

Taxation and Investment in Sweden 2011

Reach, relevance and reliability



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1.0 Investment climate

1.1 Business environment

Sweden is a constitutional monarchy, with a unicameral parliament.

Sweden is a wealthy country by international standards. The primary sector—agriculture, forestry and fishing—declined in importance during the last decade and now plays a minor role in the economy. Manufacturing, mining, utilities, construction and services are important.

As a member of the EU, Sweden is subject to all EU regulations, excluding those for which exceptions have been specifically negotiated.

Sweden is also a member of the OECD.

Price controls

Prices in Sweden are generally set by market forces.

Intellectual property

Patent rights are covered by the Patent Act of 1967, which has been harmonized with the European Patent Convention, the Worldwide Patent Co-operation Treaty and the European Community Patent Convention. Protection for patents, industrial designs and trademarks requires registration with the Patent and Registration Office (PRV). Protection of industrial designs or models is subject to the Design Protection Act, which closely follows legislation on patent protection.

Under the Act on Rights to Literary Works and Works of Art and the Act on Rights to Photographic Works, copyright for 50 years on original works is automatic and requires no registration. Sweden has incorporated into national law the EU directive, which introduces a common EU copyright term of 70 years from the death of an author and gives performers, record producers and others related rights for 50 years from the time a work is put into circulation. Sweden is a signatory to the Paris, Bern and Rome conventions and to the Universal Copyright Convention. Swedish law provides 10 years of protection against unauthorized reproduction of “neighboring works” - non-original material organized specifically to support original works.

1.2 Currency

Sweden is not part of the Eurozone. The currency in Sweden is the krona (SEK).

1.3 Banking and financing

Although Sweden is not part of European economic and monetary union, Swedish commercial banks offer euro-denominated accounts and payment services. Swedish companies may keep their books in euros, and retailers accept euros.

Sweden’s main financial center is Stockholm, the capital, followed by Gothenburg and Malmö.

1.4 Foreign investment

Foreign investors are generally treated the same as Swedish investors. However, some restrictions apply to foreign ownership of companies involved in producing defense material and in other sensitive areas. Non-Swedish businesses are expected to adopt Swedish rules and practices, including the annual submission of company accounts, employee representation on the board of directors and local labor “co-determination” (i.e. participation by workers in company management).

Sweden has open markets in sectors particularly attractive to foreign investors, including energy, telecommunications and public transport, and, to a degree, healthcare.

Subject to certain reporting requirements, foreign companies are free to make direct investments in Sweden and in Swedish property without prior approval from the central bank, and no approval is necessary from the Competition Authority to establish or to acquire a subsidiary company in

Sweden. Companies setting up in Sweden with foreign capital must notify the central bank for statistical purposes. The state exerts nominal control over the location, start-up time and operating conditions of new factories based on a voluntary agreement between the Federation of Industries and the Ministry of Labor.

Companies operating in Sweden have access to all EU investment incentives. There is no discrimination between Swedish and foreign-owned firms regarding access to Swedish incentive schemes; investors, however, must partially or wholly repay aid if grant conditions are not satisfied.

Procedures for making a new investment in Sweden are straightforward. A local commercial bank, law or accounting firm can handle the formalities. Establishing a new company can take a week to several months, depending on the type of company and its complexity. Although commercial banks may approve applications for capital transfers into Sweden, approval also must be obtained from the Swedish Companies Registration Office for listing a new corporation and from the Companies and Registration Office if more than half the board members or the company's managing director and deputy are not residents of the European Economic Area (EEA—the EU member states plus Iceland, Norway and Liechtenstein). Changes in corporate management are generally effective upon receipt of notification by the registration office. Companies must register with the National Labor Market Board, the Environmental Protection Agency and, if real property is involved, the county authorities. Acquisitions of Swedish companies sometimes require the approval of the Swedish Competition Authority.

1.5 Tax incentives

There is a special tax regime that applies to individuals who qualify as experts, scientists or executives (see section 6.2).

1.6 Exchange controls

Sweden does not impose any exchange controls, although there are certain reporting requirements. For example, companies based in Sweden that remit or borrow cross-border funds must report their transactions to the local tax authorities, and occasionally to the central bank for tax and statistical purposes. The bank handling the transaction must file a statement of income document for currency transactions of SEK 150,000 or more. This statement is forwarded to the tax authorities.

Foreigners may invest in Swedish bonds and krona-denominated money market instruments, and they may hold interest-bearing krona deposits in Swedish banks. Bonds and krona-denominated instruments must be deposited with an authorized bank or a central bank-approved stockbrokerage firm. Swedish companies and individuals may invest in foreign securities, bonds and Treasury bills (again, as long as these are deposited or registered with an authorized institution); they may acquire an unlimited amount of real property abroad. All payments and securities transactions for foreigners and Swedes must be handled through Swedish foreign exchange banks, including foreign-owned banks in Sweden.

2.0 Setting up a business

2.1 Principal forms of business entity

The joint stock company (*aktiebolag* - AB), which can be public or private, is the organizational form recommended by local banks and government authorities.

It is also possible to set up a European Company (*Societas Europea*—SE). An SE is subject to the laws of the country where it is registered.

Formalities for setting up a company

Forms to set up a company are available on the Companies Registration Office website, and registration may be made over the internet. All new businesses must register with the local tax office and the VAT authorities if their products or services qualify. If there are employees, social insurance registration will follow automatically.

All ABs must issue annual reports, which they must file with the registration office no later than six months after the end of the fiscal year. Penalties may be imposed for late filings.

