



## P R E F A C E

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Baker Tilly Sverige AB, the independent member firm of Baker Tilly International in Sweden, has prepared this booklet. The profile is designed to provide information on a number of areas, important to those contemplating doing business in Sweden.

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This guide is one of a series of country profiles compiled for use by Baker Tilly International's clients and professional staff, which may be obtained from any of our international offices, or from within Sweden from the member firms of Baker Tilly Sverige AB, the independent Baker Tilly International member firm in Sweden.

Doing Business in Sweden has been designed for the information of readers. Whilst every effort has been made to ensure accuracy, information contained in this booklet may not be comprehensive and recipients should not act upon it without seeking professional advice.

Up-to-date advice and general assistance on Swedish matters can be obtained from Baker Tilly International's Swedish based member firms. Please see their details in the back cover of this booklet.

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## 1 INTRODUCTION

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### 1.1 Geography

Sweden is situated in Northern Europe, bordering the Baltic Sea, Gulf of Bothnia, Kattegat, and Skagerrack, between Finland and Norway. The total area is 450,000 sq. km. (174,000 sq. miles). It's the third largest country in Western Europe. Sweden's geography is characterised by its long coastline, immensely beautiful countryside, dense forests, a myriad of lakes and extensive mountainous areas. More than half of Sweden's surface area is covered by forest - mainly coniferous with a rich fauna. Approximately 100 000 inland lakes enrich the countryside. Off the long coasts on the Baltic to the east and the North Sea to the west are tens of thousands of archipelago islands.

Since Sweden is a vast country the climate varies from the southern parts of Sweden, with cool summers and mild winters, to the northern parts of Sweden, with long, cold and snowy winters and short summers when the sun shines around the clock.

### 1.2 Population

The total population of Sweden is 9 million. The capital city of Sweden, Stockholm, has a population of 1.8 million.

### 1.3 Political system

Sweden is a constitutional monarchy, in which King Carl XVI Gustaf is head of State. Sweden is a representative democracy, whose legislature is the Swedish Parliament (Riksdag), with 349 members. Parliamentary elections are held every four years. Executive powers lie with the Government (Regeringen), led by the Prime Minister.

After the 2002 election, the Social Democrats, with just fewer than 40 percent of the votes, were able to form a minority government with the support of the Left Party (ex-communists) and the Green Party. With few interruptions the Social Democrats, Sweden's largest political party, has been in government since the 1920s.

The royal power has long been limited to official and ceremonial functions. The popular support for the royal family is so strong that its position cannot be questioned politically, although the ruling Social Democratic Party programme still calls for the abolition of the monarchy.

### 1.4 Languages

The official language in Sweden is Swedish. Almost every Swedish citizen speaks English.

### 1.5 Currency

Swedish krona (SEK) is the currency used. The rate is approximately 9 SEK for 1 Euro.

### 1.6 Economy

Aided by peace and neutrality for the whole twentieth century, Sweden has achieved an enviable standard of living under a mixed system of high-tech capitalism and extensive welfare benefits. It has a modern distribution system, excellent internal and external communications, and a skilled labour force.

Sweden has harmonized its economic policies with those of the EU, which it joined at the start of 1995. Sweden decided not to join the euro system at its outset in January 1999 and at the recent referendum in September 2003.

With close to nine million inhabitants, Sweden is an insignificant market in macroeconomic terms. This is the most important reason why Swedish companies have always been extremely dependent on exports. Due to an insufficient domestic customer base, companies have simply had no choice but to look for business outside their country's borders. Early experience of international competition strengthened these companies and, in many cases, gave them a leg up on competitors from other, larger markets.

Timber, hydropower, and iron constitute the resource base of an economy heavily oriented toward foreign trade. Sweden is the world's fourth largest exporter of paper, the third largest exporter of pulp and the second largest exporter of sawn coniferous wood products. Swedish music continues to be a net earner for the country, with exports bringing in a record 500 million Euros in 2001. Sweden is now the world's third-biggest exporter of pop music, behind the US and the UK.

Sweden has, according to the 2003 IDC/World Information Society Index (ISI), been rated as the world's leading information economy. The ISI index ranked Sweden, for the fourth year in a row, as the number one country with the strongest position to take full advantage of the Information Revolution with its advanced information, computer, Internet, and social infrastructures.

A more recent phenomenon is service and consumer goods companies that have employed the same principles to build up strong global brands. It is often said that the future of the Swedish business sector lies in "knowledge-based industry" - high-tech, research-intensive sectors where Sweden is expected to benefit from the high educational level of our population, our tradition of inventiveness and entrepreneurship and the general modernity of our society.

## 2

## BUSINESS ENTITIES

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The most common forms of business entities are private limited companies, public limited companies, sole entrepreneurs, partnerships and limited partnerships. Other corporate vehicles are available in the form of co-operatives, European Economic Interest Grouping and certain specially designed corporate entities.

### 2.1 Companies

The Swedish limited company (Aktiebolag, AB) is the most common type of company organisation in Sweden.

A limited company can be established by one or more entities, individual or legal. The founders can be either natural persons residing within the EEA (the European Economic Area) or legal persons established in accordance with the legislation of an EEA state and who have their domicile, head office or primary trading area within the EEA.

A limited company is not considered established until registered by the Swedish Patent and Registration Office (Patent- och registreringsverket, PRV).

