

## **SWEDISH CORPORATE SERVICES**

WPS Partners Sweden AB can assist you with formation and administration of Swedish companies for a multitude of legitimate uses. They can also offer other legal, tax, accounting, audit and secretarial services.

### **Main business environment features of Sweden:**

- The legal system is based on civil law;
- Member of the EU since 1995;
- Company incorporation and administration are very effective;
- Modern banking system;
- Possibility to setup company online;
- Official language is Swedish but English language is widely used;
- There is a considerable high reputation level of Sweden as headquarter of the subsidiary companies in various countries;
- Large double tax treaty network of Sweden allow international group of companies to do very efficient structuring;
- A simple and flexible procedure for changing a shareholder;

These, as well as other business environment features, make Sweden a convenient jurisdiction for trading and holding structures in the context of international business structuring.

### **The main taxation principles applicable in Sweden**

- Corporate income tax 20,6%;
- Favourable dividend taxation 0% for "business-related shares" (if more than 10% of company shares were held longer than 12 months);
- Corporate income tax is not applicable for capital gains deriving from sale of shares ("business-related" shares);
- Capital gains of foreign subject is not subject to taxation;
- Participation exemption rule is applicable for dividend taxation (dividends are not subject to taxation in case 10% of shares are held or are intended to be held for more than one year);
- To physical persons decrease of share capital is not subject to taxation (only if capital was increased using additional shareholder money/asset contribution) independently from the cost price of the shares;
- Interest pay-out to foreign subjects (to EEC members or to treaty on double taxation avoidance is concluded with a country) are not taxable;
- No "Thin capitalization" rules;
- Financial statements should be annually provided to the Swedish Companies Registrations Office;
- Audit is compulsory only in the cases when certain conditions are met;
- The net of treaties on double taxation avoidance is extensive;
- EU Parent – Subsidiary Directive applies;
- Possibility to transfer loss between group entities;

## Corporate requirements: Frequently Asked Questions

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| General legal regulation                                   | The Civil Code of Sweden<br>The Law on Companies                            |
| General company types                                      | Private limited company (AB)<br>Limited Partnership<br>Economic association |
| Standard authorized share capital                          | 25 000 SEK – 2,500 EUR/ AB  |
| Percentage of share capital to be paid upon incorporation? | 100%  |
| Bearer shares allowed?                                     | NO  |
| Nominee shareholder permitted?                             | NO  |
| Minimum number of shareholder                              | 1 (may be local or foreign, natural or legal person)                        |
| Holding shares in a common law trust?                      | NO (interposition of a holding company (e.g. Malta) is required)            |
| Local meeting required?                                    | NO  |
| Director   | 2 (minimum 1 ordinary director and 1 deputy director)                       |
| Corporate directors permitted?                             | NO  |
| Local director required?                                   | NO  |
| Company secretary required?                                | NO  |
| Local registered agent required?                           | NO  |
| Local registered office required?                          | YES   |
| Government public register of directors?                   | YES   |
| Government public register of shareholders?                | NO  |
| Share transfer performed at notary?                        | NO  |
| Obligation to reveal a beneficial owner to State register? | YES   |
| Accounts submission, annual return                         | YES   |
| Audit required?  | NO, except certain cases  |
| Average period for Company incorporation                   | 5-7 days  |
| Possibility to buy a "shelf" company                       | YES (the same day)  |
| Bank Accounts?   | In Sweden or elsewhere  |
| General shareholder meeting                                | 1 per year (must be held within 6 months after the financial year end)      |
| Member of Apostille of The Hague Convention?               | YES   |