When a company is formed, its share capital is checked closely to prevent tax evasion. Cash contributions to capital must be paid into a special bank account, and the attesting bank document is presented when the firm is registered. A document from an authorized accountant is required for shares or new issues paid for in property other than cash. An authorized accountant must keep the books of an AB. In practice, however, smaller ABs do their own bookkeeping, which an outside accountant reviews for accuracy. Swedish statutes require that even a one-person firm maintain books and retain accounting materials for 10 years. It is not necessary to follow the calendar year for accounting purposes.

Under the Co-determination at Work Act, all firms employing more than 25 persons must establish an economic committee comprising three management and two employee representatives, the latter to be trained by the company if employees so demand. Where the committee fails to satisfy employees' requirements on information and control, they may appoint someone from their ranks to be an "employee consultant." The committee and the consultant have full access to accounts and company affairs, and they may require management to make investigations and forecasts. But the information obtained may be passed on only to the works council and employee board representatives. Firms may go before the Labor Court to claim damages for any breach of confidence by employee representatives.

Forms of entity

Requirements for an AB

Capital. A private AB must have a share capital of at least SEK 50,000, and a public AB must have a share capital of at least SEK 500,000. Subscribed capital must be fully paid up, and a bank must attest to this fact. If capital is in the form of property, machines, know-how, licenses or goodwill, it must be appropriate to the company's activities. Non-cash capital must be valued by a certified public accountant.

Founders, shareholders. An AB requires a minimum of one founder, who also is a shareholder. The founder must be a resident of the EEA, although exemptions may be permitted. Foreign shareholders may acquire up to 100% of founders' shares.

Board of directors. For public ABs, there must be at least three persons on the board of directors. Private companies may have one director as long as a deputy director is appointed. Subject to exemption, 50% of the board of directors and of the deputies must be EEA residents.

Management. Managing directors and their deputies must reside in the EEA, unless the Companies Registration Office grants an exemption. Employees normally appoint two board members in companies with 25 or more employees, in accordance with the law on employee participation.

Taxes and fees. The fee for the registration of a new AB is SEK 2,200. Registration fees for capital increases are SEK 900.

Types of shares. An AB can have different classes of shares. Different voting powers are allowed, but no share may carry voting rights exceeding 10 times those vested in any other share.

Control. A change in the bylaws of the company generally requires two-thirds support. If a change in the bylaws limits shareholders rights with respect to already issued shares the change requires support from nine-tenths of the votes.

Branch of a foreign corporation

Although a branch office lets foreign companies control their Swedish organizations more directly, foreign companies in Sweden rarely use the branch format, because branch offices are subject to many requirements that apply to Swedish joint stock companies (e.g. employing a resident managing director and disclosing accounts) and branches are not eligible for certain tax deductions.

Establishing a branch requires registration with the Swedish Companies Registration Office and may take about four weeks.

2.2 Regulation of business

Mergers and acquisitions

Mergers require clearance from the Competition Authority if the aggregate annual turnover of entities to be merged exceeds SEK 1 billion and at least two of the entities each have an annual turnover in Sweden exceeding SEK 200 million. The authority can block mergers that would have long-term adverse effects on competition. There is flexibility in the merger control system since a prohibition may be applied only to those aspects of a merger believed to inhibit competition.

In general, Swedish state and local governments have been neutral or have encouraged mergers involving foreign firms, although they have been cautious in encouraging foreign interests in energy companies.

As an EU member state, Sweden is subject to the European Commission's approval for mergers between companies with combined global turnover of at least EUR 5 billion for all the businesses involved and EU turnover of at least EUR 250 million for at least two of the businesses involved, with less than two-thirds of this derived from any single member state. The Commission has one month after it receives notice of the merger to approve a merger or open a procedure. If it decides to open a procedure, it must issue a ruling within four months. The Commission can also order the sale of assets by the merged company if it believes that such a move would minimize market dominance.

Monopolies and restraint of trade

The Competition Law does not prohibit or inhibit dominant market positions, only the ability to restrict competition. Accordingly, the law does not contain any specific provisions for monopolies. Legal definitions of abuse include the imposition of unfair buying or selling prices, limiting production or markets, refusing supplies to a trading partner and discriminatory behavior in restraint of competition.

2.3 Accounting, filing and auditing requirements

Annual financial statements (with balance-sheet and profit-and-loss accounts) and a report of administration must be sent to the Companies Registration Office, where they are open to public inspection. Each company or branch of a foreign concern must have an auditor—either an authorized public accountant or an appointed public accountant. However, as from 1 November 2010 under certain circumstances some companies may choose to not have an auditor.

Swedish GAAP requirements depend on the size and listing of the company. For listed groups, the rules are harmonized within the EU on a group level. Consolidated group reports must be prepared in accordance with IFRS (International Financial Reporting Standards).

3.0 Business taxation

3.1 Overview

Sweden imposes a broad range of taxes—including corporate income tax, value added tax (VAT) and social taxes paid by employers, along with a variety of environmental taxes aimed at companies. There is no branch tax, excess profits or alternative minimum tax.

For foreign companies, the tax system favors subsidiaries over branches because a branch is not a legal entity under Swedish law. A branch may not deduct interest paid on loans from its head office and deductions on other interest payments are assessed on a case-by-case basis.

Advance rulings are available from the Swedish National Board on Advance Rulings on the tax consequences of proposed transactions.

3.2 Residence

The residence of a company in Sweden is determined based on whether the company has been incorporated in accordance with the Swedish Companies Act (incorporation principle).