A limited company can be either private or public. For a private limited company the minimum capital requirement is SEK 100,000, while it's SEK 500,000 for a public limited company. All shares in a limited company must have the same value, but the voting power may vary. No class of shares is allowed to have more than 10 times the voting power of another class of shares. All shares in a company must be fully paid up before the company can be registered.

A public limited company must have a board consisting of at least three members and a managing director. A private limited company may have less than three members if a deputy board member is elected as well. The managing director and at least half of the board members and deputies must be residents of the EEA.

It usually takes two to four weeks to establish and register a new limited company at PRV. Ready-made companies can be acquired from auditors, company lawyers or companies that specialise in the establishment of companies.

Limited companies are regulated by the Companies Act 1975 (Aktiebolagslagen, ABL).

## 2.2 Partnerships

The following types of entity are not fully legal entities as such:

- Sole proprietorship (“enskild näringsverksamhet”). This is by far the most common way to do business in Sweden. It is an unincorporated business, with one owner. The owner has unlimited liability for all debts and there’s no separation between the owner’s private and business debts.
- Private partnership (“enkelt bolag”). In a private partnership the business is conducted under a common business name and the partners are liable for equal parts. A private partnership can neither hold property nor contract in its own name.
- General partnership (“handelsbolag”, “HB”). This partnership is based on an agreement between two or more partners (individual or legal). The partners operate under a common name. The general partnership can hold property, can contract in its own name and can sue and be sued. The partners are jointly and severally responsible and liable to third parties for partnership debts. A general partnership must be registered with the PRV, otherwise it will become a private partnership.
- Limited partnership (“kommanditbolag”, “KB”). This partnership is a form of general partnership, but has, besides one or more general partners who are jointly and severally liable, one or more limited partners, whose liability is limited to the amount of their capital contribution. It is usual that the general partner is a limited company.

Private, general and limited partnerships are regulated by the General and Private Partnership Act 1980 (Handelsbolagslagen, HBL).

## 2.3 Branches

An alternative approach to conducting business in Sweden, other than forming a company, is the establishment of a branch structure.

Registration in the branch office registry of PRV is required when an overseas company conducts its business activities (activities of a financial and commercial nature) in Sweden. It could be a hard task to determine whether an overseas company has established a branch or not. In the process several factors must be taken into consideration. Business activities exceeding a period of 12 months will generally be considered to constitute a business that is liable for registration.

The branch office must have a managing director (MD) resident in the EEA. A branch is not considered a separate legal entity and all legal responsibilities and liabilities are with the parent company.

The branch office must have its own bookkeeping records, which must be separated from those of the parent company. The financial statements and the auditor’s report must, together with the corresponding documents for the overseas company in its entirety, be submitted to the PRV annually. If the overseas company is comparable to the Swedish limited company and domiciled within the EEA, it only needs to submit a copy of the overseas company’s annual report translated into Swedish.

An overseas company that does not wish to register a branch structure in Sweden can instead run their business in Sweden through the agency of a broker, a commission agent or some other independent representative (“independent agent”). Thus, while acting in the capacity of agent, the independent agent must conduct their normal business activities.

Branches are regulated by the Branch Act 1992 (Lag om utländska filialer m.m.).

## 2.4 Audit, accounting and filing requirements

All business entities, individual and legal, are under the restrictions of the Bookkeeping Act 1999 (Bokföringslag, BFL). All legal, and some big individual, entities are also regulated by the Annual Accounts Act 1995 (Årsredovisningslag, ÅRL). These two acts lay the foundation of the accounting and reporting requirements for Swedish business entities.

Under the Bookkeeping Act, business entities must comply with the following requirements:

- Account for all transactions systematically and chronologically and ensure that all transactions are supported by appropriate documentary evidence
- Prepare annual accounts
- File and archive all accounting material in Sweden for ten years
- Parent companies must prepare consolidated accounts (small private companies are excluded).

The year end for all business entities is 31 December, but legal entities may have 30 April, 30 June or 31 August.

Private limited companies can keep their accounting records in Euro, otherwise all records must be kept in SEK (Swedish currency).

The Annual Accounts Act states how the annual accounts are to be drawn up. It also points out that a non deductible fine of SEK 5,000 is charged if a private limited company has not submitted its annual accounts together with the auditor's report to PRV within seven months of the year end. A further fine of SEK 10,000 is charged every other month until PRV receives the annual account and auditor's report. PRV has the power to liquidate a private limited company after the third fine.

An audit is compulsory for all business entities under the Annual Accounts Act. A state authorised or approved public accountant must audit the annual accounts for limited entities. In large companies, the auditor must be a state authorised public accountant.

## 3 EMPLOYMENT REGULATIONS AND SOCIAL SECURITY

### 3.1 Entry visas

Entry visas for temporary stays are not required for citizens of EU nations, the three EEA nations (Norway, Iceland and Liechtenstein) and other countries with which Sweden has visa agreements, including the U.S., Japan, Canada, Switzerland and others. These citizens may remain in Sweden for up to 90 days during a six-month period.

For citizens from other nations, visas must be obtained from Swedish embassies and consulates. Visas are valid for a maximum of three months, but may be extended.

### 3.2 Residence permit

Sweden as a member of the EU enables citizens of EU nations to take jobs and reside in Sweden without restrictions. However, EU and EEA citizens must, after three months, obtain a residence permit. The permit will formally record the individuals for tax and social benefits.

