

# GMS Flash Alert



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## Sweden - Proposal Foresees "Economic Employer" Redefined, Other Changes

The Swedish Finance Department submitted a proposal at the end of June having to do with changes to the taxation of individuals working temporarily in Sweden.<sup>1</sup>

This proposal is based on a recent memorandum prepared by the Swedish Tax Agency and is intended for consultation.

The legislative changes that make up the proposal are intended to take effect on 1 January 2019.

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### WHY THIS MATTERS

What the Tax Agency has proposed would lead to a significant expansion of workers liable to pay tax in Sweden. If this proposal is enacted, ultimately it will mean that more people who are working temporarily in Sweden will be caught by Sweden's tax net – including cross-border workers.

The Tax Agency's proposals also would mean extensive additional administrative responsibilities for both employees and employers. For employers, this could mean additional time and effort, and perhaps new policies and practices, for example, where tax withholding and reporting are concerned. For employees who do not have a tax coordination number or personal identification number already, the proposals could mean that they will have to register with the Tax Agency.

While no action on the part of employers or their employees is required at this point, they should monitor this development as it evolves and, if appropriate, take the opportunity to participate in the consultation or communicate their input (and concerns) to their professional tax advisers.

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## Proposed Changes Outlined

Among the legislative changes that the Tax Agency proposes are:

- The concept of economic employer should apply in respect of Swedish taxation;
- The 183-day rule will not apply for hired-out personnel;
- Foreign companies without a permanent establishment in Sweden should withhold tax on salary paid to employees working in Sweden;
- An obligation for employees to register with the Tax Agency when working in Sweden.

### Economic Employer vs. Formal Employer

Currently, Sweden applies the concept of "formal employer" in the context of tax. This means that employment income related to work performed in Sweden for a Swedish company can be exempted from Swedish taxation in accordance with the so-called 183-day rule. A prerequisite for this is that the employee keep his/her employment with the employer in the home country and that this employer pays the salary.

Switching to the concept of "economic employer" would mean that the company bearing the cost of the employee and gaining from the work that is performed should be considered the employer instead. This view is the most commonly practiced internationally. A transition to the concept of economic employer would mean that more individuals would be liable to pay tax in Sweden.

### Hired-Out Personnel

In line with the Tax Agency's proposal, the 183-day rule would not be applied when personnel are being hired out. This would cause the individual to be taxed from day one when hired out to work in Sweden. Generally speaking, hired-out personnel are workers seconded to a client's place of business and while there they are an integrated part of the business.

### Withholding Tax and Monthly Reporting

The Tax Agency also proposes an obligation for foreign companies to withhold income tax when paying salaries to employees to the extent the salary relates to work performed in Sweden. This is not an obligation for foreign companies at present unless the company has a permanent establishment in Sweden. This change could necessitate that the foreign company register as an employer in Sweden and file monthly payroll returns.

### Registration of Employees

The proposal includes a suggestion that there should be an obligation for an individual performing work in Sweden to register with the Tax Agency in cases where the individual does not already have a tax coordination number or a personal identification number.

### Other Proposals

The Tax Agency's memorandum also includes a proposal that a Swedish company that hires a foreign company without a permanent establishment in Sweden should withhold income tax from compensation related to the work performed. This is on the basis that the foreign company does not hold a license to report and pay business tax (*F-skatt*).

The memorandum further proposes that that there should be an obligation for foreign companies to submit information to the Tax Agency for the assessment of Swedish tax liability.

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## KPMG NOTE

As the concept of economic employer is applied commonly on an international basis, it is not surprising that there is a proposal to introduce the same concept in Sweden.

The proposed measures represent extensive changes and would have a substantive effect on foreign employers, both in regards to administration and costs. In particular, the measure introducing a monthly reporting obligation for foreign companies paying salaries to employees performing work in Sweden should raise some concerns given it may impact many companies.

The KPMG International member firm in Sweden ("KPMG") intends to continue to monitor developments with respect to this proposal.

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## FOOTNOTE:

1 For the proposal (in Swedish) "Beskattning och betalning av skatt vid tillfälligt arbete i Sverige," [click here](#).

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## Contact us

For additional information or assistance, please contact your local GMS professional or the following professional with the KPMG International member firm in Sweden:



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