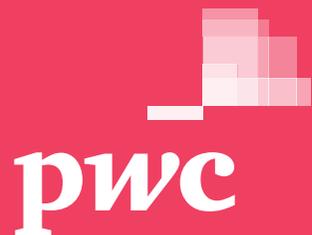


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# *Doing business in Sweden*



*1. What type of presence do we need to undertake our operations?*



*2. What other registration requirements do we need to be aware of?*



*3. What are the tax issues that may arise when we operate in Sweden?*



*4. How do we compensate our employees?*



*5. What operational matters do we need to consider going forward?*





# What type of presence do we need to undertake our operations?

## **Determining the preferred legal form of the operations, such as a branch or limited liability company**

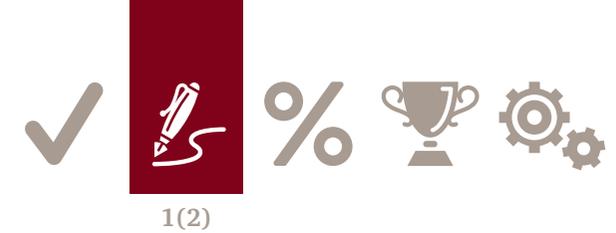
Activities performed in Sweden by a foreign-based company can be deemed to constitute a permanent establishment in Sweden. A foreign-based company wishing to engage in business activities in Sweden should usually register a branch. .

Another option is to incorporate a Swedish limited liability company that operates the Swedish business. Different alternatives will have different legal and tax implications, for example, branch income should usually also be included in the accumulated results of the foreign company, whereas income in a Swedish limited liability company is reported only in that entity. In order for branch income to avoid being taxed twice, any tax treaty in force between Sweden and the country of residence of the foreign-based company should be consulted

It is possible to purchase off-the-shelf limited liability companies in Sweden. The minimum required share capital is SEK 50,000. There is no share capital requirement for a branch.



# What other registrations do we need to be aware of?



## **Registration for corporate income tax and VAT**

Depending on the tax implications of the presence in Sweden, it might be necessary to register for VAT and corporate tax (Sw. F-skatt) with the Swedish Tax Agency (Sw. Skatteverket). Registration for corporate tax is especially important when services are sold within Sweden as F-skatt implies that the purchaser of the services will not have to withhold tax on remuneration paid.

An obligation to register for VAT in Sweden can arise for a foreign company even if the company does not have a permanent establishment in Sweden, for instance, a company that transfers its own goods from another EU member state to Sweden is obliged to register for VAT in Sweden.

## **Employer and employee registration**

A Swedish employer, or a foreign employer with a permanent establishment in Sweden, is required to register with the Swedish Tax Agency in order to fulfill the employer reporting obligations, such as preliminary tax deductions and the payment of social security contributions.

Also, foreign employers without a permanent establishment have to register for social security contributions if they have employees who belong to the Swedish social security system.

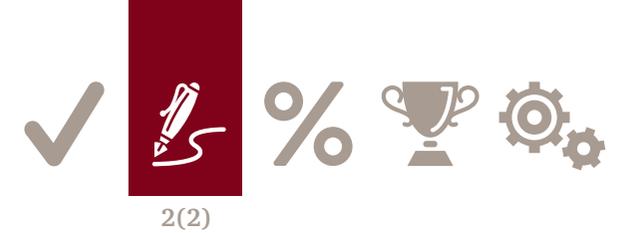
Employees with the intention to stay in Sweden for more than 12 months should register with the Swedish Tax Agency in order to receive a Swedish personal identity number (Sw. personnummer).

Under Swedish law, employers are required to notify the Swedish Tax Agency when hiring third country nationals to work in Sweden. A third-country national is an individual who is not a citizen of a country within the EU, the European Economic Area (EEA) or Switzerland. The employer must ensure that the employee has a valid work and residence permit for Sweden before the employment starts. Documents to prove this should be retained by the employer for at least 12 months after the termination of employment. The employer should send a notification via regular post to the Swedish Tax Agency no later than the 12th of the calendar month following the start of the employment in Sweden.