#### 3.2.1 Residence and work permits

Citizens of other countries (excluding EU and EEA nations) must apply for a residence and work permit at a Swedish embassy or consulate. The permit must be granted and entered into a passport before entering Sweden. Work permits are granted for one year, further extensions can be granted in Sweden.

## 3.2.2 Residence permit to establish a company

Citizens of EU and EEA nations do not need special permits to establish a company. Other citizens must obtain a residence permit to start or become a partner in a company. The basic requirement for getting a permit is that the business must be to Sweden's advantage.

Documentary evidence of capital requirements, a detailed business plan, profit and liquidity budgets and so on shall, together with an authorised accountant's opinion, be submitted with the application. The permit is valid for 12 months. Extensions are granted only after proof is given of the success of the company and the applicant's ability for self-support.

## 3.3 Labour market

The largest employers' organisation in the private sector is the Swedish Employers' Confederation (Svenskt Näringsliv), which is an umbrella organisation of 48,000 member companies with 1.5 million employees. The public sector, has its own negotiating bodies that negotiate with the employees' staff associations.

Employees are divided into two groups, workers paid by the hour and salaried employees. The Swedish Trade Union Confederation (Landsorganisationen i Sverige, LO) is a large organisation for workers paid by the hour and the Swedish Confederation of Professional Employees (Tjänstemännens Centralorganisation, TCO) is the biggest organisation for salaried employees. TCO's staff associations have 1.2 million members, while LO's staff associations have 2 million members. Not all workers are unionised and not all employers have joined an organisation.

After negotiations the employer and employee organisations enter into a collective agreement. The collective agreements are binding for the organisations and also provide guidance for employers and employees outside these organisations.

## 3.4 Labour legislation

There are several laws governing the labour market in Sweden, the most important are listed below:

- The Employment Protection Act (Lag om anställningsskydd, 1982) contains regulations governing employment security, lay-offs due to shortages of work and the termination of employment.
- The Act on Co-determination at Work (Medbestämmandelagen, 1976) contains regulations governing collective agreements, negotiating law, the obligation to maintain industrial peace, etc. According to this law, staff associations are entitled to employee representation on the board of directors for companies that have more than 25 employees and an employer must negotiate with staff associations before implementing any major changes in the company's operations.
- The Annual Leave Act (Semesterlagen, 1977) stipulates that employees are entitled to 25 days' paid leave per year. Some employees with strenuous jobs are entitled to six weeks' holidays. Collective agreements override the Annual Leave Act and often give employees better terms.
- The Working Hours Restriction Act (Arbetstidslagen, 1982) stipulates that a working week must not exceed 40 hours. Normal hours of work vary between 35 and 40 hours. Sweden has also adopted regulations governing overtime work. An employee must not work overtime of more than 200 hours per year, more than 48 hours during a four-week period, or 50 hours during one calendar month.
- Sweden has several Discrimination Acts containing regulations prohibiting discrimination of ethnic affiliation, religion or adherent of another creed, sexual disposition or disabled persons. There is also a discrimination act that prohibits discrimination of part-time employees.

There is a special court, the Labour Tribunal, which deals with labour legislation disputes.

### **3.5 Social Security Contributions**

A person who resides in Sweden is covered by the Swedish social security system. Swedish social security consists of healthcare, sickness benefits, parental allowances, national basic pension, the general supplementary pensions scheme, partial pension, occupational injuries insurance, family allowance, maintenance advances and unemployment benefits.

The employer pays most of the welfare charges for their employees. In fact the employer has to pay welfare charges on all remuneration (wages and other taxable benefits payable for work carried out). Earned income will then form the basis for the calculation of welfare benefits. In 2003, the employer's contribution (for national social security purposes) is 32.82% of the remuneration paid. The charge is deductible for income tax.

The employee pays a general pension contribution of 7% on gross income up to SEK 330,000 (2003). A certain part of the charges will reduce the income tax charge.

Collective agreements between employers and staff associations have rules regarding voluntary payroll taxes. These voluntary taxes are about 9% for salaried employees and about 7% for workers paid by the hour. The negotiated payroll taxes are allocated to pensions, group life insurance and benefits for long-term illness and unemployment.

### **3.6 Payroll taxes and the EEA Agreement**

EU Regulation No. 1408/71 has been adopted into Swedish law since the 1 January 1994, when the EEA came into force in Sweden. The right to welfare benefits and the liability to pay welfare charges when working in another EEA country became applicable on that date.

The principal is that welfare charges are to be paid in the state where you work. If work is carried out in Sweden, Swedish welfare charges must be paid. Meaning an employer's contribution of 32.82% on payroll costs and a general pension contribution from the employee of 7%.

When work is carried out in several different countries, welfare charges are to be paid in the country where the employee resides.

### **3.7 Sick pay**

All registered persons whose annual earned income is more than 24% of the basic amount (SEK 38,600 for the 2003 income year) are covered by a health insurance. The sickness benefit from the health insurance scheme is 80% of the insured person's income up to a yearly income corresponding to 7.5 times the basic amount, or SEK 289,500 (2003). The highest level for sickness cash benefit is SEK 635 per day (2003).

