

# Doing Business in Sweden

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Sweden.



## Background

### Country overview

**Capital:** Stockholm

**Population:** 9 995 153 (2016)

**Language:** Swedish

**Area:** 450,295 sq. km (176, 000 sq. mi)

**Currency:** Swedish Kronor (SEK)

**GDP:** (4 375 Billion SEK (2016)

**GDP per capita:** 440 000 SEK (2016)

**GDP real growth rate:** 4,7% (2016)

**Local Time:** GMT + 1 hour

**Dialing code:** + 46

### Why Sweden

Sweden has a strong economy, a very low level of public debt and a robust banking system, making it a very stable place to run a business.

Sweden is recognized as one of the world's most knowledge-based economies.

Sweden is known for its large number of multinational corporations in relation to the size of the economy. Sweden is also known for being one of the most competitive, productive and globalized nations in the world. Sweden has a highly developed workforce, and an openness and willingness to work globally.

Sweden has a business-friendly environment that is modern and open. In addition, the Swedish corporate tax rate is low, by international standards, and is solely based on a company's annual profit.

The public spending in Sweden is high and as a result, Sweden has an excellent infrastructure for transportation.

## Choice of Legal Form



Most foreign enterprises use a limited liability company when setting up business activities in Sweden. Investors can purchase a limited liability company 'off-the-shelf' or register the company themselves. Both are quick procedures.

### Limited liability company

Minimum capital 50 000.

### Process of establishing a business

Most companies choose not to form the limited company themselves. The easiest way is to buy a shelf-company.

A shelf-company will not have previously been traded or been engaged in commercial activity. This solution means

that the company can start business as soon as the share purchase agreement is signed.

### Restrictions on directors

In a private limited liability company, the board of directors consists of one or more board members. If there are fewer than three board members the company must have at least one deputy board. The number of board members and deputy board members is stated in the articles of association.

A managing director is not compulsory in a private limited liability. It is possible for the chairman of the board of directors of a private limited liability company to be managing director.

The following persons must be resident within the European Economic Area (EEA):

- At least half of the board members
- At least half of the deputy board members
- The managing director

If the company has no authorized representative resident in Sweden, the board of directors must authorize a person resident in Sweden to receive service of process on the company's behalf. This person must be registered with the Company Registration Office. The person needs to reside in Sweden but does not need to be employed by the company.

### Director responsibilities

The board of directors oversee the organization and management of the company and appoint the managing director. The board of directors are responsible for ensuring that taxes are paid on time and that annual accounts are prepared and filed with the Company Registration Office. The board's responsibilities are extensive and its members may, in certain circumstances, be held personally liable for all the company's debts. For example, in most circumstances they will be held personally responsible for unpaid tax debts.

### Branch/Representative office

A foreign-based company can, instead of opening a subsidiary, start a branch. A branch is legally a part of the foreign-based company and has no share capital.

Foreign-based companies can only have one branch in Sweden. A branch is independently run in Sweden in compliance with the Foreign Branch Offices Act.

The branch must submit an annual tax return to the Swedish Tax Agency for the income from its business in Sweden. A branch is subject to Swedish corporate income tax.

A branch needs to have a managing director who is resident in the European Economic Area (EEA). Exceptions from these requirements may be granted by the Swedish Companies Registration Office (Bolagsverket).

If the managing director of the branch does not reside in the EEA, the foreign company must authorize a person resident in Sweden to receive service of process on the branch's behalf. The person does not need to be employed by the branch but must be registered with Bolagsverket.

### Non-permanent establishment

A Permanent establishment is defined in the Swedish Income Tax Act. The definition mainly conforms with the permanent establishment definition found in the OECD Model Tax Convention on Income and Capital. The Swedish Tax Agency have a strict interpretation of the rules.

If the foreign-based company is considered not to have a permanent establishment in Sweden, it is not necessary to register a limited company or branch. The company only needs to register directly with the tax agency. No corporate tax is paid by a non-permanent establishment, the social security taxes are approximately 10% lower, and the special pension tax for employee pensions are nil.