Under Swedish law, foreign employers must report

postings to Sweden and register a contact person in Sweden with the Swedish Work Environment Authority (Sw. Arbetsmiljöverket). A posting to Sweden is defined as the sending of an employee by his/her employer to work in Sweden on behalf of the employer for a limited period of time in conjunction with the employer providing cross-border services to a recipient of those services in Sweden. The posting has to be reported if the employee carries out activities in Sweden for a period longer than five consecutive days. The reporting is required in respect of both citizens of the EU/EEA and third country nationals. The registration can be done electronically at a website provided by the Work Environment Agency.

# What other registrations do we need to be aware of?



## **Residence and work permits**

EU and EEA citizens do not need a work or residence permit to work in Sweden.

A non-EU/EEA citizen needs a work and residence permit before entering Sweden. The salary and other employment conditions must be at market levels in Sweden and the relevant labor union in Sweden must be given the opportunity to express its opinion on the terms of the employment. Additional requirements may apply for a work permit, for example in the case of employment with a company that has operated for less than one year, or as regards certain industries.

Exemption from work permit requirements can apply, for example, to visiting researchers and specialists employed by an international group working in Sweden for a short period. The exemption also applies to employees participating in internal training or other skills development at a company in an

international group for up to three months, in total, over a period of 12 months.

Applications for residence and work permits are made with the Swedish Migration Agency (Sw. Migrationsverket) and the process can take up to 10 months.

## **Legal registration liabilities**

Depending on the business carried out in Sweden, it might be necessary to conduct various statutory registrations and/or apply for certain permits. This can apply, for example, to operations having an environmental influence, financial services, health services, or to certain import activities or the transfer to Sweden of certain goods, e.g. vegetable or animal goods.



# What are the tax issues that may arise when we operate in Sweden?

## **Corporate tax**

Incurring income tax liability in Sweden by means of a Swedish branch or limited company, will lead to various corporate tax questions depending on the business operated in Sweden, the financing structure, the event of a profit distribution, etc.

The statutory corporate income tax rate in Sweden is 22 percent. All income of corporate entities are treated as business income. Branch income is taxed at the same tax rate and general corporate tax rules apply to branch offices in Sweden.

## **VAT**

The standard VAT rate is 25 percent with a reduced rate of 12 percent which applies to, for example, food, restaurant and catering services, and 6 percent VAT applies to books, newspapers and the transportation of persons.

## **Employee and employer taxes**

The income taxation of the employee is dependent on whether the employee is considered tax resident or non-tax resident in Sweden.

The income tax rates for residents are progressive and range between 29-59 percent. Non-resident tax payers are taxed with a flat rate of 20 percent.

Income tax relief may be available to resident foreigners with high salaries or those qualifying as experts/specialists or key employees with a vital position in the Swedish company or branch.

After application to the Taxation of Research Workers Board (Sw. Forskarskattenämnden), the tax relief provides exemption from taxes and social security contributions on 25 percent of all salary and benefits. In addition, benefits, such as moving costs, schooling and home travel, are tax exempt.

Mandatory employer social security contributions amount to 31.42 percent of gross salary and benefits and are used to fund benefits such as old age pension, survivor's pension, health insurance, occupational injury insurance, parental insurance and unemployment insurance and also include a general payroll fee. Employees pay a general pension fee towards the funding of the social security old-age pension. The employee pension fee is capped and is

allowed as a credit against income taxes.

In addition to social security contributions on remuneration to employees, a special wage tax of 24.26 percent is levied on certain pension contributions made by employers.

## **Customs and import**

The import of goods to Sweden from countries outside the EU will usually result in a liability to pay customs duty and VAT, although exemptions may be available. In case the supply of goods within Sweden is exempt from VAT, the import of such goods is also exempt from VAT.

## **Transfer Pricing**

For any transactions carried out cross border between related parties (i.e. group companies or even between a head office and its branch), it is necessary to consider transfer pricing aspects, such as whether fair market prices are applied intra-group and the required level of transfer pricing documentation.





# How do we compensate our employees?

## **Remuneration policy**

Sweden has no minimum wage levels incorporated in law. Minimum wages are often regulated in the collective agreements between the trade unions and the employers' associations.

