

**DOING
BUSINESS
IN**

SWEDEN



HLB

Revisorsgruppen i Malmö AB

*doing business
in Sweden*

foreword

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general information

Location and climate

Sweden is located in northern Europe with a central position in the Scandinavian region and covers an area of 449,964 sq km.

Most of Sweden has a temperate climate due to offshore Gulf Stream waters, though there can be medium to large variations in temperature between summer and winter. Winters are very cold, and most of northern Sweden experiences cold temperatures for about seven months while the southern region has short cold winters and longer summers. Because of its high latitude, the length of daylight varies greatly. North of the Arctic Circle, the sun never sets for part of each summer, and it never rises for part of each winter.

Constitution and population

The population of Sweden is about 9,3 million people.

Sweden is a constitutional monarchy with a parliamentary democratic government. Therefore the monarch has a largely ceremonial role, though officially he or she is the head of state and holds the highest public office in Sweden and the highest military and social rank.

The Swedish parliament (called riksdag), which is the supreme decision making assembly in Sweden, has 349 members. The parliament appoints the Prime Minister on the basis of a proposal from the Speaker, who presides over the work in the parliament. The Prime Minister then appoints the

ministers who are to make up the government. General elections to the Swedish parliament, municipal assemblies and county councils assemblies are due every 4 years.

Proposed legislation is presented to the parliament in the form of a Government bill. A proposal can also be submitted by one or more members of the parliament in the form of a private member's motion. Before becoming a law, a Bill must be approved by a majority in the parliament.

Currency and languages

The Swedish monetary unit is the Krona or Crown (SEK), which is divided into 100 öre.

Swedish is the main language, with Lapp being spoken by the Sami population in the north. Most Swedes speak and understand English. Many also speak German and French.

Legal system

The Swedish legal system has its roots in the continental legal tradition with its dependence on statutory law. The fundamental laws of Sweden are "The Act of Succession", "The Freedom of the Press Act", "The Instrument of Government (Constitution)", "The Freedom of Expression Act". The acts which form the Swedish Constitution can be changed only by two successive parliaments with an intervening general election.

Sweden has two parallel types of courts – general courts, which deal with

criminal and civil cases, and general administrative courts, which deal with cases relating to public administration. There are ninety-four judicial districts, each one with a District Court. There are six Courts of Appeal. The Supreme Court is located in Stockholm. The responsibility for matters relating to the judicial system rests primarily with the Ministry of Justice.

Economy and economic arrangements

Sweden became a member of the European Union on 1 January 1995. It is also a member of OECD and WTO. Sweden has close economic, political and cultural ties to the other Nordic countries.

investment factors

Introduction

Setting up business in Sweden is a quick and straightforward process. With a well educated population and workforce, advanced distribution and communication infrastructure, smooth business procedures and an open, modern and business friendly environment it makes an easy country to operate in. Information from The Swedish Companies Registration Office and The National Tax Authority is available online in English and sometimes in other languages. A number of on-line services save the investor time and money. Sweden is a prime location for centralized market operations in Northern Europe. Extensive public investment ensures an excellent infrastructure

Government and local incentives

There are almost no direct subsidies to individual business in Sweden. However, there are some regions in the north of Sweden, where you can obtain support either in the form of regional investment grant or a regional employment grant, but never both. Applications for regional investment grant should be sent to the local county administrative board. You can get 10% discount on social security contributions in these regions. The Swedish Agency for Economic and Regional Growth is the Swedish government authority responsible for regional support.

The employer always pays less social security contribution for younger persons (under 26 years old) and older persons (66-72 years old).

There is also an incentive to employ persons who have been unemployed for more than a year (for youths the time limit is six months) and newly arrived immigrants. This incentive is handled by the employment agency.

in their national security system, if certain requirements of European law are fulfilled.

Sources of finance

Companies may raise external finance from the following sources:

- Banks can provide an overdraft or a loan.
- Debt factoring
- Leasing of equipment
- Venture capital; as for example ALMI (a government-owned company) promotes the development of competitive small and medium-sized businesses as well as stimulating new enterprise with the aim of creating growth and innovation in Swedish business life.
- Stock exchange; is normally suitable only for established companies.

Foreign exchange controls

There are no exchange control regulations. However, major transactions in a foreign currency must be reported to the Swedish National Bank for statistical purposes.

