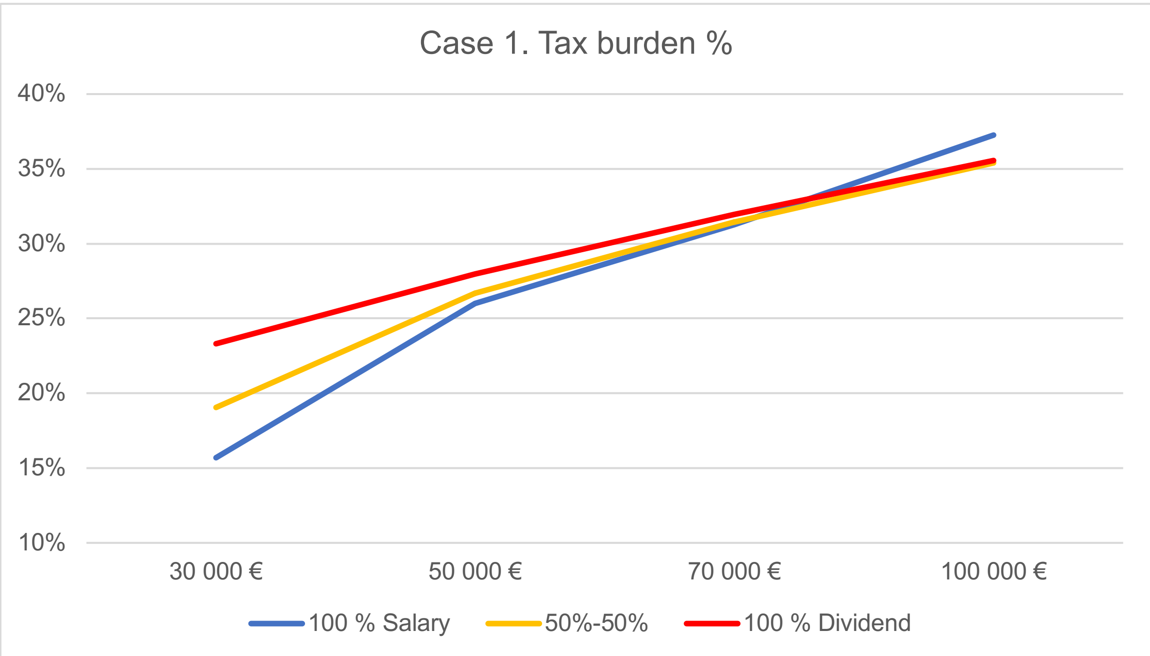

Figure 5. Total Tax burden development in Case 1

The salary solution carries the lowest tax burden at lower profit levels between 30 000 € and 50 000 €. However, as the profit starts to reach about 70 000 € the tax burden of the fifty-fifty option intersects with the full salary solution. The 100% dividend option intersects with the 100% salary option after the income grows from 70 000 €. From this point onwards the tax burden of the salary option is the most disadvantageous option because of the progressive income tax that makes the tax burden of salary income too high. More benefits are hence gained through dividend income where the tax burden can be lowered by dividing the tax accumulation between the entrepreneur and the company. When the profit before taxes is high from the start it also means that more low taxed capital income dividends can be distributed when the retained earnings increase the net assets value as such. Also, the earned income dividends start to be more beneficial at high levels of income because they are only 75% taxable earned income while salary is always fully taxed earned income.

In sum, salary is generally the best way to take out funds from the company when its profit and net assets are low. However even with no current net asset value, when the profit increases to above 70 000 € the salary will not be the most optimal solution anymore. The salary will be burdened with high progressive income tax from the tax optimization perspective indicating that the business owner should then make use of the lower taxed capital income dividends as well as the 75% taxable earned income dividends. By distributing dividends to the entrepreneur, the tax burden is shared more evenly between the company totaling to the most advantageous tax burden possible at this level of income.

6.2.2 Case 2. Net assets 50 000 €

The second case takes a look at a company with a 50 000 € net asset value before any profit from the financial period is taken into account. The case examines the distribution of income with the same profit before taxes values as before and with the same distribution ratios of salary and dividend. The calculations were performed in Excel as previously described.

If the company's profit before taxes is 30 000 € it can be seen that the most tax advantage is achieved by withdrawing the funds as 80% salary and 20% dividends. (Appendix 6). This solution means that the entrepreneur's salary income is 23 816.61 € and the social security contributions are 503.38 €. The profit for the period is 6 000 €, and after the company has paid the corporation tax the distributable dividend income is 4 800 € (table 10). Before the dividends can be distributed the annual return on the 8% mathematical value of the shares needs to be calculated. The mathematical value of the shares in this case is 8% x 54 800 € = 4 384 €. The majority of the dividend income (4 800 €) can be distributed as 75% tax-free and 25% taxable capital income dividends. The remaining dividend income (416 €) is 75% taxable earned income as it is above the 8% annual return on the mathematical value of the shares.

In the 80% option, all automatic deductions are received in earned income taxation. In state taxation, the income is taxed by the first category of the state taxation schedule. The entrepreneur’s total earned income taxes accumulate to 2 790.19 €. The company’s taxes consist from the corporation tax of 4 000 € and from the social contributions 383.39 € totaling 4 502.38 €. The total tax burden of the 80% salary option is 15%.

Table 10. Profit before taxes 30 000 €, net assets 50 000 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	4 800.00	12 000.00	16 800.00	24 000.00
Total salary income	29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total capital income	0.00	4 384.00	4 960.00	5 344.00	5 920.00
Total earned income	29 770.77	24 232.61	21 925.38	20 387.23	18 080.00
Total payable capital income tax	0.00	328.80	372.00	400.80	444.00
Total payable earned income tax	4 557.80	2 790.19	1 708.53	1 053.51	497.78
Entrepreneur's total taxes payable	**4 557.80**	**3 118.99**	**2 080.53**	**1 454.31**	**914.78**
Entrepreneur's net income	25 212.96	25 497.62	24 804.85	24 276.92	23 466.57
Company's total taxes (social contr. + corporate tax)	229.23	1 383.39	3 114.62	4 268.77	6 000.00
Total taxes of both owner and company	4 787.04	4 502.38	5 195.15	5 723.08	6 533.43
TOTAL TAX BURDEN	**15.96%**	**15.01%**	**17.32%**	**19.08%**	**23.14%**

The next best tax burden is achieved with the 100% salary option, around 16%, as the profit level is still relatively low and progressive taxation is still also reasonable. The 80% solution saves the entrepreneur and the company 285 € in taxes. The highest tax burden, or the most expensive way to take out the funds, is to distribute the funds via dividends only. Here, the majority of the dividends distributed are earned income as the 8% mathematical value of the shares is only 5 920 € even with a 74 000 € net asset value. The earned income dividends are strained by the corporation tax rate (20%) plus the entrepreneur’s income tax rate making the tax burden higher than it would be when the same income is paid as salary.

When the profit before taxes is 50 000 €, the most advantage is still gained when the income is distributed as 80% salary and 20% dividends (Appendix 7). With this distribution ratio the salary income totals to 39 694.35 € and dividend income to 8 000 € (table 11).

The annual return for the mathematical value of the shares is 58 000 € x 8% = 4 640 €. This amount can be distributed as 75% tax-free and 25% taxable dividends so the net capital dividends for the entrepreneur are 4 640 € x (7.5% x 4 640 €) = 4 292 € and the capital income tax payable is 388 €. The rest of the dividends 3 360 € are 75% taxable earned income and increase the total earned income for the entrepreneur. The earned income taxes amount to 9 477.35 € after all automatic deductions have been taken into account.

Table 11. Profit before taxes 50 000 €, net assets 50 000 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	8 000.00	20 000.00	28 000.00	40 000.00
Total salary income	49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total capital income	0.00	4 640.00	5 600.00	6 240.00	7 200.00
Total earned income	49 617.94	43 054.35	39 208.97	36 645.38	32 800.00
Total payable capital income tax	0.00	348.00	420.00	468.00	540.00
Total payable earned income tax	12 624.55	9 477.89	6 829.84	5 108.25	2 918.85
Entrepreneur's total taxes payable	**12 624.55**	**9 825.89**	**7 249.84**	**5 576.25**	**3 458.85**
Entrepreneur's net income	36 993.39	37 868.47	37 559.13	37 309.13	36 541.15
Company's total taxes (social contr. + corporate tax)	382.06	2 305.65	5 191.03	7 114.62	10 000.00
Total taxes of both owner and company	13 006.61	12 131.53	12 440.87	12 690.87	13 458.85
TOTAL TAX BURDEN	**26.01%**	**24.26%**	**24.88%**	**25.38%**	**26.92%**

The owner receives a net income of 37 868.47 € in the 80% solution. The total taxes amount to 12 131.53 €, the company's share being 2 305.65 € and the entrepreneur's 9 825.89 €. When comparing the 80% salary solution to the other solutions the highest tax burden of 26.92% is achieved if the funds were distributed fully as dividends. By dividing the income to 80% salary and 20% dividend the entrepreneur saves 875 € in taxes if compared to the situation where the funds were distributed only as salary. The net taxable income in state taxation in the 100% salary option is 48 867.94 €, making it raise a step higher to the third category in the state taxation schedule (43 500 €- 76 100€) when in the 80% salary option where the taxable income is 40 676.20 € leaving it still in the previous category with lower taxation rates.

Profit of 70 000 € before taxes does not change the situation by much from the previous levels of profit as it can be detected that the 80% salary option remains to be the cheapest solution to distribute funds at this level of income (Appendix 8). When distributing the funds with this relation the salary income is 55 572.09 € and dividend income is 11 200 €

(table 12). Of the dividend income distributed 4 896 € can be distributed as capital income and 6 304 € as earned income dividends. The entrepreneur's total payable taxes amount to 17 694.84 €. The company's taxes are 3 227.91 € of which 2 800 € is corporation tax and 427.91 € social security costs. The net income that the owner receives is 55 572.09 €. The total tax burden of this solution is 29.89%.

Similarly, as in Case 1, the differences between the different solutions have diminished when comparing the total tax burdens with one another. For example, between the 80% and the 50% option there is only a 69 € difference (table 12). Nevertheless, by planning the distribution of income at this level almost 1 000 € is saved when comparing the 80% solution to the 100% salary option, which is the costliest option out of the different ratios of distribution in this case.

Table 12. Profit before taxes 70 000 €, net assets 50 000 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	11 200.00	28 000.00	39 200.00	56 000.00
Total salary income	69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total capital income	0.00	4 896.00	6 240.00	7 136.00	8 480.00
Total earned income	69 465.12	61 876.09	56 492.56	52 903.54	47 520.00
Total payable capital income tax	0.00	367.20	468.00	535.20	636.00
Total payable earned income tax	21 362.78	17 327.64	13 256.18	10 549.54	6 842.28
Entrepreneur's total taxes payable	**21 362.78**	**17 694.84**	**13 724.18**	**11 084.74**	**7 478.28**
Entrepreneur's net income	48 102.34	49 077.25	49 008.38	48 954.79	48 521.72
Company's total taxes (social contr. + corporate tax)	534.88	3 227.91	7 267.44	9 960.46	14 000.00
Total taxes of both owner and company	21 897.66	20 922.75	20 991.62	21 045.21	21 478.28
TOTAL TAX BURDEN	**31.28%**	**29.89%**	**29.99%**	**30.06%**	**30.68%**

When the profit is 100 000 € the 50% salary option accumulates the lowest tax burden possible of 34.38% out of the five ways to distribute this amount of income (Appendix 9). With this solution, as the table 13 shows, the entrepreneur would receive a salary income of 49 617.94 € and a dividend income of 40 000 €. The company pays 10 000 € corporation tax from the profit of 50 000 € after which the realized profit of 40 000 € can be distributed as dividends. The 8% mathematical value of the shares is 7 200 € of which 75% can be distributed tax-free while 25% x 7 200 € = 1 800 € will be taxable capital income. The remaining dividend income of 32 800 € that is over the 8% return will be 75%

taxable earned income dividends. The entrepreneur’s total taxes are 23 995.33 € after the earned income and capital income taxes have been calculated.

