

Taxes in Sweden

Sweden's tax system offers several features highly valued by foreign investors: efficiency, transparency and easily accessible information.

Corporate taxes

Companies in Sweden only pay a national corporate tax, based on its annual income. There is neither a local corporate tax nor any business license tax to be paid.

Sweden has a competitive corporate tax rate of 28 percent. Possibilities to defer taxation of profit, by allocating up to 25 percent of net profit to so-called tax allocation reserves, create even lower effective rates. However, as from January 1, 2005, a deemed interest income is calculated on the tax allocation reserve. (The deemed interest is calculated as 72 percent of the government loan interest rate at the end of November of the previous fiscal year, multiplied by the opening balance of the accumulated tax allocation reserve).

Taxable income is calculated according to accepted international auditing standards. Swedish annual reports and financial statements are noted for a high degree of informative disclosure. Such reports and statements are based on universally accepted principles of historic costs, actual accounting, immediate recognition of loss risks and not creating income until actually earned. Capital gains on sales of business assets are taxed as regular business income. A Swedish company is generally taxable for its world wide net profit. Losses in a company can be carried forward indefinitely.

Capital gains on sales of unlisted shares are tax exempt. Special rules apply on sales of listed shares.

Statutory employer social security contributions amount to 32.42 percent (in 2007) of total salary and benefits paid to the employee. These contributions are deductible from taxable corporate income (see fact sheet Social Security Costs in Sweden).

In general employers also have to contribute to pension insurances on behalf of the employees.

The tax rules for a Swedish branch are in general the same as the tax rules for a Swedish company.

Foreign companies running a business from a permanent establishment in Sweden are liable to pay tax on their business operation. A permanent establishment is considered to be any fixed place through which a business is run, either wholly or in part.

Dividends paid from Sweden

In general, a final withholding tax (*kupongskatt*) of 30 percent is levied on dividends paid by a Swedish company to its foreign shareholders.

An exemption or a lower tax rate may apply under a double tax treaty. Sweden has extensive network of tax treaties with more than 80 countries at present. In general the tax rate is reduced to 5 percent if the non-resident company holds 25 percent or more of the Swedish company. Otherwise the rate will normally be reduced to 15 percent.

Under the Swedish law implementing the provisions of the EC Parent-Subsidiary Directive, there is no withholding tax on an outbound dividend paid to a qualifying parent company in another member state if the parent company holds at least 25 percent of the capital in the Swedish company. Shares in a listed company must have been held for more than one year at the time of the distribution of the dividends, otherwise no exemption will be granted.

Under domestic law, no withholding tax is imposed on dividend distributions made in respect of *business-related* shares to a *non-resident company*.

Profits of a Swedish branch of a foreign company may be remitted abroad without being subject to any other tax than the regular corporate income tax.

There are no restrictions on the amount of dividends that a Swedish corporation may transfer to foreign owners or shareholders. However to be able to distribute a dividend the corporation must have retained earnings. Sweden has no foreign exchange controls or restrictions.

Business-related shares

The holding is considered business related if it consists of shares in an unlisted company or if the holding represents at least 10 percent of the voting rights in a listed company. The withholding tax on dividends may be waived on unlisted shares irrespective of the holding period. Shares in a listed company, though, must have been held for more than one year at the time of the distribution of the dividends, otherwise no exemption will be granted.

Non-resident company

The recipient foreign entity must be a legal entity and must be resident in a country with similar taxation on corporate income as Sweden. This condition is met if the net corporate income (calculated in accordance with Swedish rules) is taxed at a rate of at least 10 to 15 percent. There is a presumption of similar taxation if the company is resident in a country with which Sweden has signed a tax treaty.

Dividends paid to Sweden

A dividend from an unlisted company is normally (i.e. the holding is business related) tax exempt in Sweden. Special rules (i.e. the holding must represent 10 percent of the voting rights in the company and must have been held for at least one year) apply with respect to dividends from a listed company.

Sweden has concluded double tax treaties with more than 80 countries; these treaties waive or reduce the withholding tax on dividends (also on interest and royalties).

Sweden's treaties generally follow the OECD model treaty. A treaty may be invoked only to reduce, not increase, the tax liability.

Thin-capitalization rules

Swedish tax law does not include any specific rules concerning thin capitalization of companies. Therefore, a Swedish company may be capitalized with loans without risk that interest paid at an arm's length to the parent company will not be tax deductible. Sweden does not impose any withholding tax on interest payments.

Royalties

No withholding tax is imposed on royalties under domestic law. Royalty payments made to non-residents are generally considered to be the income of the non-resident recipient, which is deemed to have a permanent establishment in Sweden. Thus the recipient is taxed in Sweden on the net royalty income (i.e. the gross royalty less expenses related to the royalty) at the ordinary corporate income tax rate (28%). Under Sweden's implementation of the EC Interest and Royalties Directive, royalties may be exempt.

Controlled foreign companies (CFC rules)

The CFC rules states that a Swedish resident company (or individual) or any resident with a permanent establishment in Sweden that holds an interest (25 percent of the capital or voting rights) in certain foreign legal entities is subject to immediate taxation on its proportionate share of the foreign legal entity's profits if the foreign entity is subject to tax that is lower than 15.4 percent. The Swedish Income Tax Act, provides a "black and white list", informing whether CFC rules applies.

Swedish holding companies

According to several international tax consultants, the Swedish tax law, combined with existing corporate-friendly tax treatment, has created one of Europe's most favorable tax environments for holding companies. In

For more information, please contact:

The Swedish Tax Agency
(Skatteverket)
SE-171 94 SOLNA
Tel: +46 771 567 567
Fax: +46 8 28 03 32
huvudkontoret@skatteverket.se
www.skatteverket.se

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general there are no limitations for a holding company to deduct interest costs.

Sweden has a system with group contributions. If a holding company holds more than 90 percent of the shares in another Swedish company, the profits of the subsidiary can generally be contributed to the parent company to cover its interest costs.

VAT

Sweden's Value Added Tax (VAT) Act is harmonized with the EC VAT directives. Known in Swedish as "moms" (short for *mervärdes-skatt*), the normal VAT rate is 25 percent. However a reduced rate of 12 percent applies to for example food and hotel charges. A rate of 6 percent applies to personal transportation, newspapers, books and magazines, entrance fees to commercial sport activities, ski lift transport and cultural events.

Certain services are exempt from VAT, including medical and dental care, social services, banking and financial services, etc.

Individual taxes

Individual earned income is taxed mainly by municipality of residence, at rates ranging from about 29 to 35 percent. On taxable earnings above appr. SEK 327,600 (in 2007), individuals pay another 20-25 percent in national income tax.

Net income from capital interest, dividends, capital gains, etc. is generally taxed at 30 percent. Interest payments are fully deductible. Up to 100 percent of capital losses may be deducted from capital gains, but in some cases only 70 percent of the losses are deductible. A deficit in the calculation of net capital income results in a tax reduction of 30 percent of the deficit up to SEK 100,000. On deficit above SEK 100,000, the tax reduction is 21 percent.

The tax on individual wealth was abolished in January 2007. The real estate tax based on determined value for single-family houses has also been phased out and replaced by a local government property-related charge.

Tax relief for foreign key personnel

Foreign key personnel – executives, experts, researchers and others – may qualify for specific tax relief when working in Sweden. In such case, income taxes and social security contributions are based on only 75 percent of income. Tax relief is granted for three years, if the stay in Sweden is not expected to exceed five years. A number of "perks" (moving costs, children's schooling, home travel etc.) are exempt from taxation. For further information please see fact sheet "Tax relief for foreign key personnel".

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.