

Sweden boosts foreign investments with low taxes

Written by Johan Nylander

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With corporate taxes below EU and OECD averages and a raft of recent regulation changes, Sweden has gone from being considered a tax hell to a tax haven.

In a move to attract business investment, create new jobs and prevent companies from leaving the country, the government slashed corporate tax to 22 percent at the turn of the year, from 26.3%.

"The significant reduction of the corporate tax is expected to strengthen the investment climate and growth in Sweden," the government said in a statement as the scheme was unveiled last year. "Because Sweden isn't situated in the centre of Europe, it's appropriate for our corporate taxes to be competitive."

And the positive effects already seem to be shining through.

Lawyer Carl-Fredrik Hedenström, partner at Stockholm-based law firm Magnusson Advokatbyrå, believes that the tax cuts have the power to attract foreign companies to the region.

"I've received positive comments at meetings with foreign clients," he said, adding that it's still too early to assess the full effects of the recent cut. "Tax rate is not the main driver for the establishment here; other business reasons, such as access to a big client or know-how, is still considered more important," he said.

The tax environment is particularly good for holding companies, according to Harald Steinbrecher, director of tax consultant firm Svalner in Stockholm, and partner Robert Tranquilli. In an interview the duo said that Sweden's tax regulations are far more generous for holding

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companies than many people realise.

"Low corporate tax could attract foreign companies. Sweden is internationally appealing and competitive when it comes to holding companies," Steinbrecher said. "But more foreign companies need to know about Sweden's competitiveness."

The favorable tax rules (participation exemption) was introduced in 2003 in a move to try to compete with other countries which are known for attracting holding companies, like Luxembourg and the Netherlands.

There is also no income tax on dividends from business shares or capital gains from sales of business-related shares. Swedish regulations make it easy to avoid double taxation, Steinbrecher and Tranquilli pointed out.

Investment consultant company Siguiante Capital described Sweden as an "attractive tax haven with generous tax rates" after reforming holding company taxes. Bird&Bird said "Swedish tax law has created one of Europe's most favourable tax environments for holding companies".

Taxes on personal wealth, gifts and inheritance have also all been abolished in recent years. Sweden's last corporation tax decrease was in 2009, when the rate went from 28 percent to 26.3 percent. Prior to that, in 1993 the rate was lowered to 28 percent from 30 percent.

It all marks a considerable change from Sweden's approach to corporate taxes in previous decades, when it was as high as 52 percent up until 1989. That rate led to a number of large organisations fleeing the country.

"Corporate taxes are probably the most damaging tax of all," Prime Minister Fredrik Reinfeldt said at a news conference in Stockholm last year as he presented the plans for further cuts.

The average corporate tax level in the European Union is 23.4 percent, while the average level

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in Organisation for Economic Co-operation and Development is 25.5 percent, according to the Swedish government. The U.S. corporate rate is 35 percent – the highest rate in the developed world.

The Wall Street Journal said the Swedish tax cut would strengthen the country's competitiveness: "...it will leave famously high-tax Sweden with one of the lowest corporate tax rates in Western Europe," the influential newspaper said.

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