

GMS Flash Alert

2018-133 | October 17, 2018



Sweden - Update on Introduction of “Economic Employer” Concept in Swedish Taxation

In our previous [report](#), we set out the details of the proposal submitted in 2017 by the Swedish Ministry of Finance relating to the changes planned for the taxation of individuals who are working temporarily in Sweden.

Adjustments to the original proposal had been going through the Legislative Council; but it has been confirmed that the anticipated implementation date of 1 January 2019 will not happen.

Following recent elections, with Sweden currently forming a new government, it is not clear when the proposals will be implemented or whether the existing proposals will now be subject to further revisions.

The information set out below details the progress of the legislation so far. For more detail on the original plan, please see our earlier GMS [Flash Alert 2017-134](#) (12 September 2017).¹

WHY THIS MATTERS

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

However, the recent amendments to the original proposal have been positively received by businesses as reducing the potential exposure to the new rules for Swedish and international corporate groups sending employees to Sweden for shorter periods of time without regard to the nature of the business trip. Also, it appears the administrative obligations for employers would be less cumbersome under the amendments proposed.

Supplementary Proposal Being Considered

A supplementary proposal was sent by the government for consideration to the Legislative Committee in May and in August.¹ The additional revisions to the original proposal relaxed the criteria for taxation of temporary workers in certain circumstances, as it was felt that scenarios not intended to be caught by the new rules were potentially going to be affected and that certain requirements at this stage would be too administratively burdensome for foreign employees.

Economic Employer Provisions

The key provisions of the legislation are:

- The concept of economic employer will apply in respect of Swedish taxation;
- The “183 day” rule will no longer apply for “hired-out” personnel.

However, the following exception applies:

- Even in those cases where the criteria for economic employer are fulfilled, if the employee is travelling to work for a company within the same corporate group for fewer than 5 *consecutive* days and for fewer than 30 days *in a calendar year*, the income will be exempt from the new rules.

Initial Proposal

- Foreign companies without a permanent establishment in Sweden in certain cases should deduct tax from salary paid to employees who perform work in Sweden.
- Foreign companies operating in Sweden need to file information, as specified, to enable assessment of their tax liability.
- Those who engage a foreign contractor without a permanent establishment in Sweden, in some cases, will be able to take tax deductions for compensation paid to such contractors.

(Again for more details on the initial proposal, see GMS [Flash Alert 2017-134](#) (12 September 2017).)

Additional Changes to Initial Proposal

In the initial proposal, it was suggested that foreign employees working in Sweden for more than 5 days would need to register with the Swedish Tax Agency. For the time being, the government has not moved forward with the Tax Agency's suggested mandatory notification for individuals who work in Sweden for more than 5 days. This, however, does **not** prevent the individual from potentially becoming taxable in Sweden from his first work day.

KPMG NOTE

- The main implication of the proposed amendment is that the foreign employer hiring out personnel to an intra-group company will not need to withhold tax on payments relating to work performed in Sweden.
- A level of monitoring will need to be undertaken to help ensure that employees who travel regularly to Sweden do not exceed the “5 days/30 days” restriction; but this will still be less onerous in terms of the administration that would have been required under the original proposal.

KPMG NOTE (cont'd)

- It is also a welcome development that implementation of the legislation has been put on hold given that the existing timeframe for companies to put in place the necessary procedures was going to be very tight.
 - If the legislation is going to be subject to additional amendment, it is hoped that further consideration will be given to the way in which the legislation can be adjusted to make the administration of the new rules more efficient for companies.
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FOOTNOTE:

1 For (in Swedish) *Regeringens lagrådsremiss från 17 maj 2018: Beskattning och betalning av skatt vid tillfälligt arbete i Sverige*, click [here](#).

For (in Swedish) *Regeringens promemoria från 14 augusti 2018: Kompletterande förslag rörande beskattning och betalning av skatt vid tillfälligt arbete i Sverige* (PDF 268 KB), 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:



Petter Frödeberg

Tel. + 46 707 562 731

petter.frodeberg@kpmg.se

The information contained in this newsletter was submitted by the KPMG International member firm in Sweden.

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