

Sweden is attractive for investments in private equity funds

Sweden has an attractive holding company regime. Capital gain on sale of certain shares and dividend distributed from the shares is tax exempt.

The holding regime makes it interesting for both Swedish and non-Swedish investors to set up private equity funds through a Swedish corporation in a tax efficient way. Except the significant tax advantages of investing through a Swedish limited corporation (*Aktiebolag*) it is also possible to tailor make the repatriation of profit to the investors adapting the needs of each investor by using preference shares in the company.

Aktiebolag is taxed at a flat rate of 28 per cent. Interest paid is tax deductible. Furthermore, Sweden does not have thin-capitalization rules. These rules make it also interesting to invest by financing the investment via loan.

A Swedish limited corporation, *Aktiebolag*, has a fixed share capital and is a separate legal entity. An *aktiebolag* is a taxable person, i.e. not tax transparent company, and covered by the tax treaties. Generally *aktiebolag* is not treated as a controlled foreign company.

Participation exemption rules

The participation exemption rules apply for shares held for “business purposes”. Unquoted shares are normally deemed to be held for business purposes. There is no minimum shareholding period requirement or any requirement that the shares must represent a certain per cent in order to be tax exempt. Stock-in-trade shares do, however, not qualify for the tax exemption rules.

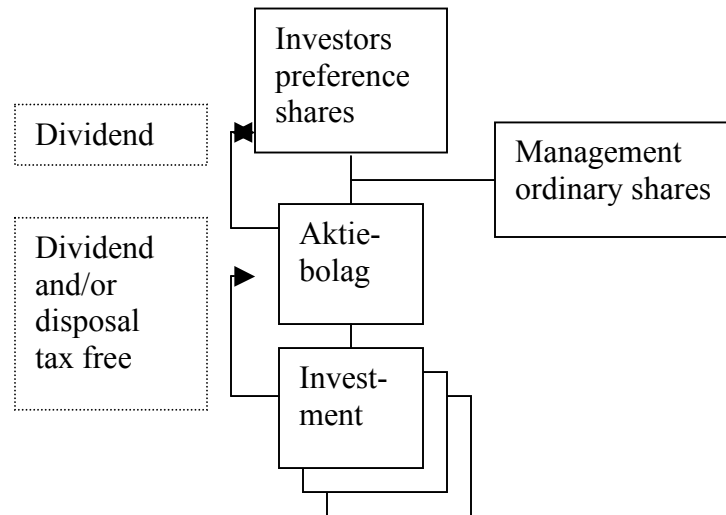
Quoted shares qualifies for the tax exemption rules if the shares held represent at least ten per cent of the voting power of all shares of the company in question or if the shareholding pertains to the business of the shareholder or an affiliated company of the shareholder. However, for quoted shares a capital gain is tax exempt only if the shares have been held for business purposes for at least 12 months.

Shares are considered quoted if they are registered on a Swedish or foreign Stock Exchange or, if not registered on a Stock Exchange, if they are otherwise subject to continuous Swedish or foreign registration for public trade.

The tax exemption rules generally apply to shares held for business purposes, irrespective of if the shares represent shares of foreign companies or Swedish companies. Investments of shares in the country of the investor will also qualify for the tax exemption rules under the condition that the above mentioned rules are fulfilled. However, in order to qualify as shares held for business purpose and to be tax exempt in Sweden, the legal form of the foreign holdings must be corresponding to that of a Swedish limited corporation, *Aktiebolag*.

The Swedish typical fund structure

As described the Swedish typical fund structure is normally made through a Swedish limited corporation (*Aktiebolag*). It is the Swedish limited corporation that is the investing vehicle. The corporation issues ordinary shares and different series of preference shares for the investors, see the schedule below.



Each investor will enter into a separate agreement with the management, such as investment policy, the investor's commitment, the management fee, the distributions etc.

Conclusion

As described above dividends distributed to Swedish Holding Companies and disposals of shares owned by Swedish Holding Companies is tax exempt in Sweden subject to fulfilment of the above mentioned rules.

Sweden has 86 tax treaty agreements with other countries. Dividend distributed to Swedish Holding Companies and disposals of shares owned by Swedish Holding Companies may also be tax exempt in the country of the invested shares due to the advantages in many of the tax treaties between Sweden and other countries.

The conclusion is that the Swedish holding regime has made it possible to make tax free investments through a Swedish *Aktiebolag*, and in combination with the advantages in to tailor make the repatriation of profit and the Swedish double tax treaties disposals of shares may also be tax exempt in the country where the alienator is resident.

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