SWEDEN

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Energy Overview

Sweden enjoys a diverse energy landscape, leveraging its abundant natural resources and sustainability efforts. Sweden emerges as a key player in various energy sectors and stands out globally for its production of hydropower, biomass, wind energy, and other renewable resources with hydropower as the single biggest energy source.

Sweden's commitment to sustainability drives its robust green energy initiatives. While prioritizing renewables the nation aims to minimize environmental impact and Sweden sets ambitious targets for curbing carbon emissions, emphasizing the transition to cleaner energy alternatives.

The Swedish government also provides backing for the energy sector's transition to cleaner renewable options. This support includes investments in renewable energy infrastructure, and funding for research and development (R&D) in clean energy technologies and technologies that capture carbon dioxide emissions from industrial processes and power plants.

Sweden's tax policies aim to promote clean energy investments while discouraging fossil fuel dependency. To reduce society's consumption of goods harmful to the climate and environment, taxes are imposed on the consumption of such items. Partly, energy consumption is taxed for the same reasons.

Sweden was one of the first countries in the world to introduce a carbon tax levied on all fossil fuels in proportion to their carbon content. In addition, incentives for carbon capture and storage projects play a crucial role in Sweden's roadmap towards carbon neutrality in 2045.

Tax Overview

Sweden levies income tax on the world-wide income of persons (including corporations) that are tax resident in Sweden. Double tax situations are often avoided through double-tax treaties.

The current corporate tax rate is 20.6% (FY 2023). Investment income for natural persons is generally taxed at 30% or 25% for dividend or capital gains from unlisted shares, albeit special rules apply for closely held companies. There is no gift tax, inheritance tax or wealth tax in Sweden.

As Sweden is part of the EU, the Value Added Tax (VAT) system applies in Sweden. The standard VAT rate in Sweden is 25 %. For certain VAT liable goods and services, the reduced rates of 12 % or 6 % apply.

Both EU-regulated as well as national excise duties are in effect in Sweden, which applies to electricity and fuel.

Taxation of Energy Projects

In Sweden, energy projects are usually conducted through either corporations or partnerships. Corporations are taxed based on their profit or loss, while partnerships are treated as transparent entities for tax purposes. This implies that a partnership calculates its profit or loss like a corporation, but the resulting amount is attributed to and taxed in the hands of the partners, not the partnership itself. If a foreign investor is a partner in a Swedish partnership and the partnership qualifies as having a permanent establishment in Sweden, the investor becomes liable for taxes on the partnership's taxable income in Sweden.

Given that energy projects often require substantial funding, the financing structure, particularly the mix of debt and equity, is crucial. Sweden has imposed restrictions on interest expenses for group entities since 2009. These rules limit the deduction of certain intragroup interest expenses and were updated in January 2019. In 2019, in the light of the EU ATAD directive and the BEPS project, new general interest deduction limitation rules were also introduced in Sweden, affecting both intragroup and external interest expenses. The current interest limitation rules therefore comprise targeted rules for intragroup interest expenses and general rules applicable to all interest expenses. Under the general interest limitation rules, deductions for net interest expenses are generally capped at 30% of EBITDA calculated for tax purposes, on a per-entity basis (with some intra-group netting possibilities). These rules have significant implications for the deduction of interest expenses and should be considered when allocating debt to a Swedish entity.

Under the participation exemption regime Swedish corporate entities benefit from a capital gains tax exemption when disposing of shares held for business purposes, whereas capital losses are non-deductible. The participation exemption always applies to unlisted shares, while listed shares may qualify if the company holds at least 10% of the voting rights or if the shares are part of the business operations. The rules includes shares held (directly or indirectly) in partnerships and certain conditions also extend the exemption to shares in foreign companies. It should however be noted that there are exceptions regarding divestment of shell companies.

Regarding dividend income, a participation exemption applies to dividends received on shares held for business reasons and qualifying holdings via partnerships. However, dividends paid by foreign companies under a hybrid arrangement are subject to Swedish corporate tax for the receiving Swedish company, regardless of whether they are EU/EEA companies or not.