Since 1 July 2003, to strengthen the employer rehabilitation responsibilities, the employer has to pay statutory sick pay during the first 21 days of the period the employee is ill. The first day is a qualifying period without sick pay. After 21 days of illness, the social insurance office pays sickness allowance. The new rule from 1 July 2003 also stipulates that the base for calculating sickness allowance should be 97%, and not 100%, of the insured person's yearly income. This means lower sickness allowances.

### **3.8 Parental leave**

A father is entitled to 10 days of parental leave when a child is born. Parents are entitled to parental pay (cash benefit) for a total of 480 days per child. Each parent must spend at least 60 days of parental leave. 390 of the 480 days are paid according to the sickness benefit rates. The remaining 90 days are paid at SEK 60 per day.

## 4 TAXATION

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Sweden's corporate taxes are low in an international comparison, some of the lowest rates in Europe.

### 4.1 Selective taxes

Selective taxes (special consumption taxes) are charged on some goods, for example:

- Fuel (petrol, oil, coal and bottled gas)
- Energy
- Alcohol
- Tobacco
- Vehicles

### 4.2 Taxation Of Companies

#### 4.2.1 Introduction

Limited companies and certain other legal entities pay a national income tax of 28%. The tax is deducted from the pre-tax results of operations, subject to certain fiscal adjustments.

#### 4.2.2 Limited companies

A Swedish limited company pays national income tax at 28% on all of its worldwide income, whether or not it originates in Sweden. Profit calculations are based upon the annual report prescribed by civil law, and the fiscal income assessment is based on the realised results of operations.

#### 4.2.3 The tax allocation reserve

In principle there is only one balancing provision, the tax allocation reserve. A deductible allocation to the tax allocation reserve may be made at a maximum of 25% of net earnings prior to allocations for the fiscal year. Each year's allocation constitutes a reserve of its own. After a period of a maximum six years the allocation is reversed for taxation. This means that a company can have a maximum of six tax allocation reserves at a time.

The company is not required to make payments into a special-purpose account or similar, but the allocation has to be recorded in the accounting records. A present value calculation, consideration being made to a future reversal of the reserve, gives a current tax charge considerably lower than the nominal rate of 28%.

### 4.2.4 Depreciation

Machinery, equipment, fixtures and fittings with an expected useful life of less than three years, or a low-value, may be written off immediately in the year of acquisition. Other machinery and equipment may be depreciated using either the straight-line method (20% per annum) or using the declining-balance method (30% of the remaining book value). The same method must be used for all machinery and equipment in the same year, but the method applied may vary on a year-by-year basis. The same rules apply to patents, trademarks, goodwill and other intangible assets. Depreciation has to be recorded in the accounting records.

Property is depreciated using the straight-line method over the expected useful life of the property. Normally, commercial property is depreciated by 2-5% per annum, factory premises by 4% and office properties by 2% per annum.

### 4.2.5 Losses

Limited companies have only one kind of taxable income, income from business operations. All operations constitute one single source of income. Deductions may be made for all operating expenses, including losses on the sale of assets.

Losses on the sale of capital investment stock may only be deducted from capital gains arising from the sale of other shares or similar financial instruments.

Losses on operations are carried forward to the next year indefinitely. However, there are restrictions for previous losses on a change of ownership.

## **4.2.6 Sweden is a favourable country for holding companies**

New legislation came into force from the 1 July 2003. It makes selling of business-related shares free from tax. A business-related share refers to Swedish limited companies (AB) and others. Dividends are still tax-exempt and interest expenses are deductible.

## **4.2.7 Dealing with groups of companies**

Companies are treated as groups when a parent company directly or indirectly holds more than 50% of the voting powers of another legal entity.

A group is not a taxable entity in itself, but companies in the same group are allowed to make certain fiscal redistributions of their earnings. The giver may, through a group contribution, obtain a tax allowance if the receiver books the group contribution received as taxable income.

In order for group contributions to take full legal effect, the following requirements apply:

- The companies concerned must be Swedish limited companies
- The parent company must, during the entire fiscal year, have owned more than 90% of the shares in the subsidiary, or both the giver and the receiver must be subsidiaries of the same parent company, which owns more than 90% of the shares in each of the companies
- Neither, the giver or the receiver may be an investment company. A parent company whose only assets are stock assets in the subsidiary are not considered an investment company
- Both the giver and the receiver must disclose the group contribution during the same fiscal assessment year in the tax return
- The shares in the subsidiary must not constitute a stock asset in the parent company.

A deductible group contribution may also be made between two Swedish subsidiaries of an overseas parent.

## **4.3 Restructuring of business operations**

### **4.3.1 Loss-making transfers of businesses, business segments or individual assets**

An entire business, a business segment or an individual asset can, under certain preconditions, be transferred at a loss without any taxation of dividends. Otherwise market value withdrawal taxation is paid.

The loss-making transfer must not lead to any improper tax benefits and the following terms and conditions apply:

- The acquirer has to be an individual or a limited legal entity. There are certain restrictions according to who the shareholders are in the acquirer
- The acquirer must be subject to tax on any income arising from a business operation of which the asset forms part
- If the terms for group contribution are not met, the transfer must conclude the transferor's entire business operation or one business segment
- Special requirements apply where the acquirer is entitled to deduct losses incurred prior to the year of transfer. The loss-making transfer can, however, take place if the acquirer does not wish to deduct the loss.