By using the 50% salary and dividend solution the company and the entrepreneur save almost 3 000 € when comparing the option with the lowest tax burden to the one carrying the highest. From the total tax burden percentages in table 13, it can also be noticed that now the gap between 100% salary option and the most beneficial option (50% salary and dividend) has increased from before while at the same time the distance between the 100% dividend option and the 50% salary option is diminishing. This means that the full dividend option may be the most favorable option after the profit grows even higher. The earned income taxation will only tighten from this point onwards and the limits for the granting of the standard earned income deduction and the standard tax credit in taxation will be reached. Hence, the distribution of dividends will be a more beneficial solution than to pay very high earned income tax from salary.

Table 13. Profit before taxes 100 000 €, net assets 50 000 €

Ratio of division (salary-dividend)	**100%**	**80%**	**50%**	**30%**	**100%**
Total dividend income	0.00	16 000.00	40 000.00	56 000.00	80 000.00
Total salary income	99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total capital income	0.00	5 280.00	7 200.00	8 480.00	10 400.00
Total earned income	99 235.88	90 108.71	82 417.94	77 290.77	69 600.00
Total payable capital income tax	0.00	396.00	540.00	636.00	780.00
Total payable earned income tax	36 493.91	30 181.13	23 455.33	19 577.74	13 761.37
Entrepreneur's total taxes payable	**36 493.91**	**30 577.13**	**23 995.33**	**20 213.74**	**14 541.37**
Entrepreneur's net income	62 741.97	64 811.58	65 622.61	65 557.02	65 458.63
Company's total taxes (social contr. + corporate tax)	764.12	4 611.29	10 382.06	14 229.23	20 000.00
Total taxes of both owner and company	37 258.03	35 188.42	34 377.39	34 442.98	34 541.37
TOTAL TAX BURDEN	**37.26%**	**35.19%**	**34.38%**	**34.44%**	**34.54%**

The formation of the tax burden in case 2 can also be observed through figure 6 where the total tax burden development at different levels of profit is presented. The lines present the distribution of income as 100% salary solution, 50% salary and dividend solution, and 100% dividend solution. The payment of only salary is the is the most favorable option at lower income levels between 0 – 30 000 €. As the profit increases the tax burden of paying the profit out as 100% salary also increases due to the tightening of the progressive income tax. The 50% solution surpasses the full salary option as the profit grows. The intersection happens at around 36 500 € where the lowest tax burden is now achieved by dividing the income to both salary and dividend respectively.

The 100% salary option will only grow its tax burden as the income raises. The tax burden of the 100% dividend solution intersects the 100% salary option when the gross profit is around 70 000 €. At around 100 000 € the difference between 50% dividend and 100% dividend has already closed up, and both options carry around 34% tax burden.

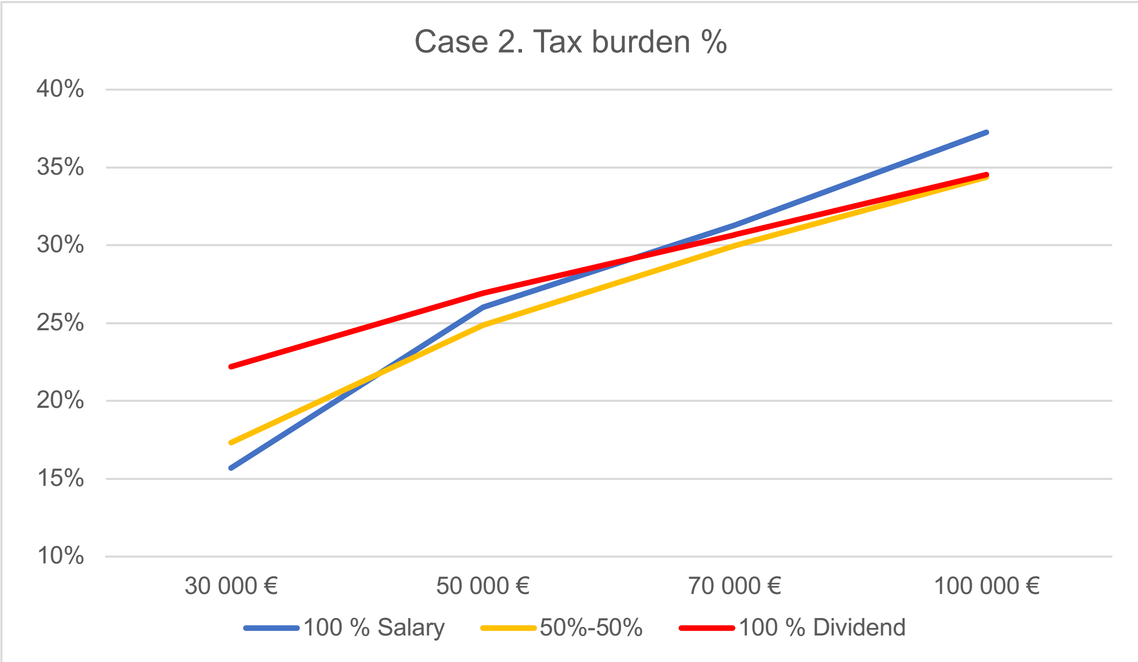

Figure 6. Total tax burden development in Case 2

At very high levels of income, the payment of only salary will naturally be the most expensive way to distribute funds than if the same income was paid only as dividends. Although, not many entrepreneurs will withdraw more funds from their company than is necessary to guarantee their own standard of living. Additionally, the option to pay only dividends may not be the best option after the dividend income limit of 150 000 € is met because the taxation of capital income dividends will tighten significantly.

6.2.3 Case 3. Net assets 100 000 €

Case 3 examines how the ratio between the most tax efficient salary and dividend solution changes when a company has a significantly greater net asset value. The company can pay more lower taxed capital income dividend to its owner because the 8% annual return on the mathematical value of the shares is greater than it is with low net asset value, making the distribution of dividends more advantageous than it was before.

When the profit before taxes is 30 000 €, the spreadsheet (Appendix 10) calculation shows that the 80% salary option carries the lowest tax burden of 14.83% out of all the solutions. At this ratio of distribution, 80% salary and 20% salary, the entrepreneur receives a salary income of 23 816.61 €. The social security contributions from the salary are 183.39 € (table 14). After the salary expenses have been deducted, the operating income is 6 000 €. The company will pay a corporation tax of 20% from the operating profit making the net profit 4 800 €. The annual return for the mathematical value of the shares is 8% x 104 800 € = 8 384 €, confirming that the 4 800 € net profit can be distributed fully as capital income dividends as the dividend income distributed does not exceed the 8% annual return. The entrepreneur pays a total of 2 705.04 € earned income tax and 630 € of capital income tax. The total taxes for the company are 1 393.39 €, and the total tax burden of this 80% salary solution accumulates to 4 448.43 euros.

Table 14. Profit before taxes 30 000 €, net assets 100 000 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	4 800.00	12 000.00	16 800.00	24 000.00
Total salary income	29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total capital income	0.00	4 800.00	8 960.00	9 344.00	9 920.00
Total earned income	29 770.77	23 816.61	17 925.38	16 387.23	14 080.00
Total payable capital income tax	0.00	360.00	672.00	700.80	744.00
Total payable earned income tax	4 557.80	2 705.04	976.98	414.08	0.00
Entrepreneur's total taxes payable	**4 557.80**	**3 065.04**	**1 648.98**	**1 114.88**	**0.00**
Entrepreneur's net income	25 212.96	25 551.57	25 236.40	24 616.35	23 605.61
Company's total taxes (social contr. + corporate tax)	229.23	1 383.39	3 114.62	4 268.77	6 000.00
Total taxes of both owner and company	4 787.04	4 448.43	4 763.60	5 383.65	6 744.00
TOTAL TAX BURDEN	**15.96%**	**14.83%**	**15.88%**	**17.95%**	**22.48%**

In the 80% option the entrepreneur receives 339 € more income than if this 30 000 € income was received as salary only. As the net asset value is much higher than it was in Case 1, its already more advantageous to pay the 8% mathematical value of the shares to the entrepreneur instead of paying a low income of 30 000 € as salary to the entrepreneur.

With a profit of 50 000 €, the Excel spreadsheet (Appendix 11) demonstrates that the 80% salary option is still the most beneficial solution with a tax burden of 22.75%. Table 15 establishes the division of income at this level. The 80% salary option meaning in practice a salary income of 39 694.35 € and a dividend income of 8 000 €. The whole 8 000 €

dividend income can be distributed as 25% taxable capital income dividend and 75% tax-free capital income as the mathematical value of the shares for this solution is 108 000 € x 8% = 8 640 €.

Table 15. Profit before taxes 50 000 €, net assets 100 000 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	8 000.00	20 000.00	28 000.00	40 000.00
Total salary income	49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total capital income	0.00	8 000.00	9 600.00	10 240.00	11 200.00
Total earned income	49 617.94	39 694.35	35 208.97	32 645.38	28 800.00
Total payable capital income tax	0.00	600.00	720.00	768.00	840.00
Total payable earned income tax	12 624.55	8 467.64	5 646.80	3 957.18	2 100.08
Entrepreneur's total taxes payable	**12 624.55**	**9 067.64**	**6 366.80**	**4 725.18**	**2 940.08**
Entrepreneur's net income	36 993.39	38 626.71	38 442.17	38 160.21	37 059.92
Company's total taxes (social contr. + corporate tax)	382.06	2 305.65	5 191.03	7 114.62	10 000.00
Total taxes of both owner and company	13 006.61	11 373.29	11 557.83	11 839.79	12 940.08
TOTAL TAX BURDEN	**26.01%**	**22.75%**	**23.12%**	**23.68%**	**25.88%**

The entrepreneur pays 8 467.64 € earned income tax and 600 € capital income tax making the total entrepreneur's taxes amount to 9 067.46 €. The total taxes for the 80% solution are 11 373.29 € of which the company's share is 2 305.65 €. The net income for the entrepreneur is 38 626.71 €. With the 80% salary solution 1 633 € is saved in taxes in compared with if the same income would be distributed as salary only.

A profit of 70 000 € before taxes is best to be distributed as both salary and dividend income (Appendix 12). The 80% salary solution gives the best result by having a tax burden of 28.43%. The gross salary income in this solution is 55 572.09 € and dividend income is 11 200 € (table 16). The annual return for the 8% of the mathematical value of the shares is 8 896 €, leaving 6 672 € to be treated as earned income dividends. The entrepreneurs total earned income taxes accumulate to 16 006.82 € after all automatic deductions are considered in income taxation. Total taxes of the solution accumulate to 19 901.92 €. The net income that the entrepreneur receives is 50 098.08 €.

The tax burden percentages between 80% salary and 50% salary are close, the former option saving only 69 € in taxes if compared to the latter. What the entrepreneur pays less in the 50% option simply means that the company pays more taxes as the taxable net profit after salary bookings will be higher than it was in the 80% solution. However, the

80% solution saves roughly 2 000 € in taxes if compared to the 100% salary option where the income is only distributed as salary to the entrepreneur.

Table 16. Profit before taxes 70 000 €, net assets 100 000 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	11 200.00	28 000.00	39 200.00	56 000.00
Total salary income	69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total capital income	0.00	8 896.00	10 240.00	11 136.00	12 480.00
Total earned income	69 465.12	57 876.09	52 492.56	48 903.54	43 520.00
Total payable capital income tax	0.00	667.20	768.00	835.20	936.00
Total payable earned income tax	21 362.78	16 006.82	11 935.35	9 346.87	5 658.70
Entrepreneur's total taxes payable	**21 362.78**	**16 674.02**	**12 703.35**	**10 182.07**	**6 594.70**
Entrepreneur's net income	48 102.34	50 098.08	50 029.21	49 857.47	49 405.30
Company's total taxes (social contr. + corporate tax)	534.88	3 227.91	7 267.44	9 960.46	14 000.00
Total taxes of both owner and company	21 897.66	19 901.92	19 970.79	20 142.53	20 594.70
TOTAL TAX BURDEN	**31.28%**	**28.43%**	**28.53%**	**28.78%**	**29.42%**

When the profit before taxes reaches 100 000 €, the lowest tax burden is now achieved with the 50% solution where the total tax burden is around 33% (Appendix 13). This option distributes a salary income of 49 617.94 € and dividend income of 40 000 € (table 17). The company's social contribution costs from the salary are 382.06 €. The operating profit will be 50 000 € from which the company pays 10 000 € corporation tax. The 8% mathematical value of the shares is 11 200 €. The amount of net capital income dividends that the company can pay to the entrepreneur is 11 200 € - (7.5% x 11 200 €) = 8 584 €. The remaining dividend income 28 800 € will be 75% taxable earned income.