Employment regulations

As Sweden is a member of the European Union (EU) and a signatory to the European Economic Area (EEA) agreement, citizens of EU/EEA countries only require a valid passport or identity card to enter Sweden for periods of up to 90 days and they also have free access to jobs in Sweden. A right to reside must be registered with the Swedish Migration Board (in Sw Migrationsverket) within 90 days of entering the country. Non-EU/EEA citizens who intend to work and stay in Sweden for more than 90 days require a residence permit and a work permit. Executives or specialists from non-EU/EEA countries normally have

no difficulty obtaining work and residence permits if employed by Swedish or foreign-owned companies.

Anyone who plans to reside in Sweden for more than 12 months needs to apply to a local office of the Swedish Tax Agency for tax and civic registration. After registration the applicant is assigned a personal identity number.

The employer pays social security contributions for employees. Because of that, everyone who earns taxed income in Sweden is entitled to a pension. Pensions are based on the contributions paid in and the number of years worked in Sweden. The social security contributions are 31.42% on gross salary for employees over 26 years old. For younger employees the social security contributions are 15.49%.

There are rules for tax reductions for key foreign employees. For more information, see the chapter on Taxation.

types of business organisations

Principal forms of business

An overseas company wishing to set up in Sweden can choose whether to conduct business via a branch office or by establishing a partnership, a limited partnership or a limited company. They must be registered with the Swedish Companies Registration Office and the Swedish Tax Agency.

The principal forms of business enterprises are:

1. Limited company
2. Branch
3. Trading Partnership
4. Limited Partnership
5. Sole Proprietorship
6. Economic association

1. Swedish limited company

The most common corporate structure in Sweden is a Swedish limited company. A limited company can be either private or public. A limited liability company is a legal entity incorporated in Sweden.

The financial year of a limited company must cover a year and may be identical with a calendar year or a split financial year. When a company is formed and when it changes its financial year it is permitted to have a shorter period than twelve months or to extend it to a maximum of eighteen months. The financial years to choose between are:

- 1 January – 31 December
- 1 May – 30 April
- 1 July – 30 June
- 1 September – 31 August

The Swedish Tax Agency may consent to another financial year if a special reason exists.

The founders, the managing director, at least half of the board members, at least half of the deputy members and at least one of the persons with special signatory power must be resident within the European Economic Area (EEA). If these conditions are not met, the company may apply to the Swedish Companies Registration Office for special dispensation.

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 behalf of the company. This person must be registered with the Swedish Companies Registration Office.

When forming a company the founders must draw up a memorandum of association containing a proposal for articles of association and the subscription of share capital. Further the shares have to be paid up, the founder complete, date and sign the memorandum of association and the board of directors files the company with the Swedish companies registration office.

The easiest and most common way to set up a private limited liability company is to purchase an off-the-shelf company. Such companies are already registered, but have no prior business activities. The company can start business as soon as the share purchase agreement is signed and the share capital is transferred to the company's bank account. The cost of buying an off-the-shelf company is about SEK 10.000.

a. Public limited company

The minimum capital requirement for a public company is SEK 500,000. Public

companies can offer their shares to the general public. The board of directors in a limited company shall consist of at least three members. In public limited companies the board must always appoint a managing director who will be responsible for the day to day running of the company.

b. Private limited company

The minimum capital requirement for a private company is SEK 50,000. The board of a private limited company can consist of only one or two members with at least one deputy member. If the board comprises more than one member, the board shall always elect one of the members as chairman. A managing director is not mandatory in a private limited liability company.

2. Branch office

An overseas company, which is lawfully registered in its home country, can conduct business via a local, independently administered branch office. A company may have only one branch in Sweden. The branch has to have a managing director who represents the branch. If the managing director is not resident in Sweden, the foreign business enterprise shall authorize a person who is resident in Sweden to receive service of process on its behalf.

A branch has to keep its own accounting records. It is subject to Swedish law but is not a separate legal entity but a part of the foreign business enterprise. A branch has no share capital.

A branch structure can offer tax benefits for a transitional period when launching a business. The deficit may be tax deductible for the foreign-based company as the branch is not a legal entity in its own right.