## Corporate Taxation: Frequently Asked Questions

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|---|---|
| Tax on corporate profits earned:                | 20,6%   |
| The system applies to:                          | <ul style="list-style-type: none"> <li>▪ Swedish resident companies</li> <li>▪ permanent establishments (PE) of non-resident companies</li> </ul>   |
| Capital gains taxation of Swedish companies     | 0%, if more than 10% of EEC company shares (or shares of entity registered in the country with which there is a Double Tax Treaty) were held longer than 2 years (for the rest of shares this 2-year holding requirement is not applicable, if these conditions (10%+2 years) were executed).   |
| Are capital gains taxable for foreign subjects? | NO  |
| Advance Corporate Income Tax                    | YES, the company may choose: <ul style="list-style-type: none"> <li>a) to pay according to previous years' result with a 10% increase, or</li> <li>b) to pay according to the expected results.</li> </ul>  |
| Losses  | Losses are carried forward indefinitely (limitation rules apply in cases of change of ownership)  |
| Loss carry forward between group members        | YES (under certain conditions)  |
| Dividends for legal entities (out/in)           | 0%, if not less than 10% of the shares are held <u>or are intended to be held</u> for at least 12 months (in other cases 30%; <u>dividends from EEC residents are not taxable in all cases</u> ).<br>Dividends are taxed if the main purpose or one of the main purpose is to obtain a tax benefit.                                   |
| Withholding tax on interests                    | NO  |
| Withholding tax on royalties                    | NO, however royalty payments to non-residents are considered derived from Swedish business activities and are taxed as income from a permanent establishment in Sweden.   |
| Taxable income                                  | Worldwide income  |
| Standard VAT rate                               | 25%   |
| VAT registration                                | <ul style="list-style-type: none"> <li>- voluntary (for anyone who carries out economic activities within Sweden);</li> <li>- obligatory, when taxable income exceeds 80 000 SEK;</li> <li>- obligatory, when amount of goods purchased from EU by entity separately or by a group of related entities exceeds 90 000 SEK.</li> </ul> |

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| Term to provide VAT return   | Quarterly or Monthly with returns due either the 26 <sup>th</sup> the following month or 12 <sup>th</sup> in the second month after the quarter end. (Annually in certain cases). |
| Term to provide annual financial statement   | 6 months after financial year end.  |
| Term to pay Corporate Income Tax   | By November or March (depending on FY dates)  |
| Companies are recognized as residents for tax purposes (independently from place of management and control)? | YES   |
| Binding Ruling possibilities?  | NO  |

## Taxation of Corporate Income

**The tax rate on the profit of limited liability companies is 20,6%%.**

Advance profit is taxed by the deduction of preliminary tax on a monthly basis. The company will pay the preliminary tax by one of these calculations:

- a) to pay advance profit tax according to the results of the year previous year with an estimated increase of 10% on the profit, or
- b) to pay advance profit tax according to the expected profit results (in which case a preliminary income tax return need to be submitted).

For companies in its first year of operation the preliminary tax is calculated on the company's own estimation on the profits, and a deferment for 3 months can be made before starting to pay the preliminary tax.

## Royalties and trademarks

No withholding tax is levied on payment of royalties to foreign subjects by the Swedish company. However, royalties and trademarks paid to subjects in foreign countries will be considered to derive from a Swedish Permanent Establishment and taxed according to Swedish taxation policies.

This does not apply when royalties are paid to foreign subjects that is an EU resident who is recognized as a true owner and when 25% of shares are owned for at least 2 years or in those cases when a receiving subject is a foreign recipient who is a resident of country which has entered international tax treaties (DTT and other). In this case the rate provided in the treaty is applicable.

### ***Interest***

No tax is withheld on interest paid abroad. However, in order for the interest paid out to be tax deductible in Sweden, the interest must be paid to an EEC registered company or company registered in country which has entered a Treaty on Double taxation avoidance and the company receiving the interest would have been subject to pay at least 10% tax on the interest income in its registered country if the company only should have the interest income.

## **Capital gains**

**Foreign companies do not pay taxes on the capital gains (0 percent), if** they do not engage into the permanent activity in Sweden. The shares are sold by signing ordinary shares' sale-purchase agreement.

**Swedish companies also do not pay taxes on the capital gains if:**

1. the shares of the company, that is registered in the European economic zone or in the country with which the double taxation avoidance agreement is concluded and applied, are sold, **and**
2. the company, which is sold, is the profit tax or identical to profit tax payer, **and**
3. Swedish company for an uninterrupted period of longer than 1 year had more than 10 % of voting shares.

