



## Corporate taxes in Sweden

Sweden's tax structure is transparent and efficient and designed to meet the needs of international investors. Companies can benefit from advantageous tax rules, highly 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. Corporate tax 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, fully deductible interest payments, no thin-capitalization rules, and no or low withholding tax on dividends. Together with other advantageous legislation, this has made Sweden one of Europe's most attractive holding company locations.

Unilateral tax treaties with more than 80 jurisdictions help to avoid double taxation. The Swedish Tax Agency (*Skatteverket*) also offers binding advance tax rulings that allow a company to ask the agency ahead of time if its specific company tax strategy is applicable.

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

### 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 staff

### COMPETITIVE CORPORATE INCOME TAX

Corporate income tax in Sweden is low by international standards at 26.3 percent.

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 in a company can be carried forward indefinitely and deducted from taxable profit.

Companies and branches that conduct business (have a permanent place of business) 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 income of a Swedish group of companies. However, generous rules permitting the transfer of profits between companies within wholly owned domestic groups ("group contributions") mean that taxation of consolidated income is effectively achievable.

Group contributions entail a 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 exempt from withholding tax according to Swedish domestic legislation, provided that the recipient is regarded as a “foreign-based company” (see definition, below). Thus, dividends on non-listed shares are normally exempt from withholding tax.

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 rate of withholding tax (where applicable) is 30 percent but is waived or reduced under most double taxation treaties, if no exemption is available under domestic law.

#### DEFINITION OF A FOREIGN-BASED COMPANY

The recipient foreign entity must be a legal entity and 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.

#### 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, the holdings 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 will also normally qualify for tax exemption. The tax exemption means that capital losses on shares held for business reasons are not deductible.

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

#### QUALIFICATION FOR TAX EXEMPTION ON CAPITAL GAINS AND DIVIDENDS RECEIVED

**Unlisted shares** Always tax-exempt - i.e. no qualification time or minimum holding of votes or capital.

**Listed shares** 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.

#### INTEREST COSTS FULLY DEDUCTIBLE

Interest costs are generally fully deductible 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).

There are no thin-capitalization restrictions for tax purposes. The added 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. Restrictions apply to the tax deductibility of interest on intra-group loans used to acquire shares within a group. The rules do not apply to loans where the lender is taxed at a rate of at least 10 percent or where it is shown that the transfer and the debt are based on commercial reasons.

*“Sweden offers an attractive corporate tax climate with a favorable environment for holding companies.”*

*Serge Saussoy, Partner, PricewaterhouseCoopers*

#### 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 pretax profit for the year. Each year's appropriation creates a separate reserve which must be reversed and reported to income within six years after the year 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 the 2010 financial year, the interest rate is 2.304 percent.

#### LOSS CARRYFORWARDS - WITHOUT A TIME LIMIT

Losses may be carried forward without a time limit. Special rules apply when the ownership of a business changes.

## 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 exempt from tax. The scope of the exemption is generous compared to other countries.
- The exemption applies to shares held in, or dividends received from, companies in Sweden and abroad.

## 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

## CONTROLLED FOREIGN COMPANY (CFC) RULES

The CFC rules state that a Swedish shareholder with a direct or indirect interest (25 percent of the capital 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 14.465 percent, calculated under Swedish rules.

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.

## ROYALTIES

No withholding tax is charged on royalties. 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 net royalty income (that is, gross royalties less related expenses)

at the ordinary corporate income tax rate. Royalties paid to an associated company in an EU country may also be exempt from Swedish taxation.

Sweden's right to tax royalties is waived or reduced under most tax treaties.

## 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 any adjustments required by law.

## TAX REDUCTIONS FOR FOREIGN EMPLOYEES

Key foreign employees – executives, experts, researchers and others with special skills that are not readily available in Sweden – may qualify for a special 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 for 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.

## VALUE ADDED TAX (VAT)

Swedish VAT (*moms*) is based on an input/output system, generally granting full credit in every line until (but not including) the final consumer.

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. 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.

## 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.

## FURTHER INFORMATION

at [www.investsweden.se](http://www.investsweden.se)

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