3.3 Taxable income and rates

The corporate income tax rate is a flat 26.3%, with no local or industry variations. However, companies in specific regions in Sweden, *inter alia*, the northern parts are to a certain extent entitled to a reduction of the payroll tax base.

Swedish companies are taxed on their worldwide income, subject to provisions of tax treaties. Companies are resident in Sweden if they have been incorporated in accordance with the Swedish Companies Act. Nonresident companies are taxed on Swedish-source income, e.g. income attributable to a Swedish permanent establishment and real estate.

Taxable income defined

Tax is levied on the worldwide corporate income, less expenses related to the earning of income. Certain exceptions are domestic and foreign-source dividends and capital gains on business-related shares under the Swedish participation exemption regime. If a Swedish company markets abroad directly or through a branch office, the foreign profits are subject to Swedish tax. Tax treaties generally eliminate double taxation; where a treaty does not exist, however, a Swedish company may claim a credit against Swedish national income tax for comparable taxes paid abroad.

Under the Swedish participation exemption, no withholding tax is imposed on dividend distributions to a resident or foreign company on business-related shares if (a) the foreign company is taxed in its country of residence and the taxation is similar to the Swedish company taxation; or (b) the foreign company is resident and liable to tax in a state with which Sweden has concluded a tax treaty. The participation exemption rules provide, *inter alia*, that the shares in the company paying the dividend must be unlisted or, if listed, the shares held by the company receiving the dividend must represent 10% or more of the total number of votes for the company and be held for at least 12 months at the time the distribution is made.

Deductions

In principle, all expenses incurred in the operation of a business are deductible, including arm's length interest payments, rents and royalties paid. However, there are limits on the deduction of interest in the case of certain intercompany debt (see below). Certain items are specifically nondeductible, including profit distributions, entertainment expenses exceeding a designated amount, taxes, etc.

Depreciation

Flexible rules apply for inventory valuation and depreciation. Valuation is on a first-in, first-out basis or according to the lowest value principle.

Machinery and equipment may be written off either on a straight-line basis at 20% of the purchase cost per annum or on a declining-balance basis at 30% of current book value. Equipment with a maximum life of three years may be written off in the year of purchase. A third method of depreciation, which is based on the remaining depreciable value, allows companies to choose any percentages up to 25%. A company must use the same depreciation method for all machinery and equipment, but it may switch methods at the end of any year.

The depreciation methods for machinery also apply to the amortization of patents, trademarks, acquired goodwill and other intangible property.

Buildings may be depreciated on a straight-line basis over their expected life. In general, commercial buildings may be depreciated at 1.5%-5% annually, factory buildings at 4% and office buildings at 2%. A 3%-5% rate may be used in industries where building deterioration occurs more rapidly (e.g. chemicals). Immovable factory equipment that is primarily an investment for the industrial use of the building rather than a part of the building (e.g. cranes or dedicated transport systems) may be depreciated as machinery. Immovable property that is integral to the building and for public use (e.g. heating and elevator systems) is depreciated as part of the building.

Normally, assets may not be revalued upward. Within limits, however, fixed assets may be appreciated by the amount spent to improve them. Commodity assets may be revalued to their original value or to current market value. Downward revaluation of assets to market value must be done annually. There are no taxes on the amount of revaluation.

Losses

Net operating losses may be deducted and carried forward without limit (although restrictions apply to the use of losses, such as when there has been a direct or indirect change in ownership). The loss amount is established when the tax return is filed for the loss year and deducted in the following year, with any excess carried forward. The same rules apply to capital losses, although there are restrictions on losses on share transactions and transactions between companies in a group. The carryback of losses is not permitted, although application of the tax allocation reserve may be viewed as a type of loss carryback.

Group relief

Relief for losses between companies in a group is given by a system of group contributions. Group contributions are, in general, deductible for the paying company and taxable for the receiving company provided certain requirements are met. Specifically, (1) the parent must own more than 90% of the subsidiary for the entire income year (or a common parent company must own more than 90% of the companies); (2) neither the paying nor the receiving company is an investment company; and (3) the payer and recipient must fully disclose the contribution in their tax returns. In addition, the group contribution must be effectuated by a real transfer of wealth. For civil law purposes, a group contribution is either regarded as a dividend, requiring distributable earnings, if to a parent or sister company, or as a shareholder's contribution, if to a subsidiary.

Reserves

Corporate taxpayers may set aside up to 25% of annual earnings for up to six years in an "allocation" fund. The amount allocated to the reserve may be deducted when calculating taxable income. During the six-year period, companies are free to decide when to end the reserve. At the end of the six years, the reserve must be added back to taxable income.

A deemed interest income is calculated on the tax allocation reserve. The deemed interest is calculated as 72% 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 reserves.

3.4 Capital gains taxation

A gain is defined as the total amount derived from a disposition less sales expenses and purchase costs. Capital gains derived by companies are included in taxable income and taxed at the normal corporate rate of 26.3%.

Capital gains on qualifying shareholdings (i.e. business-related shares), however, are tax-exempt under the Swedish participation exemption regime. To qualify for the exemption, the shares must be held (in a Swedish or comparable foreign company) for "business purposes." As in the case of dividends, unlisted shares are always deemed to be held for business purposes, and listed shares

qualify if a company holds at least 10% of the voting rights in the other company. There is no minimum holding period to obtain the tax exemption on disposal of unlisted shares, but one-year holding is required for listed shares. Because gains are exempt, capital losses on shares held for business purposes are not tax deductible.