In other cases, the tax rate on the capital gains for Swedish companies is 20,6 percent (included in the corporate tax basis). Physical persons who are residents of Sweden, and who profitably sell the shares, pay 30 percent tax.

## **Dividends**

Dividends paid to Swedish companies by foreign companies from EEC which income is taxed by corporate income tax or similar taxes are **not subject to taxation (0 percent rate)**.

Other dividends received by Swedish entity which has or **is intending to have 10 percent** of company voting right shares (parts) for at least 12 months without any interruption **are not subject to taxation (0 percent rate)**. This exemption is not applicable if dividends are received from foreign entity registered in the jurisdiction from the "black list" or company does not pay profit or similar tax.

Dividends paid by Swedish entity to legal entity, which has or **is intending to have 10 percent** of company voting right shares (parts) for at least 12 month without any interruption **are not subject to taxation (0 percent rate)**. This exemption is not applicable if dividends are paid to foreign entity registered in the jurisdiction from the "black list".

## **CARRYING FORWARD THE LOSSES FOR THE TAX PERIOD**

Tax losses may be carried forward the following fiscal year, except for losses incurred from the transfer of securities and/or derivative financial instruments for unlimited periods. This carrying forward is stopped if the company is not performing activity which constituted these losses (except cases when the company is not active because of reasons which do not depend on the company).

Losses deriving from securities transfer and/or derivative financial instruments may be carried forward for unlimited periods, however the losses derived from these activities can only be offset against profits

derived from the same types of profits. I.e., the loss from securities transfers can only be used against future profits of other securities transfers.

### ***CARRYING FORWARD THE LOSSES BETWEEN GROUP COMPANIES***

A Swedish company may transfer losses experienced in a tax period (or part of it) to another company which belongs to the same company group. However, limitation applies;

The possibility of deducting losses in the event of ownership changes can be limited by the amount limit and the group contribution limit. It applies to companies that had an unused deficit in the tax year before the change in ownership.

The amount restriction is intended to discourage trade with companies where the value lies mostly in the right to deduct previous years' losses. If a company has an accumulated deficit of SEK 200,000, the new owner must pay SEK 100,000 for the acquisition in order for the entire deficit to be retained for deduction against future surpluses. If the purchase price were SEK 50,000, only a deficit of SEK 100,000 may be retained (SEK 50,000 x 2). The remaining SEK 100,000 will be forfeited forever.

The group contribution restriction applies to the year in which the change of ownership takes place and the following five years. During the blocking period, blocked deficits, i.e. the deficits that were accumulated in the year before the change of ownership, can only be used against surpluses in the business that did not come from received group grants.

Losses deriving from transfer of securities may reduce only profit which is deriving from transfer of securities.

### **TARGET TERRITORIES FOR TAX PURPOSES OR "THE BLACK LIST"**

"The black list" is made up of all tax shelter and low taxes' jurisdictions, which are called target territories. The list is approved by legal documents. Countries, which limit the interchange of the information, also are included into this list. In Sweden there is no withholding tax on outgoing payments for consultations, marketing, commission, intermediation payments to any foreign companies, therefore Swedish companies can pay for services to the companies, which belong to the "black list", without any deduction.

If the payment for the services was made to the companies, which belong to "the black list", the tax administrator in the case of inspection may ask for the evidence that these companies carry out real business activities. If such kind of evidence is not presented, the payments may not be assigned to the costs, which lower taxable profit.

In addition, Sweden has targeted CFC provisions aim at taxing a Swedish resident shareholder for shareholdings in low-taxed foreign entities. A Swedish resident shareholder with a holding in a CFC entity will annually be taxed for its ownership portion of the CFC's income, according to provisions applicable to a Swedish corporation. For a corporation, the portion will be taxed at the Swedish corporate tax rate. Only holdings, direct or indirect through other foreign entities, corresponding to at least 25% (capital or voting rights) in the foreign entity could lead to CFC taxation. A foreign company is considered low taxed if the income in the company, calculated in accordance with Swedish provisions, is taxed at a rate below 11.8%. However, if the foreign entity is resident in an 'approved country', CFC taxation should not arise.

Approved countries appear in an official 'black/white' list. Active EEA entities are, under certain circumstances, not considered low taxed.