The total earned income taxes of the entrepreneur accumulates to 22 974.50 € after all automatic deductions are taken into account in income taxation. The company's total taxes in this solution are 10 382.06 €. By distributing the income as fifty-fifty the entrepreneur will receive on hand almost 4 000 € more than if the funds were distributed as only salary. The payment of only salary carries the highest tax burden in this setting with 37.26% and thus is the least favorable way to withdraw funds in this scenario.

Table 17. 100 000 € profit before taxes, net assets 100 000 €

Ratio of division (salary-dividend)	100%	80%	50%	30%	100%
Total dividend income	0.00	16 000.00	40 000.00	56 000.00	80 000.00
Total salary income	99 235.88	79 388.71	49 617.94	29 770.77	0.00

Total capital income	0.00	9 280.00	11 200.00	12 480.00	14 400.00
Total earned income	99 235.88	86 108.71	78 417.94	73 290.77	65 600.00
Total payable capital income tax	0.00	696.00	840.00	936.00	1 080.00
Total payable earned income tax	36 493.91	28 564.92	22 134.50	18 256.92	12 440.54
Entrepreneur's total taxes payable	**36 493.91**	**29 260.92**	**22 974.50**	**19 192.92**	**13 520.54**
Entrepreneur's net income	62 741.97	66 127.78	66 643.44	66 577.85	66 479.46
Company's total taxes (social contr. + corporate tax)	764.12	4 611.29	10 382.06	14 229.23	20 000.00
Total taxes of both owner and company	37 258.03	33 872.22	33 356.56	33 422.15	33 520.54
TOTAL TAX BURDEN	**37.26%**	**33.87%**	**33.36%**	**33.42%**	**33.52%**

In this case scenario, the most attention should be directed to the demonstration of how the 100% salary option and 50% dividend option carry somewhat same tax burden when the profit is 30 000 € (Figure 7). When the profit before taxes is low but the net asset value is high it is already beneficial to consider using dividends when planning an entrepreneur's income.

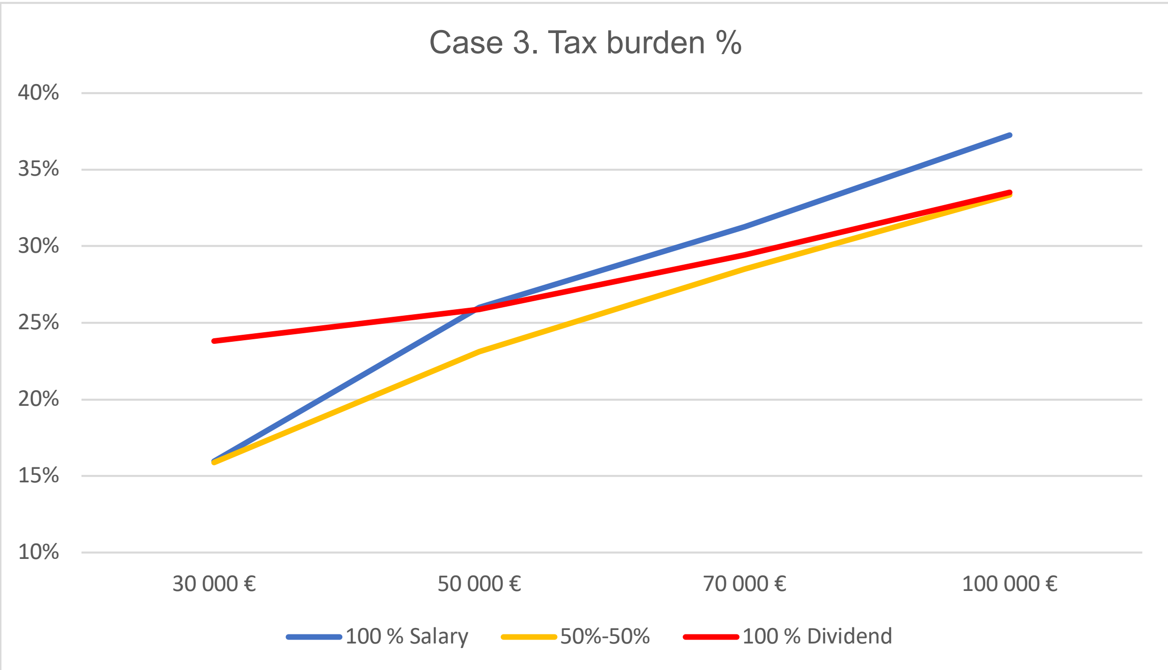

Figure 7. Total tax burden development in Case 3

Figure 7 shows the tax burden of 100% salary, 50% salary, and 100% dividend. It is notable that at the beginning point at 30 000 € the division of income to fifty-fifty already carries the same tax burden as the full salary solution. When the income grows over 30 000 € the fifty-fifty option remains the most favorable solution while the tax burden of salary keeps raising. To compare to the previous cases, the intersection point between 100% salary and 50% salary happens much earlier with larger net assets than it does with low net asset values. In case 1 the same intersection happened at 70 000 € and in case 2 the intersection was at around 36 500 €. The second intersection of the 100% salary and the 100% dividend happens at around 50 000 € when the option to pay the income out as dividends carries the same tax burden of the full salary solution. From this point onwards, salary continues to be the least advantageous solution to distribute funds and more savings are gained by using dividends. The full dividend option keeps closing in on the fifty-fifty option and at 100 000 € the difference is minimal, insinuating that it will become the solution with the lowest tax burden should the profit grow higher.

7 Discussion

This thesis investigated the withdrawal of funds from a private limited company as salary and dividend by calculating the total tax accumulation of different solutions to both the business and its owner. The purpose of the thesis was to answer the question of how much and in what relations should an entrepreneur withdraw salary and dividend in a private limited company.

Relevant legislation about the distribution of funds as dividend as well as the taxation regulation regarding salary and dividend were presented through theory sources. The interview of the entrepreneurs was conducted to enlighten the entrepreneurs' stand on salary and dividend solutions and their way of thinking when it comes to the execution of them. The Excel spreadsheet was created to show the taxation calculation process behind salary and dividend with the requirements of the current legislation and to help better compare the advantageousness of different ratios of salary and dividend at different levels of profits and net assets.

7.1 Key findings

The case scenarios compared the distribution of different incomes between 30 000 € - 100 000 €. In case 1 where there was no positive net asset value to begin with, the most tax efficient solution was to pay salary until the level of income was 70 000 € after which a lower tax burden was achieved by dividing the income to around 50% salary and 50% dividend. Also, it was noted that as the higher the income grew, the full dividend option grew closer to the salary option and by the time profit was 100 000 € the salary option was the least optimal solution while the full dividend option was now actually rather close to the tax burden of the 50% salary option.

Case 2 examined how the situation would change if the net assets value was 50 000 €. At the lowest level of income of 30 000€ salary still held its place as the most optimal solution. Nonetheless, when the income grows the division of income to both salary and dividend started to bring tax savings already at around 37 000 €. The payment of salary continued to rise with its tax burden as the income grew even higher. The tax burden of full salary surpassed the tax burden of full dividend at around 70 000 € after which the payment of dividend brought even more advantage to the entrepreneur.

Case 3 showed the difference in fund distribution when the company has a high net asset value. Because of the dividend taxations connection to the net assets of the company, higher net asset value makes the 8% dividend distribution of the mathematical value of the shares much more beneficial even in lower profit levels. The solution to distribute both dividend and salary to an entrepreneur is the most advantageous way to distribute funds when the profit is 30 000 € or higher. The full dividend option offers a lower tax burden than salary much earlier than it did with lower net assets values. When the income is around 50 000 € the payment of salary is the lest advantageous for the entrepreneur to receive funds from the company. The full dividend option closes in on the fifty-fifty salary and dividend option at 100 000 €.

The bigger the net assets of the company, the lower the amount of advantageously taxed capital income dividends that the company pay to its owners is. As a result, the current dividend taxation system creates an incentive for companies to increase their net assets. This is until the 8 percent annual return per owner of the net assets is 1 875 000 €. After this point, the dividend taxation regulation will shift to the same taxation ratio of dividends that are currently set for public companies because the 8% annual return equals to 150 000 €. Hence, no benefits are gained from the position of being a private company instead of a public one if net assets are grown indefinitely.

The small monetary differences between the solutions at lower levels of income were surprising. This can be taken a sign that the progressive income tax system in Finland does work efficiently. Although, as pointed out by the calculations, when the income is high the distribution of dividends can bring significant savings. At best, thousands of euros can be added to the net income of the entrepreneur. This only goes to show that if the planning of salary and dividend solutions is performed each year the accumulative benefits are even greater. Many entrepreneurs who operate small businesses often do lifelong career as entrepreneurs, so the correct planning of their income is very much for their benefit.

While interviewing the entrepreneurs on their motives and preferences towards salary and dividend solutions, it was interesting to observe how little many entrepreneurs, in general, knew about the topic. While most entrepreneurs strived for tax optimization in the withdrawal of funds, not many had information about how that actually could be achieved. It became clear that without the assistance most entrepreneurs receive from accountants or other professionals the planning of salary and dividend would not necessarily take place. In my mind, this highlights the importance of the right accounting agency and the accountant. A skilled accountant can easily examine and help an entrepreneur with these issues but in the lack of the client’s assignment to do so or the accountant’s lacking skills, comparative calculations between salary and dividend solutions will not necessarily be made and no tax benefits are achieved.

While tax optimization turned out to be the entrepreneurs driving motivation there is still many other aspects of the fund withdrawal to consider, such as the growth of the net assets of the company or the general outlooks for the business operations in the future. A company should also be able to manage its solvency through all fund distribution decisions. The continuous paying out of all the profits may also be harmful to the company’s degree of self-sufficiency in the long run. For example, banks often require a certain degree of self-sufficiency before granting financing.

When it comes to the payment of salary the entrepreneurs should pay attention to the accumulation of the pension insurance. For YEL-insured entrepreneurs, the pension only accumulates from the YEL-income they have set for a year at a time. However, if the company has TyEL-insured entrepreneurs, their pension accumulates only from the amount of salary paid. Thus, if only dividends are distributed, the entrepreneurs should take care of their pension funding in some other way. Some YEL-insured entrepreneurs who purposely set their YEL-income low because they receive dividend income instead of salary should also secure the funding of their pension in another way.

The empirical calculations could have been done in an endless amount of numbers. The demarcation of the cases was set to the level where they most represented entrepreneurs in micro-sized and small-sized companies as it brought the most valuable information to the commissioning company and the entrepreneurs that they serve as clients. It was also simpler to show entrepreneurs the behavior of the taxation and the advantages of different ratios of distributions at levels, which most corresponded to their actual situations.

The Excel spreadsheet only works automatically with its demarcated area. The building of formulas to fit an endless number of situations from low income to extreme high income in one spreadsheet was challenging so together with the commissioning company the Excel was designed, so that it would best fit the small business owners needs and work in the demarcated area as well as possible. The current spreadsheet includes only the automatic deductions in earned income taxation, meaning that the taxes may be marginally higher than they would be if the entrepreneur has other personal deductions. However, the inclusion of them was not relevant as many of the clients at the commissioning company do not have other deductions than what the Tax Administration grants automatically. Any possible interest or loan deductions that the Tax Administration receives from the individual’s banks directly were not relevant enough to be included. The

Excel spreadsheet will hopefully be utilized at the commissioning company to further help the planning of salary and dividend solutions for small business owners. The topic is of importance to many business owners because of the possible tax savings, so with the help of this thesis, a clear summary and an Excel spreadsheet to the commissioning company's usage was created to help assist in the tax optimization of entrepreneurs.