In addition, there are rules that prevent circumvention of the stipulations governing dividends and capital gains for active partners in private companies.

### **4.3.2 Capital gains on property for companies**

The previously applicable 90% rule as regards taxation of capital gains on business properties is no longer valid. But the change in the rules to 100% taxation only applies to limited legal entities. For individuals, 90% of a capital gain is still taxable, and 63% of a capital loss is deductible.

### 4.3.3 Intra-group participation transfers

Sweden has adopted rules governing the deferment of taxation in the event of intra-group participation transfers. The seller becomes entitled to defer payment of tax on the capital gain for intra-group transfer of participations. No taxation will be triggered until the participations are sold externally, or until such time when the selling and buying companies no longer belong to the same group.

In order to obtain deferment, the seller must, together with other companies in the group, own up to at least 25% of the total voting power in the company, which the transferred participation concerns. Alternatively, the seller must render it plausible that the holding of the participation is warranted by the business activities carried on by the seller or by another company within the group.

### 4.3.4 Deferment on the exchange of shares

Prerequisites for obtaining deferment on the exchange of shares are as follows:

- The settlement regarding a share exchange must consist of shares in the acquiring company plus any cash settlement corresponding to a maximum of 10% of the nominal value of the settlement shares
- The acquiring company must, at the end of the calendar year, have a voting majority in the acquired company. If special circumstances apply, it will be sufficient that the voting majority arises some time between the exchange of the participation and the end of the calendar year.

Profit is calculated in accordance with normal capital gains regulations. The seller will not be subject to tax until disposal of the settlement shares. The cash part of the settlement is taxed directly without allowing deductions for the corresponding part of the acquisition value of disposed shares.

### 4.3.5 Mergers

It is not possible to carry out mergers between Swedish and overseas companies at present, for reasons of civil law. The EU member states are obligated via a directive, the Merger Directive, to introduce into legislation such fiscal rules as are stipulated in the directive with the aim of facilitating international mergers. Therefore the legislation governing taxation in the event of mergers and business transfers has been introduced in Sweden.

The term merger, according to the new law, denotes a restructuring where one or more companies total assets and liabilities are taken over by another company. The transferring companies are dissolved without liquidation. If the acquiring company does not own all shares in the transferring companies, the merger settlement has to be paid to the beneficiaries, other than the acquiring company, in the transferring companies.

The deferment means that the transferring companies will not make any deductions as a result of the merger for the closing fiscal year. The acquiring company enters into the transferring companies tax positions at the time of the merger and reports the results of operations for the entire merger year for both companies.

Some prerequisites for obtaining deferment of taxation in the event of merger are as follows:

- The transferring company must, prior to the merger, have been liable to taxation in Sweden on income from at least part of its business operations. The income may not, wholly or in part, have been exempted from taxation under a double tax treaty
- The acquiring company will, following the merger, become liable for taxation of such business activities for which the transferring company has been subject to tax. The income may not, wholly or in part, be exempted from taxation under a double tax treaty
- The fiscal year for the transferred business may not exceed 18 months.

Companies that in the future merge in accordance with the rules described above are Swedish limited companies, Swedish cooperative associations, Swedish savings banks and certain overseas companies specified in the National Income Tax Act or overseas EU companies. If one of the involved companies is entitled to deduct losses, special rules will apply.

### 4.3.6 Transfers of businesses

It is possible to transfer an entire business operation and be paid through shares from the acquirer without immediate taxation. The tax regulations are designed similar to the merger regulation.

## 4.4 Branch office

An overseas company with a permanent place of business in Sweden is subject to income tax arising from business operations conducted in Sweden. The permanent place of business can be a branch office, an office, a factory or similar. A building, construction, installation or assembly project going on for more than 12 months is considered a permanent place of business in Sweden. A permanent place of business can also be an individual and a dependent representative, if the person in question has, and regularly makes use of, a power of attorney to enter into agreements in the name of the overseas company.

A branch office, constituting a permanent place of business in Sweden, is taxed in accordance with the normal rules on income from a business operation, in the same way as if the business had been conducted via a Swedish limited company. Double tax treaties imply that double taxation of income can be avoided.

Under Swedish law, expenses relating to the permanent place of business, including expenses relating to the enterprises management and general administration, are deductible, even if the last-mentioned expenses have been incurred outside Sweden. The branch offices income is determined using the same procedure every year, unless otherwise warranted by special circumstances.

An overseas company conducting business in Sweden will not be liable to tax in Sweden, if it doesn't have a permanent place of business here. This could be relevant when, for instance, an overseas company conducts business through the agency of a broker, a commission agent or another independent agent.

## 4.5 Partnerships and limited partnerships

In spite of the fact that partnerships and limited partnerships are legal persons that can enter into legally binding agreements, it is not the partnership/limited partnership that is subject to pay tax on its income. Instead it is the owners that are taxable for their share of the profits of the partnership. Co-owners, who are legal entities, pay a national income tax of 28%. The profit is accumulated with their other incomes into one income source. For individual co-owners, the profit is taxed at the same rate as applies to the earned income of individuals.

The co-owners of the partnership will be taxed on income earned by the partnership through its business transactions in Sweden. If the overseas owner in a partnership is an overseas company, the tax charge will be the same as had the operations been conducted through a branch office.

