

### Sweden – a favourable location for international holding companies

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#### Introduction

This fact sheet provides a general outline of the Swedish tax regime governing the corporate tax exemption (participation exemption) for capital gains and dividends on shares held for business purposes. These rules, in combination with the absence of thin capitalisation rules, relaxed rules on withholding tax on dividends and an extensive tax treaty network, make Sweden an attractive location for international holding companies.

#### Participation exemption on capital gains

The capital gains tax exemption applies to Swedish corporate entities for gains on the disposal of shares held for business purposes.

The following categories of shares qualify for the exemption (i.e. are deemed held for business purposes)

1. Unquoted shares
2. Quoted shares if the holding relates to the business of the shareholder or its affiliates
3. Quoted shares if the holding is at least 10 percent (voting rights)

The capital gains tax exemption for quoted shares requires that the shares have been held for at least one year. Note that the capital gains tax exemption for unquoted shares does not require any holding period or any minimum percentage.

As for shares held in foreign companies, a further condition is that the foreign company corresponds to a Swedish limited liability company.

Capital losses on the above mentioned categories of shares are not deductible.

Capital losses on shares which do not qualify for the capital gains tax exemption are deductible only against capital gains on such shares, without limitation in time.

Partnership interests and shares held by partnerships However, the government has recently presented a proposal under which capital gains on partnership interests will be tax exempt for Swedish companies as from 2010. Moreover, the participation exemption for capital gains and dividends on shares will be extended to shares held indirectly by a Swedish corporate entity through partnerships.

The sale of shares in a “shell company” may result in the seller being taxed on the full amount of the consideration. A company is regarded as a shell company if the fair market value of its cash and other liquid assets exceeds 50 per cent of the consideration paid for the shares. However, this special taxation can be avoided by filing a special tax return and provided certain other formalities are fulfilled.

## Swedish Tax Info

### Participation exemption on dividends

Dividends received by Swedish corporate entities on shares are tax exempt according to the same provisions as for the participation exemption on capital gains.

Dividends on quoted shares for which the holding is at least 10 per cent (voting rights) are tax exempt even if the shares have not been held for at least one year at the time of the dividend distribution. Such dividends will, however, be taxed subsequently if the shares are held for less than one year or if the holding falls below 10 per cent within that year.

### The capitalisation rules

Interest on loans is generally deductible regardless of the capitalisation of a Swedish company provided the interest rate is on an arm's length basis.

Interest on loans for the acquisition of shares from an affiliated company is not deductible if the lender is an affiliated company not subject to at least 10 per cent corporate tax and the acquisition is deemed to be warranted primarily by tax reasons.

### Withholding tax on interest

There is no Swedish withholding tax on interest paid to non-resident legal entities.

Withholding tax on dividends on shares in Swedish companies. A general exemption from withholding tax applies to dividends on shares (qualifying for the participation exemption according to the above) in Swedish companies paid to foreign corporate shareholders.

The withholding tax exemption requires that the legal form of the recipient foreign entity corresponds to a Swedish limited liability company (or certain other Swedish legal entities). A further requirement is that

the foreign legal entity is subject to "similar taxation" or that the foreign entity qualifies as a "foreign company" a definition which generally includes companies that are tax resident in jurisdictions with which Sweden has concluded a tax treaty. "Similar tax" implies a requirement of an effective tax rate of approximately 15 per cent.

Further exemptions may apply under the applicable tax treaty.

### Transfer taxes, stamp duty etc

There is no Swedish transfer tax on the transfer of shares. No stamp duty or capital tax is levied on the formation of a Swedish company or on the injection of capital.

### CFC-rules

A Swedish company that holds an interest in a "controlled foreign company" ("CFC") is subject to Swedish corporate tax on its portion of the profits of the CFC entity, on certain conditions.

A subsequent distribution of the profits will not be taxed. CFC taxation applies to direct or indirect holdings of at least 25 per cent (capital or voting rights) of foreign companies and other foreign legal entities that are subject to a low corporate tax rate. The holding is assessed at the end of the financial year.

A foreign company is deemed to be subject to a low tax rate if the effective tax rate is less than 14.5 per cent on a basis calculated according to Swedish corporate tax rules. However, there is a general exemption from CFC taxation for companies in certain countries according to a special "white list", with the exception of certain businesses in some cases.

Examples of countries not included on the white list are the Channel Islands, Isle of Man and Liechtenstein.

## Swedish Tax Info

The CFC rules generally do not apply to holdings in companies that are tax resident in the EEA. However, intra-group financing and captive insurance may also be subject to CFC taxation within the EEA.

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