If a company is registered as not having a permanent establishment, the employees pay their withholding tax themselves. Employees can also pay social security tax themselves, if a reverse parity agreement is signed with the employee.

Since the rules for not having a permanent establishment are quite complex, it is important to get expert help. It is also recommended that the company makes sure that the employees get help with their taxes.



## Audit Requirements



### Requirements and thresholds

Limited liability companies and branch offices need to have an auditor if they meet at least two of the following criteria, for both two most recent financial years:

- Average of more than 3 employees
- A balance sheet total exceeding SEK 1.5 million
- Annual net sales exceeding SEK 3 million

## Taxation



### Registering for tax

Companies register for tax by filing a tax application (Tax application for foreign entrepreneurs) and sending it to the Swedish Tax Agency. The application procedure is similar for limited companies and branch offices. Those based abroad and without a permanent establishment need to apply for a Swedish corporate tax ID before the tax application can be filed.

The process for tax registration can be quite slow (4-8 weeks) and therefore needs to be started in good time. It is especially important to avoid a situation where the employees are hired but the tax registration is not completed before the 31st of December.

During registration, the company will automatically receive all the documents, VAT and PAYE returns, and information

required to account for and pay VAT, income tax, and social security contributions.

It is possible to apply for electronic filing, which is recommended for foreign-based companies.

### Corporation tax

The corporate tax in Sweden is 22%. The tax computation is very straightforward and based on the annual accounts made public, with a few tax adjustments. Each month, the company makes a prepayment based on an assessment on the total tax for the year.

An annual tax return must be filed within six months after the end of the financial year. The company will be refunded if the prepaid tax led to an overpayment.

### Small Companies Rate

There is no specific rate for small companies in Sweden, all companies are subject to corporate tax at the rate of 22%.

### Dividend payments

Capital gains and dividends from non-listed companies are exempt from corporate tax. In addition, listed companies are exempt if at least 10% of the shares are owned, and have been owned for at least a year. Special rules apply to foreign source dividends.

### Branch profits tax

The tax rate for branches is the same as for limited companies: 22%

### Personal income tax (pay as you earn)

Personal income tax ranges from 30-55%

### Capital gains tax

Capital gains tax is 30%

### Land tax

Sweden has Stamp duty on the transfer of real property and the registration of mortgages; 1.5% for individuals and 4.25% for legal entities.

Real estate tax ranges from 0.2% up to 2.8% of the tax assessment value.

### Value added tax

The standard VAT rate is 25%. The sale of real estate, insurance and financial services, health services, and some educational services are tax exempt. Some goods and services have the lower rates 12% or 6% for example public transport, books and food.

### Sales taxes

There is no sales tax in Sweden.

### Local taxes

There are no local taxes in Sweden except that the personal income tax varies somewhat between different regions.

### Tax treaties

Sweden has tax treaties with most countries in the world.

### Transfer pricing rules

Transfer pricing in Sweden is based on the arm's length principle. Swedish limited liability companies must maintain documentation for transfer pricing transactions with affiliated parties.

### Tax relief for key foreign employees

Sweden has tax relief rules to help companies hire experts from abroad, therefore certain key foreign employees may qualify for a substantial tax reduction. In addition, benefits like relocation costs, schooling, and home travel, which normally are taxed, are tax-exempt.

### Tax losses

Losses may be carried forward. Restrictions are imposed on the use of losses carried forward in case of a change of ownership or control of a company. The restrictions on losses could also be imposed if the parent company has a change of ownership.

## Allowances

### Depreciation

Depreciation is provided on all fixed assets except land to write off the value of the asset over its useful economic life.

### Investment allowance

There are no investment allowances.



## Employment



### Social security/Unemployment taxes

The employer pays social security tax, which for 2017 is 31,42% of the employee's gross salary.

