

If you are planning on doing business in Sweden knowledge of the investment environment and information on the legal, accounting and taxation framework are essential to keep you on the right track...



# Foreword

Grant Thornton Sweden AB is a leading advisor to entrepreneurial businesses in Sweden. We help business owners achieve success and reach their ambitions. The firm comprises 850 employees and partners in 28 offices around Sweden and core services are Assurance, Accounting, Business Consulting, Corporate Finance Services and Tax.

We bring together expertise through Grant Thornton International, one of the world's leading organisations of independently owned and managed accounting and consulting firms providing assurance, tax and specialist advisory services to privately held businesses and public interest entities around the world. All member and correspondent firms of Grant Thornton International share a commitment to provide the same high quality service to their clients wherever they choose to do business. Clients can benefit from the knowledge and experience of more than 2,400 partners in over 100 countries.

Member and correspondent firms focus on helping the individuals who own the businesses they manage reach their personal and business goals by providing practical, customised solutions and identifying and pursuing business opportunities domestically and internationally. Experienced professionals combine invaluable local market knowledge with technically advanced systems to help businesses prosper in today's highly competitive international markets.

If you require any further information, please do not hesitate to contact your nearest Grant Thornton office.

This guide has been prepared to facilitate for those interested in doing business in Sweden. It does not cover the subject exhaustively but is intended to answer some of the important, broad questions that may arise. When specific problems occur in practice, it will often be necessary to refer to the laws and regulations of Sweden and to obtain appropriate accounting and legal advice. This guide contains only brief notes and includes legislation in force as of January 2008.

# Country Profile

## Geography and population

Sweden is situated in Northern Europe –bordering the Baltic Sea, Gulf of Bothnia, Kattegat, and Skagerrak – between Finland and Norway. With an area of 450,000 square kilometres, it is the fifth largest country in Europe. Its landscape varies from the mountains in the north to the lowland in the south.

Stockholm is the capital of Sweden, as well as its largest and most important city. Other major cities include Gothenburg, Malmoe and Uppsala.

Sweden's climate is temperate but varies somewhat between north and south. The weather in Stockholm is generally mild, with an average temperature of +18°C in mid-summer and +2°C in winter (Kiruna +13°C in mid-summer and -13°C in winter).

The population is just over 9 million and the number of habitants per square kilometre is 22. Stockholm, together with its surrounding areas, is the most densely populated part of the country, with over 1.9 million people. Approximately 86 percent of the population lives in towns and some 85 percent live in the southern half of the country.

## Political and legal system

Sweden is a constitutional monarchy with a parliamentary system of government. The functions of the monarchy are representative and symbolic. According to the constitution, all authority is vested in the people. Its representatives are the 349 members of parliament, the Riksdag, which is unicameral and decides upon all legislation and on the annual state budget. The Riksdag is responsible for choosing the prime minister, who then appoints the government (the ministers). General elections are held every fourth year and the voting age is 18, which is also the lower age limit for election to the Riksdag.

The executive power is exercised by the ministries, each with a minister as its political head, while the judiciary is independent. Other governmental bodies are the public executive boards headed by director generals appointed by the government, and the 21 county administrative boards (Län), led by county governors who are also appointed by the government. The public executive boards are entrusted with much of the executive business of government which elsewhere is carried out by ministries.

## Language

Besides Swedish, the most common business language is English. Historically, French and German have been largely taught in schools and one of the two is often understood by many business leaders. Among younger people Spanish is more widely spread than German. Immigrant languages also include Arabic, Assyrian, Finnish, Greek, Serbo-Croatian, Spanish, and Turkish.

Swedish is widely understood in Denmark, Finland, and Norway.

## Business hours/time zone

The normal workweek is 40 hours, Monday to Friday. Businesses and industry are normally closed on paid public holidays.

Sweden is one hour ahead of Greenwich Mean Time and operates a summer-time system (daylight saving time) between the ends of March and October, when clocks are advanced by one hour.

## Public holidays

The public holidays (in 2008) occur on the 1<sup>st</sup> of January, 6<sup>th</sup> of January (Epiphany), 21<sup>st</sup> of March (Good Friday), 24<sup>th</sup> of March (Easter Monday), 1<sup>st</sup> of May (May Day), 6<sup>th</sup> of June (National Day), 21<sup>st</sup> of June (Midsummer Day), 31<sup>st</sup> of October (All Saints Day), 25<sup>th</sup> of December (Christmas Day) and 26<sup>th</sup> of December (Boxing Day). Some holidays occur on different dates from year to year.

## Economy

Aided by peace and neutrality for the whole 20th century, Sweden has achieved a considerable 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. Timber, hydropower and iron ore constitute the resource base of an economy heavily oriented toward foreign trade. Privately owned firms account for about 90% of industrial output, of which the engineering sector accounts for 50% of output and exports. Agriculture accounts for only 2% of GDP and 2% of the jobs. The independent Swedish central bank (Riksbanken) is focusing on price stability with an inflation target of 2%, and a tolerable interval of plus/minus 1 percentage.

## Economic growth

GDP Growth Q1 2008:	2.2 %
Inflation Jan 2008:	3.2 %
Unemployment rate Jan 2008 (age 15-74):	6.4 %
GDP 2007 (purchasing power parity):	SEK 3,074 billion
Per capita income 2007 (purchasing power parity):	SEK 333,270

# Regulatory environment

## Restrictions on foreign ownership

There are no restrictions for foreign owners of Swedish limited liability companies. In general, no operating licenses are required to conduct business in Sweden, with the exceptions for specific areas such as insurance, banking and financial services. Investors approved by other EU countries may, however, benefit from mutual recognition of such licenses. Furthermore, Swedish law allows limited liability companies with only one owner. Hence, wholly-owned subsidiaries are permitted.