3. Trading partnership

A trading partnership consists of at least two people or enterprises as partners. The partnership can enter into agreements, but if it cannot pay its debts,

the partners are liable. A trading partnership must register with the Swedish Companies Registration Office and the Swedish tax agency. The allocation of profit and loss is as per agreement if such exists, equal distribution otherwise. Any of the partners may be individual or legal entities, foreign or domestic.

4. Limited partnership

A limited partnership is a type of partnership where one or more of the limited partners has/have limited liability for the limited partnership's commitments. Liability is limited to the extent of the limited partner's investment. The partnership can enter into agreements, but if it cannot pay its debts, the general partner is liable. A limited partnership must register with the Swedish Companies Registration Office and the Swedish tax agency. The allocation of profit and loss is as per agreement if such exists. If no agreement exists and the partners cannot agree on the allocation, the issue must be decided in court. Any of the general or limited partners may be individuals or legal entities, foreign or domestic.

5. Sole proprietorship

A sole proprietorship is an individual engaged in a business or profession on his own account. The business operator is personally liable for the agreements entered into and for the debts of the enterprise. A sole proprietorship must register with the Swedish tax agency and possibly the Swedish Companies Registration Office. Any individual is free to establish a business in Sweden.

6. Economic association

An economic association consists of at least three people or enterprises. The association can enter into agreements and is liable for its debts. The profit can be divided between the members in the form of a bonus. An economic association must register with the Swedish Companies Registration Office and the Swedish Tax Agency

legal, accounting and audit requirements

A limited company must file its annual report and auditor's report with the Swedish companies' registration office. Within five months after the end of the financial year the annual report must be prepared and passed to the auditor. When the audit has been completed the regular general meeting of shareholders is convened. This meeting must be held not later than six months after the end of the financial year. When the annual report and the auditor's report have been adopted at the shareholders meeting it has to be filed with the Swedish companies' registration office within a month. Failure to submit accounts in time results in a fine and if the annual accounts and the audit report have not been filed eleven months after the end of the financial year, the Swedish Companies Registration office may liquidate the company.

Only an authorized or approved public accountant may audit a limited company and a branch. Certain large companies must have an authorized public accountant or an approved public accountant who has passed the examination for professional competence as a public accountant. An approved public accountant is not sufficient.

The accounting documents for both the branch and the foreign business enterprise must be filed with the Swedish Companies Registration Office within three months from the date that the accounting documents and the auditor's report of the foreign enterprise were presented to the owners of the enterprise, however not later than seven months

from the end of the financial year of the branch.

The company must submit an annual tax return for the revenue derived from its business activities.

taxation

General structure

Income from all business activities is aggregated as one source of income. Sweden has unilateral tax treaties with more than 80 jurisdictions. This help to avoid double taxation. The Swedish Tax Agency also offers binding advance tax rulings that allow a company to ask the agency ahead of time if its specific company tax strategy is applicable.

Corporate income tax

As from 1 January 2009 the corporate tax rate is 26.3 per cent. The taxation period for corporate income tax is generally a calendar year or a business year, which normally should start the first of May, the first of July or the first of September and run for twelve successive months.

Taxable profit is based on accounting profit which is calculated according to Swedish accounting laws and practice. However, some adjustments are made for certain items (previous year's loss, etc).

Taxation of branches of foreign corporations

Branch tax rules are similar to those for limited liability companies in Sweden. The branch registers for taxes and as an employer with the Swedish Tax Agency. This is done by completing a special form. Once registered, the branch will automatically be sent all the documents, VAT and PAYE (pay as you earn) returns and information required to account for and pay VAT, income tax and social security contributions.

Personal income

Income from employment is the sum of all earnings connected with a person's own work. This category includes:

- Cash payments: wages, sickness benefit and pension.
- Fringe benefits: car benefit and food vouchers.

The tax on income from employment comprises municipal tax and state tax. Most people only pay municipal tax. The amount varies (approx. 29–35 per cent tax) depending on where in the country you live.

State tax (20%) is paid by those with an income of more than approximately SEK 384,600 in income year 2010 and SEK 395,600 in income year 2011. If the income exceeds SEK 545,200 (2010) and 560,900 (2011) the state tax is 25%. In addition, everyone pays a general pension contribution (7 per cent).

Capital income for individuals

Capital income includes:

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

The tax on capital income is 30 per cent. If you have taken a loan you may deduct the interest paid in your tax return.

