



Investment in Sweden

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Preface

The present booklet forms a survey of facts to be taken into account by foreign individuals and enterprises contemplating investment or undertaking business in Sweden. It is one of a series of handbooks issued by KPMG for the use of our clients and provides general information on subjects important to business activities in Sweden. It goes without saying that such handbook cannot be exhaustive and detailed enough to constitute the sole basis for investment decisions. Detailed advice in legal, accountancy, fiscal and other matters should be sought from professional advisers.

The information in this booklet reflects the situation as from January 1, 2004, unless provisions to the contrary are indicated.

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Chapter 1

Country outline

Geography and climate

The Kingdom of Sweden is a northern European country occupying the eastern part of the Scandinavian peninsula. It is roughly the size of California or twice the size of the United Kingdom. With an area of 450,000 square kilometres (174,000 square miles) Sweden is the fourth largest country in Europe. It measures nearly 1,600 kilometres (1,000 miles) from north to south but averages a mere 400 kilometres (250 miles) across.

Sweden and Alaska are on the same latitude. Thanks to the Gulf Stream sweeping up the Norwegian coast, the Swedish climate is much more temperate. Stockholm, the capital, has warm and mainly sunny summers; in the winter the temperature averages slightly below freezing point.

History and government

Sweden's earlier history is littered with wars, mainly with the neighbouring countries of Denmark, Norway and Russia. Its period as a great power ended in 1718 when Sweden had to relinquish sovereignty over the Baltic states (Estonia and Latvia) and neighbouring parts of Russia as well as its northern German provinces. The present boundaries date back to 1809 when Finland was lost to Russia. In the wake of the Napoleonic Wars, Sweden captured Norway from Denmark in 1814 and a union was formed which lasted until 1905. Since 1814 Sweden has enjoyed the longest period of peace ever, avoiding both World Wars as a neutral country.

Political power rests with the Cabinet, headed by the Prime Minister. The Ministries prepare bills to be put before Parliament and issue directives to the administrative agencies. The agencies function independently of the Ministries within the framework of current legislation and directives. Sweden is divided into 21 counties and 290 municipalities.

The Cabinet is responsible to a single chamber legislature (Parliament) known as the *Riksdag*. Parliament must approve all national legislation and its power is limited only by constitutional rules. Referendums are only advisory in Sweden and take place only rarely. The 349 members are directly elected for a four-year mandate period (formerly three years). The political scene is mainly divided between socialist and non-socialist blocs which each represent roughly 50 per cent of the population.

During the years 1933-1990 the Social Democratic Party ruled for all but six years, disregarding a coalition government during World War II. The Social Democrats were ousted following the 1991 elections and a minority government was formed between four non-socialist parties headed by the Moderate Party. This turned out to be but a brief period in opposition for the Social Democrats, however, as they regained office in the 1994 elections, although not backed up by an absolute parliamentary majority. Representation in the Riksdag in the 2002 and 1998 elections was as follows:

	2002	1998
Social Democrats	144	131
Left Party	30	43
Moderates	55	82
Liberals	48	17
Centre	22	18
Christian Democrats	33	42
Green Party	17	16
	349	349

At present the Social Democrats form a minority government but cooperate with the left party and the green party in order to gain a majority in the Riksdag.

The next general election is due to take place in September 2006.

The 1990s has seen a shift towards the European political arena; the EEA Agreement was ratified by Parliament on January 1, 1994 followed by full European Union (EU) membership on January 1, 1995 following a referendum in 1994, which resulted in a 52 per cent vote in favour of full membership.

In a referendum in September 2003 approx. 56 per cent of the population voted against a membership in the European Monetary Union (EMU) and only 41 per cent for such membership. Although referendums in Sweden are only consultative the political parties have agreed to adhere to the result of the referendum.

Population and language

The population of Sweden is 8.9 million, of whom about 84 per cent live in urban areas. The average population density is low, about 22 inhabitants per square kilometre (55 per square mile), but it varies considerably between different parts of the country. Except for the coastal regions, northern Sweden is very sparsely populated. The most densely populated area (about one third of the population) is a belt running roughly from Stockholm to Gothenburg and down the west coast to Malmö. These are the three major cities that together with their suburbs have populations of 1.7 million (Stockholm), 810,000 (Gothenburg), and 530,000 (Malmö).

Sweden has had an image as an ethnically fairly homogeneous country with a common language. However, the immigrant population has steadily increased. Today, as much as 15 per cent of the population are either first-generation immigrants or children of post-war immigrants.

The official language is Swedish. It is closely related to the other Scandinavian languages and belongs to the Germanic family of languages. Swedish is also spoken by about 10 percent of the Finnish population. English is a compulsory subject taught at school and most people born in the 1940s and thereafter understand and speak English quite well.

Currency

The unit of currency is the Swedish krona (SEK). The krona is divided into 100 öre. Sweden unilaterally linked its currency to the then ECU in 1991. In the financial turmoil of 1992, however, this linkage had to be abandoned and the krona was floated in November of that year.

The exchange rates for some major currencies in May 2004 were:

	SEK
EUR 1	9.25
USD 1	7.69
GBP 1	13.87
CHF 1	6.00
JPY 100	7.00

Foreign exchange regulations

Swedish exchange controls were greatly liberalised already in 1989. Almost all restrictions applying to individuals and companies were abolished. Various reporting requirements remain, as set out in Chapter 2.

Working conditions

Common Nordic Labour Market

The Nordic countries (Denmark, Finland, Iceland, Norway and Sweden) have long constituted a common labour market. Nordic nationals may work and live in any of the Nordic countries. EU membership means that these liberal rules have been extended to the entire EEA community. Other nationals must have residence and work permits arranged before they leave for Sweden. These rules are further described in Chapter 8.

Cost of living

Inflation in Sweden followed the international upward trend in the 1960s and 1970s, whereas the Swedish economy proved to be more inflation-prone than the average for the industrialized countries in the 1980s. Double-digit annual inflation was experienced at times. In recent years, however, the inflation rate has fallen significantly and the annual cost of living increase in 2002 and 2003 was about 1.7 per cent. Notwithstanding this fact, the cost of living is rather high in Sweden. The system of indirect taxation, notably 25 per cent VAT on almost all goods and services (rates reduced to 12 or 6 per cent in some cases - see Chapter 7) adds to the high cost of living.

Housing

Foreign citizens no longer need permission to buy real estate in Sweden, and even in the past the practice was very liberal in respect of permanent homes.

Acquiring a farm is subject to restrictions. Foreigners are not required to have a permission to buy shares in a housing corporation or a housing cooperative whereby the shareholder/member obtains an apartment in the corporation's/cooperative's property. See further Chapter 9.

Chapter 2

Opportunities for International Investors

Attitudes towards foreign investment

Sweden has an open attitude towards foreign investment. This is not surprising considering Sweden's support of the principles of free trade and international movement of capital. Swedish industry began its own expansion abroad at an early stage and many Swedish companies have now moved successfully into the international market place.

All the facilities available to Swedish enterprises for the promotion of industrial development in Sweden are also available to overseas enterprises setting up locally. There are no special facilities available to overseas enterprises. The facilities are summarised below.

In recent years most of the remaining restrictions affecting foreign investors have been lifted. Thus, foreign investment generally requires no permission.

Incentives for international investors

The development of industry in Sweden is promoted by government and regional authorities and institutions. The incentives aim at encouraging continuous innovation and structural adaptation to changing market conditions.

The government pursues a regional development policy in order to generate more employment in certain areas of the country. There is a wide range of regional

development support that provides incentives for investing in these areas. Other incentives of interest to potential investors in Sweden are export credits and guarantees and support for research and development. However, since Sweden became a member of the EU in 1995, subsidies and grants are available only within the terms of Article 87 of the treaty of Rome. Government support is therefore possible only if approved by the Commission. Sweden has revised the relevant rules accordingly. The following description reflects the rules in force on January 1, 2004.

Assistance and grants

The Swedish Business Development agency (*Verket för Näringslivsutveckling*, Nutek) is the government agency that supervises regional development support. The administration of the support is otherwise largely decentralised and administered by the county administrative boards (Sweden has 21 counties). Decisions on support are only made by Nutek or by the government (Ministry of Industry and Commerce) in important or exceptional cases.

Nutek is the natural contact point for foreign investors seeking assistance in establishing industrial operations in Sweden.

Regional development support is available in districts that cover 58 per cent of Sweden's area but include less than 15 per cent of the population. These include most of the northern two-thirds of Sweden. They are classified into Support Areas A and B with Support Area A receiving the most support and Support Area B the least.

Regional development support includes grants for investment in tangible fixed assets, product development, research, marketing and training. Employment grants are also available. There are seven different forms of regional support for enterprises and other operations choosing the right location for establishment or growth.

Rural support

Sparsely populated areas and wholly rural areas are to be found throughout the country. In such areas companies in any line of business can obtain what is known as "rural support". Defining rural and sparsely populated areas is a matter for the county administrative board. No distinction is made between hard investments (buildings, machinery etc.) and soft investments (product development, marketing

etc.) The support may not exceed 25-50 per cent of the investment. The maximum support over a three-year period is SEK 800,000.

Regional development grants

Location grants and loans are available for investments in buildings and machinery.

In Support Area A grants of up to 35 per cent of investment costs are available. In Support Area B the maximum grant is 25 per cent for small and middle-sized enterprises and 20 per cent for big enterprises.

Where total investment costs exceed SEK 25 million, decisions are made by Nutek rather than the county administrative board.

Support for service enterprises may be for the relocation of machinery and equipment, research and development and recruitment and training of personnel.

Employment subsidies

Enterprises and other operations creating new and lasting job opportunities in the support areas can obtain employment subsidies. These are at their highest during the first year. They are then gradually scaled down and after five years they are discontinued.

The total subsidy for a new full-time job is SEK 200,000 in Support Area A and SEK 120,000 in Support Area B. The subsidy is paid retroactively once a year.

Reduced payroll tax

Payroll tax is reduced in Support Areas A and B, except for certain sectors and geographic areas. There is a 10 per cent special reduction of the tax-base with a maximum reduction of SEK 7,100.

The reduction does not apply to certain industries, such as fishing, aqua culture and transport.

Transport subsidies

Goods transport to and from enterprises in large parts of Norrland qualifies for transport subsidies. These vary between 15 and 45 per cent of net expenditure, depending on location and distance.

Transport subsidies are available from Nutek.

Use of EU funds

One of Nutek's most important tasks is to harmonize the use of EU funds with national development policy to form a coherent whole. Nutek will press for a simplification of the EU's regulatory system for the structural funds.

Financial Assistance and Guarantees

The Swedish Export Credit Corporation (*AB Svensk Exportkredit*, abbreviated SEK) is owned jointly by the State and the commercial banks. It grants medium and long-term credits to finance export of goods and large-scale services, mainly at low interest rates in line with the OECD Consensus Agreement. The Swedish Export Credits Guarantee Board (*Exportkreditnämnden*, abbreviated EKN) provides a form of insurance against losses caused by the default of a foreign borrower or buyer in connection with the purchase of Swedish goods and services. These guarantees generally cover 85-90 per cent of the exporter's risk. The customers are export enterprises and banks.

Research and Development Support

Also here Nutek is involved, but the whole system is under reconsideration and no details are available at present.

VINNOVA the agency for innovation systems promotes lasting growth by means of the development of effective innovation systems and the financing of research motivated by the requirements.

Major industrial development projects, which are likely to become very profitable in the long run but involve large technical or commercial risks, are supported by the Industrial Fund (*Industrifonden*). The Fund may supply up to 50 per cent financing, repayable if the project is successful. The fund works with both loans and equity capital. The financing is combined with advice and support. All applications on financing are confidential as is all information on business conditions.