Even though the co-owners are subject to tax on the income of the partnership, a joint assessment of income must be made for the partnership itself. The co-owners will then each be taxed for their share of the profit of the partnership.

## 4.6 Dividends

Dividend paid by a Swedish limited company to another Swedish limited company are tax-exempt for business-related shares. A share is business-related when:

- Shares are not listed on a stock exchange
- The possessor has a voting power in a listed company exceeding 10%
- The possession of shares is connected to the business conducted by the possessor.

A Swedish company is not liable for taxation on dividends from an overseas company if the dividend would have been tax-exempt had the dividend-distributing company been Swedish and the overseas company must have been taxed in a way that is comparable with Swedish taxation.

### 4.6.1 Taxes deducted at source

There are no rules, in Sweden, regarding taxes deducted at source on interest paid to overseas countries. Sweden, on the other hand, charges certain source taxes on dividends and royalties paid to overseas countries.

Dividends paid from a Swedish limited entity to overseas shareholders are charged, as a principal rule, a coupon tax of 15%. In some occasions according to double tax treaties there will be no charge. For EU companies, tax-exemption follows due to the EU parent-subsidiary directive.

Sweden has internal rules to prevent unauthorised income transfers from Swedish companies to overseas companies such as goods, services and rights priced incorrectly, failure to charge interest on loans, etc.

#### **4.6.2 Individuals as shareholders**

The only way to legally transfer profits from a Swedish limited company to an individual shareholder is via dividends. For individuals, dividends are taxed in the country of residence. Swedish coupon tax is charged at 15% of the gross dividend. Individual shareholders may deduct a sum from their tax in their country of residence, which corresponds to the income tax (coupon tax) paid in Sweden in respect to the dividend.

If an individual shareholder is active in the company, he may receive payment for his work and, if he is a board member, he may also receive a director's fee. Taxation of such remunerations depends on the time the shareholder has been working in Sweden, residency circumstances, etc.

The individual shareholder's country of residence will tax capital gains arising on the sale of Swedish shares in accordance with that country's tax regulations.

#### **4.7 Value Added Tax (VAT)**

Value added tax is levied at each stage in the chain of production and distribution of goods and services and importation of goods. The tax is based on the VAT rate applicable to the price of the supplied goods or services, excluding VAT.

Because of deductions of input VAT in previous stages of the chain, VAT is not cumulative. Every taxable person is liable for VAT on his or her turnover (the output tax), from which the VAT charged on expenses and investments (the input tax) may be deducted. If the balance is positive, tax must be paid to the tax authorities. If the balance is negative, a refund is received.

A private consumer is never entitled to deduct VAT paid.

#### **4.7.1 Taxable persons**

Taxable persons are persons conducting a trade or business, who are defined as those who conduct independent business, including individuals and legal entities. Even public bodies can act as taxable persons.

#### **4.7.2 Tax base and tax rates**

There are four possible taxable activities: supplying goods, rendering services, acquisition of goods by businesses and importing goods. VAT becomes due when the services or goods are supplied. The tax rates for VAT in Sweden are:

- The standard tax rate is 25%
- A reduced tax rate of 12% is applicable to food, hotels and camping
- A lower reduced tax rate of 6% tax is applicable for personal transportation, books, general newspapers, and certain goods and services in the cultural field.

Certain services are exempt from VAT including:

- Medical care, dental care and social services
- Certain types of education (primary and secondary schooling and further and higher education)
- Banking and financial services
- Insurance services
- Lettings of real property are exempt from VAT. It's possible, under certain conditions, to voluntarily register for VAT for the letting of premises.

#### **4.7.3 Registration**

Taxable persons must register at the tax office in the county in which they are domiciled. If turnover exceeds SEK 1.0 million, VAT must be reported on a monthly basis. If turnover is less than SEK 1.0 million, VAT may be reported in the annual income tax statement.

#### **4.7.4 Second-hand goods, works of art, collector's items and antiques**

VAT was introduced on second-hand goods, works of art, collector's items and antiques from 1 November 1995. VAT-registered retailers must report VAT on their profit margins, the difference between the selling price and the acquisition price for each individual item. The tax basis constitutes 80% of the computed profit margin. VAT is then reported on the tax basis, normally at 25%.

#### **4.7.5 EU, import and export**

VAT is payable on the importation of goods and certain services from countries outside the EU, while goods and services may be exported free from VAT to countries outside the EU.

Goods leaving Sweden for another EU country are tax-exempt if the EU customer has a VAT-number. Otherwise VAT is charged normally at 25%.

#### **4.7.6 Reverse charge mechanism**

When foreign companies, without a permanent establishment in Sweden, supply goods or services in Sweden, the Swedish customer is liable to report and pay VAT (reverse charge mechanism) if the Swedish customer is registered for VAT. The reverse charge mechanism is not valid for foreign companies supplying goods or services in Sweden to persons not registered for VAT. They must register and are liable to report and pay VAT.

The reverse charge mechanism is not applicable for personal transportation, education and entertainment services and services related to sports and culture.

#### **4.7.7 Fiscal representative**

Foreign companies without a permanent establishment within the EU or Norway must appoint a fiscal representative.

#### **4.7.8 Refund of input VAT**

Foreign companies not registered for VAT in Sweden may, under certain conditions, apply for a refund of input VAT paid on goods or services purchased in Sweden. The application form must be filed with "Särskilda skattekontoret i Ludvika, 771 83 Ludvika, Sweden".