## Real Estate

Due to outstanding liquidity, high transparency, low transaction costs, investor-friendly business procedures and multiple financing alternatives, Sweden is one of Europe's most favored foreign investment markets for real estate.

Moreover, in order to harmonise with the EC law, EU members do not need to apply for governmental permission to acquire Swedish real estate property unless it is property for forestry, agricultural or recreational purposes.

## Government approvals and registration

No government approval is needed for most lines of business. An exception is the field of financial and insurance services. These businesses need approval from the Financial Supervisory Authority (Finansinspektionen or FI).

## Competition rules/consumer protection

The Swedish Competition Authority (Konkurrensverket) oversees that corporations adhere to the Competition Act. The act is nearly identical to the EC rules in order to make Swedish undertakings subject to the same set of rules. The act sets out a prohibition against anti-competitive co-operation and a prohibition against abuse of a dominant position.

The Competition Authority has the right to order an undertaking to terminate infringements of the prohibitions under penalty of a heavy fine. Furthermore, agreements or provisions in agreements, which violate the prohibition against anti-competitive behaviour, will be void. An undertaking may also be liable to pay compensation to an aggrieved party if it infringes the prohibitions against anti-competitive co-operation or abuse of a dominant position.

### Import and export controls

The only restrictions in Swedish legislation on imports or exports are those applying within the European Union. However, in order to import certain commodities, e.g. agricultural and chemical products or textiles, a permit or an import licence might be required. Other examples of goods for which permits are required are arms, hypodermic syringes and needles, pharmaceuticals, animals and plants of endangered species, wine and spirits.

In order to protect a patent, trademark, trade name or a design an application must be submitted to the Patent and Registration Office (Patent- och Registreringsverket or PRV) or any other relevant international authority.

### Customs duties

The EU has a common customs system. No customs duty or Value Added Tax (VAT) is payable when goods are imported from other EU members states.

Imports from countries outside the EU are charged with 25 % import VAT, which is payable to the Customs Authority and deductible in the VAT return.

### Price controls

There is no general control over prices. However the Competition Authority may carry out investigations to prevent monopoly situations.

### Use of land

The use of land is closely regulated and it is generally necessary to obtain planning permission from the local government for real estate development.

### Exchange control

There are no exchange controls. However, all payments (except proceeds from the sale of a business) exceeding SEK 150,000 must be reported to the Tax Authorities for statistic purposes.

Remittance of profits abroad is free and only subject to a reporting requirement. A Swedish distributor of dividends to a receiver abroad is required to withhold 30 percent of the amount, unless otherwise specified in the double taxation treaty. No withholding tax is levied on interest payments. Payments of licence fees and royalties are not subject to any withholding tax nor does it require any authorisation, however this income may be considered as income from permanent establishment in Sweden. Group payments etc. concerning contributions to common overhead costs do not require any authorisation.

No authorisation is required for borrowing in Sweden and there are no restrictions for lending from or to a foreign company. In principle there are no restrictions for foreigners holding bank accounts in Sweden or for residents holding bank accounts abroad.

### Governmental incentives

In spite of the absence of general financial incentive structures for foreign investments in Sweden, an investment in development areas may be granted interest free loans by the state or a reduction of the social security contributions for personnel working in these areas. The development areas comprise most of Norrland and parts of neighbouring counties.

Other incentives may be granted for domestic and foreign investors by the Regional Development Companies (Utvecklingsbolagen), the Swedish National Board for Industrial and Technical Development (NUTEK), the Swedish Export Credit Corporation (AB Svensk Exportkredit) and the Swedish Export Credits Guarantee Board (Exportkreditnämnden).

# Finance

## Banking system

The entire Swedish financial sector – including credit institutions, securities markets, fund management companies, mutual funds, leasing and insurance companies – is supervised by the Financial Supervisory Authority (Finansinspektionen or FI). The Financial Supervisory Authority issues permits, drafts insider trading regulations and issues accounting guidelines and regulations.

The main Swedish business banks are Nordea, SEB, Swedbank and Handelsbanken. Larger international banks are represented as well. Almost all banks provide qualified banking services such as Internet banking, cross border payments, supplying foreign currency, credit cards, leasing agreements, different types of loan etc.

## Capital markets

The official capital market is the OMX Nordic Exchange. Following the 2003 merger between the Swedish and Finnish stock exchanges, and the 2005 acquisition of the Copenhagen Stock Exchange, a common Nordic List was formed in 2006. Alongside, a Baltic list was formed and the intention is to merge them in the future.

The Nordic List is divided into three segments: Large Cap, Mid Cap and Small Cap.

The Large Cap segment comprises Nordic companies with a market value exceeding EUR 1 billion. Companies with market values between EUR 150 million and EUR 1 billion are presented in the Mid Cap segment and in the Small Cap segment companies with market values lower than EUR 150 million are listed. The segment classification is subject to review every six months, on the 1<sup>st</sup> of January and 1<sup>st</sup> of July. It is based on the companies' weighted average market cap in May and November. Companies that for example have engaged in acquisitions or mergers can as a result, between the two reviews, be moved to another segment.

Each segment is, furthermore, subdivided into ten different sectors where the companies are presented according to what trade or industry they mainly operate within, which facilitates the analysis of companies' development within a certain branch of trade or industry. The sector classification follows the international standard GICS (Global Industry Classification Standard), a classification instrument used on exchanges world-wide.

In brief, the following is required for a listing on the Nordic List:

- at least three years of verifiable business history
- documented profit-earning ability or financial resources for 12 months ahead
- 25 % of the share capital must be held in public ownership

- specific requirements concerning the company's organisation, management and board must be fulfilled

For more information, see <http://www.omxgroup.com/nordicexchange>

Trading is conducted in the local currency of the country where the company is listed, i.e. companies listed on the exchange in Helsinki are listed in Euro and companies on the exchange in Stockholm are listed in Swedish krona.

