



CORPORATE TAXES IN SWEDEN

OPERATING GUIDE

Sweden's tax structure is transparent and efficient and designed to meet the needs of international investors. Companies can benefit from advantageous tax rules, favorable structures for holding companies and tax relief for key foreign employees.

TAX FRIENDLY REGIME FOR BUSINESS

Tax frameworks for businesses compare very favorably with other OECD nations. The corporate tax rate is low by international standards and is also based solely on a company's annual profit; no license tax or local corporate tax is payable.

Swedish legislation has created a beneficial tax climate for enterprises that set up a subsidiary, a holding company or a branch in Sweden. The tax package includes tax exemptions on capital gains and intra-group dividends, no thin-capitalization rules, no withholding tax on interest payments and no or low withholding tax on dividends. Together with other advantageous legislation, this has made Sweden one of Europe's most attractive corporate tax regimes.

Unilateral tax treaties with more than 80 jurisdictions help to avoid double taxation. The Swedish National Board of Advance Rulings (*Skatterättsnämnden*) offers binding advance tax rulings that allow a company to ask the Board ahead of time whether its specific company tax strategy is applicable or not from a Swedish tax perspective.

To make it easier for companies to attract international expertise to Sweden, income tax relief is available to key foreign employees (see the Business Sweden operating guide "Tax relief for key foreign employees").

COMPETITIVE CORPORATE INCOME TAX

The corporate income tax in Sweden is competitive by international standards: 22 percent as from 1 January 2013.

The effective rate can be even lower as companies have the option of making deductible annual appropriations to a tax allocation reserve of up to 25 percent of their profit (see "Tax allocation reserve", below).

A Swedish company is generally taxed on its worldwide income. Losses generated in a company can be carried forward indefinitely and offset against the taxable profit. Restrictions on the use of losses may however apply when a change of ownership occurs.

Companies and branches that conduct business (i.e., have a permanent establishment) in Sweden are liable to pay tax in Sweden.

PROFIT TRANSFER OPPORTUNITY FOR GROUP COMPANIES

Each company within a group constitutes a separate taxable entity. There is no taxation on the consolidated level of a Swedish group of companies. However, generous rules permit the transfer of profits between companies within wholly owned domestic groups ("group contributions") mean that taxation of a consolidated income is effectively achievable.



IN BRIEF

- ▶ Competitive corporate tax rate
- ▶ Tax-exempt intra-group dividends
- ▶ Capital gains tax exemption on the sale of shares
- ▶ No thin-capitalization rules
- ▶ Lower tax rate for key foreign employees

DEFINITION OF A FOREIGN COMPANY

A “foreign company” is a foreign legal entity that in its country of domicile is subject to tax on the same lines as a Swedish limited liability company. A foreign legal entity that is tax resident in a country with which Sweden has concluded a tax treaty; is covered by that treaty and should normally be regarded being a foreign company.

The group contribution rules admit transfer of profits between two group companies: a transfer that is deductible for the transferring company and taxable for the receiving company. Such transfers are reflected as year-end accruals in the annual accounts of both companies and are executed by a transfer of funds. An important qualification requirement for group tax relief is that the group holds more than 90 percent of the shares during the entire financial year.

DIVIDENDS OFTEN EXEMPT FROM WITHHOLDING TAX

Dividends distributed by a non-listed resident company to a foreign corporate shareholder are generally exempt from Swedish withholding tax according to Swedish domestic legislation, provided that the recipient is a resident in a country within the European Union and holds at least 10 percent of the shares in the paying company. In addition, there is no withholding tax on a dividend payment to a “foreign company” that is the foreign equivalent of a Swedish limited liability company (see definition, above) provided the dividend should have been tax exempt under the Swedish participation exemption rules should the recipient has been a Swedish company. Thus, dividends on non-listed shares are normally exempt from Swedish withholding tax.

The Swedish tax law does not define equivalent; however some of the legal features of a Swedish limited liability company is that it is an entity with liability limited by shares, it is a legal entity that can enter into agreements

“SWEDEN OFFERS AN ATTRACTIVE CORPORATE TAX CLIMATE WITH A FAVORABLE ENVIRONMENT FOR HOLDING COMPANIES.”