#### **4.8 Taxation of property**

In Sweden, a property tax is charged on nearly all properties, including detached houses and holiday homes. Property tax is 0.5% - 1% of the tax assessment value.

The tax assessment value is supposed to be equivalent to about 75% of the property's market value. The tax authority decides the tax assessment value. A general property tax assessment is performed every six years, at which all property owners must send in a property self assessment.

#### **4.9 Taxation of individuals**

##### **4.9.1 Residents in Sweden**

Residents of Sweden pay Swedish tax on all income, no matter if the income is earned inside or outside the country. You will be regarded as a resident of Sweden if you stay here for longer than 6 months, or if your fixed abode lies in Sweden. If your true domicile previously has been Sweden, you can be regarded as a resident of Sweden if you still have some connection with the country (family, previous home in Sweden, Swedish citizenship, property, a business operation, etc).

If you are not a resident of Sweden, your tax liability is limited to the income that you have earned in Sweden.

## 4.9.2 Income from employment

Income from employment is the sum of all earnings connected with your own work, including business earnings from partnerships and sole entrepreneurs. Income from employment not exceeding SEK 284,300 (2003) is only subject to municipal tax, which varies between 26 and 35%. Income from employment between SEK 284,300 and SEK 430,000 (2003) is, in addition, subject to state tax of 20%. A further 5% in state tax is payable on income from employment exceeding SEK 430,000.

A basic deduction is allowed from income from employment for municipal and state tax, which ranges from SEK 11,400 to SEK 25,900.

## 4.9.3 Expatriate tax legislation

Since 1 January 2001, new expatriate tax legislation has been effective in Sweden. Tax relief is granted for foreign experts, scientists and key personnel with such knowledge and skills that cannot be found in Sweden. The employer should be a company domiciled in Sweden or a foreign company with a permanent establishment in Sweden. The legislation only applies to individuals whose assignment period will not exceed five years, and tax relief will only be granted for the first three years of the assignment.

The tax relief exempts the following remuneration from Swedish tax and social security contributions:

- 25% of salaries and benefits
- Moving expenses to and from Sweden
- Home travel expenses, two return tickets per annum to the home country for the individual and family members
- Children's school fees.

An application must be filed with the "Forskarskattenämnden" at the Swedish National Tax Board within three months of the expatriate beginning working in Sweden.

## 4.9.4 Deductible expenses

Sweden allows deductibility on expenses that are directly linked to the individual's work. For personal living expenses deductions are never allowed. The most common deductions are for travel to and from work, which are deductible to the extent that they exceed SEK 7,000 (2003).

## 4.9.5 Tax on capital income

Capital (Unearned) income includes:

- Interest and dividends.
- Profits from sale of shares, houses and tenant-ownership rights.

Capital income is declared on the tax return. The tax on capital income is 30% and is declared on the tax return. Losses and interest on debt are deductible from income in the same category with certain limitations.

Capital gains on private residence properties are only taxed by two thirds (2/3), therefore the effective tax rate is 20%. Losses on private residence properties are deductible to 50%. Capital gains on commercial properties are taxed by 90%, with an effective tax rate of 27%. Losses on commercial properties are deductible to 63%.

If expenses exceed the income a tax allowance is granted, which reduces tax on employment by 30% of the deficit, up to a deficit of SEK 100,000. If the deficit exceeds SEK 100,000, the tax allowance is set at 21% of the excess amount. Note, that there are certain limitations as to the set-off between different kinds of capital gains and losses.

## 4.9.6 Non-residents

Individuals residing outside Sweden are liable to taxation in Sweden on:

- Earned income if the work is performed in Sweden
- Certain pensions
- Income from a permanent place of business in Sweden
- Income from property, which is located in Sweden
- Capital gains arising on the sale of property, which is located in Sweden.

Individuals residing outside Sweden who earn income like this will only pay a national final source tax, special income tax, of 25%. No deductions are allowed. There is no obligation to file an income tax return since it is a final source tax. For an individual to be covered by the special income tax, he/she will have to ask for a ruling from the tax authorities in the county in which the employer is registered for the payment of tax. If the employer is not registered for the payment of tax, such rulings may be obtained from the tax authorities in the county of Stockholm.

The responsibility for paying the special income tax and making tax deductions rests upon the person who pays out the taxable income. That person could be an employer, a pension provider and others. When the payer (employer) is not in Sweden, the taxpayer must pay his own taxes.

#### **4.9.7 Non-residents working for a foreign employer**

Earned income from business operations carried out in Sweden is taxable in Sweden with one exception. According to the 183-day rule, earned income will be tax-exempt in Sweden under certain circumstances:

- The individual liable to taxation stays in Sweden for a maximum of 183 days during a 12-month period
- The employer is not a resident of Sweden
- The salaries paid are not charged to a permanent place of business that the employer has in Sweden.

It is a precondition for the 183-day rule to apply that the employer is not a resident of Sweden and does not have a permanent place of business here.

#### **4.9.8 Wealth tax**

A wealth tax of 1.5% is charged for:

- Total capital exceeding SEK 1.5 million for single individuals
- Total capital exceeding SEK 2.0 million for married or cohabiting individuals.