ALMI Enterprise Partner (*ALMI Företagspartner*) grants loans on favourable terms, primarily to newly established companies. The purpose is to create growth and renewal of the trade and business by means of financing in combination with business development.

ISA (*Invest in Sweden Agency*) is a government agency responsible to the Ministry for Foreign Affairs. Companies planning to establish or expand business operations in Sweden can, free of charge, obtain information and assistance from ISA and its regional and international network.

Export promotion

Export promotion and export risk insurance is covered in Chapter 3.

Tax incentives

There are generally no tax incentives for foreign investors.

Other benefits

Sweden has an excellent transport and communications network. Seven trans-European highways cross Sweden. Vehicles measuring up to 24 metres (79 feet) in length and weighing up to 51 tonnes are permitted on most roads. The railway network has a mainline length of more than 11,200 kilometres (about 7,000 miles) and is nearly all electrified. A well-developed domestic airline network serves some 30 towns and cities. Stockholm, Gothenburg and Malmö also have good international flight connections. Most Swedish imports and exports move by sea, and there are a large number of well-equipped ports. Government-owned ice-breakers keep all main ports open all year around. Swedish Telecom (*Telia*) handles services in its field but there are also other operators. Telecommunications services are efficient and inexpensive. In fact, Sweden has one of the highest number of telephones per capita in the world (5.5 mill. fixed and 8 mill. mobile telephony). All domestic calls and practically all international calls can be direct-dialled. Cables, teletext, facsimile, mobile telephone and data transmission services and equipment are readily available.

With its high standard of living, receptive attitude to innovations, sophisticated consumers and corporate customers, Sweden is an ideal test-market for high-quality and technologically advanced goods and services.

Land suitable for industrial development is readily available and relatively inexpensive compared with many other West European countries.

The economy

Although Sweden has mostly been governed by the Social Democrats since the

1930s, its economy is by no means a socialist one. A large majority (about 85 per cent) of all Swedish companies with more than 50 employees are privately owned. This accounts for 75 per cent of total employment in the business sector. Foreign-owned companies account for about 0.9 per cent. The remainder is made up of state-owned and co-operative companies, each employing some 10-12 per cent of the work force.

Major industry includes engineering, chemicals, wood and pulp, iron and steel, making up some 80 per cent of gross output in the manufacturing sector.

The Swedish engineering industry is dominated by a few large enterprises: Volvo, Electrolux, ABB, Atlas Copco, Ericsson, Saab, Sandvik and SKF all rank among the largest industrial companies. Large companies play a more important role in this industry than in other industrial sectors. The engineering industry also has a large number of small and medium-sized companies, many of them subcontractors to the bigger companies.

Chemicals have developed into a leading growth industry. Leading corporations include Boliden, Perstorp and Astra Zeneca, the pharmaceutical company.

The pulp and paper industry was one of the first sectors to become industrialized in the second half of the 19th century. The industry still accounts for some 10 per cent of Swedish exports. Leading companies are Stora Enso, SCA and MoDo. Sweden produces about 2 per cent of the world's iron ore, mainly from northern mines operated by state-owned LKAB. Boliden is another mining company. Special steels, i.e. alloys and high-carbon steels, comprise about one third of steel production. Most ordinary steel is produced by SSAB, a majority state-owned company. Hard steels, which are usually alloys containing titanium and wolfram or aluminium, have gained importance. Rock drills, cutting tools and special tools are the leading products. Sandvik has a large share of this market.

Finally it should be mentioned that Sweden is regarded as one of the leading nations in the field of biotech. New research within this field emerged in Sweden at the end of the nineties and several biotech companies focusing on such research results were founded. Some of them did not survive the turbulent stock market development in the beginning of the twenty-first century but many of them did survive and are now part of this successful field of Swedish industry.

Government economic and fiscal policy

The primary goals of post-war Swedish economic policy have been to maintain high and stable employment, to generate economic growth, to promote an even distribution of real incomes, to maintain regional economic equilibrium and to achieve reasonable price stability.

In the end of the nineties, however, unemployment rose to unprecedented levels during a prolonged economic downturn. Employment figures were better in the beginning of the twenty-first century but recently, unemployment figures are again rising and are now approximately 6 per cent in the population between 16 and 64 years of age.

An important objective of fiscal policy in the post-war years has been the re-distribution of wealth and financial support for pensioners, families with children and low-income households. This led to a considerable expansion of the public sector and eventually total tax revenue and social contributions reached a record 55 per cent of GDP. High marginal tax rates for the majority of middle-income earners necessitated repeated adjustments of income-tax brackets. The 1991 tax reform (see Chapter 5 and 6) represented a concerted effort to rid the economy of the marginal-tax problem. The thrust of the changes was clear: lowering the marginal income tax for the individual while curbing relief and broadening the VAT base. Corporations face an extended tax base coupled with a lowered nominal rate as further discussed in Chapter 5. However, these changes have so far taken place without reducing the overall tax burden. Furthermore, the expressed goal of a maximum personal income tax percentage of 50 per cent has not been maintained. Due to later changes in the tax brackets, the maximum tax has again risen and is presently approximately 57 per cent.

Local banking system and sources of finance

Banks

The central bank is the Bank of Sweden (*Riksbanken*), founded as long ago as 1668 making it the oldest central bank in existence. It operates under the supervision of Parliament. The chairman of its board of governors is appointed by the government, however, and in practice the Bank confers with the government so as to co-ordinate economic policy. Its functions are the same as those of other central banks: to issue currency, administer foreign-exchange reserves and the country's gold and to act as the bank of the state and the other banks.

Sweden has two main types of deposit banks: commercial banks and savings banks. The differences between them are gradually becoming less pronounced. As a result of mutual service agreements, customers may use not only the 2,700 branches but also (for certain services) some 1000 postal offices (i.e. one sector of the Swedish Postal office called "Svensk Kassaservice"). In 1986 Sweden opened its borders to foreign-owned banks and at present five international banks have established subsidiaries in the Swedish market. Furthermore, quite a few number of branch offices of foreign banks have been opened. Foreign banks domiciled within the EEA need no special permit to establish a branch.

A charter is required for banking operations. Charters are granted by the government. Bank activities are regulated by the Financial Supervisory Authority, a government agency that also supervises insurance companies. This followed from a change in the Banking Act allowing banks and other financial institutions to acquire shares in insurance companies, and vice versa. Capital adequacy requirements are based on the Basle agreement and thus Swedish banks must at all times have a capital base equal to 8 per cent of the bank's risk-weighted placements. Commercial banking is dominated by four banks together owning about 80 per cent of commercial bank assets and covering most of Sweden with their network of branch offices: Svenska Handelsbanken, Skandinaviska Enskilda Banken, Meritanordbanken (now Nordea) and Föreningsparbanken. All Swedish banks were severely hit by a crisis in the property market, which started in 1989 and spilled over to the finance companies and the banks. Severe credit losses necessitated government support, either direct or by guarantees. Nordbanken and Gotabanken were nationalized as part of this process and subsequently merged in preparation for future privatization. Other commercial banks are either provincial or local banks or as mentioned above, subsidiaries of foreign banks.

Mergers have sharply reduced the number of savings banks in recent decades. For example, the eleven largest savings banks merged in 1991. Also the about 400 local cooperative banks originally serving farmers merged into Föreningsparbanken. This bank merged with Sparbanken Sverige in 1997 and became Föreningsparbanken. Nordbanken and Merita Bank in Finland also merged into Meritanordbanken in 1997 and after a name change the present name of the bank is Nordea.

Beside the banks, there are authorized "credit market companies", many of them owned by banks, whose main activities are leasing, factoring, inventory financing

and consumer credit. Credit market companies also include mortgage institutions. They finance their lending by issuing bonds or by borrowing in other ways. Housing finance has long been a priority use of credit in Sweden. Banks provide short-term credits for construction. State loans cover 15-30 per cent of total long-term financing, the remaining 70 per cent being provided by mortgage institutions.

Credit market companies must have non-distributable equity of at least EUR 5 million. If total assets do not exceed SEK 100 million, the Financial Supervisory Authority may accept a lower equity figure, although not less than EUR 1 million. The Financial Supervisory Authority also authorizes and supervises the operations of these finance companies. The capital adequacy requirement is the same as for banks, i.e. a capital base equal to 8 per cent of risk-weighted placements. As a consequence of the EEA Agreement, foreign financial institutions domiciled in the EEA community may open branch offices in Sweden. In other cases permission is required.

Stock Exchange

The Stockholm Stock Exchange deals in the public offering and listing of securities. In January 2004 there were 73 companies quoted on the A list of the Stockholm Stock Exchange. To be on the A list, a company must have been operating for at least three years, meet certain requirements regarding financial position (i.e. a market value of assets amounting to at least SEK 300 million) organisation and quality of operations, and have at least 2,000 shareholders with round lots. In addition, there are some unofficial listings and an over-the-counter market in which banks and stockbrokers act as market-makers quoting buying and selling rates. Trade is also conducted in convertibles, warrants and other instruments.

Brokerage fees used to be fixed by the Financial Supervisory Authority but are now determined by the market. There is no share transfer tax.

There is also an active money market in Stockholm dealing in all kinds of financial instruments, including derivatives. There is no transfer tax on this trade.

Restrictions on international investment

Exchange controls

The previous currency law was abolished on July 1, 1990, and was replaced by two new laws, viz. a law on currency regulations and a special law on payments to and from foreign countries for statistical purposes.

The first law is precautionary and will be put into effect only in the event of war or a national security crisis; it may also operate in the event of serious currency turbulence.

The other law governed procedures for payments to and from Sweden. This law was, however, repealed in 2001. The purpose of collecting statistics of payments to and from Sweden is now a task for the banks and tax authorities. The banks have, thus, an obligation to report certain transactions to the tax authorities. In spring 1991 Sweden unilaterally linked its currency to the ECU. However, it became necessary to float the krona in the wake of financial turmoil in the autumn of 1992, and the krona is now floating against foreign currencies. In September 2003 Sweden held a referendum on whether or not to join the monetary union. The outcome was a rather massive "No".

Restricted industries

In general, industries are open to private enterprise. A number of industries including railways, postal service, telecommunications, broadcasting services and the manufacture and sale of wine, spirits and tobacco products used to be run mainly as state monopolies but are now partly open to private enterprise.

There used to be a ban on foreign ownership of shares in Swedish banks. This ban was lifted in 1990 and the general rules stated above apply. A foreign bank may also establish a subsidiary or a branch office in Sweden that, like any other bank in Sweden, is regulated by the Financial Supervisory Authority. The opening of a bank representative office requires no permission, nor is it regulated.

The exploitation of natural resources such as ore, minerals and oil and gas requires special concessions, sometimes involving the payment of royalties to the Government.

Farming and forestry are also subject to restrictions and regulations, both upon acquisition and during operations.

Industrial operations that may cause pollution are subject to certain conditions. The law enumerates a large number of industries that may not be established without permission.

Prospective investors are advised to determine in advance any such regulations that may affect their type of business. Regulations affecting employee relations are discussed in Chapter 8.

The Unfair Competition Act aims at preventing restrictive trade practices, i.e. practices which fix prices, restrict trade efficiency, or are a hindrance to free trade. The law is enforced by the Swedish Market Court (*Marknadsdomstolen*). The law may be invoked to prevent dominance of a particular market. The law also prevents unfair tendering practices.

Under the Marketing Practices Act the Consumer Ombudsman is responsible for ensuring that no trader contravenes the principle of “good business practice” or any other provisions of the act. Penalties may be imposed. The provisions of the act prohibit certain misleading marketing practices, the marketing of potentially harmful products, etc. A wide range of manufactured goods and services are subject to certification and/or approval for consumer use.