SERGE SAUSSOY, PARTNER, PWC

and act before an authority or court and it has a board of directors. If there is uncertainty whether a specific foreign company can be regarded being the foreign equivalent of a Swedish limited liability company the question can be forwarded to the National Board of Advance Rulings.

Regarding listed shares, the ownership must also represent at least 10 percent of the voting rights and the shares must have been held for at least one year at the time of the dividend.

The standard withholding tax rate (if applicable) is 30

percent but is waived or reduced under most tax treaties, if no exemption is available under domestic law.

TAX EXEMPTION FOR CAPITAL GAINS AND DIVIDENDS RECEIVED

To qualify for capital gains tax exemption, the shares must either be non-listed or, if listed, must represent at least 10 percent of the voting rights and must have been held for a period of at least one year. Shares held in foreign companies can also qualify for tax exemption. This applies if the foreign company can be regarded being the foreign equivalent of a Swedish limited liability company. The tax exemption means that capital losses on shares held for

QUALIFICATION FOR TAX EXEMPTION ON CAPITAL GAINS AND DIVIDENDS RECEIVED

Unlisted shares – Normally tax-exempt, i.e. no qualification time or minimum holding of votes or capital.

Listed shares – Tax exempt if the holding represents at least 10 percent of the voting rights (or is contingent on the holder’s business) and the shares are held for at least one year.

business reasons are not deductible.

The tax exemption applies equally to dividends received by a Swedish company.

INTEREST COSTS FULLY DEDUCTIBLE

Interest costs are generally fully deductible for tax purposes irrespective of their purpose, provided the loan is made on arm’s length terms (for instance, not at a rate above the market interest rate). However, interest costs relating to intra-group loans are not deductible. There are two exemptions from this limitation. According to the so-called ten percent rule the interest cost should be deductible if the interest income is taxed with at least 10 percent in the hands of the beneficial owner of the interest and the predominant reason for the debt is not to obtain significant tax advantage within the group. From the second exemption, the so-called business reason rule, follows that the interest cost should be deductible if the underlying debt is predominantly motivated by business reasons and the beneficial owner of the interest income is resident within the EEA or, under certain circumstances, in a state with which Sweden has concluded a tax treaty.

There are no thin-capitalization restrictions for tax purposes. The fact that withholding tax is not levied on interest makes it favorable to create structures where the return on an investment is distributed as interest (provided the deductible interest limitation rules described above do not apply).

TAX ALLOCATION RESERVE TO SMOOTH PROFIT VARIATIONS

Companies are allowed to make annual appropriations to a “tax allocation reserve” (*periodiseringsfond*). The aim of the rules is to offer a mechanism to allow companies to carry back losses to offset previous years’ profits, since Swedish tax legislation does not contain any specific loss carry-back provision. A company is allowed to make a deduction provided it does not exceed 25 percent of pre-tax profit for the year. Each year’s appropriation creates a separate reserve that must be reversed to taxation within six years of appropriation.

A company is taxed on an assumed interest income corresponding to a percentage of the sum of the total opening balance of all tax allocation reserves. For financial year 2014, the interest rate is 1.50 percent.

COMPETITIVE TAX RULES

Sweden’s holding company regime

- ▶ Sweden is among Europe’s most favorable jurisdictions for holding companies due to tax exemptions on capital gains and dividends and other competitive tax rules.
- ▶ Capital gains and dividends from business related shares are generally exempt from tax. The scope of the exemption is generous compared to other countries.
- ▶ The exemption can apply to shares held in, or dividends received from, Swedish and foreign companies.

Other competitive tax rules

- ▶ Low effective corporate tax rate
- ▶ Interest costs generally deductible for tax purposes
- ▶ No thin-capitalization rules
- ▶ No withholding tax on interest
- ▶ No stamp duty or capital duties on share capital
- ▶ Extensive double tax treaty network

LOSS CARRYFORWARDS – WITHOUT A TIME LIMIT

Losses may be carried forward indefinitely, i.e., without a time limit. Restrictions may apply at changes in the ownership.