7.1 Reliability and validity of the research

Reliability and validity are essential when judging the quality of research. For a study to be reliable other researches need to be able to replicate the research design as well as achieve the same findings as the original study conducted. Sometimes a distinction between external and internal reliability is made. Internal reliability seeks to ensure consistency throughout the research project while external reliability refers to the production of consistent findings via data collection techniques and analytic procedures if they were to be repeated another time or replicated by someone else. (Saunders & al. 2016, 202.) To ensure reliability in my research the secondary sources used were published books on the topic, current Finnish legislation, and detailed guidelines set by the Tax Administration. In my empirical study, the calculations followed the demands of the current legislation regarding the taxation of income and dividend in Finland so that with the same demarcation the results could be reached by anyone.

While reliability is essential to ensure the quality of research, it alone is not sufficient enough without validity. Validity assesses the appropriateness of the measures used in the research, accuracy of results analysis and the generalization of the presented findings. (Saunders & al. 2016, 202-203.) The results of this thesis are only exemplary as case scenarios were used to investigate this topic. Every entrepreneur in a private limited company must take into account their specific circumstances in salary and dividend planning. This thesis and its results help entrepreneurs to become more knowledgeable on the taxation of their individual income as well as their companies, especially regarding salary and dividend. The study's empirical part was carried out via comparative calculations and with a qualitative interview of entrepreneurs that was chosen to give support to the entrepreneurs' motives and thoughts when it comes to salary and dividend solutions.

7.2 Recommendation for further study

As this thesis focused on the distribution of funds in a private limited company with one owner, it would be of interest to analyze how the dynamics of the distribution would change in a case with several owners. The more owners there are, the more opinions on the distribution of the funds of the company there will be. Another point of further interest would be to follow the planning of salary and dividend solutions over a longer period of time so the option of leaving funds in to increase the value of net assets and to distribute larger dividend later could be included in the examination of the solutions.

As a further study about this topic, the tax optimization of tax-free fringe benefits could be further researched and taken into consideration in an entrepreneurs' tax planning. While the tax-free fringe benefits were not a point of interest in this study, it did come up in the interviews that many entrepreneurs use the tax-free benefits, for example company housing benefit or company car benefit, alongside the salary income they receive from their companies. Many entrepreneurs seemed interested in the advantageousness of the fringe benefits and how they can also be used as a way to withdraw funds from their companies.

Additionally, it will be interesting to see if the current dividend taxation regarding limited companies will be changed in the near future. The main business associations in Finland have brought forward the issue of the net asset dependency in the distribution of dividends because it favors old and capital-intensive companies and discriminates for example knowledge-based companies with only intangible assets (Kauppalehti 2019). The Confederation of Finnish Industries, Finnish Chamber of Commerce, and Finnish Family Business Network also want the dividend taxation of private and public companies to be more unified and bring the taxation of private companies to the same level with public companies. However, at the same time, they want to lower the taxation of dividends into half of what it is now. (Raeste 2019.)

The Federation of Finnish Enterprises has proposed the dismissal of earned income dividends and in turn have all gains from business activities to be taxed as capital income only. They oppose the other association's idea of having private companies taxed the same as public companies because the entrepreneurs in limited liability companies bear greater risk than an ordinary shareholder in a public company. Entrepreneurs do not also enjoy the same social security rights that normal wage earners do in the Finnish system. The Ministry of Finance has also suggested the renewal of the dividend taxation system last year, so it is expected that the next government might start to reform the taxation of dividends. (Kauppalehti 2019.) Naturally, the entrepreneur’s salary and dividend solutions would need to be examined again in light of new legislation.

7.3 Personal learning

Entrepreneur’s salary and dividend solutions as a thesis topic seemed interesting and challenging to me especially because it carried such a strong connection to my current work as an accountant. I have familiarized myself deeply with the taxation regulation regarding limited companies, dividend distribution, and the taxation of earned and capital income. I have improved my theoretical knowledge about the topic and advanced my professional skills in this area via the calculation scenarios used in the empirical part of the study. I have successfully improved my competencies as an accountant, which was one of the personal goals set for the thesis process.

The writing of the theory itself was more challenging than I had anticipated because of the amount of specific legislation that I had to interpret and summarize. Furthermore, the translation process was demanding as not a lot of Finnish legislation or taxation concepts are available in English. Conversely, as a result of my work, I am now better at handling the specific requirements of the law when faced with these types of tasks at work both in Finnish and in English.

The accounting industry is changing and developing rapidly at the moment and the accountants of today need to be knowledgeable in many areas of financial administration as the need for consultancy-based tasks in financial management, especially in taxation, are increasing alongside the routine tasks. I found the outcome of the thesis to be successful as it satisfied the needs of the commissioning company and comprehensively presented different salary and dividend solutions and their advantageousness to both the entrepreneur and the company. The thesis process also increased my ability to bring more value to my clients as an accountant because of my ability to consult them personally about their salary and dividend solutions and perform comparative calculations for their specific needs.

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Appendices

Appendix 1. Semi-structured interview questions

1. What things influence the way you withdraw funds from your company on a yearly level? *Mitkä asiat vaikuttavat siihen paljonko nostatte rahaa yhtiöstä vuodessa?*

2. How do you determine the size of your salary? What issues factor in on the amount of salary? *Miten määritätte nostamanne palkan määrän? Mitkä asiat vaikuttavat tähän?*

3. What things influence the amount of dividend distributed? Does taxation perspective affect dividend distribution, if so how? *Mikä vaikuttaa nostamanne osingon määrään? Miten verotusnäkökulma näkyy osingonjaossa?*

4. How does profit planning happen in practise? If an accountant helps, how does that influence? *Miten suunnittelette yrityksen voitonjakoa? Jos tilitoimisto avustaa miten se vaikuttaa?*

5. Why do you plan profit distribution? What are the main motives in profit distribution? *Miksi suunnittelette yrityksen voitonjakoa? Mitä motiiveja on läsnä voitonjaossa?*

Appendix 2. Case 1 – 30 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**30 000.00**				
Salary		**29 770.77**	**23 816.61**	**14 885.38**	**8 931.23**	**0.00**
Social contributions	0.77 %	229.23	183.39	114.62	68.77	0.00
Operating profit		0.00	6 000.00	15 000.00	21 000.00	30 000.00
Corporation tax	20.00 %	0.00	1 200.00	3 000.00	4 200.00	6 000.00
Net income		**0.00**	**4 800.00**	**12 000.00**	**16 800.00**	**24 000.00**
Net assets before profit for the period		**0.00**	0.00	0.00	0.00	0.00
NET ASSETS		**0.00**	**4 800.00**	**12 000.00**	**16 800.00**	**24 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	4 800.00	12 000.00	16 800.00	24 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**384.00**	**960.00**	**1 344.00**	**1 920.00**
Return exeeding the 8 % mathematical value		0.00	4 416.00	11 040.00	15 456.00	22 080.00
Tax-free capital income	75.00 %	0.00	288.00	720.00	1 008.00	1 440.00
Taxable capital income	25.00 %	0.00	96.00	240.00	336.00	480.00
Taxable earned income dividends	75.00 %	0.00	3 312.00	8 280.00	11 592.00	16 560.00
Tax-free earned income dividends	25.00 %	0.00	1 104.00	2 760.00	3 864.00	5 520.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**96.00**	**240.00**	**336.00**	**480.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	3 312.00	8 280.00	11 592.00	16 560.00
Salary income		29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total taxable earned income		**29 770.77**	**27 128.61**	**23 165.38**	**20 523.23**	**16 560.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**29 020.77**	**26 378.61**	**22 415.38**	**19 773.23**	**15 810.00**
- Health insurance payment deduction	1.77 %	596.52	555.83	494.80	454.11	393.07
Taxable income in state taxation		**28 424.25**	**25 822.78**	**21 920.59**	**19 319.12**	**15 416.93**
- Standard earned income deduction max. 3 570 €		2 894.07	3 012.96	3 191.31	3 310.20	3 488.55
Taxable income in municipality taxation		**25 530.18**	**22 809.82**	**18 729.28**	**16 008.92**	**11 928.38**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	28.80	72.00	100.80	144.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**28.80**	**72.00**	**100.80**	**144.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		26 400.00	17 600.00	17 600.00	17 600.00	0
Tax at the lower limit €		536.00	8.00	8.00	8.00	0
Income exceeding the lower limit		2 024.25	8 222.78	4 320.59	1 719.12	15 416.93
Tax rate exeeding the lower limit%		17.25%	6.00%	6.00%	6.00%	0
Tax for the exceeding income €		349.18	493.37	259.24	103.15	0.00
Total state income taxes		885.18	501.37	267.24	111.15	0.00
- Standard tax credit for work income max. 1 630 €		1 630.00	1 630.00	1 630.00	1 630.00	1 630.00
Total state taxes payable		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Other (municipality, etc.) taxes payable	20.77 %	4 557.80	3 608.97	2 527.31	1 806.20	847.52
Entrepreneur's total earned income taxes		**4 557.80**	**3 608.97**	**2 527.31**	**1 806.20**	**847.52**
Total dividend income		0.00	4 800.00	12 000.00	16 800.00	24 000.00
Total salary income		29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total capital income		0.00	384.00	960.00	1 344.00	1 920.00
Total earned income		29 770.77	28 232.61	25 925.38	24 387.23	22 080.00
Total payable capital income tax		0.00	28.80	72.00	100.80	144.00
Total payable earned income tax		4 557.80	3 608.97	2 527.31	1 806.20	847.52
Entrepreneur's total taxes payable		**4 557.80**	**3 637.77**	**2 599.31**	**1 907.00**	**991.52**
Entrepreneur's net income		25 212.96	24 978.85	24 286.08	23 824.23	23 008.48
Company's total taxes (social contr. + corporate tax)		229.23	1 383.39	3 114.62	4 268.77	6 000.00
Total taxes of both owner and company		4 787.04	5 021.15	5 713.92	6 175.77	6 991.52
TOTAL TAX BURDEN		**15.96 %**	**16.74 %**	**19.05 %**	**20.59 %**	**23.31 %**