In addition to the OMX Nordic Exchange, there are two smaller marketplaces (MTFs) with lower requirements and less stringent regulations: First North (formerly Nya Marknaden) – a market for smaller high-growth companies in the Nordic region – and Aktietorget, with a focus on developing entrepreneurial businesses.

### Other sources of financing

Sweden has developed a strong venture capital industry and there is a Swedish venture capital association (SVCA), member of the European equivalent (EVCA), providing a platform for interaction between entrepreneurs and venture capitalists. Alongside the venture capital industry, seed and start-up stage financing is commonly provided by business angels, whereas established banks and finance houses, both domestic and international, are offering various funding alternatives at later stages.

The state-owned firm ALMI Företagspartner promotes the development of competitive small and medium-sized businesses as well as stimulates new enterprises by offering a unique combination of financing and business development services.

# Business entities

## Business entities

The most common legal business entities are

- limited liability company
- sole proprietorship
- branch
- trading partnership / limited partnership

All the above entities must be registered with the Swedish Companies Registration Office (Bolagsverket) which also administers filed accounts.

## Limited liability company (Aktiebolag or AB)

### **Establishing a corporation**

A company must be formed by one or more promoters who are resident within the EEA (European Economic Area). The Swedish Board of Commerce (Kommerskollegium) may grant exceptions. In order to form a company a deed must be drawn and signed by the promoter(s), containing draft articles of association and the amount to be paid for each share. Once the deed has been drawn and signed, the company should not commence its business activity until Swedish Companies Registration Office has registered it.

The most common way of starting a business in a company limited by shares is by buying an already formed company off-the-shelf. This can usually be done in a day, although formal registration matters may take 3-8 weeks.

### **Capital stock and shareholders**

The minimum share capital differs between publicly held companies, SEK 500,000, and privately held companies, SEK 100,000. The main difference between a public company and a private company is that a public limited company by its constitution is allowed to offer its shares to the public.

The contribution of share capital may be in cash or in kind (special provisions apply) and must be fully paid in order to be registered. An increase of the share capital can be made in four different ways; either through a bonus issue of shares (fondemission), through a new share issue (nyemission), through a convertible bond issue, or through an issue of share warrants.

The company may issue different kinds of shares. All shares must have the same ratio (kvotvärde), but they can deviate regarding preference to dividend and voting power. Voting power difference may not exceed the relation ten to one. All information about the shares must be regulated in the articles of associations. The articles of association may contain provisions that limit the right to transfer shares to others. This can be 1) a consent clause requiring the Board of Directors' consent prior to transfer, 2) a pre-emption clause requiring the shares to be offered to other shareholders prior to transfer, or 3) a first refusal clause requiring a purchaser to offer purchased shares to the other shareholders, or a combination of either of the three.

The board of directors must keep a register of all the shares and shareholders. This register is public information. For companies with a large number of shareholders, the Securities Register Centre (Värdepapperscentralen or VPC) can handle such a register.

### **Management and officers**

The board of directors and the managing director are in charge of the company's activities. The board of directors in a Swedish limited company shall consist of at least three members. If the company is a privately held company, the board may consist of only one or two members with at least one deputy member.

Board members are usually elected for the period up to the end of the next annual general meeting of shareholders. The period for which the board is elected is called their term of office and can be a maximum of four financial years although the most common term is one year. It is, of course, possible for a board to be re-elected for a new term of office. If the ordinary board members cannot carry out their tasks, the deputy members replace them. The board is authorised to sign on behalf of the company. If no other specific form of signatory power is registered loan contracts, agreements etc are signed by all board members jointly.

The employees in a limited company can be represented on the board, if the provisions of the Act on board representation for employees in the private sector apply.

If the board consists of more than one member, the board shall always elect a chairman from among its members. This person is to lead the work of the board and ensure that the board carries out its task. The name of the chairman of the board shall be reported to Swedish Companies Registration Office for registration.

In public companies, the board of directors must always appoint a managing director, who must not be chairman of the board at the same time. In private companies, on the other hand, the board has the option to appoint a managing director without this restriction. The managing director has always the signatory power regarding continuous business matters.

The managing director, at least half of the board members and at least half of the deputy members must be resident within the EEA (European Economic Area). However, if these requirements are not met, the company may submit an application with the Swedish Companies Registration Office for exemption.

Furthermore, if none of the company's authorized representatives is resident in Sweden, a Swedish resident must be appointed to receive service of process on behalf of the company.

## **Dissolution**

A company can be dissolved by a merger, a bankruptcy proceeding or a voluntary or compulsory liquidation. The Companies Act makes a distinction between a merger through absorption or by combination. Irrespective of which type of merger it is necessary that a detailed merger plan is drawn up and reviewed by the companies' auditors. The plan must be approved by the general meeting of shareholders of the acquired company (special provisions apply). A merger may be affected by the Competition Act.

## **Accumulated deficit**

There are no thin capitalisation rules in Sweden. However, the Companies Act requires certain action to be taken if the company's equity is (or can be assumed to be) below 50 percent of the registered share capital. There is an eight month respite to resolve such a situation.

## **Equity protection rules**

There are several rules protecting a limited liability company's equity for the purpose of minorities and creditors. These rules restrict the ability to pay dividends or transfer values from the company. In brief a dividend or value transfer may never result in that restricted equity is impaired.

## **Legal and other reserves**

For a limited company it is optional to allocate funds to a statutory reserve each year. If funds are allocated to the statutory reserve, they cannot be distributed to the shareholders.

The statutory reserve may be reduced in order to cover the deficit in equity if there are no distributable reserves in the company. It may also be reduced to increase the equity through a bonus issue of shares (fondemission) or as a new share issue (nyemission).

