

Sweden: New tax withholding obligation for foreign companies

18 January 2021

In brief

Until 31 December 2020, foreign employers without a permanent establishment (PE) in Sweden had no obligation to withhold Swedish preliminary tax on salary paid to employees even if work was performed in Sweden.

From 1 January 2021, this is no longer the case.

In detail

Background

Until 31 December 2020, only foreign companies with a PE in Sweden were required to withhold Swedish preliminary tax on salaries paid to employees.

This applied even if the employee was liable to tax in Sweden.

New legislation applicable from 1 January 2021

From 1 January 2021, a foreign company is liable to withhold Swedish tax on the part of an employee's salary paid for work performed in Sweden for the benefit of an entity in Sweden.

The obligation to withhold Swedish tax could also arise for a foreign company in the following situations:

- The employee is hired out to a Swedish company or foreign company with a PE in Sweden and the employee performs the work in Sweden (exemption apply in certain cases);
- The employee performs work in Sweden and there is an economic employer in Sweden (exemption apply in certain cases);
- A foreign company which has a Swedish board member and part or whole of the work is performed in Sweden; or
- A foreign employer having an employee resident in Sweden and who performs work partly from his/her home.

In case where the foreign company has an obligation to withhold Swedish tax, the foreign company needs to register as an employer in Sweden.

The foreign company will need to report and pay the withholding taxes on a monthly basis. The withholding tax depends on if the employee is regarded as a tax non-resident or tax resident of Sweden.

It is worth noting that when filing an application to get registered as an employer in Sweden, the Swedish Tax Agency will look into if the activities performed in Sweden create a PE in Sweden or not.

The takeaway

Foreign companies that have Swedish employees or board members should check if they are liable to withhold Swedish tax on remuneration paid.

They should also take necessary actions to get registered as an employer in Sweden and assess the risk that there might be a PE in Sweden.

Let's talk

For a deeper discussion of how this impacts your business, please contact your Global Mobility Services engagement team or one of the following professionals:

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