3.5 Double taxation relief

Unilateral relief

According to Swedish domestic legislation, a unilateral tax credit is available, subject to certain restrictions, to avoid double taxation.

Tax treaties

Sweden has an extensive tax treaty network, with most treaties following the OECD model treaty. The treaties generally provide for relief from double taxation on all types of income, limit the taxation by one country of companies resident in the other, and protect companies resident in one country from discriminatory taxation in the other. The treaties also generally contain OECD-compliant exchange of information provisions.

Sweden is also a signatory to the Nordic Income and Capital Tax Treaty (along with Denmark (and the Faroe Islands), Finland, Iceland and Norway).

To benefit from a reduced rate under a tax treaty, the income payer must submit certain documents to the tax authorities within a certain period of applying the treaty (e.g. a residence certificate).

Sweden Tax Treaty Network			
Albania	Egypt	Latvia	Singapore
Argentina	Estonia	Lithuania	Slovakia
Australia	Faroe Islands	Luxembourg	Slovenia
Austria	Finland	Macedonia	South Africa
Bangladesh	France	Malaysia	Spain
Barbados	Gambia	Malta	Sri Lanka
Belgium	Germany	Mauritius	Switzerland
Belarus	Greece	Mexico	Taiwan
Bolivia	Hungary	Montenegro	Tanzania
Bosnia-Herzegovina	Iceland	Namibia	Thailand
Botswana	India	Netherlands	Trinidad & Tobago
Brazil	Indonesia	New Zealand	Tunisia
Bulgaria	Ireland	Norway	Turkey
Canada	Israel	Pakistan	Ukraine
Chile	Italy	Philippines	United Kingdom
China	Jamaica	Poland	United States
Croatia	Japan	Portugal	Venezuela
Cyprus	Kazakhstan	Romania	Vietnam
Czech Republic	Kenya	Russia	Zambia
Denmark	Korea	Serbia	Zimbabwe

3.6 Anti-avoidance rules

Transfer pricing

Swedish transfer pricing legislation is based on the OECD transfer pricing guidelines and, hence, require that transactions between related parties be at arm's length. Documentation rules apply.

Thin capitalization

There are no thin capitalization rules in Sweden. Swedish courts have rejected attempts by the tax authorities to establish a thin capitalization principle to deny deductions on interest payments by a subsidiary on loans from or guaranteed by a foreign parent company. Although Sweden lacks thin capitalization rules, as from 1 January 2009, interest deductions can be limited in certain situations.

Swedish tax law contains specific legislation denying deduction for interest costs on intragroup loans issued in connection with the acquisition of shares from affiliated companies. The interest on the loan will, however, be deductible if either: the beneficial owner of the interest is taxed at a rate of at least 10% on the income and is not allowed to deduct dividends paid; or the company can show that it had sound business reasons for both the acquisition of the shares and the debt.

To assess whether the level of taxation is at least 10%, a hypothetical test should be used to determine if the income corresponding to the interest cost would have been subject to at least a 10% tax on a stand-alone basis provided the beneficial owner would have received the income. As the calculation is made on a stand-alone basis, profit or losses derived from normal operational business or costs generally deductible for the recipient company should not affect the level of taxation. However, a basic allowance affects the effective tax rate on the income in the hypothetical test. Thus, the 10% rule cannot be applied if the interest income is neutralized by a basic allowance or other similar deductions. If the income is not taxed at a rate of least 10%, the interest cost still may be deductible according to the second exception, i.e. if there are sound reasons for the acquisition and the debt. For the sound business reasons exception to apply, the company that claims the interest deduction must demonstrate that the transaction and debt are mainly (75%) motivated by sound business reasons and not only by tax reasons.

Controlled foreign companies

Under the controlled foreign company (CFC) regime, a Swedish resident company (or individual) or any nonresident with a permanent establishment in Sweden that holds an interest 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 not taxed or if it is subject to tax that is lower than 14.5% (i.e. 55% of the Swedish tax rate of 26.3%).

To trigger the CFC regime, the shareholder must control, directly or indirectly, at the end of the income year, at least 25% of the capital or voting rights in the foreign legal entity, either alone or together with persons who have a community of interest with the shareholder. Income will not be deemed to be subject to low taxation if the legal foreign entity is tax resident and liable to income tax in one of the countries on a "white list" issued by the government, provided the income in question has not been specifically excluded. A shareholder (taxpayer) in a foreign legal person within the EEA treated as a CFC company is exempt from CFC taxation on income derived from the CFC company provided the taxpayer can demonstrate that the foreign legal person is actually established in its home state and carries on genuine economic activities.

General anti-avoidance rule

In accordance with the General Tax Avoidance Act, a transaction may be disregarded if it produces a substantial tax benefit, the tax benefit could be viewed as the predominant reason for the transaction and an assessment based on the transaction would be contrary to the purpose of the legislation.

3.7 Administration

Tax year

Corporate income tax in Sweden is assessed based on net income earned in the previous year (income year). For corporations, the income year corresponds to the financial year. Corporations

normally use a financial year of a 12-month period ending on 31 December, 30 April, 30 June or 31 August, unless the tax authorities permit another date.

Filing and payment

Companies make monthly preliminary tax payments on their estimated income during the income year. Formally, the due date for filing the final income tax return is 2 May of the year following the income year. Any deficit or excess payment is adjusted at year-end.