**The target territories (“The black list”):**

- Principality of Andorra
- Anguilla
- Antigua and Barbuda
- Aruba
- Azores
- Commonwealth of The Bahamas
- Kingdom of Bahrain
- Barbados
- Belize
- Bermuda Islands
- Brunei Darussalam
- British Virgin Islands
- Commonwealth of Dominica
- Jersey
- Republic of Djibouti
- Republic of Ecuador
- Guernsey, Sark, Alderney
- Gibraltar
- Grenada
- Guatemala
- Hong-Kong
- Jamaica
- United Arab Emirates
- Cayman Islands
- Republic of Kenya
- Republic of Costa Rica
- Caicos Islands
- Kuwait
- Republic of Lebanon
- Republic of Liberia
- Principality of Liechtenstein
- Macao
- Madeira Isles
- Republic of Maldives
- Republic of the Marshall Islands
- Republic of Mauritius
- Isle of Man
- U.S. Virgin Islands
- Principality of Monaco
- Montserrat

- New Caledonia
- Republic of Nauru
- Niue
- Netherlands Antilles
- Republic of Panama
- Independent State of Samoa
- Republic of San Marino
- Republic of Seychelles
- Federation of Saint Kitts and Nevis
- Saint-Pierre and Miquelon
- Saint Vincent and the Grenadines
- Saint Helen's island
- Tahiti Island
- Turks and Caicos Islands
- Kingdom of Tonga
- Eastern Republic of Uruguay
- Republic of Vanuatu
- Republic of Venezuela

## **VAT**

In Sweden the Value Added Tax (hereinafter " VAT") is regulated by Law on VAT which is in compliance with the EU VAT Directive 2006/112/EC. In Sweden, the standard VAT rate is 25% percent. Under certain conditions 0%, 6%, 12% may be applicable. Any company can register itself as a VAT payer. A taxable person is obliged to register itself as a VAT payer, if the total amount of taxable income for supply of goods and/or services in the performance of economic activities has exceeded 80 000 SEK per year. There is an obligation to register itself as a VAT payer, if related persons are already registered as VAT payers. It is obligatory to register itself as a VAT payer, if the amount of the acquisitions of goods from other EU countries exceeded 90 000 SEK during the calendar year.

After joining the EU there is an opportunity for companies to register as VAT payers in other EU countries or to use Swedish companies for trading in the area of EU.

It is easy to register companies from other EU countries as VAT payers in Sweden (resident or non-resident companies). It allows them to carry out trading through Sweden.

## **Audit requirements**

Audit of annual financial statements should be performed in Swedish companies (general rules for all types) if the following conditions are met:

- 1) net income from sales exceeds 3,000,000 SEK in a year;
- 2) capital indicated in the balance – 1,500,000 SEK;



3) average number of employees according to the list in cycle of the year exceeds 3 in one financial year.

The audit requirement states that at least 2 of the conditions must be met for 2 years in a row for the audit to be mandatory. However, other conditions may apply that makes audit a requirement.

## **Wage and social insurance**

The personal income tax rate for the income received from the employment relations is normally around 30 percent (depending on the municipality of the employee). The employer (or the company) pays an additional social insurance contribution - 31.42 percent from employee wage. No minimum wage is applicable in Sweden.

## **Foreigners' work in Sweden**

A foreigner (non-EU citizen), who intends to work in Sweden, must obtain a work permit in Sweden (hereinafter "work permit").

An application to obtain work permit can be made together with an application for temporary residence permit in Sweden. Permit to work in Sweden is not required, when temporary residence permit in Sweden is issued.

A foreigner needs to obtain a work permit and/or temporary residence permit before starting to work. ***A temporary residence permit in Sweden gives a right to a foreigner to come to Sweden without a visa as well as to travel without visas in all the Schengen area (whether through Sweden or not).***

For this reason, purchasing of a company is useful not only for business planning and holding purposes but also as an opportunity to travel through Schengen Area. Temporary residence permit in Sweden may be also acquired in other cases (e.g. that a person intends to study, intends to carry out research, in family reunification cases and etc.). In all cases it must be justified that a person will have a residence (hotel agreement, lease agreement and etc.) and a sufficient source of funds, income for living. Consultants of the company may provide more detailed information about this issue and to help to complete the documentation for the obtainment of mentioned permission.

