



GMS Flash Alert

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Sweden - Parliament Approves Introduction of Economic Employer Concept

Sweden's parliament, the Riksdag, approved the introduction of the economic employer concept in Sweden, after a process of discussion and revision that began in 2017. The new regulations, which are intended to be competition-neutral, will be effective as of 1 January 2021.¹ (For prior coverage, see [GMS *Flash Alert* 2020-381](#), 1 September 2020.)

WHY THIS MATTERS

The new regulations, once implemented, will result in a shift in Sweden, which will now consider factors beyond who pays the employee's salary when assessing who is the employer of an employee. The primary factor to consider to determine whether an employee will be taxable in Sweden is which entity is the beneficiary of the employee's work, rather than which entity pays the salary to the employee.

The regulations will not impact employees working in Sweden for a maximum of 15 days in a row or 45 days in total during a calendar year. Only days in excess of those thresholds will be taxable if it is assessed that the economic employer is in Sweden. The Swedish rules imply that it is the home country employer that should register in Sweden and remit withholding taxes and not the Swedish company which is the beneficiary of the employee's work.

Background

Sweden previously applied an approach where the employer is considered to be the company that pays the salary to the employee. As a result, foreign personnel who temporarily worked in Sweden have typically not been taxable in Sweden as the employer who pays the salary has not been a Swedish company.

The government also wants to protect the Swedish tax base, which is reduced if Swedish employees are taxed abroad while foreign employees in a similar situation are not taxed in Sweden.

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After the change in legislation, the Swedish application will be harmonised with many of Sweden's most important trading partners, such as Denmark, Norway, the United Kingdom, and Germany.

KPMG NOTE

It is recommended that all organisations set up a process as soon as possible to track:

- who is travelling to Sweden,
- how many days are spent in Sweden, and
- what tasks are performed in Sweden.

A good start is often to conduct an analysis of the exposure based on historical data; this would help to get an idea of what impact the change in legislation might have on your organisation.

Once there is a process to identify which employees work in Sweden and what they do in Sweden, the next recommended step is to analyse what is required in practice to be able to comply with the new regulations and from that point, build a process outlining who should do what.

When an employee triggers taxation in Sweden under the new rules, several actions are required by the employer. Among other things, the foreign company needs to register in Sweden, withhold Swedish tax, and submit employer tax returns including the salary relating to work performed in Sweden. Normally, the tax paid in Sweden can be refunded in the home country, which means the employee's home country tax return will be affected.

Affected organisations should waste no time in consulting with their tax service providers on the changing rules and any processes and practical work that need to be done.

The KPMG International member firm in Sweden will be monitoring the implementation of economic employer and endeavour to report on any developments as and when they occur.

FOOTNOTE:

1 For the proposal (in Swedish) from the *Finansdepartementet* (Department of Finance), see: <https://www.regeringen.se/rattsliga-dokument/proposition/2020/06/prop.-201920190/>. For additional information on the law's passing by the Riksdag, see:

- In Swedish: https://www.riksdagen.se/sv/dokument-lagar/arende/betankande/ekonomiskt-arbetsgivarbegrepp--forandrade_H801SkU5.
- In English: <https://www.riksdagen.se/en/news/2020/nov/4/hired-staff-are-to-pay-tax-in-sweden/>.

The economic employer concept has been discussed previously in several *TaxNews* (a publication of the KPMG International member firm in Sweden). For prior coverage, see "[The Swedish Parliament has approved the introduction of the economic employer concept in Sweden](#)," (4 November 2020); "[New proposal on the Economic Employer Concept](#)," (25 June 2020); and "[The Swedish government plans to introduce stricter taxation for Business Travelers and posted workers in Sweden](#)," (9 September 2019).

Also, see GMS [Flash Alert 2018-133](#) (17 October 2018).

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