Under a proposed bill, as from 1 January 2012, there will be more than one due date for filing of tax returns. The due date will depend on the company's financial year. Generally, the tax return is proposed to be due six months after the end of the financial year; e.g. if a company uses the calendar year as the financial year, the due date will be 1 July of the year following the financial year.

Every company, regardless of its income or legal structure, has a tax account with the Swedish Tax Agency into which it makes monthly payments of all types of taxes. Refunds due from the government also are paid into the account.

Companies distributing dividends must withhold and remit the withholding tax on dividends to the Tax Agency. For nominee registered shares or shares registered with Euroclear Sweden AB, the nominee or Euroclear Sweden AB is liable to withhold and pay the withholding tax.

Consolidated returns

Sweden does not tax groups of companies on the basis of a consolidated tax return. However, relief for losses between companies in a group is given by a system of group contributions (see above).

Statute of limitations

A reassessment may take place during the five-year period after the assessment year (i.e. the calendar year following the end of the fiscal year). However, a reassessment that disadvantages the taxpayer after the end of the year following the assessment year may be made only in certain circumstances, including where: (1) the taxpayer has provided incorrect information or failed to provide information; (2) the incorrect information or failure to provide information resulted in an incorrect assessment; and (3) the amount of tax is significant (i.e. more than SEK 4,240).

Tax authorities

Only one authority handles all tax administration and compliance for both corporations and individuals, i.e. the Swedish Tax Agency. The agency has offices across the country, with special offices, for example, for large companies and foreign withholding taxes.

Rulings

The Swedish Tax Agency does not have the authority to issue binding rulings, but it is possible to apply for an advance ruling from the National Board on Advance Rulings regarding the tax implication of certain transactions. The decision by the board may be appealed to the Swedish Administrative Supreme Court. Rulings are binding.

3.8 Other taxes

None

4.0 Withholding taxes

4.1 Dividends

Dividends paid to a nonresident shareholder are subject to a 30% withholding tax unless the rate is reduced under a tax treaty or the participation exemption applies. No withholding tax is imposed on dividend distributions to a legal entity resident in another EU member state that holds 10% or more of the capital of the Swedish company provided the company fulfils the requirements in article 2 of the EU Parent-Subsidiary Directive.

4.2 Interest

Sweden does not levy withholding tax on interest.

4.3 Royalties

No withholding tax is imposed on royalties under domestic law. Royalty payments made to nonresidents generally are considered to be income of the nonresident 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 minus expenses related to the royalty) at the ordinary corporate income tax rate (26.3%). Under Sweden's implementation of the EU Interest and Royalties Directive, royalties may be exempt. The rate can also be reduced under a tax treaty.

4.4 Branch remittance tax

Sweden does not levy a branch profits tax.

4.5 Wage tax/social security contributions

An employer is liable to withhold a preliminary tax on salary payments corresponding to the estimated individual's income tax on employment income (see section 6 on the taxation of individuals).

Employers that provide pensions to their employees are subject to a special salary tax on pension costs at a rate of 24.26% computed on the expenses incurred by the employer.

Swedish employers are required to make contributions to social security on behalf of their employees. The general aggregate contribution by an employer on behalf of an employee is 31.42%. Employees born in 1937 or earlier are not subject to the special salary tax on business income. The rate for individuals younger than 26 is 15.49%.

5.0 Indirect taxes

5.1 Value added tax

Sweden levies value added tax (VAT) on the supply of taxable goods or services in Sweden, the intra-Community (EU) acquisition of taxable goods and the importation of taxable goods into Sweden.

The standard VAT rate is 25%. Foodstuffs, the letting of rooms in hotel businesses and certain artworks are taxed at 12%. A 6% rate applies to items such as books and newspapers, entrance fees to concerts, cinemas, theatres, etc., passenger transport and granting or transfer of rights to certain copyrighted works.

Exemptions apply to e.g. certain financial and banking services, insurance and reinsurance transactions, the letting of property and medical and social services. Unless exempt in the VAT Act, all goods and services are liable to VAT.

Input VAT may be deducted on purchases that are made for business activities that are subject to VAT, but not for purchases that relate to VAT-exempt business activities (although exceptions may apply). If a purchase is used in business activities subject to VAT, as well as business activities exempt from VAT, a deduction of input VAT that corresponds to use in the activity liable to VAT can be made (pro rata calculation).

Generally, VAT is reported and paid by the seller. However, Sweden operates the reverse charge mechanism for most (several exceptions apply) goods and services supplied in Sweden when the sales are made by a foreign entrepreneur (that does not have a fixed establishment in Sweden) to a purchaser that is VAT registered in Sweden. When reverse charge is applied, it is the purchaser and not the seller who is liable to report and pay VAT.

VAT returns are filed and tax is paid monthly or quarterly depending on whether the annual turnover of the company exceeds SEK 40 million. However, for companies with a turnover of less than SEK 1 million, VAT may be reported on an annual basis in the income tax return. The VAT return can be filed electronically.

5.2 Capital tax

Sweden does not levy capital duty.

5.3 Real estate tax

Annual real property tax is levied at rates ranging between 0.2% and 2.8% on the tax assessed value (as determined by the tax authorities) on all types of real estate (however, see below). The tax is deductible in computing corporate tax liability. A real property fee (instead of property tax) must be paid to the municipality on dwellings and duplex dwellings. The annual fee for dwellings is the lower of SEK 6,512 (for 2011) or 0.75% of the property's assessed value. For duplex dwellings, the fee is the lower of SEK 1,302 (for 2011) or 0.4% of the real property's assessed value.