If a foreign-based company doesn't have a permanent establishment, the social security tax is for 2017 is 20,7%.

It is also common for employers to pay contributions to employee pension schemes. The special pension tax is for 2017 is 24,26%.

### Employment of foreign personnel

Generally, a work permit is needed for non-EU/EEA or Swiss citizens. Work permits must usually be obtained before going to Sweden.

The process to acquire a work permit can take very long time. Currently the Swedish Migration Agency have a very strict ruling when companies apply for extensions of work permits. It is very important to get expert help from the start, for example underpaying the employee's pension by as little as 50\$ per year could jeopardise an application for the extension of a work permit. Even if the employer then pays the correct pension, the employee could still be denied an extended work permit.

When an employer posts workers to Sweden for more than five days, the employer shall report postings and specify a contact person to be registered in Sweden. The register is maintained by the Swedish Work Environment Authority. When posting workers to Sweden, the employer is required to comply with the Annual Leave Act, the Work Environment Act, the Working Hours Act and the

Discrimination Act. The salary for the workers must at least be as much as the lowest salary in the relevant collective agreement.

### Medical

Employers must pay sick leave for the first two weeks of each period of sick leave taken, although the first day goes unpaid. The sick pay should be approximately 80% of the salary.

After the first two weeks, The Swedish National Social Insurance Office is responsible for payment to the employee.

### Payroll taxes

Swedish income tax is payable by all Swedish residents on their worldwide income.

Tax treaties on double taxation may have an effect and each relevant tax treaty must be consulted.

## Withholding Taxes

### Interest

Interest on loans is generally deductible and there is no withholding tax charged.

There exist certain restrictions on loans granted by affiliated parties.

All Swedish residents pay a municipal income tax on their whole salary. The municipal tax varies between 29-35% depending on where in Sweden you live.

If the yearly salary exceeds 438 900 SEK (2017) you pay 20% extra national income tax. If the yearly salary exceeds 638 500 SEK (2017) you pay 5% (total 25%) extra national income tax.

### Parental leave

Parents are entitled to 480 days paid leave. Each parent receives 90 days and the other 300 days can be shared between them freely and used at any time.

### Holiday

The minimum paid annual vacation is 25 days in addition to bank holidays (roughly ten working days per year).

### Dividends

Dividends distributed to non-resident shareholders are subject to 30% withholding tax. Tax treaties in many cases relive or eliminate the withholding tax. In most cases, a refund is also possible.

Dividends from non-listed shares will normally be exempt from withholding tax.

DFK Sweden National Group

DFK Sweden

Tommy Nilsson

tommy.nilsson@hummelklappen.se

+46 (0)8545 83120

www.sverev.com



**This document is provided by Hummelkläppen i Stockholm AB as a general overview of matters to be considered when setting up an overseas business in Sweden. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.**

If you are setting up a business in Sweden, the members of DFK International can help you to achieve this efficiently. You will receive practical advice on business issues, tailored to meet your objectives, from experienced business advisers.

For further information on the services available from the DFK member firms in Sweden please contact:

#### Alingsås

01

Alingsås Revision AB

**Tobias Moberg**

tobias@alirve.se

+46 (0)3226 70740

www.alirev.se

#### Kristianstad

02

Cederblads Revisionsbyrå AB

**Ingrid Petersson**

ingrid.petersson@cederblads.se

+46 (0)4418 7270

www.cederblads.se

#### Ljungby

03

LGR Företagsrevision AB

**Lars Göransson**

lars@lgrab.se

+46 (0)3726 2730

www.lgrab.se

#### Malmö

04

Cederblads Revisionsbyrå AB

**Magnus Haak**

magnus.haak@cederblads.se

+46 (0)4010 0410

www.cederblads.se

#### Stockholm

05

Hummelkläppen i Stockholm AB

**Tommy Nilsson**

tommy.nilsson@hummelklappen.se

+46 (0)8545 83120

www.hummelklappen.se