Chapter 3

Import to and export from Sweden

Duties

Dependence on foreign trade has caused Sweden to liberalise its foreign trade. Import and export licenses are normally not required for commercial transactions with foreign countries. Sweden is a member of the Organization for Economic Cooperation and Development (OECD) and a signatory of the General Agreement on Tariffs and Trade (GATT). Sweden is a founding member of the European Free Trade Association (EFTA). Sweden has had a free trade agreement with the European Economic Community (EEC) since 1973. The EEA Agreement became effective on January 1, 1994. Sweden has been a member of the European Union since January 1, 1995.

Quantitative restrictions on imports to Sweden are rare but apply to many agricultural products, as well as to a number of textile products.

Machinery, electrical equipment, transport equipment, building materials, pharmaceuticals, etc. must often comply with technical regulations and standards issued by various government agencies. The import of food is controlled by the National Food Administration to ensure quality and fitness for consumption. Drugs must be registered with the Department of Health. EC directives may result in modifications of these rules.

Local agent

An import notification and a customs declaration must be presented at the time of customs clearance. Importers claiming that goods are to be treated according to

the EFTA convention or EU treaties or the rules applying to goods originating from developing countries must present evidence of origin. It is not necessary to employ a local agent. As long as the importer is established within the EU, he can clear the goods through customs himself. However, since customs regulations and procedures can be complicated, it is usually more efficient to employ a local agent.

Export

Foreign trade plays a major role in the Swedish economy. This is illustrated by the fact that about half the output of Swedish industry is exported, which is equivalent to approximately 34 per cent of gross domestic product (in value terms).

Sweden's principal trading partners in 2003 were:

	SEK million	
	Export and Intracommunity supply	Import and Intracommunity acquisition
Germany	82,701	125,867
Norway	69,145	53,623
United States	94,000	26,298
United Kingdom	64,045	54,050
Denmark	52,821	60,673
The Netherlands	40,696	45,762
Finland	47,199	37,605
France	40,017	37,159
Belgium	37,084	28,210
Italy	29,361	23,247
Total,	918,100	672,800
of which EU	444,100	450,200

Exports and imports of goods and services have risen in recent years. The main areas of export are within engineering and forestry industry e.g. cars and spare parts, machinery and systems, and forestry products. Although export to developing countries has accelerated, the bulk of Swedish exports are still destined for the other Nordic countries, Western Europe and North America. Approximately $\frac{3}{4}$ of the Swedish exports is to countries in Western Europe.

The Government promotes Swedish export by joint financing (with Swedish industry) of the activities of the Swedish Trade Council (*Exportrådet*). The Council, which works through Swedish Trade Offices and embassies in key markets, conducts a broad programme of activities ranging from the preparation of promotional and technical literature to the staging of exhibitions and seminars and by arranging visits by trade delegations. It also provides a wide range of services aimed at facilitating export.

The Swedish Export Credit Corporation (*Svensk Exportkredit*) is owned jointly by the State and the commercial banks. It grants medium and long-term loans to finance export of goods and large-scale services, mainly at low interest rates in line with the OECD Consensus Agreement. The Swedish Export Credits Guarantee Board (*Exportkreditnämnden, EKN*) is a government agency that offers insurance cover to exporters to protect them from certain types of losses in export transactions. EKN covers losses caused by political and/or commercial events. The excess is normally 10 per cent for political risks and 15 per cent for commercial risks.

Chapter 4

Business entities

Types of business enterprise

The following legally recognized forms of business enterprise exist in Sweden:

- Limited liability company (*aktiebolag*, abbreviated AB);
- Branch of a foreign company (*filial*);
- General, limited or unregistered partnership (*handelsbolag*, *kommanditbolag*, *enkelt bolag*);
- Sole proprietorship (*enskild firma*);
- Economic association (*ekonomisk förening*).

Foreign investors in Sweden have traditionally favoured the limited liability corporate form. A subsidiary of a foreign company established in Sweden under Swedish law is considered a Swedish company in all respects, and no legislative distinction is generally made between companies whose shares are wholly or mainly owned by foreigners and those owned by Swedes. It may sometimes be advantageous to conduct business initially through a branch office of the parent organization.

Partnerships and sole proprietorships are seldom used by foreign investors.

Limited Liability Company

Under the EEA Agreement Sweden undertook to harmonise its legislation with EEC Directives Nos 1-3 and 12 and such changes have been made in domestic legislation.

The founding of a company is governed by the Swedish Companies Act. Most often, however, an investor needs not bother with this procedure since it is much easier to acquire an off-the-shelf company and adapt its articles of association to the needs and intentions of the investor. The articles of association must include the following:

- the company's name;
- the objects of the company;
- the share capital or minimum/maximum share capital;
- the number of board members and auditors or minimum/maximum number;
- the financial year.

In addition, the articles must include any conditions regarding

- different classes of stock;
- restrictions on the transferability of shares.

A limited liability company may be either a "private company" or a "public company". Only public companies may invite the public to subscribe for their shares. Registration as a public company is also required if shares are to be traded on the stock exchange or other organised marketplace. Under the Companies Act the minimum share capital for a private company is SEK 100,000; for a public company the minimum is SEK 500,000. All shares of a limited liability company may be held by one stockholder, either an individual or a company. In principle all shares carry equal rights, but the articles may provide that certain shares carry a maximum of ten times the voting rights of any other share of the same amount (the previous act allowed a difference of one thousand times and such differentiation is still valid for companies formed under the old act). Designated shares may also carry preferential rights to receive dividends. The company must keep a record of its shareholders. The share capital may be increased by subscription for new shares or by stock dividends.

The articles of association govern preferential rights to subscribe for newly issued shares. A decision at the general meeting to issue shares to new shareholders or to empower the board to decide how new shares are to be issued requires a majority of two-thirds of the votes cast and two-thirds of the shares represented at the general meeting. Similar rules apply to a decision to reduce the share capital. The issue of new shares to employees, management and board members

(including stock option plans) requires a resolution passed by 90 per cent of the votes and 90 per cent of the shares represented at a general meeting. The share capital may be reduced for one or more of the following purposes:

- to cover a loss;
- repayment to shareholders;
- transfer to statutory reserve.

If a company incurs losses that erode half the registered share capital, certain measures must be taken to restore the capital within a given period to avoid a winding up of the company. The act also stipulates the creation of a statutory (legal) reserve that, together with the share premium reserve, must amount to 20 per cent of the paid-in share capital. The reserve is created by mandatory appropriation of at least 10 per cent of annual net profits until the full reserve has been created.

The main provisions regarding the management of limited liability companies are as follows. The shareholders' right to pass resolutions is exercised at the general meeting. An annual general meeting of shareholders must be held within six months of the financial year-end. The following matters must be dealt with at the annual meeting:

- adoption of the financial statements;
- distribution of unappropriated earnings - or dealing with a deficit;
- discharge of the board of directors and the managing director from liability for the preceding financial year,
- election of board member(s) and appointment of auditor(s);
- any other matters required by the articles of association.

The board of directors of a small company may consist of one person and a deputy. Companies with registered minimum share capital of SEK 1 million must have a board of at least three persons. There are no restrictions with regard to citizenship but half the number of directors must be resident in the EEA. The employees of companies employing more than twenty-five people are entitled to elect two employee representatives on the board; in large companies (more than 1,000 employees) operating in several industries, three representative members. Normally the board of directors forms a quorum when more than half the number

of directors is present (unless the articles impose a stricter requirement). The board of directors may (compulsory in large companies) appoint a chief executive officer (CEO) responsible for the day-to-day operations of the company under the board's instructions. The CEO must be resident in the EEA. The board must annually establish a work programme setting out the distribution of work between the board of directors and the CEO.

If no member of the board of directors, nor the CEO, is resident in Sweden, the board must appoint a person resident in Sweden on whom writs may be served. A distribution of unappropriated profits (after deduction of any deficits brought forward and any appropriation to statutory reserve) to the shareholders may only be made as a dividend. A dividend may only be declared out of retained earnings once the balance sheet for the financial year has been adopted at the annual general meeting of shareholders. An additional dividend may subsequently be declared at an extra meeting but only out of the same retained earnings. Interim dividends out of current year earnings are not permitted. The dividend must not exceed the amount proposed by the board of directors and the CEO. Additionally, the dividend declared by a parent company must not exceed the retained earnings reported in the parent company's balance sheet or those in the consolidated balance sheet, whichever is the lesser. The Companies Act otherwise stipulates that "sound business practice" is to govern the distribution, having regard to the company's cash position and equity/assets ratio. A minority (representing at least 10 per cent of the total number of shares in the company) may call for a minimum dividend. The rules for mergers have been harmonised with the third EC Directive introducing, for instance, a more closely regulated merger plan to be presented at the shareholders' meeting.

Branch of a foreign company

A foreign limited liability company, lawfully registered in its home country, may operate through a Swedish branch office. No permission is required but the branch must be registered.

The name of the branch must include its status as a branch (*filia*) of a foreign limited company and its nationality. A CEO, resident in Sweden, must be appointed. A proxy empowering the CEO to deal with all matters concerning the Swedish operations must be issued by the foreign company.

It may be advantageous initially to conduct business through a branch office, particularly if it is expected that the Swedish operations will be unprofitable during an initial period.

Accounting requirements for a branch office are generally the same as for a limited liability company (see below). The accounts of the branch must be audited by an authorized public accountant. An audited report shall be filed at a Registrar's Office together with any public annual report of the foreign company. If, however, the foreign company is domiciled in the EEA, it is sufficient to file that company's annual report translated into the Swedish language.

Partnerships

The various forms of partnership are governed by legislation, which is partly non-mandatory, taking effect where the relationship is not governed by the partnership agreement. In a general partnership (*handelsbolag*) the partners are jointly and severally liable for all debts resulting from partnership operations. The partners may be either individuals or companies.

A limited partnership (*kommanditbolag*) is a business of one or more general partners (*komplementär*) and one or more limited partners (*kommanditdelägare*) who are liable only to the extent of the capital subscribed and/or invested by each of them.

An unregistered partnership (*enkelt bolag*) is not a legal or a taxable entity. It must have at least two partners. In principle, each partner is liable for his own commitments only. If all partners but one withdraw from the partnership it is transformed into a sole proprietorship.

Sole proprietorship

This type of firm belongs to the sole owner who is liable to the full extent of his assets for all business debts. The firm must be registered at the Registry of Commerce in the county where the owner is resident.

Economic association

The organization of economic associations is governed by separate legislation. This form of enterprise is used mainly for co-operative businesses.

Representation office

A foreign company may establish a non-registered representation office that is deemed not to engage in business activities. These businesses are conducted from the country of origin.

Accounting and auditing requirements

Accounting principles

The Accounting Act lays down basic accounting requirements to be observed by all those required to maintain accounting records. This act is supplemented by specific statutory provisions governing the preparation of annual accounts and by industry-specific legislation. The annual accounts acts, for companies in general and specific acts for the financial sectors, are entirely based on the fourth and seventh EC directives. It is expected that these acts will be revised in 2004 to allow for the preparation of the annual accounts, and consolidated accounts, in accordance with International Accounting Standards, IAS (see below).

The basic accounting concepts to be observed are:

- going concern;
- historical cost;
- accrual basis;
- consistency;
- reasonable prudence.

The annual report must be prepared in accordance with law and generally accepted accounting principles. The balance sheet, the income statement and integral notes must together give a true and fair view of results of operations and financial position. The "true and fair view" concept does not allow derogation from statutory accounting rules but is interpreted to mean that additional disclosures may occasionally be required. The concept has not been given the overriding status that it has in the Anglo-Saxon environment. Legislation has to some extent left the evolvement of accounting principles to practice. FAR, the institute for the Swedish accounting profession, has historically issued technical opinions and guidelines on accounting matters that supplement the rules laid down in law. This "standard setting" role was subsequently transferred to the Financial Accounting Standards Council (*Redovisningsrådet*) comprising members from the accounting profession,

industry, the stock exchange and a government agency. Over the last decade, Redovisningsrådet has adopted as Swedish GAAP for listed companies most of the international accounting standards (IAS) issued by the International Accounting Standards Board. A governmental agency, *Bokföringsnämnden*, is empowered to issue interpretations of the Companies' Act and the annual accounts acts. These guidelines often include alleviations for small and medium-sized companies from the general standards issued by Redovisningsrådet. The Financial Supervisory Authority, *Finansinspektionen*, issues regulations for the financial sectors.