Appendix 3. Case 1 – 50 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**50 000.00**				
Salary		**49 617.94**	**39 694.35**	**24 808.97**	**14 885.38**	**0.00**
Social contributions	0.77 %	382.06	305.65	191.03	114.62	0.00
Operating profit		0.00	10 000.00	25 000.00	35 000.00	50 000.00
Corporation tax	20.00 %	0.00	2 000.00	5 000.00	7 000.00	10 000.00
Net income		**0.00**	**8 000.00**	**20 000.00**	**28 000.00**	**40 000.00**
Net assets before profit for the period		**0.00**	0.00	0.00	0.00	0.00
NET ASSETS		**0.00**	**8 000.00**	**20 000.00**	**28 000.00**	**40 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	8 000.00	20 000.00	28 000.00	40 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**640.00**	**1 600.00**	**2 240.00**	**3 200.00**
Return exeeding the 8 % mathematical value		0.00	7 360.00	18 400.00	25 760.00	36 800.00
Tax-free capital income	75.00 %	0.00	480.00	1 200.00	1 680.00	2 400.00
Taxable capital income	25.00 %	0.00	160.00	400.00	560.00	800.00
Taxable earned income dividends	75.00 %	0.00	5 520.00	13 800.00	19 320.00	27 600.00
Tax-free earned income dividends	25.00 %	0.00	1 840.00	4 600.00	6 440.00	9 200.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**160.00**	**400.00**	**560.00**	**800.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	5 520.00	13 800.00	19 320.00	27 600.00
Salary income		49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total taxable earned income		**49 617.94**	**45 214.35**	**38 608.97**	**34 205.38**	**27 600.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**48 867.94**	**44 464.35**	**37 858.97**	**33 455.38**	**26 850.00**
- Health insurance payment deduction	1.77 %	902.17	834.35	732.63	664.81	563.09
Taxable income in state taxation		**47 965.78**	**43 630.00**	**37 126.34**	**32 790.57**	**26 286.91**
- Standard earned income deduction max. 3 570 €		2 000.94	2 199.10	2 496.35	2 694.51	2 991.75
Taxable income in municipality taxation		**45 964.83**	**41 430.90**	**34 630.00**	**30 096.06**	**23 295.16**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	48.00	120.00	168.00	240.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**48.00**	**120.00**	**168.00**	**240.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		43 500.00	43 500.00	26 400.00	26 400.00	17 600.00
Tax at the lower limit €		3 485.75	3 485.75	536.00	536.00	8.00
Income exceeding the lower limit		4 465.78	130.00	10 726.34	6 390.57	8 686.91
Tax rate exeeding the lower limit%		21.25%	21.25%	17.25%	17.25%	6.00%
Tax for the exceeding income €		948.98	27.63	1 850.29	1 102.37	521.21
Total state income taxes		4 434.73	3 513.38	2 386.29	1 638.37	529.21
- Standard tax credit for work income max. 1 630 €		1 357.07	1 432.81	1 546.43	1 622.17	1 630.00
Total state taxes payable		**3 077.66**	**2 080.56**	**839.87**	**16.21**	**0.00**
Other (municipality, etc.) taxes payable	20.77 %	9 546.90	8 605.20	7 192.65	6 250.95	3 737.62
Entrepreneur's total earned income taxes		**12 624.55**	**10 685.76**	**8 032.52**	**6 267.16**	**3 737.62**
Total dividend income		0.00	8 000.00	20 000.00	28 000.00	40 000.00
Total salary income		49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total capital income		0.00	640.00	1 600.00	2 240.00	3 200.00
Total earned income		49 617.94	47 054.35	43 208.97	40 645.38	36 800.00
Total payable capital income tax		0.00	48.00	120.00	168.00	240.00
Total payable earned income tax		12 624.55	10 685.76	8 032.52	6 267.16	3 737.62
Entrepreneur's total taxes payable		**12 624.55**	**10 733.76**	**8 152.52**	**6 435.16**	**3 977.62**
Entrepreneur's net income		36 993.39	36 960.59	36 656.45	36 450.22	36 022.38
Company's total taxes (social contr. + corporate tax)		382.06	2 305.65	5 191.03	7 114.62	10 000.00
Total taxes of both owner and company		13 006.61	13 039.41	13 343.55	13 549.78	13 977.62
TOTAL TAX BURDEN		**26.01 %**	**26.08 %**	**26.69 %**	**27.10 %**	**27.96 %**

Appendix 4. Case 1 – 70 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**70 000.00**				
Salary		**69 465.12**	**55 572.09**	**34 732.56**	**20 839.54**	**0.00**
Social contributions	0.77 %	534.88	427.91	267.44	160.46	0.00
Operating profit		0.00	14 000.00	35 000.00	49 000.00	70 000.00
Corporation tax	20.00 %	0.00	2 800.00	7 000.00	9 800.00	14 000.00
Net income		**0.00**	**11 200.00**	**28 000.00**	**39 200.00**	**56 000.00**
Net assets before profit for the period		**0.00**	0.00	0.00	0.00	0.00
NET ASSETS		**0.00**	**11 200.00**	**28 000.00**	**39 200.00**	**56 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	11 200.00	28 000.00	39 200.00	56 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**896.00**	**2 240.00**	**3 136.00**	**4 480.00**
Return exeeding the 8 % mathematical value		0.00	10 304.00	25 760.00	36 064.00	51 520.00
Tax-free capital income	75.00 %	0.00	672.00	1 680.00	2 352.00	3 360.00
Taxable capital income	25.00 %	0.00	224.00	560.00	784.00	1 120.00
Taxable earned income dividends	75.00 %	0.00	7 728.00	19 320.00	27 048.00	38 640.00
Tax-free earned income dividends	25.00 %	0.00	2 576.00	6 440.00	9 016.00	12 880.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**224.00**	**560.00**	**784.00**	**1 120.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	7 728.00	19 320.00	27 048.00	38 640.00
Salary income		69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total taxable earned income		**69 465.12**	**63 300.09**	**54 052.56**	**47 887.54**	**38 640.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**68 715.12**	**62 550.09**	**53 302.56**	**47 137.54**	**37 890.00**
- Health insurance payment deduction	1.77 %	1 207.81	1 112.87	970.46	875.52	733.10
Taxable income in state taxation		**67 507.31**	**61 437.22**	**52 332.10**	**46 262.02**	**37 156.90**
- Standard earned income deduction max. 3 570 €		1 107.82	1 385.25	1 801.38	2 078.81	2 494.95
Taxable income in municipality taxation		**66 399.49**	**60 051.98**	**50 530.72**	**44 183.21**	**34 661.95**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	67.20	168.00	235.20	336.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**67.20**	**168.00**	**235.20**	**336.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		43 500.00	43 500.00	43 500.00	43 500.00	26 400.00
Tax at the lower limit €		3 485.75	3 485.75	3 485.75	3 485.75	536.00
Income exceeding the lower limit		24 007.31	17 937.22	8 832.10	2 762.02	10 756.90
Tax rate exeeding the lower limit%		21.25%	21.25%	21.25%	21.25%	17.25%
Tax for the exceeding income €		5 101.55	3 811.66	1 876.82	586.93	1 855.56
Total state income taxes		8 587.30	7 297.41	5 362.57	4 072.68	2 391.56
- Standard tax credit for work income max. 1 630 €		1 015.70	1 121.74	1 280.80	1 386.83	1 545.89
Total state taxes payable		**7 571.60**	**6 175.67**	**4 081.78**	**2 685.84**	**845.67**
Other (municipality, etc.) taxes payable	20.77 %	13 791.17	12 472.80	10 495.23	9 176.85	7 199.29
Entrepreneur's total earned income taxes		**21 362.78**	**18 648.47**	**14 577.01**	**11 862.70**	**8 044.96**
Total dividend income		0.00	11 200.00	28 000.00	39 200.00	56 000.00
Total salary income		69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total capital income		0.00	896.00	2 240.00	3 136.00	4 480.00
Total earned income		69 465.12	65 876.09	60 492.56	56 903.54	51 520.00
Total payable capital income tax		0.00	67.20	168.00	235.20	336.00
Total payable earned income tax		21 362.78	18 648.47	14 577.01	11 862.70	8 044.96
Entrepreneur's total taxes payable		**21 362.78**	**18 715.67**	**14 745.01**	**12 097.90**	**8 380.96**
Entrepreneur's net income		48 102.34	48 056.43	47 987.55	47 941.64	47 619.04
Company's total taxes (social contr. + corporate tax)		534.88	3 227.91	7 267.44	9 960.46	14 000.00
Total taxes of both owner and company		21 897.66	21 943.57	22 012.45	22 058.36	22 380.96
TOTAL TAX BURDEN		**31.28 %**	**31.35 %**	**31.45 %**	**31.51 %**	**31.97 %**

Appendix 5. Case 1 – 100 000 €.

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**100 000.00**				
Salary		**99 235.88**	**79 388.71**	**49 617.94**	**29 770.77**	**0.00**
Social contributions	0.77 %	764.12	611.29	382.06	229.23	0.00
Operating profit		0.00	20 000.00	50 000.00	70 000.00	100 000.00
Corporation tax	20.00 %	0.00	4 000.00	10 000.00	14 000.00	20 000.00
Net income		**0.00**	**16 000.00**	**40 000.00**	**56 000.00**	**80 000.00**
Net assets before profit for the period		**0.00**	0.00	0.00	0.00	0.00
NET ASSETS		**0.00**	**16 000.00**	**40 000.00**	**56 000.00**	**80 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	16 000.00	40 000.00	56 000.00	80 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**1 280.00**	**3 200.00**	**4 480.00**	**6 400.00**
Return exeeding the 8 % mathematical value		0.00	14 720.00	36 800.00	51 520.00	73 600.00
Tax-free capital income	75.00 %	0.00	960.00	2 400.00	3 360.00	4 800.00
Taxable capital income	25.00 %	0.00	320.00	800.00	1 120.00	1 600.00
Taxable earned income dividends	75.00 %	0.00	11 040.00	27 600.00	38 640.00	55 200.00
Tax-free earned income dividends	25.00 %	0.00	3 680.00	9 200.00	12 880.00	18 400.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**320.00**	**800.00**	**1 120.00**	**1 600.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	11 040.00	27 600.00	38 640.00	55 200.00
Salary income		99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total taxable earned income		**99 235.88**	**90 428.71**	**77 217.94**	**68 410.77**	**55 200.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**98 485.88**	**89 678.71**	**76 467.94**	**67 660.77**	**54 450.00**
- Health insurance payment deduction	1.77 %	1 666.28	1 530.65	1 327.21	1 191.57	988.13
Taxable income in state taxation		**96 819.60**	**88 148.06**	**75 140.74**	**66 469.19**	**53 461.87**
- Standard earned income deduction max. 3 570 €		0.00	164.46	758.94	1 155.27	1 749.75
Taxable income in municipality taxation		**96 819.60**	**87 983.60**	**74 381.79**	**65 313.92**	**51 712.12**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	96.00	240.00	336.00	480.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**96.00**	**240.00**	**336.00**	**480.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		76 100.00	76 100.00	43 500.00	43 500.00	43 500.00
Tax at the lower limit €		10 413.25	10 413.25	3 485.75	3 485.75	3 485.75
Income exceeding the lower limit		20 719.60	12 048.06	31 640.74	22 969.19	9 961.87
Tax rate exeeding the lower limit%		31.25%	31.25%	21.25%	21.25%	21.25%
Tax for the exceeding income €		6 474.88	3 765.02	6 723.66	4 880.95	2 116.90
Total state income taxes		16 888.13	14 178.27	10 209.41	8 366.70	5 602.65
- Standard tax credit for work income max. 1 630 €		503.64	655.13	882.35	1 033.83	1 261.06
Total state taxes payable		**16 384.48**	**13 523.14**	**9 327.06**	**7 332.87**	**4 341.59**
Other (municipality, etc.) taxes payable	20.77 %	20 109.43	18 274.19	15 449.10	13 565.70	10 740.61
Entrepreneur's total earned income taxes		**36 493.91**	**31 797.33**	**24 776.15**	**20 898.57**	**15 082.20**
Total dividend income		0.00	16 000.00	40 000.00	56 000.00	80 000.00
Total salary income		99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total capital income		0.00	1 280.00	3 200.00	4 480.00	6 400.00
Total earned income		99 235.88	94 108.71	86 417.94	81 290.77	73 600.00
Total payable capital income tax		0.00	96.00	240.00	336.00	480.00
Total payable earned income tax		36 493.91	31 797.33	24 776.15	20 898.57	15 082.20
Entrepreneur's total taxes payable		**36 493.91**	**31 893.33**	**25 016.15**	**21 234.57**	**15 562.20**
Entrepreneur's net income		62 741.97	63 495.37	64 601.79	64 536.19	64 437.80
Company's total taxes (social contr. + corporate tax)		764.12	4 611.29	10 382.06	14 229.23	20 000.00
Total taxes of both owner and company		37 258.03	36 504.63	35 398.21	35 463.81	35 562.20
TOTAL TAX BURDEN		**37.26 %**	**36.50 %**	**35.40 %**	**35.46 %**	**35.56 %**