## **Sole proprietorship (Enskild firma)**

### **General Sole trader**

A sole proprietorship, or sole trader, is a type of business entity which legally has no separate existence from its owner, and the registration number of the entity is the owner's personal identification number. It is a "sole" proprietorship in the sense that the owner has no partners and has sole responsibility for any debts incurred by the business. Each year accounts have to be prepared for the financial year, which is equivalent to the calendar year, and any income has to be declared in an appendix to the personal tax return. Normally there is no audit requirement for sole traders.

## **Foreign company branch office (Filial)**

### **General foreign company branch office**

Foreign companies with business in Sweden can, instead of, or along-side, registering a Swedish subsidiary, register a branch office with the Swedish Companies Registration Office. The branch is considered a sub-office of the foreign company, with its own independent administration in Sweden. It is only allowed to register one branch per

company, but there are by all means no restrictions regarding the quantity of offices or their locations in the country. The branch is a part of the foreign company, and not a separate legal entity, which means that it does not have its own share capital, assets or debts. Thus, the foreign company is fully responsible, without any limitation to the branch's assets in Sweden, for all commitments entered by the branch.

The branch must comply with Swedish law and decisions made by Swedish authorities concerning legal matters that arise in connection with the business run in Sweden. A managing director resident in the EEA has to be appointed. In case the managing director has a non-Swedish residency, a Swedish resident must be appointed as a writs receiver on behalf of the branch. Furthermore, a separate, independent bookkeeping is mandatory, where the financial year is to be ended with an annual report. Branches are subject to statutory audit and must file their accounts with the Swedish Companies Registration Office and pay tax.

## Partnerships

### **General partnership (Handelsbolag or HB)**

A trading partnership is a business run by two or more partners. It becomes a legal entity on its registration with the Swedish Companies Registration Office and there is a certain dividing line between the enterprise and its owners. Still, even though the trading partnership is a legal entity, the partners are jointly and severally liable, i.e. a claimant may pursue an obligation against any one party as if they were jointly liable and it becomes the responsibility of the defendants to sort out their respective proportions of liability and payment.

The income from the partnership is to be declared in each partner's personal tax return on a pro rata basis. A partnership must keep accounts and statutory audit is required if one partner is a company that is subject to statutory audit. The Partnership Act applies in most cases only if the parties forming the partnership have not agreed otherwise, giving the parties substantial freedom in arranging their affairs. Normally a partnership agreement is signed in order to regulate the affairs of the partnership and/or to avoid the provisions of the Partnership Act.

### **Limited partnership (Kommanditbolag or KB)**

Most of what applies to a trading partnership also applies to a limited partnership – with certain exceptions. The main difference is that, in a limited partnership, there are two different kinds of owners: those with limited liability – limited partner(s) (kommanditdelägare) – and at least one with unlimited liability – general partner (komplementär). The general partner can be a limited liability company. For limited partners the economic risk is limited to their investment in the enterprise.

## Joint Venture

There is no legal entity called a joint venture in the Companies Act or any other Act. However, a joint venture would be regarded as an unregistered partnership for which most of the provisions in the Partnership Act apply.

### Trust (Stiftelse)

Trusts are regulated in the Trust Act. A trust is formed if the founder designates separate and independent property for certain use. The administration of the trust may be carried out by a board of trustees, a legal entity, a provincial or federal government agency. A trust is either a privileged trust, family trust or other type of trust. Only privileged trusts are tax-exempt. Trusts are normally not used by foreign companies in their business operations in Sweden.

# Labour

## Wages

In 2007 average gross monthly wages were approximately:

-blue collar SEK 20,500

-white collar SEK 30,200

Regional differences apply.

Annual increase in wages for both groups was approximately 3.3% in 2007.

Salary is commonly paid monthly on the 25<sup>th</sup>.

## Profit sharing

A profit sharing agreement is a voluntary agreement between the employer and the employee.

## Social security costs

Employers are by law obligated to pay an employment payroll tax consisting of contributions for pensions, health insurance, and for other social benefits. Employers' statutory social contribution in 2008 amounts to 32.42% of wages (including taxable fringe benefits).

As of January 1<sup>st</sup>, 2007, a reform program called "New Start Jobs" was launched. Under the program the statutory employers' contributions are completely waived – for a period of time equal to the duration for which the newly employed was previously unemployed, but no longer than 5 years – for people who have been receiving unemployment benefits, sickness benefits, a disability pension, or a social allowance for more than one year (six months for youth).

Employers' contribution also includes the cost of insurance under different collective agreements or, in the absence of collective agreements, under one of the many private insurance alternatives. Depending on whether the employees are wage-earners or salaried employees the total employers' contribution amounts to 38.72% and 44.33% respectively.

## Pensions

Most employers pay pension contributions for their employees in accordance with the collective agreements. The employer's cost is approximately 8 percent of the salary for white collar workers and 6 percent for blue collar workers (special employer's contribution excluded). Pension contributions are usually managed by external pension

funds, and holdings are paid out from the time of retirement (generally at the age of 65).

In addition, the employee pays a so-called general pension fee (allmän pensionsavgift) of 7 percent, which is included in the income tax, and is deducted by the employer along with the preliminary tax.

### Tax relief for foreign key personnel

The tax relief legislation provides an additional advantage to foreign companies with Swedish operations in need of foreign expertise. In brief:

- Applies to foreign experts, executives, scientists, researches and others whose skills are difficult to find in Sweden
- Income taxes are based on only 75 percent of income
- Tax relief is granted for a maximum of three years
- The employer must be a Swedish company (ownership may be either Swedish or foreign)

### Fringe benefits

Fringe benefits are valued at market price and are subject to social security costs.

### Holiday pay

Under the Annual Leave Act employees are entitled to 5 weeks paid holiday (25 working days). Additional weeks may be negotiated between the employer and the employee.