Tax relief for foreign experts

Key foreign employees – executives, experts, researchers and others with special skills that are not readily available in Sweden – may qualify for a special 25 percent reduction of the taxable portion of their income when working in Sweden. These individuals are taxed on only 75 percent of their income for the first three years of employment in Sweden. Likewise, their employers pay social security contributions on only 75 percent of the taxable salary. The tax relief applies to all salaries and benefits in kind, such

as housing benefits and living allowances. It also applies to stock options and other special compensation offered by the employer.

Special income tax if you work in Sweden and reside abroad

Those liable for tax are persons resident or domiciled abroad. They must receive income based on work in Sweden. The special income tax is 25% and there are special rules and an application that needs to be approved by the tax authority. Even if you live abroad you may be regarded as living in Sweden for tax purposes if you stay here for more than six months in succession. In that case the usual rules regarding state and local income tax apply.

Capital gains tax

Real property

Individuals pay income tax 22 per cent on capital gains on real property when it concerns a house or apartment where they have lived.

Machinery and equipment

There is no special capital gain tax for companies. They only pay the corporate income tax. Profit made when machinery is sold is taxed as normal income.

Shares held by Companies

Shares that are either non-listed or if the holdings represent at least 10 percent of the voting rights and have been held for at least one year are normally exempt from capital gain tax.

Shares held by Individuals

The tax on capital income is 30 per cent.

Depreciation

Machinery

From a tax point of view, maximum depreciation is normally 20 percent per year.

Buildings

There are several different types of buildings that all have different rates of depreciation. As for example thermal power industries 4% per year, department stores 3%, and apartment houses 2%.

Intangible assets

Depreciation on intangible assets is normally made over 5 years as a maximum. In special cases you can depreciate over a longer period of time if there are good reasons for it.

Withholding taxes

Dividends

Normally, the rate of withholding tax is 30%. However, when the recipient of a dividend is regarded as a "foreign-based company" and the dividend is distributed by a non-listed resident company the dividends are exempt from withholding tax according to Swedish domestic legislation. If the shares are listed, the recipient must also have at least 10 percent of the voting rights and have owned the shares for at least one year at the time of the dividend in order to be exempt from withholding tax.

Royalties

There is no withholding tax on royalties.

Value added taxes

The standard rate of VAT is 25 percent. A reduced rate of 12 percent applies primarily to food, hotel accommodation, camping, and cultural and sporting events. A reduced rate of 6 percent applies mainly to newspapers, books, magazines and public transport. Certain services are VAT-exempt. These include medical and dental care, social services, banking and financial services.

If your taxable amount excluding intra-community purchases and imports is calculated to be higher than SEK 1 million you must report the VAT in a VAT and

PAYE (pay as you earn) return. If your taxable amount is calculated to be not more than SEK 1 million you may report the VAT in a VAT appendix to your income tax return. You can always request instead to be allowed to declare the VAT in a VAT and PAYE return. If your taxable amount is calculated to be less than SEK 40 millions you can choose the taxable period to be a calendar quarter or a month. But if it is more than 40 millions you must report every month.

Other taxes

Real estate taxes

A municipal property charge is imposed on residences in small houses (detached and semi-detached houses, small houses on farms) and residential flats in apartment blocks.

The property charge for small houses is index-linked and is SEK 6 387 for the income year 2010. However the property charge for small houses is never more than 0.75 per cent of the tax assessment value.

On real properties other than residences state property tax is payable. These include detached or semi-detached houses or flats under construction and unbuilt plots for these.

The property tax on small houses under construction and on unbuilt plots for these is 1 per cent of the tax assessment value.

Stamp duty

Stamp duty is charged on property. For private individuals the stamp duty is 1.5% and for legal entities 4,25%. Normally there is no stamp duty on properties which have been inherited or have been given as a gift.

Inheritance tax

Since 2005, there is no inheritance tax in Sweden.

Registration duties

A company having employees always has to register at the Swedish Tax Agency. You also have to register if your turnover is subject to VAT and in some cases if you just apply for a VAT refund.

Thin-capitalization & transfer pricing

Interest costs are generally fully deductible irrespective of their purpose, provided the loan is made on arm's length terms (for instance, not at a rate above the market interest rate). There are no thin-capitalization restrictions for tax purposes. Since 2007 all companies must have written transfer pricing documentation if they have related party transactions.

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