Appendix 6. Case 2 – 30 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**30 000.00**				
Salary		**29 770.77**	**23 816.61**	**14 885.38**	**8 931.23**	**0.00**
Social contributions	0.77 %	229.23	183.39	114.62	68.77	0.00
Operating profit		0.00	6 000.00	15 000.00	21 000.00	30 000.00
Corporation tax	20.00 %	0.00	1 200.00	3 000.00	4 200.00	6 000.00
Net income		**0.00**	**4 800.00**	**12 000.00**	**16 800.00**	**24 000.00**
Net assets before profit for the period		**50 000.00**	50 000.00	50 000.00	50 000.00	50 000.00
NET ASSETS		**50 000.00**	**54 800.00**	**62 000.00**	**66 800.00**	**74 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	4 800.00	12 000.00	16 800.00	24 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**4 384.00**	**4 960.00**	**5 344.00**	**5 920.00**
Return exeeding the 8 % mathematical value		0.00	416.00	7 040.00	11 456.00	18 080.00
Tax-free capital income	75.00 %	0.00	3 288.00	3 720.00	4 008.00	4 440.00
Taxable capital income	25.00 %	0.00	1 096.00	1 240.00	1 336.00	1 480.00
Taxable earned income dividends	75.00 %	0.00	312.00	5 280.00	8 592.00	13 560.00
Tax-free earned income dividends	25.00 %	0.00	104.00	1 760.00	2 864.00	4 520.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**1 096.00**	**1 240.00**	**1 336.00**	**1 480.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	312.00	5 280.00	8 592.00	13 560.00
Salary income		29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total taxable earned income		**29 770.77**	**24 128.61**	**20 165.38**	**17 523.23**	**13 560.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**29 020.77**	**23 378.61**	**19 415.38**	**16 773.23**	**12 810.00**
- Health insurance payment deduction	1.77 %	596.52	509.63	448.60	407.91	346.87
Taxable income in state taxation		**28 424.25**	**22 868.98**	**18 966.79**	**16 365.32**	**12 463.13**
- Standard earned income deduction max. 3 570 €		2 894.07	3 147.96	3 326.31	3 445.20	3 570.00
Taxable income in municipality taxation		**25 530.18**	**19 721.02**	**15 640.48**	**12 920.12**	**8 893.13**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	328.80	372.00	400.80	444.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**328.80**	**372.00**	**400.80**	**444.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		26 400.00	17 600.00	17 600.00	0	0
Tax at the lower limit €		536.00	8.00	8.00	0	0
Income exceeding the lower limit		2 024.25	5 268.98	1 366.79	16 365.32	12 463.13
Tax rate exeeding the lower limit%		17.25%	6.00%	6.00%	0	0
Tax for the exceeding income €		349.18	316.14	82.01	0.00	0.00
Total state income taxes		885.18	324.14	90.01	0.00	0.00
- Standard tax credit for work income max. 1 630 €		1 630.00	1 630.00	1 630.00	1 630.00	1 349.32
Total state taxes payable		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Other (municipality, etc.) taxes payable	20.77 %	4 557.80	2 790.19	1 708.53	1 053.51	497.78
Entrepreneur's total earned income taxes		**4 557.80**	**2 790.19**	**1 708.53**	**1 053.51**	**497.78**
Total dividend income		0.00	4 800.00	12 000.00	16 800.00	24 000.00
Total salary income		29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total capital income		0.00	4 384.00	4 960.00	5 344.00	5 920.00
Total earned income		29 770.77	24 232.61	21 925.38	20 387.23	18 080.00
Total payable capital income tax		0.00	328.80	372.00	400.80	444.00
Total payable earned income tax		4 557.80	2 790.19	1 708.53	1 053.51	497.78
Entrepreneur's total taxes payable		**4 557.80**	**3 118.99**	**2 080.53**	**1 454.31**	**941.78**
Entrepreneur's net income		25 212.96	25 497.62	24 804.85	24 276.92	23 058.22
Company's total taxes (social contr. + corporate tax)		229.23	1 383.39	3 114.62	4 268.77	6 000.00
Total taxes of both owner and company		4 787.04	4 502.38	5 195.15	5 723.08	6 941.78
TOTAL TAX BURDEN		**15.96 %**	**15.01 %**	**17.32 %**	**19.08 %**	**23.14 %**

Appendix 7. Case 2 – 50 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**50 000.00**				
Salary		**49 617.94**	**39 694.35**	**24 808.97**	**14 885.38**	**0.00**
Social contributions	0.77 %	382.06	305.65	191.03	114.62	0.00
Operating profit		0.00	10 000.00	25 000.00	35 000.00	50 000.00
Corporation tax	20.00 %	0.00	2 000.00	5 000.00	7 000.00	10 000.00
Net income		**0.00**	**8 000.00**	**20 000.00**	**28 000.00**	**40 000.00**
Net assets before profit for the period		**50 000.00**	50 000.00	50 000.00	50 000.00	50 000.00
NET ASSETS		**50 000.00**	**58 000.00**	**70 000.00**	**78 000.00**	**90 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	8 000.00	20 000.00	28 000.00	40 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**4 640.00**	**5 600.00**	**6 240.00**	**7 200.00**
Return exeeding the 8 % mathematical value		0.00	3 360.00	14 400.00	21 760.00	32 800.00
Tax-free capital income	75.00 %	0.00	3 480.00	4 200.00	4 680.00	5 400.00
Taxable capital income	25.00 %	0.00	1 160.00	1 400.00	1 560.00	1 800.00
Taxable earned income dividends	75.00 %	0.00	2 520.00	10 800.00	16 320.00	24 600.00
Tax-free earned income dividends	25.00 %	0.00	840.00	3 600.00	5 440.00	8 200.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**1 160.00**	**1 400.00**	**1 560.00**	**1 800.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	2 520.00	10 800.00	16 320.00	24 600.00
Salary income		49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total taxable earned income		**49 617.94**	**42 214.35**	**35 608.97**	**31 205.38**	**24 600.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**48 867.94**	**41 464.35**	**34 858.97**	**30 455.38**	**23 850.00**
- Health insurance payment deduction	1.77 %	902.17	788.15	686.43	618.61	516.89
Taxable income in state taxation		**47 965.78**	**40 676.20**	**34 172.54**	**29 836.77**	**23 333.11**
- Standard earned income deduction max. 3 570 €		2 000.94	2 334.10	2 631.35	2 829.51	3 126.75
Taxable income in municipality taxation		**45 964.83**	**38 342.10**	**31 541.20**	**27 007.26**	**20 206.36**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	348.00	420.00	468.00	540.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**348.00**	**420.00**	**468.00**	**540.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		43 500.00	26 400.00	26 400.00	26 400.00	17 600.00
Tax at the lower limit €		3 485.75	536.00	536.00	536.00	8.00
Income exceeding the lower limit		4 465.78	14 276.20	7 772.54	3 436.77	5 733.11
Tax rate exeeding the lower limit%		21.25%	17.25%	17.25%	17.25%	6.00%
Tax for the exceeding income €		948.98	2 462.65	1 340.76	592.84	343.99
Total state income taxes		4 434.73	2 998.65	1 876.76	1 128.84	351.99
- Standard tax credit for work income max. 1 630 €		1 357.07	1 484.41	1 598.03	1 630.00	1 630.00
Total state taxes payable		**3 077.66**	**1 514.23**	**278.74**	**0.00**	**0.00**
Other (municipality, etc.) taxes payable	20.77 %	9 546.90	7 963.65	6 551.11	5 108.25	2 918.85
Entrepreneur's total earned income taxes		**12 624.55**	**9 477.89**	**6 829.84**	**5 108.25**	**2 918.85**
Total dividend income		0.00	8 000.00	20 000.00	28 000.00	40 000.00
Total salary income		49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total capital income		0.00	4 640.00	5 600.00	6 240.00	7 200.00
Total earned income		49 617.94	43 054.35	39 208.97	36 645.38	32 800.00
Total payable capital income tax		0.00	348.00	420.00	468.00	540.00
Total payable earned income tax		12 624.55	9 477.89	6 829.84	5 108.25	2 918.85
Entrepreneur's total taxes payable		**12 624.55**	**9 825.89**	**7 249.84**	**5 576.25**	**3 458.85**
Entrepreneur's net income		36 993.39	37 868.47	37 559.13	37 309.13	36 541.15
Company's total taxes (social contr. + corporate tax)		382.06	2 305.65	5 191.03	7 114.62	10 000.00
Total taxes of both owner and company		13 006.61	12 131.53	12 440.87	12 690.87	13 458.85
TOTAL TAX BURDEN		**26.01 %**	**24.26 %**	**24.88 %**	**25.38 %**	**26.92 %**

Appendix 8. Case 2 – 70 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**70 000.00**				
Salary		**69 465.12**	**55 572.09**	**34 732.56**	**20 839.54**	**0.00**
Social contributions	0.77 %	534.88	427.91	267.44	160.46	0.00
Operating profit		0.00	14 000.00	35 000.00	49 000.00	70 000.00
Corporation tax	20.00 %	0.00	2 800.00	7 000.00	9 800.00	14 000.00
Net income		**0.00**	**11 200.00**	**28 000.00**	**39 200.00**	**56 000.00**
Net assets before profit for the period		**50 000.00**	50 000.00	50 000.00	50 000.00	50 000.00
NET ASSETS		**50 000.00**	**61 200.00**	**78 000.00**	**89 200.00**	**106 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	11 200.00	28 000.00	39 200.00	56 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**4 896.00**	**6 240.00**	**7 136.00**	**8 480.00**
Return exeeding the 8 % mathematical value		0.00	6 304.00	21 760.00	32 064.00	47 520.00
Tax-free capital income	75.00 %	0.00	3 672.00	4 680.00	5 352.00	6 360.00
Taxable capital income	25.00 %	0.00	1 224.00	1 560.00	1 784.00	2 120.00
Taxable earned income dividends	75.00 %	0.00	4 728.00	16 320.00	24 048.00	35 640.00
Tax-free earned income dividends	25.00 %	0.00	1 576.00	5 440.00	8 016.00	11 880.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**1 224.00**	**1 560.00**	**1 784.00**	**2 120.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	4 728.00	16 320.00	24 048.00	35 640.00
Salary income		69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total taxable earned income		**69 465.12**	**60 300.09**	**51 052.56**	**44 887.54**	**35 640.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**68 715.12**	**59 550.09**	**50 302.56**	**44 137.54**	**34 890.00**
- Health insurance payment deduction	1.77 %	1 207.81	1 066.67	924.26	829.32	686.90
Taxable income in state taxation		**67 507.31**	**58 483.42**	**49 378.30**	**43 308.22**	**34 203.10**
- Standard earned income deduction max. 3 570 €		1 107.82	1 520.25	1 936.38	2 213.81	2 629.95
Taxable income in municipality taxation		**66 399.49**	**56 963.18**	**47 441.92**	**41 094.41**	**31 573.15**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	367.20	468.00	535.20	636.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**367.20**	**468.00**	**535.20**	**636.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		43 500.00	43 500.00	43 500.00	26 400.00	26 400.00
Tax at the lower limit €		3 485.75	3 485.75	3 485.75	536.00	536.00
Income exceeding the lower limit		24 007.31	14 983.42	5 878.30	16 908.22	7 803.10
Tax rate exeeding the lower limit%		21.25%	21.25%	21.25%	17.25%	17.25%
Tax for the exceeding income €		5 101.55	3 183.98	1 249.14	2 916.67	1 346.03
Total state income taxes		8 587.30	6 669.73	4 734.89	3 452.67	1 882.03
- Standard tax credit for work income max. 1 630 €		1 015.70	1 173.34	1 332.40	1 438.43	1 597.49
Total state taxes payable		**7 571.60**	**5 496.39**	**3 402.49**	**2 014.23**	**284.54**
Other (municipality, etc.) taxes payable	20.77 %	13 791.17	11 831.25	9 853.69	8 535.31	6 557.74
Entrepreneur's total earned income taxes		**21 362.78**	**17 327.64**	**13 256.18**	**10 549.54**	**6 842.28**
Total dividend income		0.00	11 200.00	28 000.00	39 200.00	56 000.00
Total salary income		69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total capital income		0.00	4 896.00	6 240.00	7 136.00	8 480.00
Total earned income		69 465.12	61 876.09	56 492.56	52 903.54	47 520.00
Total payable capital income tax		0.00	367.20	468.00	535.20	636.00
Total payable earned income tax		21 362.78	17 327.64	13 256.18	10 549.54	6 842.28
Entrepreneur's total taxes payable		**21 362.78**	**17 694.84**	**13 724.18**	**11 084.74**	**7 478.28**
Entrepreneur's net income		48 102.34	49 077.25	49 008.38	48 954.79	48 521.72
Company's total taxes (social contr. + corporate tax)		534.88	3 227.91	7 267.44	9 960.46	14 000.00
Total taxes of both owner and company		21 897.66	20 922.75	20 991.62	21 045.21	21 478.28
TOTAL TAX BURDEN		**31.28 %**	**29.89 %**	**29.99 %**	**30.06 %**	**30.68 %**