Work permit is not needed for the citizens of EU members and for their family members. A foreigner who is a citizen of one of the EU member states can come to Sweden and stay there up to 3 months per half a year, counting it from the first day of coming to Sweden. A citizen of EU member state, who intends to live in Sweden permanently must get a European Community member permission to live in Sweden (hereinafter "EC living permission"). A person, working in accordance with the employment contract or intending to engage into the legal activity, to render services or to receive services in Sweden, is released from the obligation to have the EC living permission, if he intends to stay in Sweden up to 3 months per half a year, counting it from the first day of coming to Sweden.

## **Company types**

A private limited liability company (AB), because of its limited liability status and simple management, is the most suitable and most often used legal person in daily business. Public limited liability companies are used more rarely.

In Sweden the Swedish Companies Act regulate the incorporation and the administration of the legal persons. Personal (individual) companies, Partnerships, Funds, Public institutions, organizations and associations can be registered in Sweden as well.

## **Authorized capital**

Authorized capital of the private limited liability company may not be less than 25,000 SEK. The shares of a private limited liability company may not be offered for sale or traded publicly, unless other laws provide otherwise.

Authorized capital of the public limited liability company may not be less than 500,000 SEK. Its shares may be offered for sale and traded publicly in compliance with the legal acts regulating securities' market.

Authorized capital requirement is not applied for the personal companies, where incorporator can be only a physical person.

## **Shareholders**

Shareholders are natural and legal persons who have each acquired shares in the company. Shareholders can be both Swedish and foreign natural or legal persons. The shares' sale – purchase agreements are made between the parties and does not require a notary.

## **Management**

A company shall have a Annual General Meeting and a minimum of one ordinary board member and one deputy board member on its Board of Directors. A company director can be only a physical person (local or not). The board members acts on behalf of the company in the company's relations with other bodies.

## **Banks**

Swedish banks have good reputation and have a well-developed range of products of e-banking and mobile apps providing a global accessibility. Traditional services such as credit, credit cards and insurance may also be offered.

WPS Partners Sweden cooperates generally with these commercial banks:

- Swedbank
- Nordea
- SEB Bank
- Danske bank
- Svea Bank

All of these banks provide high quality e-banking services.

## **Summary**

Swedish limited liability companies have these advantages:

- At least 1 shareholder, to whom requirement of citizenship and residence are not applicable;
- At least 1 board member and 1 deputy board member in the Company (company director);
- Minimal share capital 25,000 SEK;
- Shares might be paid by money and (or) by non-monetary contributions (in non-money contribution cases an auditor's opinion is required);
- "Shelf" company might be acquired in one day;
- Beneficial taxation of dividends and interest paid out;
- A net of Treaties on Double taxation is quite wide.

Please contact any of our offices if you wish to receive more information about incorporation and taxation of Swedish companies.

## **Services provided by WPS Partners Sweden**

WPS Partners Sweden offers a variety of corporate, tax, accounting, audit and back-office support services all under one roof, backed by a wealth of experience and expertise to meet all your business needs when establishing your business in Sweden

The core business activity of WPS Partners Sweden is the formation, management and the day-to-day administration of Swedish companies which include company administration, accounting, and secretarial services. Over the years WPS Partners has acquired and developed vast and in-depth knowledge and experience by assisting foreign and local clients, businesses, expatriates, entrepreneurs, private individuals and families with their corporate needs. Together with WPS Partners, we offer international wealth and tax planning services to our global clientele.

We aim to advance our clients' needs and business priorities, and wherever possible, exceed your expectations. We strive to build and create long-lasting relationships based on quality, confidentiality, mutual respect and trust.

## **Legal Disclaimer**

This publication is not intended to be used as legal or tax advice. Information contained within this publication must not be used as a substitute for a legal or tax opinion.

Affected or interested companies and individuals are recommended to receive further professional advice based on their own particular case and on the special facts of their own case which might need different consideration, or implementation than what is provided herein.