Annual Report

The following presentation relates to the annual report to be prepared by a limited liability company. In practice, the same rules apply to other types of enterprises, at least sizeable ones.

An annual report must be prepared for each financial year comprising a report on the management of the company's affairs, an income statement, a balance sheet and notes to the financial statements. A parent company must prepare consolidated accounts. Large companies and groups must also present a statement of changes in financial position (cash flow statement).

Comparative figures for the preceding financial year must always be presented. Not later than one month after the adoption of the financial statements and at the latest seven months after the end of the financial year, a certified copy of the annual report must be filed at the Patent and Registration Office, where it is available to the public.

Directors' Report

The directors' report must include information not disclosed in the balance sheet, in the income statement, or in the notes but of importance for the assessment of the company's assets and liabilities, its financial position, and the results of operations, whether the relevant events have occurred during the financial year or subsequently. The report must also give information on expected future developments (small companies exempt), on R&D activities, on foreign branches (small companies exempt), and on any reacquisition of own shares. The director's report shall further, if essential for the assessment, include a description of risks (price risks, credit risks, liquidity risks and cash flow risks) resulting from the use of financial instruments including a description of the company's objectives and

means to manage those risks. Hedging activities must be specifically addressed. Also environmental issues must be addressed in the directors' report, if applicable. The CEO and the board of directors must submit a proposal for the appropriation of profits or the treatment of losses incurred.

The annual report must be signed by all directors and by the CEO.

Income statement

The Annual Accounts Act offers a choice between a purpose of expenditure format classifying costs by functions, and a type of expenditure format, i.e. corresponding to Articles 23 and 25 of the fourth directive. Small companies (as defined) may present an abridged income statement.

As discussed further in Chapter 5 on Business Taxation, tax legislation has had a great impact on income presentation. Generally only items expensed in the accounts are deductible for tax purposes. To take advantage of the tax legislation governing untaxed reserves, depreciation of fixed assets and other scope for tax deferral, the amounts claimed for tax purposes must be actually charged to income. Swedish income statements, therefore, include these charges under a separate heading: "allocations to/from untaxed reserves". Under international accounting standards these charges would never have been entered in the official accounts but would be considered temporary differences requiring provision for deferred taxes. Deferred tax accounting is mandated by a standard issued by the Financial Accounting Standards Council (small companies are exempt). The Government has from time to time considered the possibility of severing the link between financial accounting and tax accounting but so far, proposals in this area have been shelved.

Balance sheet

The vertical lay-out is prescribed in the Annual Accounts Act based on Article 9 of the fourth EC Directive. No other, optional, formats under the directive are allowed. Assets are classified into fixed and current assets. Separate headings show shareholders' equity, untaxed reserves, provisions and liabilities. Although the act does not require separate disclosure of long-term and current liabilities, guidelines prepared by FAR recommend that this practice should continue. This also applies to separate disclosure of unrestricted and restricted equity on the face of the balance sheet.

As mentioned above, one of the basic accounting concepts is historical cost. However, fixed assets having a value that can reasonably be taken to be permanently in excess of carrying value may be revalued at such higher value. Any increase in value from revaluation is booked in a special revaluation reserve under restricted equity. Depreciation must be provided and charged to expense on the basis of the increased value over the remaining useful life. However, the revaluation reserve must be reversed in line with the depreciation, any additional write-down or disposal of the underlying asset. In line with the international move towards a mixed mode of accounting at historical cost and at fair value, the annual accounts acts have been revised to allow presentation of financial instruments at fair value, on a voluntary basis for companies in general as from 2004 and mandatory for the financial sector as from 2006.

Leasing has not been dealt with in legislation. Under a standard issued by the Financial Accounting Standards Council listed companies must report finance leases and operating leases in accordance with international standards (IAS 17), at least in the consolidated accounts. Other companies are allowed to continue to report all leases as if they were operating leases. The equity method of accounting for investments has been recognized in the Annual Accounts Act but only for consolidated accounts.

Consolidated accounts

Where a limited company or partnership, itself or jointly with one or more subsidiary companies

1. owns stock representing the majority (more than 50 per cent) of the voting rights of another legal entity, or
2. owns stock and controls another legal entity by contract, agreement, court decree or otherwise the former company is considered to be the parent company and the latter company/entity the subsidiary company, jointly constituting a group. The parent company must prepare annual consolidated accounts including both foreign and domestic subsidiaries. A group of companies forming a subgroup of a parent domiciled in the EEA is generally exempted from the requirement to present group accounts.

The consolidated accounts comprise a consolidated income statement, a consoli-

dated balance sheet and normally also a consolidated statement of changes in financial position (cash flow statement).

The directors' report and the notes must also give corresponding information at group level. In the consolidated financial statements, the acquisition of companies must normally be accounted for using the purchase method; the use of the pooling-of-interest method is restricted as stipulated in IAS 22. Reverse acquisitions are allowed under the act. In arriving at the consolidated results of operations, unrealized intercompany profits are eliminated, together with intercompany transactions and balances.

Translation of foreign currency denominated financial statements is accomplished either by the current rate method or the monetary/non-monetary (temporal) method, based on the international standard IAS 21.

Goodwill is to be capitalized and amortized over a period not exceeding twenty years, i.e. the same rules as in the international standard issued IAS 22, as currently effective.

Notes to the financial statements

The Annual Accounts Act defines considerable note disclosure requirements including:

- valuation methods adopted;
- changes in accounting principles;
- details of investments in other companies;
- details of changes in equity accounts;
- details of stock options;
- segment information (more extensive for public companies).

Fairly extensive information on employee relations is mandated, including remunerations.

Mandatory reporting in accordance with IAS

Under an EU regulation listed companies will be required to present their consolidated financial reports in accordance with IAS as from 2005. While this would not require any change in domestic accounting laws, it is expected that the annual accounts acts will be revised during 2004 to generally remove any rules that

would stop a company from applying the provisions of a specific IAS. A white paper in 2003 proposed that also unlisted companies would be allowed to fully apply IAS in their financial reports, both in single company accounts (also listed companies would be so allowed) and in the consolidated financial reports. It was further proposed to remove obstacles in the annual accounts act to apply the provisions of specific international standards, e.g. the recognition of biological assets and investment property at fair value, the revaluation of tangible fixed asset at fair value, and the application of the equity method of accounting for investment in associates in single company accounts. As already mentioned above, the acts have already been changed to allow the recognition of financial instruments at fair value.

Interim reporting

Companies of a certain size must publish at least one interim report covering six to eight months of a twelve-month financial year. The interim report is rather condensed but must at least show total revenues and profit before allocations to/from untaxed reserves and tax for the company and, where applicable, the group. The half-year report for listed companies must also include condensed income statements and balance sheets.

The accounting profession in Sweden

The Swedish accounting profession is represented by *Föreningen FAR* (the institute for the accounting profession in Sweden), organizing both the first tier of professional accountants, the authorized public accountants (auktoriserad revisor), and the second tier, the approved accountants (godkänd revisor). Also specialists engaged by the accounting firms may be members of FAR. Also *Svenska Revisorssamfundet SRS* organizes professional accountants, mainly from the second tier. Both authorized public accountants and approved accountants are licensed to work professionally by a regulatory authority, *Revisorsnämnden*. Some four years of university post-graduate training is required to qualify as an authorized public accountant. Candidates must also complete a required period of practical experience before applying for a license; normally at least five years, including at least two with another public accountant. Finally, the candidate must pass an exam administered by the regulatory authority. Authorized public accountants may practice only in the profession and may not be engaged in industry or commerce. For approved accountants, the post-graduation requirement is less exacting and the period of practical experience is limited to three years, which must none the less be spent with another approved accountant or an authorized public accountant.

Approved accountants must also pass a final exam. Those meeting the requirements for performing statutory audits in a country within the EEA may become an authorized or approved accountant in Sweden upon passing a special test organized by the regulatory authority.

Firms of accountants may also be registered. Such firms may only engage in professional audit work and related consulting activities. If the firm is a partnership, all partners must be authorized or approved accountants. If the firm is a limited liability company, at least 75 per cent of the board members and the CEO must be authorized or approved accountants. Also, at least 75 per cent of the shares (and the voting rights) must be owned by authorized or approved accountants, with the remaining shares also held by persons actively engaged in the business of the firm.

At present there are some 2,400 authorized public accountants and approximately 1,500 approved accountants.

The present rules on appointment of auditors, auditing standards and the audit report are set out below.

Appointment of auditors

In a limited liability company, the auditor is appointed at the general meeting of shareholders for a period of four years. All limited companies must appoint an authorized accountant (or firm) or an approved accountant (or firm) for annual examination of the annual report, the accounts, and the administration of the company. Companies (or groups) of a certain size (at present those having total assets of more than SEK 40 million or more than 200 employees) and companies listed on a stock exchange must appoint either an authorized public accountant, an approved accountant with a passed exam, or a registered firm.

Generally accepted auditing standards

The auditor must examine the annual report, the accounts, and the administration of the company to the extent required by generally accepted auditing standards. Where the company is a parent company, the auditor must also examine the consolidated financial statements and the relationship between the group companies.

The legislature has left the evolvement of auditing standards to practice. FAR has issued recommendations that must be followed by members. As from 2004, FAR

has adopted as Swedish GAAS the International Standards on Auditing (ISA) issued by the International Federation of Accountants. These include general standards, standards of field work, and standards of reporting.

The regulatory authority is empowered to take disciplinary action, to review the standard of work and to issue audit recommendations (not much utilized to date).

The audit report

After completing the audit, the auditor must certify that he has audited the annual report and any consolidated financial statements. The auditor must submit a report to the general meeting stating that he has made an examination in accordance with generally accepted auditing standards and stating whether the annual report and the consolidated financial statements (if any) have been prepared in accordance with the statutory presentation provisions. If the annual report does not contain the information required by law, the auditor, where practicable, must include the missing information in the report. The audit report must always include the auditor's recommendation as to the following matters to be dealt with at the general meeting:

- the adoption of the income statement and the balance sheet, and any consolidated statements;
- the proposal for profit appropriation or treatment of losses;
- discharge from liability of members of the board of directors and the CEO.

Where relevant, the audit report must also include criticism of any act or omission by a member of the board or the CEO which may entail liability for damages, or criticism of any other act contravening the Companies Act, the Annual Accounts Act, or the company's articles. The auditor is also obliged to report on failure to comply with the laws governing reporting and payment of certain payroll taxes and indirect taxes. The audit report may further be disqualified due to scope restrictions, departures from generally accepted accounting principles, material weaknesses in the system of internal control and uncertainties. In addition to the formal report submitted to the general meeting, the auditor must inform the board of directors or management, as appropriate in the circumstances, of observations as to weaknesses in the system of internal control, errors and irregularities. The board is required to minute written communications from the auditor.

An auditor may not give an individual shareholder or third party any information on the company's affairs that the auditor has obtained in the performance of the examination where the disclosure of such information may be prejudicial to the company. The auditor is obliged to provide the general meeting with all information requested at the meeting unless this would be materially prejudicial to the company. The auditor is further obliged to give required information to a co-auditor, a successor auditor, a receiver in bankruptcy, and to an officer in charge of a prejudicial inquiry in criminal cases.

Chapter 5

Business Taxation

Taxation of companies

General

The corporate tax rate is 28 per cent, but since there are certain deferral possibilities the effective rate is approximately 25 per cent.