### Sick pay

An employee who becomes sick receives sick pay (80 percent of ordinary salary) from the employer during the first 14 days, after a qualifying period of one day. After 14 days the sick pay, although capped, is received from the Swedish Social Insurance Agency (Försäkringskassan), in addition to any sick insurance negotiated between the employee and the employer.

### Healthcare

Many employers provide employees with a private health care insurance. However, all Swedish residents are entitled to health care through the social insurance system.

### Employment protection legislation

Individual employee rights are governed by the Employment Protection Act. The main issues covered include:

- the minimum period of notice required for the termination of contracts
- the order of dismissal (last in – first out principle)
- protection against unfair dismissal
- the provision of written terms and conditions of employment

## Unions

The trade unions hold a strong position in the Swedish labour market and about 72 percent were member of various unions in 2007. Furthermore, approximately 90 percent of wage earners (generally “blue collar” workers) and 70-80 percent of salaried employees (generally “white colour” workers) are covered by collective agreements through their employments.

## Personnel limitations

European Union citizens are not required to have a permit in order to work in Sweden. Other foreign nationals, however, must generally apply for work permits issued by the Swedish Migration Board.

# Financial reporting and audit

## Domestic corporations

### Accounting standards – General

Accounting standards in Sweden have historically been very tax driven, and still are to a large extent, for legal entities. The framework consists of the Accounting Act (Bokföringslagen) and the Annual Accounts Act (Årsredovisningslagen). Where these acts do not give specific guidance reference is made to “general accepted accounting standards” which is set out by the Swedish Accounting Standards Board (SASB / Bokföringsnämnden or BFN), the Swedish Financial Accounting Standards Council (SFASC / Redovisningsrådet) and FAR SRS – the Institute for the accounting profession and the Swedish association of auditors. Guidance may, and in some cases should, also be sought in international standards when no specific domestic recommendations exist.

There are several applicable general accepted accounting standards:

- Annual Accounts Act in combination with guidance from SASB; mainly applicable to small companies (K1 + K2)
- Annual Accounts Act in combination with guidance from SFASC; mainly applicable to large private companies (K3) and listed legal entities (K4)
- Annual Accounts Act in combination with guidance from SASB and SFASC; mainly applicable to medium-sized to large private companies (K3)
- Annual Accounts Act and IFRS; applicable to listed companies’ consolidated accounting

Thus, we recommend a reader of financial reports and information to first of all determine which GAAP that is applied by the specific company, as it can have significant effects on revenue, equity, key ratios etc.

The SASB issues recommendations for legal entities. These may differ from SFASC standards and IFRS. Effective 2005 the SASB has assumed responsibility for the SFASC standards. These standards will still be of importance to listed legal entities and to companies that voluntarily apply them for some time to come.

FAR SRS has issued guidance mainly on the preparation of accounts in accordance with the Annual Accounts Act.

### Accounting standards – Listed companies

Effective on financial years starting after 31 December 2004 Swedish listed companies must apply International Financial Reporting Standards, IFRS, including International Financial Interpretations, IFRIC, in their consolidated accounts. The SFASC provides

guidance on how the listed companies should apply IFRS in the parent company as the accounting policies of some of the IFRSs, foremost valuation at fair value, are not allowed under the Annual Accounts Act.

### **Audit requirements**

Under the Companies Act, the annual report of a limited liability company must be audited regardless of size. The Auditing Standard (RS Revisionsstandard i Sverige) is a framework regarding assurance engagements and is based on International Standards of Auditing (ISA).

The auditor(s) are usually elected at the annual general meeting of shareholders for a term of four years. An auditor who resigns or is replaced at another time than the statutory election must report this and any material findings to Swedish Companies Registration Office.

A minority of at least ten percent of the shareholders can appoint a minority auditor.

### **Filing/publication requirements**

Company accounts must be filed annually and are available to the public when filed. Latest day for filing is seven months after the financial year-end. Penalties for late filing are (in SEK):

Time of filing after financial year-end, Public company / Private company:

- Later than 7 months 10,000 / 5,000
- Later than 9 months<sup>1</sup> 10,000 / 5,000
- Later than 11 months<sup>2</sup> 20,000 / 10,000

If accounts are not filed within 11 months the Swedish Companies Registration Office can force a liquidation of the company. Such a decision cannot be reversed.

## Branches of foreign companies

### **Accounting standards**

The same standards apply for branches of foreign companies as for domestic companies.

### **Filing/publication requirements**

It is the responsibility of the managing director to arrange for the following documents to be sent to the Swedish Companies Registration Office within seven months after the end of the branch's financial year:

- the annual accounts and auditor's report for the branch.
- the annual accounts and auditor's report for the foreign company, if these are public documents in the company's country of origin.

Foreign companies with a branch in Sweden, which have a legal form comparable to the Swedish company limited by shares (and which is subject to legislation in another EEA member country), are not obliged to submit their annual accounts and auditor's report to the Swedish Companies Registration Office. However, when the accounts for the foreign company have been made public in the country of origin, they must be

<sup>1</sup> Formally two months after the decision of the first penalty

<sup>2</sup> Formally two months after the decision of the second penalty

submitted to the Swedish Companies Registration Office. Normally, the documents must be written in or translated into Swedish or English.

#### Audit requirements

A branch's accounts and the managing director's administration are to be examined by an authorised or approved public accountant.

# Tax

## Companies

### Liability to tax

Corporations resident in Sweden are subject to national income tax on their worldwide income. Resident corporations are those registered in Sweden. A non-resident corporation is subject to national income tax on profits from capital gains on real estate in Sweden and from business operations carried on in Sweden, as defined by law and as modified by tax treaties. Generally, a non-resident corporation will be deemed to carry on business operations in Sweden only if it maintains a permanent establishment in Sweden.