ROYALTIES

No Swedish withholding tax is charged on royalties. However, royalty payments made to non-residents are deemed to derive from a Swedish business and are taxed as income from a permanent place of business in Sweden. Thus, the recipient is taxed in Sweden on the net royalty income at the ordinary corporate income tax rate of 22 percent. Sweden’s right to tax royalties may be reduced under an applicable tax treaty. Royalties paid to an associated company in an EU country may also be exempt from Swedish tax.

CONTROLLED FOREIGN COMPANY (CFC) RULES

The CFC rules state that a Swedish shareholder with a direct or indirect interest (25 percent of the equity or voting rights) in certain low taxed foreign legal entities is subject to immediate taxation on its proportionate share of the foreign legal entity’s profits. A foreign company is considered low taxed if its income is taxed at a rate below 12.1 percent, calculated under Swedish rules.

Shareholders in companies resident in “approved” countries are, however, not subject to CFC taxation. Approved countries are included in a “white list” which is part of the Swedish Income Tax Act.

TAX ACCOUNTING ACCORDING TO INTERNATIONAL STANDARDS

Taxable income is calculated according to generally accepted international accounting standards. Taxable income is determined with reference to the accounting profits before any provision for Swedish income taxes, with relevant adjustments required by law.

TAX REDUCTIONS FOR FOREIGN EMPLOYEES

Key foreign employees may qualify for a 25 percent reduction of the taxable portion of their income when working in Sweden.

These individuals are taxed on only 75 percent of their income the first three years of employment in Sweden. Likewise, their employers pay social security contributions on only 75 percent of taxable salary. The tax relief applies to all salaries and benefits in kind, such as housing benefits and living allowances. It also applies to stock options and other special compensation offered by the employer. Certain key foreign employees who hold vital positions in a company may qualify.

VALUE ADDED TAX (VAT)

Swedish VAT (*moms*) is based on an input/output system, generally granting full credit for all companies registered for VAT.

The standard rate of VAT is 25 percent. A reduced rate of 12 percent applies primarily to food, hotel accommodation, camping, and cultural and sporting events. As of 1 January 2012, the reduced rate also applies to restaurant and catering services (except for wine, beer and spirits, where the standard VAT rate applies). A reduced rate of 6 percent applies mainly to newspapers, books, magazines and public transport.

Certain services are VAT-exempt. These include medical and dental care, social services, banking and financial services.

REAL ESTATE TAX

The owner of property or site leasehold in Sweden is liable for real estate tax. Depending on the kind of activities carried out, the property can be classified as industrial (0.5 percent real estate tax) or commercial (1 percent real estate tax). The tax is based on the property's tax assessment value. The tax assessment value should equal 75 percent of the fair market value of the property. The fair market value is set by the Swedish Tax Agency and is based on statistics of previous sales of property in the relevant area. For premises to be classified as industrial, the major part of the building must be used for industrial and production purposes. Examples of commercial buildings are offices and restaurants. Real estate tax is a deductible cost for corporate income tax purposes. There are no regional or local real estate taxes for industrial and commercial buildings.

USEFUL CONTACTS

Swedish Tax Agency (Skatteverket)

SE-171 94 Solna
0771 567 567 (from Sweden)
+46 8 564 851 60 (from abroad)
www.skatteverket.se

The Swedish Tax Agency is the government agency for taxation, tax collection and national registration of residents.

The Swedish National Board of Advance Rulings (Skatterättsnämnden)

Karlavägen 108
Box 24144, SE-104 51 Stockholm
+46 010-574 79 57
www.skatterattsnamnden.se

The Swedish National Board of Advance Rulings is the government agency for binding rulings on tax issues. The possibility of obtaining advance ruling is meant for questions where the answer is not immediately apparent from the statutory text or practice.

FURTHER INFORMATION

At www.business-sweden.se

- ▶ Running a business in Sweden – an introduction
- ▶ Tax relief for key foreign employees