#### **4.9.9 Preliminary tax**

In order that the Swedish tax authority will not be able to claim preliminary tax from a person working in Sweden for only a short period of time (less than 183 days), it is a requirement that the tax office in the country of fiscal domicile certifies that preliminary tax is being paid there.

If the period of time spent in Sweden exceeds 183 days, or if the remuneration is charged to a permanent place of business in Sweden, the Swedish tax office will be entitled to demand preliminary tax. If preliminary tax is required to be paid in Sweden, the tax office informs the employee's tax office in his home country.

#### **4.9.10 Filing an income tax return**

Everyone receiving an income is required to file a tax return the year after the income year. The tax return must be filed by May every year to the local tax office. Individuals who are paying special income tax for non-residents have no obligation to file income tax returns for such income.

#### **4.9.11 Final tax**

Between 15 August and 15 September, the Tax Authority issues a final tax statement and a statement of account to those who submitted tax returns. If the preliminary tax paid in exceeds the final tax charge, the surplus will be refunded. Outstanding tax is to be paid within 90 days of receiving the final tax statement.

## APPENDIX 1

The most common business forms for foreign companies establishing a business in Sweden

	Limited liability company (Aktiebolag)	Branch office of a foreign company (Filial)	Representative office (Representationskontor)
<b>Form</b>	A Swedish legal entity, incorporated in Sweden.	Not a Swedish separate legal entity but part of a foreign company.	Not a legal entity.
<b>Registration</b>	Yes, through the Swedish Patent and Registration Office (PRV).	Yes, through the Swedish Patent and Registration Office (PRV).	None (except for the establishment of a foreign bank office).
<b>Liability</b>	The shareholders will ordinarily not be made liable for the subsidiary.	The foreign company is liable, since its business is conducted through the branch office.	The representative office may not engage in any commercial activities other than pure marketing.
<b>Board of Directors</b>	Private company may consist of one or two board members if at least one deputy member is appointed. A publicly traded company board shall consist of at least three board members. At least half of the board of directors must be resident in the EEA in both cases.	None	None
<b>Managing Director</b>	A managing director is required only in public companies and must reside in the EEA.	Yes, must be appointed and resident in the EEA.	None
<b>Auditor</b>	Yes, must be appointed during company registration.	Yes, must be appointed during registration.	None in Sweden. Auditor is the auditor of the parent company.
<b>Share capital</b>	Minimum SEK 100,000 for private companies, and minimum SEK 500,000 for public companies.	None	None
<b>Annual report</b>	Yes, compulsory for each financial year.	Yes, compulsory for each financial year.	None
<b>Accounts</b>	Yes. Maintain own accounts and bookkeeping.	Yes. Maintain own accounts and bookkeeping.	Accounts and bookkeeping should be maintained by the parent company.
<b>Tax</b>	The taxable profit is subject to a corporate tax of 28%.	The taxable profit is subject to a corporate tax of 28%.	Declared exempt from tax.
<b>Name</b>	Must contain the word Aktiebolag (Swedish for limited liability company) or the abbreviation AB.	Must contain the name of the foreign company with the addition of the word filial and clearly indicating the nationality of the foreign company.	Should have the same name as the parent company.
<b>Time to market</b>	3-4 weeks registration time, but can be bought "off the shelf" which enables a faster start-up process.	3-4 weeks registration time.	No legislative requirements. May open and commence its activities immediately.

\* The Swedish Patent and Registration Office (PRV) is the authority that registers corporate data when establishing a business in Sweden.

## APPENDIX 2

**Tax rates, amounts etc.**

	2003
<b>Personal tax</b>	
Municipal tax (26%-35%)	32%
State tax, first tier	20%
Lower income threshold	SEK 284,300
State tax, second tier	25%
Upper income threshold	SEK 430,000
Minimum personal allowance	SEK 11,400
Maximum personal allowance	SEK 25,900
Tax free income per annum	SEK 16,399
Special income tax for non-resident	25%
Maximum general pension fee	SEK 23,100
<b>Corporation tax</b>	
Tax rate	28%
Tax loss carry-forwards	Infinitely
<b>Depreciation act</b>	
Depreciation/amortisation percentage for operating equipment, goodwill	30%
Lower limit for low-value assets (for immediate write-off of low-value assets)	SEK 5,000
Higher limit for low-value assets (for immediate write off of low-value assets)	SEK 20,000
Depreciation percentage for buildings	2-5%
<b>VAT</b>	
Standard rate	25%
First reduced rate, food, hotel services etc.	12%
Second reduced rate, daily papers, magazines, books etc.	6%

# Doing business in Sweden



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## MEMBER FIRM CONTACT DETAILS

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Baker Tilly Sverige AB, the Swedish member firm of Baker Tilly International, has national coverage through its network of offices in some 15 locations nationwide in Sweden. Each member of Baker Tilly Sverige AB is an owner-manager with a special understanding for problems in small businesses.

Baker Tilly Sverige AB members specialise in providing an integrated range of services to small and medium businesses, associations and non-profit organisations. This includes formation of a company, auditing, accountancy, annual accounts, financial reports, tax consultancy, financial control, valuation of companies, insolvency consultation etc.

More information can be found on the website: [www.bakertillysverige.se](http://www.bakertillysverige.se) with a link to the site of the global network of Baker Tilly International: [www.bakertillyinternational.com](http://www.bakertillyinternational.com).

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