### Tax rates

Swedish companies limited by shares and non-resident corporations which carry on business operations from a permanent establishment in Sweden pay only national income tax (statlig inkomstskatt), at the rate of 26,3 percent from 2009 (for 2008 the rate is 28 percent), on the net income (the tax base). An individual who operates a business as a sole trader pays municipal, national income tax and social security on the net income from the operation.

### Tax base

Taxable income is based on the profits reflected in the annual income statement with adjustments as provided by law. Normal business expenses incurred to obtain and maintain the corporation's income can be deducted from gross income when determining taxable income.

Inventories are valued in accordance with the FIFO principle. The main rule is valuation at the lower of cost or market at the date of the balance sheet. There is an alternative right to a standard deduction for obsolescence through a valuation at 97 percent of the inventory's total acquisition value.

Corporations have the option of depreciating machinery and equipment by book depreciation or remainder-worth depreciation. Book depreciation permits a corporation to deduct as much depreciation as it chooses, not exceeding the higher of two alternative ceilings. Depreciation in any one year is limited to either a 30 percent declining balance rule expressed as a percentage of depreciation book value (räkenskapenslig avskrivning), or a 20 percent straight-line rule, expressed as a percentage of costs (kompletteringsregeln). The corporation has the option of choosing whichever alternative permits the larger depreciation deduction for each year; the rule applied in any particular year must be applied to the entire pool of machinery and equipment for that year. The amount deducted for tax purposes must be the same as the amount written off in the books.

Under remainder-worth depreciation, the non-depreciated value for tax purposes from last year is added to purchases for the current year. Of the total, 0 - 25 percent may be deducted at the taxpayer's discretion (restvärdesavskrivning). There are no requirements that the tax depreciation shall be the same as the amount written off in the books.

Depreciation of buildings is calculated using straight-line rates based on estimated useful lives: heavy industrial buildings at 4 percent; office buildings at 2 percent; and light industrial buildings normally at 3 percent.

Certain costs such as non-deductible entertainment costs, penalty fines or arbitrary provisions for bad debts are non-deductible and must be reversed in the tax return.

### **Capital gains on shares**

Sweden has introduced a new tax regime, which makes Sweden an attractive location of holding companies.

The tax benefits of establishing a Swedish holding company can be summarised as follows:

- No taxation of capital gains on shares,
- No taxation of dividends received,

The exemption of tax on capital gains and dividends received apply only to business-related shares (do not apply to shares held as inventory). Unquoted shares are always considered as held for business reasons. Quoted shares are considered held for business reasons provided that the holding corresponds to at least 10% of the voting rights, or the shares are held in the course of the business. An additional condition regarding quoted shares is that the shares must have been held for a period of 1 year. Shares in foreign companies can also qualify as shares held for business reasons if the foreign company is a limited liability company and is subject to taxation in the country in which it is established.

Capital losses on business-related shares are not deductible. Capital losses on shares that are not business-related are deductible but may only be offset against gains on other non-business-related shares (no restriction on shares held as inventory).

### **Tax allocation reserve**

Companies are entitled to a provision of 25 percent of the tax base to a Tax Allocation Reserve each year. The fund must be reversed after six years and the reversal is then included in the base for the seventh year's provision. This gives an effective tax rate of approx. 21 percent the first six years and then varies depending on the difference between the reversed provision and the provision charged for the year.

### **Groups**

Swedish tax law contains provisions for the shifting of profits openly between affiliated resident companies (Koncernbidrag). The most important conditions are: 1) the parent company must hold more than 90 percent of the shares in the subsidiaries for the entire income year; 2) the payer and the recipient companies must make full disclosure in their tax returns of the contribution during the same year. 3) The contribution must be reflected in the annual profit and loss statement of the companies involved.

### **Payment dates and tax returns**

The tax year for corporations ends on 31 December. The basis of assessment for corporations is income for the most recent accounting period ending on or before 31

December. The tax return must be filed by 2 May the following year (tax year). In 2008 the due date for filing is 5 May.

All companies subject to Swedish corporate tax pay their corporation tax liability in instalments. The instalments are paid the 12<sup>th</sup> every month after the start of the accounting period.

### **Use of losses**

A net operating loss is carried forward to the following year and is accumulated or diminished depending on the following year's result. Losses may not be carried back. The loss carry-forward can be disallowed, wholly or partially, if the ownership of the company has changed. There is no time limit for losses carried forward.

Special rules apply to losses on capital.

### **Dividends**

Dividends received from business-related shares are tax free.

### **Withholding taxes**

Dividends paid to a foreign company are exempt from withholding tax if the income tax of the foreign legal entity is comparable to Swedish taxation and the shares are held for business purpose. Furthermore, dividends paid by a resident company to a company resident in the European Community are normally exempt from withholding tax if the recipient company holds at least 10-20 percent of the share capital of the Swedish company.

In other cases a final withholding tax of 30 percent applies to dividends paid to non-resident companies, unless an exemption or a lower tax rate applies under a tax treaty. The amount withheld is not refundable and constitutes the final tax liability at source.

No withholding tax is imposed on royalty payments but the income may be subject to Swedish corporate income (a tax return must be filed by the non-resident). Royalty payments to non-residents are in most tax treaties treated as non-taxable in Sweden. Royalty paid to a company resident in the EU are exempt from tax if the recipient company holds at least 25 percent of the share capital of the Swedish company.

Interest paid to a non-resident creditor is exempt from Swedish taxation (the "arm's length" test may be applicable), thus no withholding tax.

### **CFC (Controlled Foreign Company) Regime**

The current Swedish CFC provision provides for Swedish transparent taxation of the shareholder for income from certain foreign companies. In general, the rules apply to companies in tax havens or in low-tax territories. However, if the foreign company has fulfilled the "comparable tax test" or is on "the special list of countries approved of" the CFC provisions do not apply. In practice the rules apply only to "tax havens" and financial vehicles subject to low taxation.