All corporate income is taxed as business income, including capital gains and income from capital. The rate is uniform, 28 per cent. Capital gains are generally taxed at their nominal value. Any loss from the sale of shares, not business related, held for investment purposes is deductible only against a gain from the sale of such shares. Corporations are not subject to Swedish net wealth tax.

A permanent establishment (branch) of a foreign corporation is essentially taxed in the same manner and at the same rate as a domestic corporation: 28 per cent. The definition of "permanent establishment" under domestic law accords largely with that in the OECD Model, although the time limit in Article 5(3) and the exceptions in Article 5(4) have not been included. A foreign branch must be registered but no permission is required.

Residence

Swedish tax law does not explicitly use the terms resident or non-resident company. The law only states that a Swedish company is taxed on its worldwide income. Generally speaking, a Swedish company is resident in Sweden if it is registered here under the Swedish Companies Act. The concepts of "effective manage-

ment” or “management and control” are not used as criteria for unlimited tax liability. A company created under foreign law and registered abroad would thus not have unlimited tax liability in Sweden, even if managed and controlled here but, on the other hand, a company registered in Sweden under the Swedish Companies Act would also have unlimited Swedish tax liability even though not managed and controlled in Sweden but abroad. If this would result in double residence under a tax treaty, Sweden would in the latter situation be obliged to give up its tax claims based on residence if the treaty contained a provision along the lines of Article 4(3) of the 1992 OECD Model.

Taxation of non-corporate bodies

Non-corporate bodies would generally be partnerships, limited partnerships or sole proprietors. Only the two categories of partnership are legal persons under civil law. However, the partnerships are not treated as taxable entities for income tax purposes, but their income (and capital) is taxed at the partner level. Under the Swedish interpretation of the residence rules in a tax treaty [Article 4(1) of the 1992 OECD Model] a Swedish partnership would not be a resident of Sweden for treaty purposes unless the treaty contains provisions to the contrary. All income derived by a partnership is taxed as income from business except gains from non-commercial sales of real property and shares in a building society, which are taxed in the same way as if the partner himself had sold the property or the shares.

Taxation of income/gains/profits

How measured

The determination of taxable income is based on the profit/loss shown in the annual accounts (reported book income). Companies are required to maintain books in accordance with generally accepted accounting principles (GAAP) on an accrual basis. In general, only items charged against book income are deductible. Tax law largely follows GAAP as regards valuation of current assets. Figures reported in the tax return are essentially based on the accounts. However, tax adjustments may have to be made in the tax return, e.g. concerning the deductibility of expense items.

Real property used in business

A foreign company holding real property in Sweden is under domestic rules liable to tax in Sweden for the regular income of the real property.

The taxable income from real property is computed according to Swedish GAAP. The accounting records, therefore, form the basis for the taxation. Adjustments must be made in the income tax return as stipulated in the tax law.

Rent is the most important form of income. It includes all forms of payment that the owner receives from the real property or part thereof. It includes payment for laundry room, garage, parking space and special additional costs for electricity, heat and water.

The acquisition cost is the amount paid for the real property plus costs related to the acquisition. Costs related to the acquisition are cost of registration of title or stamp duty.

For capital gains purposes the gross income is the sales proceeds less expenses incurred in connection with the purchase and sale increased by depreciation charges previously deducted. The original acquisition cost is then deducted. A foreign company holding real property in Sweden is liable to tax in Sweden under domestic rules for a capital gain on the sale of real property and Sweden may have the right to tax capital gains under a tax treaty. The taxable event occurs when the contract is signed. It is of no importance when the payment is made.

The capital gain or loss of a sale of real property is computed by means of a nominal method. Broadly speaking, the capital gain or loss is the difference between the sales price and the acquisition cost.

All depreciation that has been made on the real property must be reversed and rebooked as income in the year of the disposal.

However, if the value of the property is less when sold than when bought, i.e. if the acquisition cost is greater than the sales price, the acquisition cost may be reduced by the depreciation made on the disposed property until the capital loss of the property is zero. The remaining depreciations made on the disposed property must be added back and booked as income the year of the disposal.

Shares and similar securities

A relevant new feature of the Swedish tax system is that dividends and capital gains from the sale of shares are tax exempt in certain situations. Sweden has

introduced “participation exemption rules” on dividends and capital gains on shares held by companies for business purposes. With regard to dividends, the new rules apply for fiscal years starting after December 31, 2003. With regard to capital gains and losses, the new rules apply for sales after June 30, 2003.

Dividends and capital gains on business-related shares can be received tax exempt. All non-quoted shares in certain domestic companies (e.g. a Swedish joint stock company) or corresponding foreign companies are deemed to be business related. Quoted shares are deemed to be business related if:

- the owner holds at least 10 percent of the votes or the shares are otherwise necessary for the business conducted by the shareholder or any of its affiliates, and
- the shares are held for at least one year.

Most foreign companies are deemed equal to a Swedish limited company (AB) under Swedish national law on participation exemption, if “corresponding” to an AB.

Nominal gains from the sale of shares, not deemed business related, and similar securities based on such shares are fully taxable irrespective of the length of time they have been held. Capital losses on not business related shares are calculated in the same manner as capital gains. A loss is generally deductible but in the case of shares held for investment purposes only against gains from the disposal of such shares. Individuals may fully offset losses on the sale of quoted shares against gains on such shares as well as losses on the sale of unquoted shares against gains on unquoted shares, but only 70 per cent of the net losses within each category of shares are deductible.

Other property

Gains (consideration less acquisition cost) from the sale of bonds, art and similar movable property are fully taxable irrespective of the duration of ownership. Losses incurred are generally treated correspondingly, i.e as tax deductible.

Goodwill, trademarks and similar rights

Gains from the sale of such rights are not taxed under the capital gains rules but as ordinary business profits.

Operating losses

An operating loss one year will be treated as a deductible item the following year. Thus, the taxpayer cannot choose when to utilize the loss but on the other hand there is no time limit. There are specific restrictions on the utilization of losses by companies where a change of ownership has taken place. The purpose of these restrictions is to prevent trading in tax losses.

Capital gains and losses

As mentioned above (see Shares and similar securities/Taxation of income/gains/profits), capital gains on business related shares are tax exempt. Other capital gains are taxed as ordinary business income.

As a consequence of the tax exemption for capital gains on business related shares capital losses on shares of this kind are not tax deductible.

Specific rules apply to the calculation of capital gains arising from the sale of real property, non-business related shares and securities based on such shares as well as some other property.

Bad debt

A loss on receivables is deductible for tax purposes as an operating expense, provided the loss is incurred in the normal course of business and evidenced by the debtor's insolvency.

Casualty losses

Where business assets such as inventories and machinery are damaged or destroyed by fire or accident, the loss may be deducted as a business expense. Any insurance payments constitute taxable income. Rollover relief is available under certain conditions.

Foreign exchange gains and losses

Enterprises must value assets and liabilities denominated in foreign currency at the rate of exchange at the end of the financial year. Any gain is taxable and any loss is tax deductible. Valuation must be in accordance with sound accounting practice, i.e. generally accepted accounting principles. It should be mentioned that individuals not carrying on business are taxed on gains on claims and debts in foreign currency as income from capital at a rate of 30 per cent. Only 70 per cent of losses on such transactions are deductible.

Tax depreciation and amortization

Machinery and equipment may normally be depreciated using either the declining balance method at a rate of 30 per cent per annum, or the straight-line method at a rate of 20 per cent per annum, provided the taxpayer has an “orderly accounting which is closed in annual accounts”. In certain cases depreciation may be claimed using a declining balance method at a maximum rate of 25 per cent per annum, without any alternative straight-line method. The same method must be used for all assets in a given year, but may be changed from one year to another. When the “30/20 methods” are used, the figures in the books and in the tax return must accord. The cost of machinery and equipment whose expected economic life is not more than three years and assets of minor value may be written off at once. Depreciation is normally based on acquisition cost, which includes costs connected with the acquisition, e.g. customs and stamp duties, freight, commissions and installation costs.

Buildings used in business may be depreciated using the straight-line method at rates normally varying from 2 to 5 per cent per annum depending on the type and use of the building.

The depreciation basis for real property is the acquisition cost reduced by the fair market value (at time of purchase) of machinery and equipment that are meant to serve the purpose of the business carried on in the real property (Sw.: *byggnadsinventarier*). The latter part of the acquisition cost is depreciable under the rules on machinery and equipment.

The acquisition cost has to be proportioned in relation to the tax assessment value (Sw.: *taxeringsvärde*) of the building compared to the tax assessment value of the land. The value of the land is not depreciable.

The depreciation may begin when the ownership is transferred. Normally, this is when the sale and purchase agreement is signed. If a later moment has been agreed upon, the depreciation should begin at that later moment. For instance, if it has been agreed that the ownership is not transferred until the date of the bill of sale (Sw.: *köpebrev*), that later date constitutes the basis for the right to depreciations.

Land is not depreciable but certain land improvements, such as clearance, excava-

tion, road-works etc., are depreciable. Such assets may be depreciated using the straight-line method over twenty years.

Proceeds from the disposal of machinery and equipment are treated as business income, while proceeds from the sale of buildings are calculated under the capital gains tax provisions, but included and taxed as business income.

Patents, trademarks, tenancy rights, goodwill and similar intangible assets are depreciated using the same rules as for machinery and equipment.

Depletion of natural resources is allowed on the basis of an acquisition cost which is calculated as the owner's actual acquisition cost plus exploitation costs not deducted as incurred. A rather complicated alternative method is also available.

Debt/equity

Swedish tax laws do not contain rules on thin capitalization nor are there any guidelines or practice in this field.

The tax allocation reserve

A "tax allocation reserve" (Sw.: *periodiseringsfond*) was introduced in 1994, in place of the earlier tax equalization reserve. Under these rules enterprises may allocate a tax free maximum of 25 per cent of their annual profits to the reserve. The reserve must be rebooked as income and brought back to tax no later than the fifth year after the year of allocation. Full utilization of the reserve will in the long run result in an effective corporate tax rate of approximately 25.5 per cent.

Valuation of inventory

Inventory should be valued at the lower of cost and market value. Alternatively, the inventory may be valued at 97 per cent of cost. The FIFO-method must be used.

Deductions

Ordinary deductions

All normal business expenses incurred for the purpose of earning or preserving taxable income are tax deductible, such as

- rents paid for real property used in business,
- costs for raw materials etc.,
- salaries, wages and other remuneration paid to personnel,
- depreciation and amortization,
- costs for repairs and maintenance,
- royalties and license fees,
- interest on business loans,
- special taxes and duties,
- losses incurred in business, (but not on business related shares).

Financing costs

Interest charged will normally be a deductible cost, provided it is paid on a loan obtained for earning income from a business. This also applies where the yield is tax exempt.

Other costs incurred in borrowing money or issuing shares are also normally deductible.

Non-deductible items

Non-deductible items include:

- general Swedish income taxes,
- legal expenses related to the starting up of a business and costs incurred in connection with tax litigation and filing of tax returns,
- charitable contributions, unless exceptionally they could be regarded as advertising or allowable entertainment costs,
- costs for the acquisition, expansion or improvement of a source of income,
- other costs not qualifying as business expenses.

Illustration of tax calculation

The following calculation is based on a company's financial year 2003. Assume the company's taxable profit before tax and allocation to the tax allocation reserve and other balancing provisions is 1,200. A tax-free allocation of 300 (25 per cent of 1,200) may be made to the allocation reserve. The taxable income then becomes 900 (1,200 less 300). Income tax payable (assuming no permanent differences) is 252 (28 per cent of 900). After five years the allocation must be brought back to tax (without any further additions).

