
Sweden: Foreign employers with a permanent establishment in Sweden to withhold employee income taxes

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In brief

The Swedish Tax Agency has issued guidelines on the withholding obligations for foreign employers with a permanent establishment in Sweden. The employer has to withhold Swedish income taxes on remuneration paid to employees working in Sweden.

The guidelines specifically addresses the situation where a foreign employer is considered to have a permanent establishment in Sweden under domestic law, but the applicable double tax treaty means that no permanent establishment is deemed to exist for treaty purposes. The guidelines provide that withholding obligations apply regardless of the fact that no permanent establishment is considered to exist under the tax treaty.

Global mobility program managers should review their withholding processes to ensure that they are in compliance with all applicable rules.

In detail

Withholding obligations

Foreign employers are required to withhold Swedish income taxes from remuneration paid to employees for work performed in Sweden only if the employer has a permanent establishment in Sweden. Under Swedish tax law a permanent establishment is generally deemed to exist if business is carried out in Sweden from a fixed place over a period of at least six months.

In certain tax treaties Sweden accepts that a building site or construction project constitutes a permanent establishment only

if it lasts more than twelve months. The Tax Agency guidelines present an example where a foreign company is engaged in a construction project in Sweden that runs for eight months. The activities will constitute a permanent establishment under domestic law but not under the applicable treaty.

Regardless of the treaty exemption, the foreign employer is required to withhold on remuneration paid to Swedish tax resident employees. Should an employee qualify for exemption from Swedish taxes under the 183 day rule in the tax

treaty, a tax adjustment can be applied for to waive the withholding obligation.

For employees who are not Swedish tax residents, withholding will also be required, unless the 183 days exemption in Swedish law or the relevant tax treaty applies.

Reporting of Swedish employer social security charges

The fact that a permanent establishment exists under domestic law also means that the employer will have to report and pay Swedish employer social security charges as

applicable. There is no option to contract with the employee to fulfill the employer's obligation in this regard, when the employer has a taxable presence in Sweden.

The takeaway

The guidelines are in line with PwC's interpretation of existing rules. Still, we do recommend that foreign employers review their processes to confirm that they are in compliance with all applicable regulations.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your regular PwC Global Mobility engagement team or one of the following representatives from PwC Sweden

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