## **Employment contracts**

Employment contracts are governed by law and in many cases also by collective agreement between the employer's association and the trade unions. As a minimum, employment contracts normally cover applicable salary and benefits, working location, working hours, holiday entitlement, termination of employment and supplementary pension benefits. Employment contracts are valid until further notice unless otherwise agreed, but can include a probationary period (trial period) of a maximum of six months. Other types of contracts include fixed term contracts, substitute contracts and seasonal work contracts.



# What operational matters do we need to consider going forward?



1(2)

## **Payroll and reporting**

Swedish employers and foreign employers with a permanent establishment in Sweden are required to report and pay withholding taxes in Sweden on a monthly basis.

Irrespective of the activities performed and the legal status in Sweden, an employer has to report and pay Swedish social security contributions for any employee belonging to the Swedish social security system. The reporting and payments are made on a monthly basis.

An employer is also obliged to file annual income statements with the Swedish Tax Agency for each employee. The annual income statement should summarize the salary paid (and preliminary taxes withheld, if applicable) during the income year.

## **Corporate tax compliance**

Corporate tax compliance includes, for instance, preliminary tax returns, tax computations at year end and yearly income tax returns to be filed with the Swedish Tax Agency.

There are four different filing dates in respect of the yearly income tax returns, depending on the tax year in question (financial year). If the tax year corresponds to the calendar year, the income tax return is due on 1 July in the following year.

## **VAT compliance**

VAT compliance can include preparing and filing of VAT returns, EC sales lists and Intrastat declarations. VAT paid on purchases can be offset against VAT collected on sales and the net is payable through VAT returns. The VAT return must, as a main rule, be filed every month. However, if the tax base for VAT does not exceed 40 million SEK per year, the VAT return is usually to be filed every quarter.

## **Transfer pricing documentation**

According to Swedish tax law, transfer pricing documentation is to be maintained for all intra-group transactions. According to the documentation requirements in force since 1 January 2007, transfer pricing documentation is to contain the following information:

- a general description of the company, the organization and its activities
- information about the nature and extent of the transactions
- a functional analysis
- a description of the transfer pricing method chosen, and
- a comparability analysis.



# What operational matters do we need to consider going forward?



2(2)

Companies entering into transactions of limited value can benefit from simplified documentation requirements. Transactions of limited value are defined as intra-group transactions of goods for a value of less than approximately SEK 27.9 million per company within a multinational enterprise, and for other transactions, a value of less than approximately SEK 5.5 million. The concept of other transactions does not include the transfer of an intangible asset. If a transfer of intangible property takes place, no simplified documentation requirement applies.

The EU Code of Conduct and the EU TPD are explicitly accepted in Swedish legislation. Transfer pricing documentation may be submitted in Swedish, Danish, Norwegian or English. The documentation requirements do not cover dealings between a foreign company's headquarters and its Swedish branch. The arm's length principle should, however, nevertheless, be observed.

Although no formal documentation requirement exists between a headquarters and its branch, the Swedish Tax Agency has, in recent tax audits, requested written documentation on how allocations

are made between the headquarters and the branch.

The current rules regarding small and medium-sized companies are about to change. The following companies will be obliged to maintain transfer pricing documentation:

- companies belonging to groups with more than 250 employees,
- companies belonging to groups with fewer than 250 employees, but with either net sales in excess of SEK 40 million or a balance sheet total in excess of SEK 400 million.

## **Bookkeeping**

A Swedish company or branch is obliged to keep its own accounting records, in compliance with the Swedish Bookkeeping Act or the Foreign Branches Act. Depending on the legal form, an annual report or annual accounts are to be prepared at year end.

## **Audit**

Depending on the size of the business carried out in Sweden, it could be a requirement to appoint an auditor according to Swedish law. There are certain thresholds to consider in this respect. If a company or a branch has exceeded at least two of the following criteria in the last two financial years, it is required to appoint an auditor:

- Average number of three employees
- Balance sheet total of more than SEK 1.5 million
- Net turnover of more than SEK 3 million

For certain financial activities, an auditor is always required



***For more information about doing  
business in Sweden please contact:***

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