

Tax relief for foreign key personnel

Foreign key personnel – executives, experts, researchers, and others – may qualify for special tax relief when working in Sweden. The legislation provides an additional advantage to companies who need foreign expertise for their Swedish operations.

The main feature of Sweden's tax relief legislation provides a 25 percent reduction of taxable income of a foreign key person. This means that a key foreign individual's income tax will be based on only 75 percent of his or her income.

The reduced tax applies to all salaries and "perks", such as employers' contributions to housing and living costs. The tax reduction also applies to stock options and other special compensation, provided it is offered by the Swedish employer.

The reduction applies to the first three years of employment in Sweden. However, foreign key personnel may reside in Sweden up to five years (unless otherwise covered by EU resident agreements).

Foreign key personnel is also able to receive tax-exempt contributions from employers for moving to and from Sweden, holiday travel to a home country, and school fees for children.

All other taxation is the same as that of any other Swedish resident. This means, for example, that a foreign key person can apply for tax deductions for extra costs of living or for maintaining double residences, just as any Swedish taxpayer may.

Employers receive a 25 percent reduction on the basis on which their social security contributions are calculated. Social security payments or any type to the foreign key persons will be based on the taxable income amount, that is, 75 percent of the total income.

Personnel covered

Foreign key personnel include executives and managers who hold vital positions in a company. These people would be responsible for a company's general management and administration. Such personnel could be managers of a foreign-owned subsidiary.

Key personnel include executives, experts, engineers, scientists, specialists in research and development, rationalization, production, administration, logistics, marketing, engineering, finance and information and communication technologies, but also specialists working with advanced product development and applications of new technology and others whose unique competence is unavailable or not readily available in Sweden.

The legislation does not limit the foreign key personnel to specific qualifications or positions, but provides some examples and guidelines. This means that tax authorities will have some leeway in deciding who may qualify.

The tax relief applies only to employees of a Swedish company or operation. It is not applicable to an employee assigned to Sweden by a foreign company that has no operations in Sweden. However, if a foreign key person is assigned to Sweden by a foreign company, and is paid by the foreign company's Swedish subsidiary, he or she is eligible for tax relief on the amount paid by the Swedish subsidiary.

Other prerequisites and conditions

Employers must be a Swedish company, either Swedish or foreign owned. Or the employer may be a foreign company that has a permanent organization or establishment in Sweden.

Individuals qualifying for tax relief may not be Swedish citizens. An individual who has been a resident in Sweden during any of the five years prior to the start of the assignment in Sweden cannot qualify for tax relief status.

Individuals, granted tax relief, are not expected to reside in Sweden for more than five years. However, an individual could

remain in Sweden after five years, as an ordinary immigrant, without any penalties for the three years of tax relief. Foreign key personnel may change jobs and employers during their stay in Sweden, but tax authorities will determine if the new employment qualifies for continued tax relief.

A foreign employee who is already working in Sweden for a foreign company will probably not be allowed to revise his or her contract to gain tax relief advantages. This is based on the legislation's concept that tax relief will be granted when a job begins. However, the question has not been finalized since the legislation is so new.

Applications, reporting

Application for tax relief must be submitted by the employer or foreign person within three months of the start of employment. Applications are submitted to a special Research Tax Board (*Forskarskattenämnden*) within the Swedish Tax Agency. Decisions by the Board can be appealed to county or national administrative courts.

Employers, in reporting income to tax authorities must include the key persons' tax-free amounts. All other reporting by employers follows standard procedures.

Motivation

The Government says the tax relief legislation is similar to that already existing in several EU nations. Because of the limited time that foreign experts and others will remain in Sweden, they would not be able to receive full advantage of Sweden's social welfare and pension schemes. This justifies a tax reduction.

The legislation creates additional incentives for companies to retain or establish top executive functions in Sweden, rather than moving abroad. Bringing foreign experts to Sweden will also help strengthen Swedish technology, research and development. The tax relief will enable companies to offer foreign key personnel salaries and compensation competitive with European levels.

Tax relief in brief

- Applies to foreign experts, executives, scientists, researchers and others whose skills are difficult to find in Sweden.
- Income taxes are based on only 75 percent of income.
- A number of "perks (moving costs, children's schooling, home travel, etc.) are tax exempt.
- Tax relief is granted for only three years.
- The employer must be a Swedish company (Swedish or foreign owned).
- Swedish citizens cannot be granted tax relief.
- Between the years 2001 and 2005 more than 1 500 foreign key persons have been granted tax relief by the Swedish Tax Agency.

The application for reduced taxation should be sent to:

*Forskarskattenämnden
Brunnsgränd 4
111 30 Stockholm*

*For any questions, please call:
Lennart Tottie, the Swedish Tax
Agency, tel + 46 8 764 79 30*

*For further information please contact:
Sigvard Beck-Friis
Establishment Services, ISA
sigvard.beck-friis@isa.se
or tel +46 8 402 78 25*

Please note that the contents of this fact sheet should be regarded as an overview of current conditions in Sweden. These may change and thereby render descriptions of laws and other frameworks inaccurate. In all individual cases we request that advice always be sought with relevant authorities, organizations and businesses on specific issues.