Appendix 9. Case 2 – 100 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**100 000.00**				
Salary		**99 235.88**	**79 388.71**	**49 617.94**	**29 770.77**	**0.00**
Social contributions	0.77 %	764.12	611.29	382.06	229.23	0.00
Operating profit		0.00	20 000.00	50 000.00	70 000.00	100 000.00
Corporation tax	20.00 %	0.00	4 000.00	10 000.00	14 000.00	20 000.00
Net income		**0.00**	**16 000.00**	**40 000.00**	**56 000.00**	**80 000.00**
Net assets before profit for the period		**50 000.00**	50 000.00	50 000.00	50 000.00	50 000.00
NET ASSETS		**50 000.00**	**66 000.00**	**90 000.00**	**106 000.00**	**130 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	16 000.00	40 000.00	56 000.00	80 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**5 280.00**	**7 200.00**	**8 480.00**	**10 400.00**
Return exeeding the 8 % mathematical value		0.00	10 720.00	32 800.00	47 520.00	69 600.00
Tax-free capital income	75.00 %	0.00	3 960.00	5 400.00	6 360.00	7 800.00
Taxable capital income	25.00 %	0.00	1 320.00	1 800.00	2 120.00	2 600.00
Taxable earned income dividends	75.00 %	0.00	8 040.00	24 600.00	35 640.00	52 200.00
Tax-free earned income dividends	25.00 %	0.00	2 680.00	8 200.00	11 880.00	17 400.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**1 320.00**	**1 800.00**	**2 120.00**	**2 600.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	8 040.00	24 600.00	35 640.00	52 200.00
Salary income		99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total taxable earned income		**99 235.88**	**87 428.71**	**74 217.94**	**65 410.77**	**52 200.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**98 485.88**	**86 678.71**	**73 467.94**	**64 660.77**	**51 450.00**
- Health insurance payment deduction	1.77 %	1 666.28	1 484.45	1 281.01	1 145.37	941.93
Taxable income in state taxation		**96 819.60**	**85 194.26**	**72 186.94**	**63 515.39**	**50 508.07**
- Standard earned income deduction max. 3 570 €		0.00	299.46	893.94	1 290.27	1 884.75
Taxable income in municipality taxation		**96 819.60**	**84 894.80**	**71 292.99**	**62 225.12**	**48 623.32**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	396.00	540.00	636.00	780.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**396.00**	**540.00**	**636.00**	**780.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		76 100.00	76 100.00	43 500.00	43 500.00	43 500.00
Tax at the lower limit €		10 413.25	10 413.25	3 485.75	3 485.75	3 485.75
Income exceeding the lower limit		20 719.60	9 094.26	28 686.94	20 015.39	7 008.07
Tax rate exeeding the lower limit%		31.25%	31.25%	21.25%	21.25%	21.25%
Tax for the exceeding income €		6 474.88	2 841.96	6 095.97	4 253.27	1 489.22
Total state income taxes		16 888.13	13 255.21	9 581.72	7 739.02	4 974.97
- Standard tax credit for work income max. 1 630 €		503.64	706.73	933.95	1 085.43	1 312.66
Total state taxes payable		**16 384.48**	**12 548.48**	**8 647.77**	**6 653.59**	**3 662.31**
Other (municipality, etc.) taxes payable	20.77 %	20 109.43	17 632.65	14 807.55	12 924.16	10 099.06
Entrepreneur's total earned income taxes		**36 493.91**	**30 181.13**	**23 455.33**	**19 577.74**	**13 761.37**
Total dividend income		0.00	16 000.00	40 000.00	56 000.00	80 000.00
Total salary income		99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total capital income		0.00	5 280.00	7 200.00	8 480.00	10 400.00
Total earned income		99 235.88	90 108.71	82 417.94	77 290.77	69 600.00
Total payable capital income tax		0.00	396.00	540.00	636.00	780.00
Total payable earned income tax		36 493.91	30 181.13	23 455.33	19 577.74	13 761.37
Entrepreneur's total taxes payable		**36 493.91**	**30 577.13**	**23 995.33**	**20 213.74**	**14 541.37**
Entrepreneur's net income		62 741.97	64 811.58	65 622.61	65 557.02	65 458.63
Company's total taxes (social contr. + corporate tax)		764.12	4 611.29	10 382.06	14 229.23	20 000.00
Total taxes of both owner and company		37 258.03	35 188.42	34 377.39	34 442.98	34 541.37
TOTAL TAX BURDEN		**37.26 %**	**35.19 %**	**34.38 %**	**34.44 %**	**34.54 %**

Appendix 10. Case 3 – 30 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**30 000.00**				
Salary		**29 770.77**	**23 816.61**	**14 885.38**	**8 931.23**	**0.00**
Social contributions	0.77 %	229.23	183.39	114.62	68.77	0.00
Operating profit		0.00	6 000.00	15 000.00	21 000.00	30 000.00
Corporation tax	20.00 %	0.00	1 200.00	3 000.00	4 200.00	6 000.00
Net income		**0.00**	**4 800.00**	**12 000.00**	**16 800.00**	**24 000.00**
Net assets before profit for the period		**100 000.00**	100 000.00	100 000.00	100 000.00	100 000.00
NET ASSETS		**100 000.00**	**104 800.00**	**112 000.00**	**116 800.00**	**124 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	4 800.00	12 000.00	16 800.00	24 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**8 384.00**	**8 960.00**	**9 344.00**	**9 920.00**
Return exeeding the 8 % mathematical value		0.00	0.00	3 040.00	7 456.00	14 080.00
Tax-free capital income	75.00 %	0.00	3 600.00	6 720.00	7 008.00	7 440.00
Taxable capital income	25.00 %	0.00	1 200.00	2 240.00	2 336.00	2 480.00
Taxable earned income dividends	75.00 %	0.00	0.00	2 280.00	5 592.00	10 560.00
Tax-free earned income dividends	25.00 %	0.00	0.00	760.00	1 864.00	3 520.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**1 200.00**	**2 240.00**	**2 336.00**	**2 480.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	0.00	2 280.00	5 592.00	10 560.00
Salary income		29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total taxable earned income		**29 770.77**	**23 816.61**	**17 165.38**	**14 523.23**	**10 560.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**29 020.77**	**23 066.61**	**16 415.38**	**13 773.23**	**9 810.00**
- Health insurance payment deduction	1.77 %	596.52	504.82	402.40	361.71	300.67
Taxable income in state taxation		**28 424.25**	**22 561.79**	**16 012.99**	**13 411.52**	**9 509.33**
- Standard earned income deduction max. 3 570 €		2 894.07	3 162.00	3 461.31	1 737.90	2 847.60
Taxable income in municipality taxation		**25 530.18**	**19 399.78**	**12 551.68**	**11 673.63**	**6 661.73**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	360.00	672.00	700.80	744.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**360.00**	**672.00**	**700.80**	**744.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		26 400.00	17 600.00	0	0	0
Tax at the lower limit €		536.00	8.00	0	0	0
Income exceeding the lower limit		2 024.25	4 961.79	16 012.99	13 411.52	9 509.33
Tax rate exeeding the lower limit%		17.25%	6.00%	0	0	0
Tax for the exceeding income €		349.18	297.71	0.00	0.00	0.00
Total state income taxes		885.18	305.71	0.00	0.00	0.00
- Standard tax credit for work income max. 1 630 €		1 630.00	1 630.00	1 630.00	1 466.83	983.32
Total state taxes payable		**0.00**	**0.00**	**0.00**	**0.00**	**0.00**
Other (municipality, etc.) taxes payable	20.77 %	4 557.80	2 705.04	976.98	957.78	400.32
Entrepreneur's total earned income taxes		**4 557.80**	**2 705.04**	**976.98**	**957.78**	**400.32**
Total dividend income		0.00	4 800.00	12 000.00	16 800.00	24 000.00
Total salary income		29 770.77	23 816.61	14 885.38	8 931.23	0.00
Total capital income		0.00	4 800.00	8 960.00	9 344.00	9 920.00
Total earned income		29 770.77	23 816.61	17 925.38	16 387.23	14 080.00
Total payable capital income tax		0.00	360.00	672.00	700.80	744.00
Total payable earned income tax		4 557.80	2 705.04	976.98	957.78	400.32
Entrepreneur's total taxes payable		**4 557.80**	**3 065.04**	**1 648.98**	**1 658.58**	**1 144.32**
Entrepreneur's net income		25 212.96	25 551.57	25 236.40	24 072.65	22 855.68
Company's total taxes (social contr. + corporate tax)		229.23	1 383.39	3 114.62	4 268.77	6 000.00
Total taxes of both owner and company		4 787.04	4 448.43	4 763.60	5 927.35	7 144.32
TOTAL TAX BURDEN		**15.96 %**	**14.83 %**	**15.88 %**	**19.76 %**	**23.81 %**

Appendix 11. Case 3 – 50 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**50 000.00**				
Salary		**49 617.94**	**39 694.35**	**24 808.97**	**14 885.38**	**0.00**
Social contributions	0.77 %	382.06	305.65	191.03	114.62	0.00
Operating profit		0.00	10 000.00	25 000.00	35 000.00	50 000.00
Corporation tax	20.00 %	0.00	2 000.00	5 000.00	7 000.00	10 000.00
Net income		**0.00**	**8 000.00**	**20 000.00**	**28 000.00**	**40 000.00**
Net assets before profit for the period		**100 000.00**	100 000.00	100 000.00	100 000.00	100 000.00
NET ASSETS		**100 000.00**	**108 000.00**	**120 000.00**	**128 000.00**	**140 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	8 000.00	20 000.00	28 000.00	40 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**8 640.00**	**9 600.00**	**10 240.00**	**11 200.00**
Return exeeding the 8 % mathematical value		0.00	0.00	10 400.00	17 760.00	28 800.00
Tax-free capital income	75.00 %	0.00	6 000.00	7 200.00	7 680.00	8 400.00
Taxable capital income	25.00 %	0.00	2 000.00	2 400.00	2 560.00	2 800.00
Taxable earned income dividends	75.00 %	0.00	0.00	7 800.00	13 320.00	21 600.00
Tax-free earned income dividends	25.00 %	0.00	0.00	2 600.00	4 440.00	7 200.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**2 000.00**	**2 400.00**	**2 560.00**	**2 800.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	0.00	7 800.00	13 320.00	21 600.00
Salary income		49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total taxable earned income		**49 617.94**	**39 694.35**	**32 608.97**	**28 205.38**	**21 600.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**48 867.94**	**38 944.35**	**31 858.97**	**27 455.38**	**20 850.00**
- Health insurance payment deduction	1.77 %	902.17	749.34	640.23	572.41	470.69
Taxable income in state taxation		**47 965.78**	**38 195.01**	**31 218.74**	**26 882.97**	**20 379.31**
- Standard earned income deduction max. 3 570 €		2 000.94	2 447.50	2 766.35	2 964.51	3 261.75
Taxable income in municipality taxation		**45 964.83**	**35 747.51**	**28 452.40**	**23 918.46**	**17 117.56**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	600.00	720.00	768.00	840.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**600.00**	**720.00**	**768.00**	**840.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		43 500.00	26 400.00	26 400.00	26 400.00	17 600.00
Tax at the lower limit €		3 485.75	536.00	536.00	536.00	8.00
Income exceeding the lower limit		4 465.78	11 795.01	4 818.74	482.97	2 779.31
Tax rate exeeding the lower limit%		21.25%	17.25%	17.25%	17.25%	6.00%
Tax for the exceeding income €		948.98	2 034.64	831.23	83.31	166.76
Total state income taxes		4 434.73	2 570.64	1 367.23	619.31	174.76
- Standard tax credit for work income max. 1 630 €		1 357.07	1 527.76	1 630.00	1 630.00	1 630.00
Total state taxes payable		**3 077.66**	**1 042.88**	**0.00**	**0.00**	**0.00**
Other (municipality, etc.) taxes payable	20.77 %	9 546.90	7 424.76	5 646.80	3 957.18	2 100.08
Entrepreneur's total earned income taxes		**12 624.55**	**8 467.64**	**5 646.80**	**3 957.18**	**2 100.08**
Total dividend income		0.00	8 000.00	20 000.00	28 000.00	40 000.00
Total salary income		49 617.94	39 694.35	24 808.97	14 885.38	0.00
Total capital income		0.00	8 000.00	9 600.00	10 240.00	11 200.00
Total earned income		49 617.94	39 694.35	35 208.97	32 645.38	28 800.00
Total payable capital income tax		0.00	600.00	720.00	768.00	840.00
Total payable earned income tax		12 624.55	8 467.64	5 646.80	3 957.18	2 100.08
Entrepreneur's total taxes payable		**12 624.55**	**9 067.64**	**6 366.80**	**4 725.18**	**2 940.08**
Entrepreneur's net income		36 993.39	38 626.71	38 442.17	38 160.21	37 059.92
Company's total taxes (social contr. + corporate tax)		382.06	2 305.65	5 191.03	7 114.62	10 000.00
Total taxes of both owner and company		13 006.61	11 373.29	11 557.83	11 839.79	12 940.08
TOTAL TAX BURDEN		**26.01 %**	**22.75 %**	**23.12 %**	**23.68 %**	**25.88 %**

