

Sweden continues to be an interesting location for global investment.

However, there are a number of issues which you must consider when you are looking to set up your business in Sweden. This document takes you through some of the common questions we come across and gives you practical information about the issues you need to consider.

What type of Business Structure should we use?

There are advantages and disadvantages to all of them, and there is no one correct answer, it's all dependent on your specific business circumstances and needs. A brief overview of the main structures is below:

Establishment (a branch of your overseas business)

- Not a separate legal entity but an extension of the overseas parent company
- No limited liability or ring-fencing of the Swedish operations
- If have a permanent establishment in Sweden then profits from this PE are liable to Swedish Corporation tax
- Must prepare an annual report for each financial year. The annual report has to be prepared within seven months of the fiscal year.
- Must file **parent company accounts**, prepared under Swedish Company Law, at Companies House ("Bolagsverket") for public inspection, but not if these are not made publically available overseas. Establishment accounts must be prepared in or translated into Swedish. Parent company accounts must be filed and prepared in Swedish, English, Danish or Norwegian or translated into Swedish.

Limited Company:

- Provides limited liability and ring-fencing to Swedish operations
- Gives a perception of a local business, with longevity
- Corporation tax to be paid on company profits
- The minimum share capital requirement is 50 000 SEK
- Must prepare an annual report for each financial year. The annual report has to be prepared within six months after the fiscal year.
- Accounts require auditing if two of the following conditions are met for two consecutive years. Audit is then required from year three.
 - turnover > 3 MSEK
 - total assets > 1,5 MSEK
 - number of employees > 3

If the company is a parent company of a group, accounts require auditing if the conditions above are exceeded by the group as a whole.

Limited Liability Partnership:

- Members (partners) have limited liability
- At least one partner must have unlimited liability
- There is no requirement on minimum capital
- Profits are allocated to members who then pay Income Tax on these profits personally
- The tax residence of the member, and where the profits in the LLP originated will determine in what jurisdiction and how these profits are taxed

How much Corporation Tax will the business pay?

Current Corporation Tax rates in Sweden are 22 %.

The tax rate is flat. Group contributions can be made between two Swedish companies in the same group in order to equalize the taxable profit. There are rules that limit the deductibility of interest expenses that are not taxed by the recipient. 25 % of the profit may be postponed for up to six years. Losses may be carried forward to offset against future profits.

What if we use Sweden to set up our holding company?

Sweden's tax legislation means that it is an attractive place to set up a holding company.

Dividends and gains from unlisted companies are tax free, whether they are from Sweden or abroad.

Withholding tax is not levied on dividends paid to (among other) parent companies in EU.

Group relief can be granted by the Swedish parent company for losses in companies abroad who are liquidated.

What if we make cross-border transactions between group companies?

Sweden follows internationally recognised **Transfer Pricing** (TP) rules where cross-border trading and financial transactions between affiliated entities have to be conducted on an arm's length basis. The price and terms should be the same as if the transactions had been between completely independent parties.

Typical transactions between affiliated entities that are covered by TP regulations are:

- Sale and purchase of goods
- Provision of management services

- Property rental charges
- Transfer of intangible assets e.g. trademarks, patents
- Sharing of knowledge, expertise, business contacts etc.
- Provision of financial support e.g. inter-group loans and charging a “market” interest on loans

A business will need to prepare a Transfer Pricing Report proving the arm’s length basis of transactions. The report will include a functional and risk analysis, analysis of the adopted pricing model and benchmarking of the arm’s length basis.

The company should be able to compile the documentation if the tax authority asks for it.

What Employment Taxes and Social Security will need to be paid?

If an individual is resident in Sweden then they are subject to Swedish tax laws. A person is considered tax resident in Sweden if he/she has a substantial relationship to the country, such as by a primary residence or running a business.

We would advise any new entrant to Sweden or person who spends time working in Sweden to take professional advice to determine whether they are Swedish tax resident.

Current Personal Income Tax rates in Sweden are:

Band of income (SEK)	Tax rate (%)
0 – 452,100	in average 32 (29,96 – 36.74)
452,200 – 651,600	in average 52 (municipal tax +20 %)
Over 651,700	in average 57 (municipal tax +25 %)

(NB: rates are for the tax year ending 31/12/2017)

Income in the lowest interval depends on the municipality in which the employee resides.

All wage earners are entitled to a basic allowance. The basic allowance varies with level of income and range from 13,200 to 34,500 SEK. Revenue over 352,300 SEK permits an allowance of 13,200 SEK.

Employers also have to pay Swedish social security, which is called “arbetsgivaravgift”:

Current Social Security rates are:

		Rate (%)
Employer	Employee born in or before 1937	6,15
	Employee born 1938-1951	16,36
	Employee born 1952 or later	31,42

Employees do not have to pay any Swedish social security.

NB: (rates are for the tax year ending 31/12/2016)

It is the employers' legal responsibility to pay employee's tax and social security deductions to the Swedish tax authorities.

Sweden has a Reciprocal Agreement with the USA, EU countries and many others whereby when an overseas national of those countries is seconded to Sweden for a defined period of time and continues to pay social security in their home country, then the employer and employee are exempt from paying Swedish social security.

What is Value Added Tax (VAT) and should the business be registered?

VAT is a "goods and services tax" on supplies made, the standard rate of which is 25 %. Specific supplies of goods or services are subject to 12,6 or 0 % VAT. If a business makes taxable supplies it must be registered for VAT.

There are three types of supply

- Taxable – must charge VAT on supplies, can reclaim input VAT
- Exempt – cannot charge VAT nor reclaim input VAT
- Outside the scope – not in the Swedish VAT system

The supply of most types of goods and services in Sweden to a Swedish customer would be classed as taxable supplies.

If a Swedish entity sells goods or provides services to a business customer abroad then there is no VAT chargeable on this overseas supply, however on the basis that the supply would be VAT'able if made in Sweden then the entity will be able to reclaim all its input VAT.

Can we provide Share option plans to our staff?

Many companies see Share Option plans as being an important way of attracting, motivating and retaining key staff.

In Sweden, the opportunities to offer share option plans with tax benefits are limited. All types of special offers to staff are taxable like salary.

However this is a very technically complex area and careful planning needs to be undertaken as soon as share option plans are being considered for implementation in Sweden.

How else can we compensate our employees?

Pensions as well as life and disability cover are now commonplace benefits provided by most Swedish businesses to their workforce.

Setting up your Business in Sweden

Issues to consider



Also private medical insurance, company car, parental leave benefits and gym membership are provided by many Swedish businesses.

To discuss your requirements please contact the International Office on +44 (0) 1245 449266 or email us directly.

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