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GES NewsFlash

Sweden – Increased Risk for Swedish Taxation While Working Abroad

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Summary

The Swedish Tax Agency has on October 25, 2010 published a statement determining the maximum number of days spent in Sweden and third countries when benefiting from the Swedish tax exemption rules on employment income while working abroad. This may impact Swedish tax residents assigned abroad who can no longer receive Swedish tax exemption.

The Swedish tax exemption rules (the six-month and the one-year rule)

A Swedish resident who is assigned abroad for at least six months without interruptions is exempt from Swedish tax on employment income received in relation to the assignment abroad, provided that the income is taxed in the country where it is derived and the number of days spent in Sweden during the assignment period do not, for any reason, exceed 72 days per employment year or in the average six days for each full month during the period abroad.

A Swedish resident assigned abroad for at least one year is exempt from Swedish tax on employment income, provided that the whole year is spent in the same employment in the same foreign country. Under the one year provision, there is no requirement that the foreign earned income has been subject to tax in the country of assignment. However, a condition for the one year provision to apply, is that the income must be tax exempt in the working country as a consequence of that state's domestic legislation, or by means of a treaty (not a tax treaty) with that state, or by a special decision of an authority in the state, or as a consequence of no existing tax provisions in the state.

Shorter time periods spent outside the country where the employment is exercised will not break a qualifying period of absence from Sweden. However, the breaks in Sweden must not exceed 72 days during each one year period starting from the first day of the assignment.

New statement from the Swedish Tax Agency

The Swedish Tax Agency has on October 25, 2010 published a statement determining the maximum number of days that could be spent outside the employment country in order for the tax exemption rules to apply.

The Swedish Tax Agency's opinion is that a maximum of 96 days per employment year (8 days per month on average) could be spent in total outside the employment country for business trips, vacation etc. However, the presence in Sweden must be limited to 72 days (of the 96 days in total) per employment year (6 days per month on average).

It should be noted that the limitations apply to both the six-month rule and the one-year rule.

For individuals that can no longer benefit from the six-month rule or the one-year rule, tax relief may still be available according to a tax treaty.

Deloitte's View

The Swedish Tax Agency's statement significantly limits the possibility for Swedish tax exemption on employment income for individuals assigned abroad.

Should an individual spend 72 days in Sweden in the course of an employment year there is only 24 days left (2 days per month on average) for business trips, vacation etc. in third countries in order to still benefit from the tax exemption rules.

As this is a non-binding statement from that Swedish Tax Agency it is likely to be challenged in the Administrative Court.

Based on this statement, there is a need to review the travel pattern for individuals assigned from Sweden.

People to Contact

If you have any questions concerning the issues in this GES NewsFlash, please contact one of the tax professionals as follows:

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