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RESPONS TO THE FINNISH GOVERNMENT PROPOSAL ON THE TAX CREDITS FOR LARGE SCALE INVESTMENTS

Fortum's official response was filed in the Finnish language: [Lausunto - Lausuntopalvelu](#)

Fortum appreciates the opportunity to provide comments on the Government's proposal ("the Proposal") to Parliament for an act on tax credits for certain large investments aiming at a climate-neutral economy. In Fortum's view, the initiative is necessary and crucial to promote new investment projects and attract private capital to Finland.

Fortum understands the terms and conditions of the proposal and states that Business Finland must have sufficient resources and expertise to carry out the application process smoothly and efficiently. Fortum also supports the continuation of tax support beyond 2025 in order to promote projects aimed at reducing carbon dioxide emissions in Finland also in the future.

Good understanding of the nature of the carbon neutral investments is necessary to meet the objectives of the Proposal

Fortum identified some uncertainties and questions regarding the proposed tax support program. Although the Proposal aims to provide the support to large investment projects, not all of the strict conditions put forward may be compatible with the requirements inherent in such projects. For example, the requirement to fully prepare and submit applications by 2025 poses challenges, as decision-making on large investments within 12 months can be difficult. Such large projects often require extensive planning, which may not be possible to complete in a year. In addition, the requirement to complete projects within 36 months poses challenges. Not all major investments can be completed within three years, especially since applications must be submitted before the project can be undertaken.

We ask that the following issues in the draft proposal be addressed in the final law, as well as in the terms of the tax support program or in the application form:

- **Application schedule:** With regard to the application deadline for 2025, we ask the Ministry of Economic Affairs and Employment to give advance notice of when the application period will open and end, and that the terms, conditions and requirements of the application process will be published before the application process begins.
- **Need for tax support:** We believe that the proposed tax credit has a positive impact for large investments. However, we ask for clarification on how the company must demonstrate that the investment could not proceed without tax support. From this perspective, it is important to understand how tax support would affect a company's cash flow in practice. It is typical of capital-intensive business that if a project is not profitable at the beginning of its life cycle, the period during which the project produces results is postponed. Given that the company must deduct losses first, the actual effect of the tax credit may be deferred and may occur years after the investment. The time and funding required for the investment set challenges to the impact of the tax credit on the investment decision.
- **Impact of M&A:** As this is the first program of its kind in Finland, we ask for detailed clarification on how M&A activities may affect eligibility for tax support, including whether

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changes in ownership after the start of the project affect eligibility for tax support. We ask that the transfer of ownership process be clearly described (in particular, when a new application should be submitted in M&A situations (before or after 2028), and should new applications be submitted only to the tax authorities or also to the Ministry of Economic Affairs and Employment/Business Finland)?

- **Effects on minimum tax:** Tax credits have an impact on the tax rate calculated according to minimum tax regulations, which may lead to supplementary tax liability under minimum tax regulations. Minimum tax calculation is complex and can be affected by many different factors (including exceptional business events that may affect profitability and taxes payable). In practice, the effects of the tax credit, together with the minimum tax, may be reduced to zero or even distorted. In order to avoid undesirable effects on large groups, a combination of tax credits, relief on other taxes borne and/or depreciation specific to minimum tax legislation should be considered, which would allow the achievement of the incentive objectives of promoting carbon-neutral investments.
- **Project restrictions:** We ask for clarification on whether there are restrictions on how many projects in Finland can receive tax support and how much tax support can be granted in total.
- **Emission reduction calculation:** We ask for a precise formula and clear guidance for calculating emission reductions, especially regarding the requirement to reduce greenhouse gas emissions by at least 40% compared to the previous situation (i.e. greenhouse gas emissions before project $x (1 - 0.4) = \text{final greenhouse gas emissions}$). Clarifying this would ensure fair competition between projects seeking funding to reduce carbon emissions.
- **Project completion schedule:** We ask for confirmation that the 36-month deadline for project completion applies to all project types (hydrogen, storage, decarbonization, etc.), as this time limit may limit large projects. We are asking for clarification as to whether the time limit could be 48 months.
- **Start of tax support:** We ask for clarification as to why 2028 was chosen as a fixed deadline. We would also like to ask whether it would be possible to apply for tax support earlier if the project is completed earlier.
- **Permits and cost eligibility:** For permits and grid connection requirements, we ask for clarification as to whether grid connection costs (TSO or DSO) and land acquisition costs are considered eligible costs.
- **Innovation criteria:** We seek clarification as to whether the tax support program has specific criteria for demonstrating innovation.
- **Project "maturity criteria":** We ask for more specific criteria to assess whether the project is at an appropriate stage to be eligible for the program.
- **Strategic position:** For critical raw materials projects, we ask for clarification as to whether projects under the European Commission's Critical Raw Material Act (CRMA) are given priority strategic status over similar projects without strategic status.
- **Support for low-carbon hydrogen:** We ask for clarification on whether there will be programs supporting low-carbon hydrogen in the future, taking into account the importance of both renewable hydrogen and low-carbon hydrogen in the hydrogen economy.
- **Mankala companies:** Due to the capital intensity of electricity production, a so-called electricity production system has been established in Finland. The Mankala principle, in which several companies establish a non-profit limited liability company for a common

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purpose. The owners of the Mankala company are responsible for the costs related to the operation of the power plant in proportion to their share of ownership, and in return receive an amount corresponding to their share of ownership in the capacity of the invested power plant. The purpose of the Mankala company is not to generate profit for the company that owns the power plant, but to create value for the company's owners. As the Mankala companies do not in principle generate taxable income, they will not be able to take advantage of the proposed tax credit. We request clarification as to whether the owners of the Mankala companies who actually income finance the investments of the Mankala companies and in whose taxation the profits arising from investments made by the Mankala companies are realised are entitled to investment compensation when the Mankala company carries out an investment covered by the investment compensation.