

CORPORATE TAX IN SWEDEN

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

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

There is 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 intragroup dividends, no thin-capitalization rules, no withholding tax on interest payments and no or low withholding tax on dividends.

Sweden's unilateral tax treaties with more than 80 jurisdictions support in avoiding double taxation. The Swedish National Board of Advance Rulings (Skatterättsnämnden) offers binding advance tax rulings allowing companies to ask the Board ahead of time whether its specific company tax strategy is applicable or not from a Swedish tax perspective.

In order to facilitate 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").

CORPORATE INCOME TAX

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

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



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IN BRIEF

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

of losses may however apply when a change of ownership occurs. The corporate income tax in Sweden was lowered during 2021 from 21,4 % to 20,6%.

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).

PROFIT TRANSFER OPPORTUNITY FOR GROUP COMPANIES

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



Corporate tax in Sweden is

20,6%

Group contribution rules admit transfer of profits between two group companies. The transfer 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.

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.

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, 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 to a “foreign company” that is the foreign equivalent of a Swedish limited liability company (see definition above) provided that the dividend is tax exempt under Swedish participation exemption rules should the recipient be a Swedish company. Dividends on non-listed shares are therefore normally exempt from Swedish withholding tax.

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, a legal entity that can enter into agreements and act before an authority or court and has a board of directors. If there is uncertainty whether a specific foreign company can be regarded as the foreign equivalent of a Swedish limited liability company, the question can be forwarded to the National Board of Advance Rulings.

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

Standard withholding tax (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

In order to qualify for capital gains tax exemption, shares must either be non-listed or, if listed, must represent at least 10 percent of voting rights and must have been held for a period of at least one year. Shares held in foreign companies may also qualify for tax exemption. This applies if the foreign company may be regarded as the foreign equivalent of a Swedish limited liability company. The tax exemption means that capital losses on shares held for business reasons are not deductible.

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

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

Serge Saussoy, partner, PWC



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DEDUCTION OF INTEREST COSTS

As of 1 January 2019, there are new rules limiting the right to deduction of interests on both internal and external loans in the corporate sector. This limitation is based on an EBITDA (earnings before interest and tax, depreciation and amortization) rule introduced in combination with the reduction of the corporate tax rate to 21,4 percent in 2019. The EBITDA rule means that the right to deduct the difference that arises when interest expense exceeds interest income (negative net interest) is limited to the equivalent of 30 percent of taxable EBITDA. Negative net interest, which cannot be deducted according to the EBITDA rule, can be carried forward during a maximum period of six years. It is always possible to deduct negative net interest up to a maximum of SEK 5,000,000 without any limitation. If one company in a company group chooses to use this simplified rule, all companies within the group must use the rule. In addition to this legislation, there are substantial interest deduction restrictions on intra-group loans that need to be considered.

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 11.33 percent, calculated under Swedish rules.

However, shareholders in companies' resident in "approved" countries are, not subject to CFC taxation. Approved countries are included in a "white list" which is part of the Swedish Income Tax Act.

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.

TAX RULES

Sweden's holding company regime

- Sweden is among Europe's most favourable 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 exemption can apply to shares held in, or dividends received from, Swedish and foreign companies.

Other tax rules

- Effective corporate tax rate continuing to decrease
- 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

TAX ALLOCATION RESERVE FOR 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.

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.



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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 (for example specialists of various kinds) may qualify for a 25 percent reduction of the taxable portion of their income when working in Sweden.

Only 75 percent of these individuals' income is taxed the first three years of employment in Sweden. Likewise, their employers pay social security contributions of only 75 percent on 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 is based on an input/output system, generally granting full credit for all companies registered for VAT.

The standard VAT rate 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 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

Owners of property or site leasehold in Sweden are 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

GOVERNMENT AGENCIES

Swedish Companies Registration Office

(Bolagsverket)
SE851 81 Sundsvall
+46 771 670 670
www.bolagsverket.se
www.verksam.se

The Swedish Companies Registration Office is the government agency that registers new companies as well as changes in established companies and receives annual accounts, etc.

Swedish Tax Agency

(Skatteverket)
SE171 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.

Supervisory Board of Public Accountants

(Revisorsnämnden)
Karlavägen 104
Box 24014, SE104 50 Stockholm
+46 8 783 18 70
www.revisorsnamnden.se

The Supervisory Board of Public Accountants is a government agency that handles matters relating to chartered accountants and chartered accounting firms.

Swedish Inspectorate of Auditors

(Revisorsinspektionen)
Karlavägen 104
Box 24101, SE104 50 Stockholm
+46 8 783 18 70
www.revisorsinspektionen.se

The Swedish Inspectorate of Auditors is the government's expert authority in matters relating to auditors and auditing.

National Board of Advance Rulings

(Skatterättsnämnden)
Karlavägen 108
Box 24144, SE104 51 Stockholm
+46 10 574 79 57
www.skatterattsnamnden.se

The National Board of Advance Rulings is a government agency that announce advance rulings on specific tax related issues.



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