### **Treaties**

Sweden has income tax treaties with over 80 countries in the world to avoid double taxation and the tax treaties may modify the principles of taxation described herein. Most treaties follow the OECD model.

## Foreign income

Foreign source dividends are not taxable if the shares qualify as shares held for business-reason. Shares in foreign companies can qualify as shares held for business-reasons, if the foreign company is a limited liability company and is subject to taxation.

## Individuals

Individuals in Sweden are subject to national and municipal income tax on their worldwide income and several indirect taxes.. As per 1 January 2007, the net wealth tax is abolished why there is no wealth tax to report in the income tax return that is to be filed as from the taxation year 2008.

From the taxation year of 2008, new rules also apply as regards to real estate tax. The real estate tax is replaced with a municipal fee (kommunal avgift) calculated to 0.75 per cent of the tax assessment value of the property (small houses) up to a maximum of 6,000 SEK per annum. The fee for condominiums is calculated to 0.4 per cent of the tax value; or a maximum of 1,200 SEK per annum.

Individuals are subject to municipal income tax (kommunal inkomstskatt) with respect to income from employment and business. The taxable base is equal to that of national income tax (see below). There are no other local income taxes.

Residents are liable to national income tax (statlig inkomstskatt) on their worldwide income, non-residents on certain income from sources in Sweden. The tax base is the worldwide income less allowable deductions. All income received by the taxpayer in money or money's worth is income subject to tax unless particularly exempt.

For the purpose of computing taxable income and granting a deduction for losses, the concepts of category of income and source of income are important. The three categories of income are income of employment, business and capital respectively.

The computation of taxable income is made separately for each category of income. The business income is computed separately for each source and the net results are aggregated to arrive at total taxable business income. The net employment and business incomes are aggregated and the result, after deductions for private insurance premiums and the basic allowance, is the taxpayers earned income for national and municipal income tax purposes. Taxable capital income is established after deduction of interest payments and deductible capital losses.

Income spreading is allowable for national tax purposes only. Spouses are taxed separately on all types of income.

All fringe benefits are taxed at their fair market value, unless otherwise specified in law (i.e. any remuneration in kind received by an employee from his employer for services rendered). Certain fringe benefits are not taxable if they are customary and reasonable. Director's fees and other remuneration are taxed as income of employment.

In principle, all capital gains (i.e. from immovable property, shares and other securities, private dwellings and other assets) realised by an individual are considered as income from capital and taxed accordingly. However, some relief does apply for disposal of shares and private dwellings. In computing the net result of each source of income, all necessary expenses incurred in earning or preserving that income is taken into consideration. No deduction is allowed for expenses related to exempt income.

The deductions are as follows: expenses relating to income of employment; travel expenses; interest; alimony; insurance premiums and foreign social security premiums. Special provisions apply and advice should be obtained.

In addition to the deduction a basic allowance of between SEK 17,400 and 31,600 (2008) is deducted from the resident taxpayer's earned income. For income in excess of 322,300 SEK the deduction related to basic allowance is a fixed sum of 12,100 SEK (2008).

All types of employment income and income from capital form one source of income, respectively, all losses incurred in those categories can be set off against income from the same category in the current year (however some limitations apply). If the category of capital income is negative it may, with limitations be taken as a credit against the national and municipal income tax as well as the national real estate tax. Any amount that can not be offset during the current year cannot be carried forward.

Special provisions apply for the calculation of losses of taxable business income.

### **Capital gains tax**

Capital gains from real estate, owner occupied, share, participation in partnership is subject to national income tax of 30 percent.

However capital gain from closely held companies may under some circumstances be taxed at the tax rate for employment income.

Special tax-rules also apply for selling shares in shell companies. The provisions are far-reaching and must be considered at any sale of unquoted shares by an individual taxable in Sweden.

Capital gain from privately held property is only taxed if the net gain exceeds SEK 50,000 per annum.

### **Tax rates**

National income tax is imposed on taxable earned income. Before deduction of basic allowance, the first SEK 340,900 (2008) of earned income is exempt from national income tax. The national income tax on excess income above this amount is levied at the rate of 20 percent. Income exceeding SEK 507,100 (2008) before deduction of basic allowance is levied at the rate of 25 percent. The municipal income tax is imposed at a flat rate of approximately 31 percent. The lowest income tax on earned income is approximately 31 percent and the highest marginal rate is approximately 56 percent.

Capital income is subject to a flat national income tax of 30 percent.

### **Residence criteria**

An individual is considered a resident if he has his principal home in Sweden or if he stays for at least 6 consecutive months during a twelve-month period, unless otherwise specified in a double taxation treaty. Special rules apply for Swedish nationals and for previous Swedish residents moving abroad or re-entering Sweden.

### **Taxation of non-residents**

Non-residents are subject to the national and municipal income tax on Swedish source income, i.e. business income derived from permanent establishment and real estate. Non residents are subject to national income tax on capital gain on real estate situated in Sweden.

A non-resident's income of employment is not taxable provided that the employee is not present in Sweden for more than 183 days in a 12 months period and that the cost is paid and borne by an employer not resident in Sweden. If the income of employment is taxable in Sweden it is subject to a final withholding state tax of 25 percent, no municipal tax is levied on this income. Director's fees and other similar fees paid to a non-resident by a Swedish company are always taxable in Sweden at a flat rate of 25 percent.

Unless otherwise provided by treaty, dividends from Swedish corporations to non-resident shareholders are subject to withholding tax (Kupongskatt) at the rate of 30 percent. The amount withheld is not refundable and constitutes the final tax liability at source.

Interest paid to a non-resident creditor is exempt from Swedish taxation (the "arm's length" test may be applicable). Royalties paid to a non-resident licensee and periodic payments for the right to use secret processes, formulae, technical knowledge and trademarks can be subject to income taxation in Sweden (a tax return must be filed by the non-resident), unless otherwise provided by tax treaty.