Affiliated companies

Swedish tax law does not provide for filing of consolidated tax returns by a parent company and its subsidiaries, whether domestic or foreign, but domestic groups may bring about a netting of profits and losses by means of so-called group contributions. Such contributions may be made between a Swedish parent and its more than 90 per cent-owned Swedish subsidiary and between such subsidiaries. The contributor may treat the contributions as an allowable cost and the recipient treats them as taxable income. The qualifying relationship must have existed throughout the financial year. There are Swedish legal precedents establishing that such contributions are also allowed where there is a foreign parent resident in a treaty country where the relevant treaty contains a non-discrimination clause drafted along the lines of Article 24:5 of the 1992 OECD Model. Application of the non-discrimination clause in the Treaty of Rome gives the same result.

Profit transfers between a Swedish marketing subsidiary and its Swedish parent can be made under special rules. The subsidiary may transfer the results of its operations to the parent for tax purposes. The arrangement requires a written agreement and is only possible between companies, each of which would have been entitled to deduct a group contribution given to the other company as mentioned above. Besides, special exemption rules also apply where shares are transferred within a group of companies. Under these rules a transfer of shares held for the purpose of the business activities of the group does not trigger any capital gains taxation. Instead, the buying company takes over the acquisition cost of the selling company. A corresponding rule of continuity applies in a loss situation.

Intercorporate dividends are dealt with under the heading "Treatment of dividends" below.

Double taxation and relief for foreign taxes

Methods of relief

Swedish domestic tax law recognizes three different methods of avoiding or mitigating international double taxation:

- deduction of foreign tax as a cost,
- credit for foreign income tax against Swedish income tax,
- exemption from Swedish tax for certain income items.

A cost deduction is mandatory, also where a specific tax treaty provides for credit, whereas such deduction is not allowed where exemption applies.

The “overall-method” is prescribed when calculating a credit, i.e. any foreign tax on foreign source income may be credited against Swedish tax on such income. Cost-deduction and credit are not available simultaneously. Where a cost-deduction has been granted and the taxpayer later on elects a credit, the tax effect of a cost deduction (28 % of the deduction) must always reduce the creditable amount.

However, dividends received by a Swedish company from a foreign company will be exempt from Swedish tax under certain conditions; see further under the heading “Treatment of dividends” below.

Tax treaties

Sweden has entered into tax treaties with approximately 80 countries. Treaties have been concluded with all industrialized countries and almost all major developing nations. Treaties are based on the OECD Model Conventions or the UN Model.

Transfer pricing

Swedish tax law contains rules allowing reallocation of profits between Swedish companies and non-resident associated companies where non-arm’s length pricing of goods or services is involved. These domestic rules are almost identical to the provisions of Article 9(1) of the 1992 OECD Model. This latter provision is included in practically all Swedish tax treaties.

There are no regulations governing the application of the domestic rules in this field and there is very little case law.

Treatment of dividends

General

Sweden had a long employed the “classical” system of taxing corporate profits and dividends, i.e. dividends were taxed both at the corporation level and when received by the shareholder, without any imputation arrangement. However, in order to mitigate resultant economic double taxation certain rules applied until 1994 providing for a dividend deduction in certain cases for distributing Swedish

corporations. Since then, certain measures have been adopted to mitigate economic double taxation for corporations by means of dividend tax exemption for shareholders.

Intercompany dividends

Recipients of dividends on shares held for business purposes paid between Swedish companies are exempt from tax provided

- the shareholding consists of non-quoted shares,
- if quoted shares, the shareholding represents 10 per cent or more of the voting rights in the distributing company, or
- it is shown that the shares are held for the purposes of the business carried on by the shareholder or by an associated enterprise.

Swedish tax law also contains rules on tax exemption for dividends received from a foreign legal person. Such dividends are exempt, provided the dividends would have been exempt if the distributing corporation had been Swedish, and the foreign company “corresponds to” a Swedish limited liability company (AB).

The exemption rules under a tax treaty may be more favourable to the taxpayer than the domestic rules. If so, the treaty rules prevail.

The issue of bonus shares or subscription rights (warrants) is not subject to tax.

Where a Swedish company is liquidated or its capital is reduced, any gain or loss arising is normally treated under the capital gains provisions. This means that the share is deemed to have been disposed of for a consideration corresponding to the amount distributed. Any loss arising will be treated under normal rules. However, these provisions do not apply where such payments are made to non-resident shareholders. Such payments are regarded as dividends and, unless domestic rules or a tax treaty provide otherwise, are subject to a withholding tax of 30 per cent.

Controlled foreign companies

New CFC rules entered into force on January 1, 2004, and apply to fiscal years starting after the year-end 2003.

Under these rules a legal entity liable to tax in Sweden and holding, directly or indirectly, at least 25 per cent of the capital or the voting rights in a foreign legal entity at the end of the taxable entity's fiscal year will be subject to CFC taxation if the foreign legal entity is deemed low-taxed (CFC). The foreign legal entity is deemed low-taxed if it is not taxed on its income or if it is taxed at a tax rate below 15.4 per cent. The mentioned tax rate is computed on the net income calculated using Swedish tax rules.

Legal entities resident in certain areas (countries) mentioned in a "white list" are deemed not to be CFCs, even if they do not fulfil the criterion of being taxed at a rate of at least 15.4 per cent. However, certain activities in some areas/countries are excluded from the white list, e.g., banking, financing, other financial activities, and insurance. Any activities of this kind excluded from the white list as to areas/countries within the European Economic Area (EEA) are excluded only if conducted intra-group.

Withholding taxes

A withholding tax of 30 per cent is under domestic law levied on dividends paid by a Swedish company to a non-resident company or individual. However, as mentioned above, this tax is reduced or waived in certain circumstances both under domestic law and most tax treaties. Withholding tax is not levied on dividends paid to a legal person residing in an EU member state, provided the shareholding amounts to at least 25 per cent of the share capital of the distributing company and certain other conditions in the EU parent-subsidiary directive are fulfilled.

There is no withholding tax on "distributions" from a branch to its foreign head office (branch profits tax).

Interest paid from a Swedish source to a non-resident recipient is not taxable unless the interest constitutes business income and is effectively connected with the recipient's permanent establishment in Sweden.

Royalties and similar payments such as leasing fees paid from Sweden are not subject to a withholding tax, but are normally taxed as income from business carried on through a permanent establishment in Sweden. This means that royalties and similar payments paid to a non-resident company are subject to tax at the ordinary company tax rate of 28 per cent on the net royalties. However, the tax

treaties with most industrialized countries provide for exemption from Swedish taxation. These rules are under certain circumstances subject to change, due to the Interest and Royalties Directive (2003/49/EG). Any royalty between a parent company and its subsidiaries, directly owned with a holding of at least 25 per cent, is exempt from tax. Any royalty between two subsidiaries, both directly owned with a holding of at least 25 per cent by the same parent company, is also exempt. All companies must be resident within the EU.

Directors' fees paid to non-residents of Sweden are subject to a withholding tax of 25 per cent. The same applies to fees paid to non-residents for management and consultancy services performed in Sweden. Pensions and similar payments made from Sweden to non-residents are also subject to this withholding tax.

A Bill has been put forward proposing that a non-resident individual may choose whether to be taxed with the 25% withholding tax (which is computed on a gross income basis) or taxed according to the regular tax rules applicable to residents (if more preferential). If accepted, the rules become applicable as from 1 January 2005.

Treatment of other forms of repatriation of profits

Sale of business

Any gain made by a foreign company selling Swedish shares is not subject to Swedish income tax unless the holding is effectively connected with the seller's permanent establishment in Sweden.

A gain from the sale of assets invested in a Swedish permanent establishment or of the whole permanent establishment would trigger Swedish company tax at 28 per cent.

Liquidation

As mentioned above, the taxation of funds distributed to resident shareholders as a part of a liquidation procedure or a reduction in share capital is treated under the tax provisions relating to capital gains. Payments to non-resident shareholders are treated as dividends and trigger a withholding tax of 30 per cent, unless domestic rules, a tax treaty or the EU parent/subsidiary directive provide otherwise.

Local taxes

Local taxes are not levied in Sweden on company income.

Filing requirements and payment of taxes

Income tax is assessed on taxpayers in one year (the assessment year) on the basis of income earned during the previous year (the income year). The income year of an enterprise is its financial year, which must normally be a 12-month period. The financial year must end on April 30, June 30, August 31 or December 31, unless the Swedish Tax Agency permits another date. A uniform date for filing is the first Monday in May. Failure to file in due time carries penalties. The tax return may be accompanied by an accounting schedule. A notice of assessment (the final tax bill) is normally sent to the taxpayer in December.

Sweden employs a pay-as-you-earn system for current collection of tax. Companies must make monthly payments based on the previous tax assessment or on a preliminary tax return filed by the company. Where the final tax liability exceeds the preliminary tax paid, any excess is payable by mid-March, at the latest, of the year following the assessment year. Excess preliminary tax is refunded.

Chapter 6

Taxation of individuals

Residence

Unlimited and limited income tax liability

Under the previous income tax laws an individual was subjected to unlimited income tax liability if he was resident in Sweden. Individuals who were not resident in Sweden were subjected to limited income tax liability, i.e. tax was levied on certain income arising ("having its source") in Sweden. The term resident was defined in the tax law. An individual was resident in Sweden if he had his "real home and dwelling" there. A permanent stay in Sweden was equal to residence there.

Under the new income tax law, which is in principle applicable as from the income year 2001, the provisions on income tax liability are structured in a different way. The law differentiates between individuals that are subjected to unlimited income tax liability and individuals being subjected to limited income tax liability.

The following individuals are subjected to unlimited income tax liability:

- an individual who is resident in Sweden,
- an individual who stays permanently in Sweden,
- an individual who has an "essential connection" with Sweden and who has previously been resident in Sweden.

The term "resident" is no longer defined in the law but in practice no change has been made. An individual is still resident in Sweden for income tax purposes if he has his residence there in the real sense, i.e. normally a person who is registered

there for civic purposes. Residence in Sweden on account of permanent stay there applied also under the previous laws. The term “permanent stay” is not defined, but in practice a stay of six months or more is considered as “permanent”. Brief interruptions of the stay in Sweden are not taken into consideration when calculating the length of the stay. From a court case in 1997 the conclusion can be drawn that a regular stay with three overnight stays a week implies that the criterion of permanence is fulfilled.

An individual who is not resident in Sweden and who does not stay there permanently may nevertheless be subjected to unlimited tax liability there, if he has an essential connection with Sweden, provided he has previously been resident in Sweden. The law gives examples of factors that should be taken into account when considering whether an essential connection exists, such as Swedish citizenship, the length of the previous residence in Sweden, real property in Sweden or business activities in Sweden. Normally, only one of these factors is not enough for constituting an essential connection with Sweden but a total appraisal of all circumstances should be made.

The three categories of individuals described above are thus in principle subjected to unlimited income tax liability in Sweden, i.e. subjected to tax on their worldwide income.

The rules on unlimited tax liability on account of essential connection include a “deeming provision”. An individual who has departed from Sweden is deemed to have an essential connection with Sweden during five years from the departure, unless he shows that he has no such connection. However, this rule applies only in the case of individuals who are Swedish citizens or who have been resident or permanently staying in Sweden during at least ten years.

However, under certain conditions an individual who is subjected to unlimited income tax liability may be exempt from tax on income from employment abroad (the “six-months rule” and the “one-year rule”).

Earned income

Individuals subjected to unlimited taxation

Such individuals pay municipal income tax at an average rate of 32 per cent

(between approx. 27 and 35 per cent, depending on the municipality). In addition, national income tax is payable at progressive rates of 20 and 25 per cent. The table below shows applicable tax rates in 2004.

Taxable income (SEK)	Rate (%)
0 – 291.800	32
291.900 – 441.300	52
441.400 –	57

In addition a fixed amount of SEK 200 is always levied.