Appendix 11. Case 3 – 70 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**70 000.00**				
Salary		**69 465.12**	**55 572.09**	**34 732.56**	**20 839.54**	**0.00**
Social contributions	0.77 %	534.88	427.91	267.44	160.46	0.00
Operating profit		0.00	14 000.00	35 000.00	49 000.00	70 000.00
Corporation tax	20.00 %	0.00	2 800.00	7 000.00	9 800.00	14 000.00
Net income		**0.00**	**11 200.00**	**28 000.00**	**39 200.00**	**56 000.00**
Net assets before profit for the period		**100 000.00**	100 000.00	100 000.00	100 000.00	100 000.00
NET ASSETS		**100 000.00**	**111 200.00**	**128 000.00**	**139 200.00**	**156 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	11 200.00	28 000.00	39 200.00	56 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**8 896.00**	**10 240.00**	**11 136.00**	**12 480.00**
Return exeeding the 8 % mathematical value		0.00	2 304.00	17 760.00	28 064.00	43 520.00
Tax-free capital income	75.00 %	0.00	6 672.00	7 680.00	8 352.00	9 360.00
Taxable capital income	25.00 %	0.00	2 224.00	2 560.00	2 784.00	3 120.00
Taxable earned income dividends	75.00 %	0.00	1 728.00	13 320.00	21 048.00	32 640.00
Tax-free earned income dividends	25.00 %	0.00	576.00	4 440.00	7 016.00	10 880.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**2 224.00**	**2 560.00**	**2 784.00**	**3 120.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	1 728.00	13 320.00	21 048.00	32 640.00
Salary income		69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total taxable earned income		**69 465.12**	**57 300.09**	**48 052.56**	**41 887.54**	**32 640.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**68 715.12**	**56 550.09**	**47 302.56**	**41 137.54**	**31 890.00**
- Health insurance payment deduction	1.77 %	1 207.81	1 020.47	878.06	783.12	640.70
Taxable income in state taxation		**67 507.31**	**55 529.62**	**46 424.50**	**40 354.42**	**31 249.30**
- Standard earned income deduction max. 3 570 €		1 107.82	1 655.25	2 071.38	2 348.81	2 764.95
Taxable income in municipality taxation		**66 399.49**	**53 874.38**	**44 353.12**	**38 005.61**	**28 484.35**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	667.20	768.00	835.20	936.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**667.20**	**768.00**	**835.20**	**936.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		43 500.00	43 500.00	43 500.00	26 400.00	26 400.00
Tax at the lower limit €		3 485.75	3 485.75	3 485.75	536.00	536.00
Income exceeding the lower limit		24 007.31	12 029.62	2 924.50	13 954.42	4 849.30
Tax rate exeeding the lower limit%		21.25%	21.25%	21.25%	17.25%	17.25%
Tax for the exceeding income €		5 101.55	2 556.30	621.46	2 407.14	836.50
Total state income taxes		8 587.30	6 042.05	4 107.21	2 943.14	1 372.50
- Standard tax credit for work income max. 1 630 €		1 015.70	1 224.94	1 384.00	1 490.03	1 630.00
Total state taxes payable		**7 571.60**	**4 817.11**	**2 723.21**	**1 453.10**	**0.00**
Other (municipality, etc.) taxes payable	20.77 %	13 791.17	11 189.71	9 212.14	7 893.76	5 658.70
Entrepreneur's total earned income taxes		**21 362.78**	**16 006.82**	**11 935.35**	**9 346.87**	**5 658.70**
Total dividend income		0.00	11 200.00	28 000.00	39 200.00	56 000.00
Total salary income		69 465.12	55 572.09	34 732.56	20 839.54	0.00
Total capital income		0.00	8 896.00	10 240.00	11 136.00	12 480.00
Total earned income		69 465.12	57 876.09	52 492.56	48 903.54	43 520.00
Total payable capital income tax		0.00	667.20	768.00	835.20	936.00
Total payable earned income tax		21 362.78	16 006.82	11 935.35	9 346.87	5 658.70
Entrepreneur's total taxes payable		**21 362.78**	**16 674.02**	**12 703.35**	**10 182.07**	**6 594.70**
Entrepreneur's net income		48 102.34	50 098.08	50 029.21	49 857.47	49 405.30
Company's total taxes (social contr. + corporate tax)		534.88	3 227.91	7 267.44	9 960.46	14 000.00
Total taxes of both owner and company		21 897.66	19 901.92	19 970.79	20 142.53	20 594.70
TOTAL TAX BURDEN		**31.28 %**	**28.43 %**	**28.53 %**	**28.78 %**	**29.42 %**

Appendix 12. Case 3 – 100 000 €

Ratio of division (salary-dividend)		100 %	80 %	50 %	30 %	100 %
PROFIT BEFORE TAXES		**100 000.00**				
Salary		**99 235.88**	**79 388.71**	**49 617.94**	**29 770.77**	**0.00**
Social contributions	0.77 %	764.12	611.29	382.06	229.23	0.00
Operating profit		0.00	20 000.00	50 000.00	70 000.00	100 000.00
Corporation tax	20.00 %	0.00	4 000.00	10 000.00	14 000.00	20 000.00
Net income		**0.00**	**16 000.00**	**40 000.00**	**56 000.00**	**80 000.00**
Net assets before profit for the period		**100 000.00**	100 000.00	100 000.00	100 000.00	100 000.00
NET ASSETS		**100 000.00**	**116 000.00**	**140 000.00**	**156 000.00**	**180 000.00**
CAPITAL INCOME						
Dividend income limit		150 000.00	150 000.00	150 000.00	150 000.00	150 000.00
Entrepreneur's dividend icome		0.00	16 000.00	40 000.00	56 000.00	80 000.00
Return on the mathematical value of shares	**8.00 %**	**0.00**	**9 280.00**	**11 200.00**	**12 480.00**	**14 400.00**
Return exeeding the 8 % mathematical value		0.00	6 720.00	28 800.00	43 520.00	65 600.00
Tax-free capital income	75.00 %	0.00	6 960.00	8 400.00	9 360.00	10 800.00
Taxable capital income	25.00 %	0.00	2 320.00	2 800.00	3 120.00	3 600.00
Taxable earned income dividends	75.00 %	0.00	5 040.00	21 600.00	32 640.00	49 200.00
Tax-free earned income dividends	25.00 %	0.00	1 680.00	7 200.00	10 880.00	16 400.00
Tax-free portion of capital income exceeding 150k	15.00 %	0.00	0.00	0.00	0.00	0.00
Taxable portion of capital income exceding 150k	85.00 %	0.00	0.00	0.00	0.00	0.00
Total taxable capital income		**0.00**	**2 320.00**	**2 800.00**	**3 120.00**	**3 600.00**
EARNED INCOME						
Taxable earned income dividends	75.00 %	0.00	5 040.00	21 600.00	32 640.00	49 200.00
Salary income		99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total taxable earned income		**99 235.88**	**84 428.71**	**71 217.94**	**62 410.77**	**49 200.00**
- Deduction for the production of income 750 €		750.00	750.00	750.00	750.00	750.00
Net taxable income		**98 485.88**	**83 678.71**	**70 467.94**	**61 660.77**	**48 450.00**
- Health insurance payment deduction	1.77 %	1 666.28	1 438.25	1 234.81	1 099.17	895.73
Taxable income in state taxation		**96 819.60**	**82 240.46**	**69 233.14**	**60 561.59**	**47 554.27**
- Standard earned income deduction max. 3 570 €		0.00	434.46	1 028.94	1 425.27	2 019.75
Taxable income in municipality taxation		**96 819.60**	**81 806.00**	**68 204.19**	**59 136.32**	**45 534.52**
CAPITAL INCOME TAXES						
Capital income tax rate	30.00 %	0.00	696.00	840.00	936.00	1 080.00
Capital income tax on income exceeding 30 000 €	34.00 %	0.00	0.00	0.00	0.00	0.00
Total capital income taxes		**0.00**	**696.00**	**840.00**	**936.00**	**1 080.00**
EARNED INCOME TAXES						
Taxable income at the lower limit		76 100.00	76 100.00	43 500.00	43 500.00	43 500.00
Tax at the lower limit €		10 413.25	10 413.25	3 485.75	3 485.75	3 485.75
Income exceeding the lower limit		20 719.60	6 140.46	25 733.14	17 061.59	4 054.27
Tax rate exeeding the lower limit%		31.25%	31.25%	21.25%	21.25%	21.25%
Tax for the exceeding income €		6 474.88	1 918.89	5 468.29	3 625.59	861.53
Total state income taxes		16 888.13	12 332.14	8 954.04	7 111.34	4 347.28
- Standard tax credit for work income max. 1 630 €		503.64	758.33	985.55	1 137.03	1 364.26
Total state taxes payable		**16 384.48**	**11 573.82**	**7 968.49**	**5 974.30**	**2 983.02**
Other (municipality, etc.) taxes payable	20.77 %	20 109.43	16 991.11	14 166.01	12 282.61	9 457.52
Entrepreneur's total earned income taxes		**36 493.91**	**28 564.92**	**22 134.50**	**18 256.92**	**12 440.54**
Total dividend income		0.00	16 000.00	40 000.00	56 000.00	80 000.00
Total salary income		99 235.88	79 388.71	49 617.94	29 770.77	0.00
Total capital income		0.00	9 280.00	11 200.00	12 480.00	14 400.00
Total earned income		99 235.88	86 108.71	78 417.94	73 290.77	65 600.00
Total payable capital income tax		0.00	696.00	840.00	936.00	1 080.00
Total payable earned income tax		36 493.91	28 564.92	22 134.50	18 256.92	12 440.54
Entrepreneur's total taxes payable		**36 493.91**	**29 260.92**	**22 974.50**	**19 192.92**	**13 520.54**
Entrepreneur's net income		62 741.97	66 127.78	66 643.44	66 577.85	66 479.46
Company's total taxes (social contr. + corporate tax)		764.12	4 611.29	10 382.06	14 229.23	20 000.00
Total taxes of both owner and company		37 258.03	33 872.22	33 356.56	33 422.15	33 520.54
TOTAL TAX BURDEN		**37.26 %**	**33.87 %**	**33.36 %**	**33.42 %**	**33.52 %**