Capital gains realised by non-resident individuals on the sale or disposition of shares will not be subject to taxation in Sweden, unless they are realised in the course of trade or business carried on in Sweden.

Non-resident artists and sportsmen performing in Sweden are subject to a final withholding tax of 15 percent on their gross remuneration.

### **Special rules for expatriates**

A special tax relief is granted to foreign experts, specialists, researchers, and top managers who are not resident in Sweden. The purpose of this special relief is to facilitate recruitment of qualified employees. The special relief applies for three years and it is only granted if the employer establishes difficulty of significance to recruit (foreign experts, specialists, researchers) within Swedish borders and the non-resident individual has not had his tax residence in Sweden during a five-year period before the employment start. For top managers the employer does not need to establish difficulty of significance to recruit within Swedish borders.

An individual who qualifies for the special relief is only taxed on 75 percent of the income in the ordinary way and the employer are only liable to pay social security on 75 percent on the salary. To enjoy this special tax relief the individual must apply to the Special Expert Tax Board.

An expatriate who does not qualify for the special relief for experts, specialists, etc. is taxed in the ordinary way.

### **Payment dates**

Taxes are generally collected during the tax year by withholding (in advance) tax on employment income and dividend. The final tax amount is calculated in the following year and compared to the tax amounts withheld. Excess taxes are reimbursed, and any shortfall will be subject to collection at the latest 90 days after receiving the final tax calculation. The final tax calculation is due no later than in December, the year after tax withholdings.

**Tax returns**

The tax year for individuals ends on 31 December. The basis of assessment for individuals is income for the recent calendar year ending on 31 December and is forms the basis for national and municipal income tax. The tax return must be filed in the beginning of May the following year (tax year), usually 2 May.

**Treaties**

Sweden has negotiated over 80 income tax treaties with the most important nations of the world to avoid double taxation. With respect to salaries and wages, these treaties deny Sweden the right to levy taxes on such amounts where the remuneration is in consideration of a temporary assignment, if meeting three conditions.

- the recipient does not stay in Sweden for one or several periods exceeding the aggregated 183 days within any period of 12 months,
- the remuneration is paid by, or on behalf of an employer who is not resident in Sweden, and the remuneration is not borne by a permanent establishment or a fixed base which the employer has in Sweden.

If these three conditions are met, there is no withholding tax. Furthermore, these treaties provide special rules in the case where the individual is classified both in Sweden and his country or origin as tax resident.

Some of Swedish's income tax treaties include provisions concerning inheritance and gift taxes.

**Value Added Tax/Sales tax**

Sweden has been a member of the European Union since 1995 and applies the EEC VAT Directives.

**Rates**

Unless exempted in law, value-added tax (Mervärdesskatt) is levied on all delivery of goods, performances of services and importation of goods and services from non-European Community countries. The standard rate is 25 percent, a reduced rate of 12 percent applies to foodstuffs and hotels, and 6 percent on newspapers, books and transportation of persons. The tax paid on purchases can be offset against the value-added tax collected on sales, which is payable to the government.

Foreign companies can recover value-added tax paid in Sweden for car hire, hotels, entertainment etc. within certain limits specified in the Swedish Value-Added Tax Act.

**Returns**

VAT returns are normally made upon a monthly basis. These must be filed by the 12<sup>th</sup> of the second month following the end of the relevant month. If the annual sales exceed SEK 40 million the VAT return must be filed by the 26<sup>th</sup> of the month following the end of the relevant month. For smaller companies the VAT return is filed in the income return on an annual basis.

**Other taxes**

- Excise duties (Punktskatt)
- Stamp duties (Stämpelskatt)
- Tax on immovable property (Fastighetsskatt)

**Stamp duty**

Purchase of real estate situated in Sweden is subject to stamp duty. The tax rate for individuals is 1.5 percent and for legal entities 3 percent on the purchase price and the tax is collected when the real estate is purchased. Real estate acquired by inheritance or gift is stamp duty free.

**Property taxes**

Owners of property and/or real estate are, as from 1 January 2007, not subject to a net wealth tax.

Owners of real estate are, as from 1 January 2008, not subject to real estate tax. However the government has imposed a municipal fee regarding real estate.

The fee is 6,000 SEK, or a maximum of 0.75 per cent of the tax assessment value. For apartment houses the fee is 1,200 SEK per apartment, or a maximum of 0.4 per cent of the tax value for the property (including land).

**Gift tax/inheritance tax**

From 1 January 2005 there are no inheritance or gift taxes.

## Useful addresses

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[www.farsrs.se](http://www.farsrs.se)

**The Swedish Companies Registration Office**

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Phone: +46 60 18 40 00  
Fax: +46 60 12 98 40  
[bolagsverket@bolagsverket.se](mailto:bolagsverket@bolagsverket.se)  
[www.bolagsverket.se](http://www.bolagsverket.se)

**The Swedish Customs Office**

*(Tullverket)*  
Box 12 854  
SE-112 98 Stockholm  
Phone: 0771 52 05 20 or  
+46 8 405 00 00 (when calling from abroad)  
[www.tullverket.se](http://www.tullverket.se)

**The Swedish Tax Agency**

*(Skatteverket)*  
SE-171 94 SOLNA  
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+46 8 764 79 87 (when calling from abroad)  
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[www.skatteverket.se](http://www.skatteverket.se)

For other useful addresses when setting up a business in Sweden we can recommend the following website:

[http://www.isa.se/upload/english/factsheets/useful\\_addresses\\_when\\_setting\\_up\\_a\\_business\\_in\\_sweden.pdf](http://www.isa.se/upload/english/factsheets/useful_addresses_when_setting_up_a_business_in_sweden.pdf)

## Contact details

Grant Thornton International Business Centre in Sweden can provide further information.

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