5.4 Transfer tax

None, other than stamp duty.

5.5 Stamp duty

Stamp duty is levied on real property and site leasehold rights (as from 1 January 2011, 4.25% for companies and 1.5% for individuals) and the grant of mortgages (2% for real property and site leasehold rights, 1% for chattel mortgage 1% for aircraft and 0.4% for ships).

5.6 Customs and excise duties

As a member of the EU, no customs duties are imposed on goods from other member states. However, goods from jurisdictions outside the EU are subject to tariffs.

The major Swedish excise duties are those on alcohol, tobacco and energy.

5.7 Environmental taxes

A number of environmental taxes have been introduced over the past several years.

5.8 Other taxes

None

6.0 Taxes on individuals

Sweden imposes two direct taxes on individuals: income tax and capital gains tax. Sweden is a high tax country by European standards.

6.1 Residence

An individual is considered a resident of Sweden if he/she has a real home in Sweden. An individual without a real home in Sweden, but who stays permanently in the country, is also considered a resident. There are no specific rules governing what would constitute a consecutive and permanent stay in Sweden. However, the Swedish Tax Agency's opinion is that an individual who regularly stays overnight in Sweden in a consecutive six-month period should be considered a Swedish resident. An individual could be deemed to stay regularly even if he/she spends more nights abroad than in Sweden.

Foreign individuals who spend less than six consecutive months in Sweden are generally considered nonresident (typically the case for foreign nationals who visit Sweden temporarily for business and/or pleasure). A nonresident individual is subject to tax in Sweden only on Swedish-source income.

6.2 Taxable income and rates

Residents are taxed on worldwide income, with some exceptions for foreign-source income covered by double taxation agreements.

All earned and unearned income is taxed separately for married couples, although returns are correlated by cross referencing personal security numbers, and spouses can balance each other's income and deductions.

Foreign experts, scientists and executives who work temporarily in Sweden and who are resident in Sweden for tax purposes may benefit from a special tax regime.

An individual qualifying for tax relief is entitled to a 25% reduction of taxable income for the first three years of employment. Accordingly, the employer will receive a 25% reduction in the basis for calculating social security contributions. Furthermore, the reimbursement of expenses related to the assignment in Sweden for moving to and from Sweden, travels to the home country (a maximum two per calendar year and person) and school fees for children are exempt from taxation.

The legislation applies to foreign experts, scientists and other key personnel if the work involves:

- Expert assignments at a position or competence level that would be difficult to recruit within Sweden; and
- Qualified research or development assignments for a position or competence level that would be difficult to recruit within Sweden.

Taxable income

The national income tax is levied on income from employment, business and investments, although investment income is treated separately. Municipal income tax is levied on income derived from employment and business, but not on investment income. The municipal tax is not deductible in calculating taxable income subject to the national tax.

Fringe benefits are included in taxable income at market value; these include subsidized lunches, per diem travel allowances, favorable loans, insurance, company cars and company subsidized private medical care.

Individuals considered tax residents of Sweden are liable for income tax on worldwide investment income, such as dividend income, interest income from bank savings and capital gains on the sale of financial investments, real estate or other assets. Income from capital is taxed at a flat rate of 30% (although the effective tax rate on dividends and capital gains can be lower in certain situations). No personal allowance is granted in the category income from capital but all interest paid, including credit card interest, and capital losses are, in principle, deductible against capital income.

Capital losses, in principal, are computed in the same way as gains. All capital losses, with the exception of losses on personal assets, are deductible in the category income from capital for a resident taxpayer. The deduction of capital losses is, in general, restricted to 70%, although there are exceptions to this rule.

When computing investment income, all types of capital, including capital gains, are added together, and all types of deductible capital costs, including capital losses, are deducted. Except for interest on loans used in a business, interest costs are deductible in computing capital income.

A positive capital result is taxed at 30%. If the net income from capital is negative, the taxpayer is entitled to a tax reduction of 30% of a deficit up to SEK 100,000. Where the negative income from capital exceeds SEK 100,000, the tax reduction is 21% of the remaining deficit. The tax reduction may be used to reduce income tax on employment and business income, as well as real property tax for the same fiscal year. There is no carryforward of losses from the category income from capital. Any amount not absorbed in this way in the current year may not be used in a later year.

Deductions and reliefs

For low income, the minimum basic deduction for 2011 (income year 2010) is SEK 18,000 and the maximum is SEK 32,700. The deduction on income exceeding SEK 336,700 is SEK 12,000. Costs for commuting are deductible to the extent they exceed SEK 9,000 per year. However, several restrictions apply. Business travel expenses are deductible to the extent not reimbursed by the employer. The Swedish Tax Agency sets specific per diem amounts for costs other than travel and accommodation. Reimbursements exceeding the per diem amounts are taxed as salary. Most Swedish companies have adjusted their reimbursement policies to correspond with the tax regulations.

Under certain circumstances, Swedish tax law permits a deduction for increased costs of living. Individuals on temporary assignments who maintain a place of residence in their home country may qualify for this deduction. The deduction is generally available for a maximum period of two to three years. However, the maximum length of the assignment in Sweden that could qualify as temporary is not defined in tax law.

In general, the following deductions may be claimed:

- Increased housing costs on relocation;
- Increased cost of living the first month with a daily standard amount; and
- Home trips to an EU/EEA country.

Note, however, that deductions are not automatically available for assignments in Sweden. The deductions may be questioned by the Swedish Tax Agency and each individual case will be examined on its own merits.