Sweden applies the OECD Transfer Pricing Guidelines and transfer pricing within the energy sector is highly dependent on the regulatory environment and other factors related to the applicable market. Since energy projects entail several crucial steps in the value chain it is important to ensure that the different steps are properly analyzed in order to determine where the main value is created. Although dependent on the type of energy source and supply chain, the ability to develop effective technologies and workstreams, finding the right location, obtaining licenses and financing the projects are generally important aspects in the analysis.

Ensuring the right allocation of profits and losses from inauguration is key to ensure that costs will be deductible and to limit the risk of double taxation and tax penalties (maximum 40% on the tax on the adjustment).

Given the substantial financing that is often required, and where this is further used in intra-group financing, the high market rates and the alignment of the chosen TP model with the ability to carry debt by the different group entities is also crucial.

Excise duties are levied on actors in energy projects in Sweden. In particular, excise duties on electricity and fuels could be levied on private consumers and some companies, primarily targeting the actual consumption of electricity and fuel. Generally, the responsibility to charge and report excise duty on electricity falls on the producers of electricity and grid operators. As for the excise duty on fuel, the responsibility to charge and report the duty primarily falls on various actors who manage tax-liable fuels, such as e.g. fuel manufacturers and those who store or process the fuel. However, tax relief is available for fuels and electricity consumed for certain purposes such as industrial manufacturing. Tax relief is also available for climate-friendly production, such as production of electricity from renewable energy sources.

To reduce and recycle waste, Sweden has implemented a tax on waste for companies for example, one that deposits a larger amount of waste in a facility for a longer period. However, tax relief is available for some activities related to reducing and recycling waste.

The EU Emission Trading System (ETS) is in effect in Sweden. ETS is a complex system of rights and obligations for the participants, e.g. an entitlement to emit a certain amount of carbon. Actors in Sweden within several sectors such as energy (electricity and heat) industry and air travel are obligated to participate. In 2025, ETS 2 comes to effect, and additional sectors will be regulated in a similar system as the ETS.

In October 2023, the EU Carbon Border Adjustment Mechanism (CBAM) came into effect. This means that emissions from certain carbon intensive goods, including electricity, imported to the EU will be priced to reflect the carbon price of domestic production. There is a transition period in the implementation until the end of 2025, where import of CBAM goods needs to reported but not priced.

Investments in real estate are subject to tax depreciations of up to 30% of the tax acquisition value depending on the type of asset invested in, except land which is not subject to tax depreciations. For wind farms, in general a higher rate of the investment qualifies for a maximum depreciation up to 30%.

The entire cost of mines and quarries may be depleted over their expected exploitation period. These depletion amounts may be deducted annually but are limited to 100% of the acquisition cost of the mine or quarry.

Other Tax Issues To Be Considered

- Potential tax incentives:
  - Expert tax relief for highly skilled foreign workers.
  - R&D tax incentives, reducing the cost of the R&D workforce.
- Property related taxes:
  - Ownership in property/real estate is subject to property tax, paid by the property owner. For energy producing properties the tax rate is 0.5% except for wind farms with a tax rate of 0.2-0.5% of the tax assessed value. For solar energy producing properties, no property tax is levied.
  - In general, property acquisitions are subject to stamp duty at 4.25% (when acquired by a legal entity) on the value.

Relevant Experience

- Developing a TP structure related to production of energy within the renewable energy sector. The work included managing regulatory issues related to streamlining the operational model and assessing a proper TP model for several activities in the value chain
- Support in application for a bilateral APA related to portfolio trading activities for large MNE within the power supply sector
- Tax advice related to investments in green- and brown fields within the wind- and solar power sector in Europe including related battery investments
- Tax advice related to investments and joint-ventures within the hydropower sector
- Reporting obligations have changed rapidly in Sweden over the last years which adds to a complexity for foreign companies to conduct services here. Skeppsbron Skatt has assisted a wind turbine company to set up a compliant process to bring specialized foreign work force from several different countries to Sweden on rotation programs. The client is highly dependent on a smooth process, as the foreign workers are crucial for their business due to that the competence is in general scarce amongst Swedish based workers.

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