The amounts are index linked. Commuting costs exceeding SEK 7,000 are deductible from income from employment, as are other proven costs exceeding SEK 1,000. There is also a personal allowance of *normally* SEK 11.600. Certain qualified foreign experts, researchers or other key personnel may on application enjoy a partial tax exemption on their remuneration. Such persons are i.a. taxable only on 75 per cent of their remuneration. However, the rules and the application of them are rather restrictive with respect to experts and researchers but as regards foreign managing directors and persons having a similar position in an enterprise the law and the practice are more liberal.

Individuals subjected to limited taxation

Such individuals are subject to a national withholding tax of 25 per cent on their gross income from personal services (private or public), such as employment income, directors' fees, management or consultancy fees, pensions, etc. No municipal income tax is payable. It should be noted that this tax applies only to non-residents under domestic Swedish tax law. Individuals who are resident in Sweden under domestic law but are resident in another country under a tax treaty fall under the tax rules for resident individuals. (See also on page 55 paragraph 3.)

However, non-residents are exempt from tax on income from private employment in Sweden provided:

- a) the recipient is present in Sweden for a period or periods not exceeding 183 days in the aggregate in any twelve-month period, and
- b) the remuneration is paid by, or on behalf of, an employer not resident in Sweden, and

- c) the remuneration is not borne by a permanent establishment that the employer has in Sweden.

Capital income

Income from capital includes dividends, interest, capital gains and income from real property (private residences). The rate is 30 per cent. However, only 2/3 of gains from the sale of real property (private residences) are taxable, equal to a tax of 20 per cent of the gain. Rollover relief exists.

There are no withholding taxes, except on dividends paid to non-residents where a tax is levied at 30 per cent, normally reduced, however, under a tax treaty. Interest paid to non-resident individuals is not taxable, unless the debt relates to a business carried on from a permanent establishment in Sweden.

As a rule, gains made by non-resident individuals on the sale of shares are not taxable in Sweden, except in some cases where Swedish shares and similar securities are sold by a former resident of Sweden.

Chart of tax rates 2004

Employment income (incl. pensions)

Unlimited tax liability, Income (SEK)	Rate (%)
0 – 291,800	32
291,900 – 441,300	52
441,400 –	57

In addition a fixed amount of SEK 200 is always levied.

Limited tax liability	25
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Business income

Unlimited and limited tax liability, Income (SEK)	Rate (%)
0 – 291,800	32
291,900 – 441,300	52
441,400 –	57

In addition a fixed amount of SEK 200 is always levied.

Capital income

	Rate (%)
Unlimited and limited tax liability	30

Illustration of tax calculation 2004 (*Resident individual*)

	SEK
Employment income	400,000
Business income	200,000
Interest	30,000
Taxable capital gain	20,000
Real property income	10,000
Aggregate income	660,000

Employment	400,000
Business (net)	200,000
Aggregate income	600,000
Personal allowance	-11,600
Taxable income	588,400

Tax	SEK
Fixed amount	200
32 % on 291.800	93,376
52 % on 149.400 (441.300 -291.900)	77,688
57 % on 147.100 (588.400 -441.300)	83,847
	255,111

Interest	30,000
Taxable capital gains	20,000
Real property income	10,000
Aggregate income	60,000
Tax: 30%	18,000

Aggregate tax:

Employment and business	255,111
Capital	18,000
	273,111

Filing of tax returns and payment of taxes

Sweden employs a system of preliminary withholding of tax from employees' salaries and wages. Tax is withheld by the employer and paid in to the tax authorities. Self-employed persons pay their own preliminary tax. Employees of foreign employers not having a permanent establishment in Sweden must also pay preliminary tax themselves, normally based on a preliminary tax return. Tax returns should normally be filed by May 2 of the year following the income year. In August, September or December the same year final notices of assessment are issued, stating the final tax due. Any excess preliminary tax paid is refunded. In the opposite case, additional tax must be paid, normally in December the same year. Tax on interest on bank accounts (30 per cent) is withheld by the bank, provided the recipient is subjected to unlimited tax liability in Sweden.

Net wealth tax

Individuals subjected to unlimited tax liability are liable to net wealth tax on their worldwide net assets. Individuals subjected to limited tax liability are liable to net wealth tax on private residences situated in Sweden. Swedish shares held by individuals subjected to limited tax liability are not taxed. An individual who is not a Swedish national and who stays in Sweden for a limited period of time (not exceeding three years) is deemed to be subjected to limited tax liability for net wealth tax purposes.

Tax is levied at a flat rate of 1.5 per cent. In the case of a single person SEK 1.5 million is tax-free. For a married couple an aggregate amount of SEK 2 million is tax-free. The latter amount is proposed to be raised to SEK 3 million as from 2005. Net wealth of spouses is aggregated for tax purposes and the parents of a minor living with them are taxed on the minor's net wealth. Net assets invested in business are excluded from net wealth taxation.

Inheritance and gift taxes

Inheritance tax is levied on the beneficiaries of an estate. The tax is progressive and the rates vary depending on the relationship between the deceased and the heir. Children and descendants of children pay tax at a rate varying from 10 to 30 per cent, the highest marginal rate being payable on a taxable legacy exceeding SEK 600,000. There is a tax-free allowance of SEK 70,000 for each child, the amount being increased for children under 18. Inheritances between spouses are tax exempt as from 1 January 2004.

Gift tax is levied under approximately the same rules as the inheritance tax. However, the tax threshold is only SEK 10,000 per calendar year for gifts from one donor to a single donee.

The Government has proposed to abolish completely the Swedish taxes on inheritances and gifts as from 1 January 2005.

Sweden has concluded tax treaties on inheritance taxes with a number of countries. Some of these treaties, including those with the Nordic countries, the United Kingdom and the United States, include gift taxes as well.

Social security contributions

Social security contributions are in principle payable by the employer only (see Chapter 8 under "Labour costs"). However, a special pension fee is payable by the employee. The rate is 7 per cent on such part of the remuneration as does not exceed (in 2004) SEK 341.361. This means that the maximum fee in 2004 is SEK 23.900. 25 % of the contribution is deductible for income tax purposes while 75 % is allowed as a credit against income taxes.

Chapter 7

Indirect taxes

Value added tax (VAT)

General

Value added tax is a national tax on sales payable by anyone dealing professionally in goods or services within Sweden. Tax on imports is levied by the Swedish Customs and is paid in the same manner as are customs duties. Exports to countries outside the EU are wholly exempt from tax. As regards exports to EU-countries, see below.

Liability to pay tax normally arises whenever a taxable commodity or service is sold in Sweden on a commercial basis. Tax is also levied on intra-group transactions.

The tax is payable on the value of the goods sold or the services supplied at each stage of production and distribution and, in the case of imported goods, on the import value.

A foreign enterprise is regarded as carrying on commercial operations in Sweden when it markets goods placed in a warehouse or acquired within or shipped into the country for delivery after assembly, installation or other service, or provides building contracting services or other services within Sweden. As from 1 January 2002 foreign enterprises (i.e. enterprises not having a permanent place of business in Sweden) from other EU-countries or from Norway or the Finnish province of Åland are not obliged to have a fiscal representative in Sweden. If a foreign enterprise nevertheless wants to have such fiscal representative, this is of course

possible. With respect to enterprises in other countries there is still an obligation to have a fiscal representative approved by the county administrative board.

Any sale of taxable goods or services must be declared. There is no lower limit for this liability to declare.

Some goods and services are zero rated. Anyone dealing in such goods or services is entitled to recover VAT paid despite not reporting any taxes collected. However, such taxpayers must be registered.

Anyone professionally exporting taxable goods or services to countries outside the EU is also entitled to recover VAT.

All goods and services are subject to VAT unless expressly exempted from tax. For example, the term "services" includes patent rights and licenses to use EDP systems or software. Raw materials and semi-finished goods as well as finished consumer and capital goods are subject to tax, irrespective of whether the commodity is new or used.

Zero-rated goods include i.a. pharmaceutical products, certain periodicals (domestic and foreign), ships and aircraft for commercial use and goods intended to be placed under certain warehousing arrangements.

VAT exempt goods include also

- gold for investment purposes,
- turnover of programmes and catalogues for own activities,
- banknotes and coins being valid currency, excluding collector's items,
- mother's milk, blood or human organs,
- transfer of a fixed assets in respect of which the seller has not had the right of deduction or refund,
- transfer of a going concern, if the acquirer will continue to carry on the activity subjected to VAT,
- sale of goods to other EU-countries, when the buyer invokes his VAT number in another EU-country.

VAT exempt services are medical care, social services, insurance and re-insurance transactions, financial and banking services, certain educational services, cultural

services and sports supplied by the community or non-profit-making associations. Exempt are also services related to the production of certain periodicals (domestic and foreign) provided to the editor, services related to ships and aircraft for commercial use and lotteries. The sale or letting of real property is also in general exempt from VAT, although it is possible to opt for VAT registration in certain cases.

VAT is generally charged at a rate of 25 per cent of the taxable base. The taxable base as defined for VAT purposes is the total price charged excluding VAT but including other taxes and duties, cost of packaging, insurance, forwarding and installation, instalment contract charges and other charges made by the supplier to the customer. The tax rate of 25 per cent of the pre-tax price corresponds to a rate of 20 per cent of the price including VAT.

A reduced rate of 12 per cent is charged on foodstuffs, hotel rooms, an artist's turnover of works of art and transports with ski lifts. The rate is 6 per cent on books and newspapers not being advertisements, domestic travel, tickets for concerts and circus, cinema, theatre, opera and ballet performances, the grant of certain intellectual property rights, non-exempt sports, libraries and museums.

Trade of goods between EU-countries

Sales

Sales of goods to customers in other EU-countries are exempt from VAT under certain conditions. Such exemption applies where a product is transported from Sweden to another EU-country and the customer is registered for VAT in another EU-country. The VAT registration number of both the seller and the buyer must be evident from the invoice. If not all conditions are fulfilled, the seller must charge VAT at the sale. The sale must be accounted for in the tax declaration as a sale of goods to another EU-country. Moreover, the seller must report the sale in a quarterly report. In such quarterly report all sales to other EU-countries during a quarter must be stated and specified on the VAT registration number of each customer.

Purchases

Where an enterprise in Sweden buys a product from a seller in another EU-country and the product is transported to Sweden from another EU-country, the buyer will normally be taxed on the purchase.

Taxation on the acquisition must be made on the purchaser if he is registered for

VAT or if he is not so registered, if the purchase sum during a tax year exceeds SEK 90,000. The taxation on acquisition takes place by means of the purchaser calculating an output VAT on the acquisition and accounting for this amount in the tax declaration. If the purchaser has a full right of deduction, the corresponding amount is deductible as input VAT. Where the purchaser has only a partial right of deduction, the deduction should be limited correspondingly.

Payments and refunds

The tax declaration must be submitted not later than the 12th (17th of the months of January and August) of the second month following the reporting month (smaller companies with a turnover not exceeding SEK 40 million) or the 26th (27th of the month of December) of the month following the reporting month (companies with a turnover exceeding SEK 40 million). VAT for a particular reporting period falls due to payment on the deadline for submitting the return. These dates are the dates on which the payment is registered by the tax authorities, normally 1-3 banking days after the payment has been made, depending on the method of payment.

If deductible taxes (input VAT) paid exceed taxes collected (output VAT), the excess amount is refunded. Interest is calculated and paid as from the date next following the date when the payment for the period is due.

Taxes must be reported in accordance with the underlying books of account maintained on an accrual basis.

A foreign enterprise not conducting any commercial operations in Sweden and thus not registered for VAT can recover VAT by application to the tax authorities.

Import duties

Sweden is a member of the European Free Trade Association (EFTA). Sweden had since 1973 a free trade agreement with the European Economic Community (EEC) that eliminated custom duties on all industrial goods traded with EEC-countries. As of 1994 Sweden was included in the European Economic Area (EEA). Sweden has been a member of the European Union since January 1, 1995.