Rates

Employment income is taxed at progressive rates of approximately 31% to 57%, and capital income is taxed at 30%. Local tax is charged at a flat fee ranging from 28.89% to 34.17%. Since each municipality can set its own rate, the actual amount payable depends on the municipality of residence.

Income from capital is taxed at a flat rate of 30% (although the effective tax rate on dividends and capital gains can be lower in certain situations). No personal allowance is granted in the category income from capital but all interest paid, including credit card interest, and capital losses are, in principle, deductible against capital income.

Sweden imposes a 15% tax on yields from private pension funds.

6.3 Inheritance and gift tax

The inheritance and gift tax has been abolished.

6.4 Net wealth tax

The net wealth tax has been abolished.

6.5 Real property tax

Individuals are liable for a municipal fee at a maximum of SEK 6,512 (for 2011) on real property owned in Sweden.

6.6 Social security contributions

Contributions by the self-employed amount to 28.97% (as from 1 July 2010), plus a pension insurance fee of 7% (on employment income up to SEK 412,377 (for 2010)). The 28.97% rate is reduced for individuals younger than 26 and for individuals born between 1938 and 1944. Social security contributions for employed individuals are paid by the employer except for the pension insurance fee of 7% on employment income up to SEK 412,377 (for 2010). The maximum charge is SEK 28,900 (for 2010) and is fully credited against other income taxes.

6.7 Other taxes

None

6.8 Compliance

The tax year in Sweden is the calendar year.

Individuals with taxable employment income of at least SEK 18,000 during the tax year must file a tax return and submit it to the tax office by 2 May of the year after the tax year.

7.0 Labor environment

7.1 Employee rights and remuneration

Labor law is applied stringently and an important component of Swedish industrial relations. Labor law has consolidated and supplemented the strong system of collective bargaining. Individual unions often negotiate collective agreements. Foreign firms must comply with Swedish labor laws and laws governing the negotiation of collective agreements.

Sweden's main labor laws are as follows:

- Employment Protection Act: prevents arbitrary dismissal.
- Co-determination in the Workplace Act: requires consultation with the workforce on major issues affecting companies.
- Board Representation for Employees Act: provides for employee representation on certain company boards.
- Discrimination Act: prohibits discrimination based on sex, transgender identity or expression, ethnicity, religion or other belief, disability, sexual orientation or age and promotes measures to promote equality.
- Work Environment Act: governs health, safety and environmental standards in the workplace and provides for joint employer-employee safety committees, whose functions are developed in collective agreements.
- Working Hours Act: sets a normal working week of 40 hours and an overtime limit of 200 hours per year.
- Annual Leave Act: provides a statutory right to five weeks of annual holiday from the first year of employment, of which four consecutive weeks may be taken during the June-August period.

There is no legislation directly affecting remuneration, since this is fully governed by collective agreements.

7.2 Wages and benefits

Swedish law does not mandate a minimum wage.

Voluntary fringe benefits, which are well developed in Swedish companies (and usually negotiated collectively), include subsidized canteen meals, work clothes, occupational health and medical services, recreational facilities, company cars and mobile phones. Most traditional fringe benefits are taxed, including loans, use of a company car (even when leased), housing, telephone, insurance, spouse's travel on overseas trips, holiday bonus, profit sharing and end-of-year gratuity or bonus (paid by one-third of major companies). Companies must declare to the tax authorities any benefit worth SEK 100 or more in any year which is taxed as income.

Options granted to founding members of a company are taxed as a benefit, as are options granted to managers subsequently joining a company at the time the options are exercised.

Contributions to employer-administered pension plans are deductible (for corporate tax purposes) up to the highest of 35% of current or previous year's salary, capped at SEK 428,000 (2011).

Benefits not taxed include extra holiday, staff welfare, courses or a sabbatical year.

Pensions

The statutory state pension is split into two categories: an old age pension, which is a defined benefit plan and "premiepension," which is a premium-based plan where the individual can choose in which funds the pension is to be invested. Both plans are financed through the employer social security contributions.

The retirement age is 65, although employees in most sectors have the right to work until the age of 67. Early retirement is available; the age varies, depending on sector and individual agreements.

Pensions may be drawn at any age from 60 to 70, but they are reduced before and increased after the official retirement age.

Social insurance

The employer social security contribution is 31.42% (for 2010) of salary and taxable benefits. The employee contributions amount to 7%, capped at SEK 28,900 for 2010. However, the individual is granted a tax reduction with the equivalent amount, resulting in an actual cost to the individual of nil.

For employees born between 1938 and 1944, social security contributions are reduced to 10.21% in 2010, and for individuals born after 1985, the contributions are reduced to 15.49% in 2010. Employers in certain sectors located in specified regions may be entitled to a special reduction of the social security contributions with the lowest of 10% of paid salaries (for some employees 5.28%) and SEK 7,100 per month.

Other benefits

All employees are entitled to 25 days of vacation per year, even in the first year of a new job or if working half-time. An agreement stipulating a shorter holiday is not valid. Employees who are not entitled to paid vacation are remunerated in the form of vacation pay, which is calculated at 12% of all income received from the employer during the year ending on 31 March. Additionally, amounts paid in the form of state benefits during absence for sickness or tending a new born child are included in the calculation.

Most employers also pay a vacation payment of 0.80% of monthly gross salary per vacation day used.

Collectively, parents are entitled to parental leave of 480 days per child, including 60 days specifically allocated to each parent. The remaining 360 days may be divided between the parents at their discretion. During the parental leave, the parent is entitled to a parent allowance from the Social Security Agency. During 390 days, the allowance is paid on a monthly basis with 80% of the monthly salary (salary in this respect is capped at SEK 35,670 for 2011). During the remaining 90 days, an allowance of SEK 180 per day for children born after 1 July 2006 (SEK 60 for children born before that date) is paid.

A parent may stay at home and attend a sick child under 12. In these situations, the parent receives temporary parental allowance.

Parents may also reduce their working hours from eight to six per day if they have children younger than eight.

Some employers pay additional salary to employees while they are on parental leave but this is optional (unless specifically stipulated in a collective agreement with the trade union).

7.3 Termination of employment

There are two types of dismissal under Swedish labor law: ordinary dismissal with due notice and summary dismissal without notice. The differences concern the reasons/grounds for dismissal and dismissal protection.

An ordinary dismissal must be based on objective grounds, i.e. linked to circumstances relating to the "employee personally" or "other circumstances." Circumstances linked to the employee personally include repeated negligence at work, theft, violent acts at work, disloyalty, severe cooperation problems, etc. For this type of dismissal, the employee must be warned that the behavior is unacceptable. Age, sickness, religious beliefs or a physical handicap do not constitute an objective ground. The most commonly used circumstance upon which most ordinary dismissals are based is "shortage of work," which is linked to "other circumstances." When an employer needs to dismiss employees on the basis of a shortage of work, the employer is required to follow the "last in first out" rule.

A summary dismissal can be carried out if the employee has grossly neglected his/her obligations towards the employer. Circumstances that constitute grounds for summary dismissal are somewhat the same as in the case of ordinary dismissal, but graver. An ordinary dismissal without an objective ground and/or a summary dismissal without gross negligence from the employee can

be nullified in court. An ordinary dismissal is not allowed if the employer reasonably can be expected to provide the employee with work.

There is no notice period for a summary dismissal. Since this type of dismissal is possible only if the employee has grossly neglected his/her obligations, the employment contract generally ends when the employer communicates the dismissal. However, the employer is required to inform the employee one week in advance that it intends to summarily dismiss the employee and the dismissal must be executed within two months after the employer has obtained knowledge of the fact upon which it bases the dismissal. Otherwise, the dismissal is invalid. Notice periods for ordinary dismissal are regulated by law and sometimes collective bargaining agreements. The period increases in length in favor of the employee, depending on the duration of the employment agreement. In general, the notice period varies between one and three months. Any agreement contrary to the law may only be made in a collective bargaining agreement.

All dismissals must be in writing and meet certain other requirements.

7.4 Labor-management relations

Unions have a strong position in Sweden, employees commonly are unionized and collective Agreements frequent. A trade union that has concluded a collective agreement with an employer acquires a privileged position at the work place, including rights to negotiate and receive information in relation to redundancies and other issues that may arise. Swedish law provides extensive protection for trade union representatives and allows them to perform work for the union during normal working hours with full pay.

At workplaces where the employer is bound by a collective agreement with a trade union, the terms and conditions of the agreement apply directly to employees that are members of the relevant union. Although there is no automatic extension or general application of a collective agreement, there is a common understanding that the employer generally must provide non-members the same wages and other terms and conditions as apply to union members.

Before an employer makes a decision regarding important alterations of the business operations, it must negotiate with all trade unions to which it is bound by a collective agreement provided the unions have at least one member employed by the employer. A decision that can result in redundancies is always considered to be of a nature that requires prior negotiation. An employer that is not subject to a collective agreement is required to negotiate with all trade unions that have at least one member employed by the employer if an intended decision can result in redundancies. The obligation to negotiate with the unions implies that negotiations must be initiated, as well as finalized, before a decision is made by the employer.

7.5 Employment of foreigners

As an EU member state, Sweden is governed by EU rules. Citizens of the EEA may enter and work in Sweden without residence or work permits, or may enter Sweden and find employment within three months. Non-EEA nationals earning a living in Sweden must have work permits, which must be obtained before entering the country. Residence permits generally have to be obtained outside Sweden. The only significant exceptions for work permits are the following: (1) assembly personnel and technical instructors who can prove they have urgent work setting up machinery and who will leave within 14 days; (2) commercial travelers, drivers of tourist buses and others in certain service occupations who may work in Sweden for up to three months without a permit, although they are advised to obtain one in advance if possible; and (3) foreigners married to Swedish residents. There are rules that make it easier for researchers to live and work in Sweden for a limited time.

An application for a work permit is made through the local labor authority in OECD member countries and through the Swedish embassy or consulate elsewhere. The application must be accompanied by a job offer by an employer in Sweden, stating the wages to be paid (which must not be less than current Swedish rates) and other conditions of employment, and by a brief statement of arrangements made for accommodation. Alternatively, if an employee will be working for a foreign company in Sweden, the employer must provide a letter specifying the terms of employment. Foreign companies may be asked to specify why a Swedish national cannot do the job.

Processing by the Swedish Migration Board and the National Labor Market Board can take as long as a year. The first work permit is valid for six months and is not tied to a particular employer. A combined permanent residence and work permit can be obtained after one year of residence in Sweden and is valid as long as the foreign national's passport is valid.

8.0 Deloitte International Tax Source

Professionals of the member firms of Deloitte Touche Tohmatsu Limited have created the Deloitte International Tax Source (DITS), an online resource that assists multinational companies in operating globally, placing up-to-date worldwide tax rates and other crucial tax material within easy reach 24/7.

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