Sweden is a member of the Organization for Economic Cooperation and Development (OECD) and a signatory of the General Agreement on Tariffs and Trade (GATT).

The European Union (EU) is a duty free area. Duties on items from outside the EU are set by the EU, which also sets rules on suspension of duties for various reasons.

Normally Sweden levies customs duties ad valorem. Some items carry specific duties, although for industrial products the average level of duty is 4 per cent.

Sweden has a free trade agreement with the EFTA-countries (Norway, Switzerland and Iceland) that covers all industrial goods as well as some agricultural products.

The “transaction value” method is the primary basis for determining the value for duty. Transaction value is the price paid or payable, adjusted for certain factors, e.g. costs of container, packaging and transportation. If this value is not determinable, other valuation methods are provided.

Sales and excise taxes

Apart from the general tax on consumption (VAT), several “selective taxes” are levied. The most important are on petrol, alcoholic beverages, beers etc., tobacco, energy, lotteries, gambling and motor vehicles.

The tax is collected on the basis of tax returns, except for the annual tax on motor vehicles. In most cases returns relate to a certain reporting period, normally one month, although longer periods sometimes apply. The return must be filed with the Swedish Tax Agency no later than 25 days after the end of the reporting period. The tax is due at the same time.

The annual tax on motor vehicles is administered by the county administrative board.

Miscellaneous taxes and duties

Stamp duties

Real property

A stamp duty is levied on the transfer of real property. The duty is 1.5 per cent of the purchase price (or taxable value, if higher) for individuals and 3 per cent for a corporate buyer. The duty is payable by the buyer. Postponement is possible in the case of a transfer between group companies.

Real property tax

Legal entities and individuals, whether resident in Sweden or not, owning real property in Sweden and resident individuals owning private real property abroad, are liable to real property tax. The tax on real property in Sweden is based on the taxable value. Theoretically, this should correspond to about 75 per cent of the market value. In practice, however, the taxable value is lower. The tax on private real property abroad is essentially based on 75 per cent of the market value of the property, excluding the value of the land. Certain reductions apply with respect to Swedish real property owned by low income earners.

The tax is 1 per cent of the taxable value (reduced rate or nil for buildings recently constructed). Real property tax is also levied on real property used in business. The rate varies, however, depending on the character of the property. The rate is 0.5 per cent of the portion of the value of buildings and land relating to private apartments (reduced rate or nil for buildings recently constructed), 1.0 per cent for the portion of the taxable value relating to commercial premises and 0.5 per cent on the taxable value of industrial real property.

Tax on security transactions

There is no such tax in Sweden.

Chapter 8

Labour

Labour regulations including work permits

For many years the trade unions and the employers' associations regulated their relationship by means of agreement avoiding government intervention. However, since the mid 1970s labour relations have increasingly been regulated by law. Many of the laws are non-mandatory, since collective bargaining agreements are allowed to replace a number of the provisions, provided the employee's position is improved. Some laws assume that certain matters will be resolved by collective bargaining agreements. Many of the laws and the supporting agreements are complex and there may be variations between different industries.

The main parties in the labour market are the Confederation of Swedish Enterprise (*Svenskt Näringsliv*) the Swedish Trade Union Confederation (*Landsorganisationen LO*), and the Federation of Salaried Employees in Industry and Service (*Privattjänstemannakartellen PTK*). LO have well over 3 million members, and PTK represents over 500,000 union members through its affiliated organizations.

The normal working week is 40 hours, although many unions have signed agreements for 35-38 hours. Generally, overtime may not exceed 48 hours in a four-week period or 200 hours per calendar year. The statutory holiday entitlement is 25 days.

Work permits

The Nordic countries (Denmark, Finland, Iceland, Norway, and Sweden) constitute

a common labour market. Nordic nationals may work and live in any of the Nordic countries. When the EEA Agreement took effect on January 1, 1994 these rules were extended to the entire EEA. However, residence permits are required for EU/EEA nationals.

Other nationals must have residence and work permits arranged before they leave for Sweden. Application is made through a Swedish Embassy. Work permits are issued by the Swedish Immigration and Nationalization Board after consultation with the Labour Market Board, the Labour Market Council, the Labour Exchange, the Labour Union, the Employers' Confederation, and the police. The application must be based on an offer of employment in Sweden describing the nature and duration of the employment, agreed salary, etc. The prospective employer must negotiate the appointment with the local union. The application must also show that the question of housing has been resolved. All this means that application is a fairly lengthy procedure (at least two months). Work and residence permits are normally granted for one year. Application for renewal is made to the police.

The foreign employee is under no specific obligation to report to the tax authorities in connection with entering or leaving Sweden. If the employee intends to remain in Sweden for one year or more, he and his family must register at the register of birth, marriages and deaths within two weeks of arrival in Sweden.

Sweden does not provide privileged treatment of foreigners working in Sweden except for certain qualified researchers, managers and other key personnel. Any resident of Sweden is subject to unlimited tax liability as described in Chapter 6 on "Taxation of individuals". There are no special allowances or credits for foreigners working in Sweden. Remuneration in cash and in kind from employment is included in taxable income and taxed at normal rates. Home leave and cost of living allowances are fully included in taxable income as are tuition fees, whether paid by the employer or reimbursed to the employee. Special social security rules may apply under conventions between Sweden and a number of foreign countries, or under the EEA Convention.

Codetermination

The Codetermination Act (MBL) is a framework law regulating collective bargaining agreements and the relationships between the parties. In recent years it has been supplemented by industry-wide collective bargaining agreements. Local

unions are granted the right to negotiate on all important matters concerning the company. The employer is required to consult the local union prior to decisions that may affect the work of any employee. This primary obligation to negotiate also includes major changes in the company's activities. The trade unions also enjoy a prerogative of interpretation where agreements are concerned. Accordingly, their opinion prevails until the dispute has been tried and settled by the Labour Court.

The requirements regarding representation on the board of directors of a company are dealt with in Chapter 4.

Termination of employment

The Employment Security Act lays down the basic rule that any dismissal is unfair unless it is objectively justified. Shortage of work is deemed to be an objectively justified reason. An employee who is unfairly dismissed may be reinstated by court order.

The statutory period of notice during which full salary is payable is one to six months, depending on the employee's length of service. The notice period after two years' service is two months, increasing by one month for each two-year period of service up to the maximum of six months after ten years' service.

Labour costs

Wage regulation

Salaries and wages are covered by local union agreements. Collective bargaining agreements may include minimum wage or salary provisions.

Statutory holiday entitlement is 25 days. The law provides for holiday pay of 12 per cent of salary during the preceding qualifying year. However, collective bargaining agreements have often amended this provision. Salaried employees usually receive their normal monthly pay plus a small addition for each day of holiday. There is no 13th month salary in Sweden.

An employer must pay sick pay for 21 days at a rate of 75 per cent of regular pay. Longer periods of sick leave are covered by the national social security system.

Social security levies

Sweden has a comprehensive social security system including old-age pension, unemployment and disability benefits, sickness and maternity payments, and child and youth benefits. The social security system is largely financed by employers' contributions. Since 1993, however, a portion of the contributions has been shifted from employers to employees. In 2004 each employee contributes 7 % of his earned income as a pension tax ("allmän pensionsavgift").

The social security system also largely covers foreign workers. In some instances home country rules apply under conventions between Sweden and a number of foreign countries or under the EEA Convention, normally for up to one year.

Employer's statutory social security charges at January 1, 2004 are about 33 per cent of total remuneration paid to employees including certain taxable benefits in kind. In addition, collective bargaining agreements provide that the employer should pay about 7 per cent of remuneration paid to manual workers and about 17 per cent of remuneration paid to salaried employees. These additional charges cover the cost of supplementary pension plans among other things.

Benefits

Pensions

The Swedish pension system was recently changed in a comprehensive manner. The present system contains three parts covering different pension needs. One part is the Income pension which is financed by the fees paid in by the employers. The fees are redistributed to those individuals who claim their pension payments currently. The employees for whom the fees have been paid, earn pension rights verifying that they can claim a future pension. The second part of the system is the Premium pension which is a kind of premium reserve system. The means paid in to this system are not utilised for current pension payments but are saved and earmarked for an individual once he or she retires. The money paid in is saved in mutual funds. The individual has the right to choose in which funds the money is to be saved. The third part of the pension system is the Guarantee Pension. This part of the system is there to guarantee a basic pension for individuals with low or no income. The Guarantee pension is financed with taxes.

Pensions paid under social security pension plans are often supplemented by pen-

sions payable under collective bargaining agreements between the parties in the labour market.

Sick pay

All individuals – Swedish as well as foreign nationals – who are registered at the social insurance office, are entitled to sickness pay. Sickness pay is payable at different rates depending on the level of the employee's salary with a cap at a registered salary of 7.5 basic amounts (SEK 294.750). Sick pay is paid by the employer, if established in an EU Member State, for the first 21 days of a period of sick leave. After that, the social insurance office pays sickness allowance. Temporary parental allowance is payable, within certain limits, if a parent has to stay at home from work to take care of a sick child.

Parental leave

The social security system provides a parental allowance, available to either parent, for thirteen months at the same level as for sick leave and a further two months at a lower compensation level. An employee may take eighteen months' leave and may further reduce working hours to 75 per cent until the child is eight years old. The employee may choose to resume work at any time, giving the employer one month's notice. The employee may also take leave to care for a sick child.

Medical treatment

Every citizen is covered by the compulsory health insurance programme that reimburses the full cost of in-patient hospital care for periods of up to two years. A very minor fee (approximately SEK 250) is charged for each day spent at the hospital. Outpatients are also reimbursed for all costs exceeding a low call cost. Individuals need not pay more than SEK 1.900 per annum for prescribed medicines. Health insurance also extends to dental care, for which patients pay a larger proportion of fixed-rate treatment costs, however. Children and teenagers are entitled to free dental care from the public dental service up to the age of 19.

Unemployment benefits

The social security system includes a general unemployment insurance system. All manual workers and salaried employees between the ages of 18 and 65 are entitled to compensation during periods of unemployment. Self-employed persons may also join the scheme. There is a twelve-month qualification period. The clai-

mant must have worked for at least five months during that period. Compensation varies up to a maximum of SEK 730 for the first hundred days and then SEK 680 per day (January 2004). Unemployment benefit is payable for a period not exceeding 300 days, or 450 days for claimants aged 55 and over. To supplement this scheme, unemployed persons who have not qualified as members of the former scheme may receive lower compensation, SEK 233 per day (January 2004) from the cash labour market assistance scheme (KAS). Major changes in this system have been discussed but have not yet been enacted.

Chapter 9

Acquisition of real property/other forms of tenure

Regulations for acquisition

In 1999 Sweden abolished its earlier general restrictions on the acquisition of real property by foreigners, be they foreign corporations or individuals.

Foreigners may freely acquire property classified as residential property, industrial property or rental property.

However, permission must be obtained in order to acquire farms. An application must be filed with the county administrative board within three months. If this time limit is not observed, or the county administrative board does not grant permission, the acquisition is void. Earlier practice was very liberal when the intention was to provide a permanent residence for the buyer and his family, and is expected to remain so. The approval procedure for farms is the same as for Swedish buyers.

There are no restrictions on leasing.

Taxes

A stamp duty is levied on the acquisition of real property as described in Chapter 7.

Ownership of real property and apartments involves payment of a property tax as described in Chapter 7. A property tax on industrial real property was introduced in 1996.

The nominal gain on sale of property is taxed under the capital gains tax provisions as described in Chapters 5 and 6, i.e. as business income for corporations and as capital income at the flat 30 per cent tax rate for individuals.

The sale of a lease on office or industrial premises constitutes normal business income for corporate taxpayers. Tenants are prohibited by law from selling leases to apartments.



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