

Ownership tax, competitiveness and prosperity

An international
survey and analysis
of the taxation of
ownership

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Ownership tax and prosperity

Entrepreneurs are sometimes taken for granted in Sweden. To be sure, Sweden has had more than its fair share of successful companies, given its size. But perhaps it is also due to these successes that we sometimes assume that this will continue to be the case in the future. So it may seem odd to suggest that Sweden should improve conditions for entrepreneurs. But to avoid falling behind in terms of competitiveness, and thereby prosperity, this is exactly what Sweden needs to do. For those with a global outlook, it is clear that our companies' competitiveness is threatened on several fronts. How will we compete with Chinese companies that will enjoy advantages in technical know-how, domestic market size, skills supply, and lower labour costs? How will we retain the top talent when it becomes increasingly easy for such talent to move internationally – to study and work anywhere in the world it feels best and easiest? How will Swedish businesses that launch in a small market rival competition from fast-growing US tech firms that, through economies of scale and network effects, naturally tend to dominate their respective markets? How should we face the “new” economies that are set to catch us up and have world-leading companies in the same way as South Korea, Taiwan and Japan did several decades ago? How will we beat the competition when other countries are reforming and modernising their regulatory frameworks, while the pace of reform in Sweden has come to a complete stop?

Many questions need to be asked. Naturally, the answers are not straightforward. But one answer is relatively clear: a basic framework must be established to make it attractive to start, own and run companies in Sweden. According to the latest major study of Sweden's entrepreneurial climate, tax policy is the single most important area in creating an attractive investment climate.¹ In this report, we examine the impact of ownership taxation on entrepreneurship and investment.

The problem with high capital taxation is that it makes certain investments unprofitable. A greater number of unprofitable calculations result in lower investment and fewer business start-ups. Reduced investment in the economy first hits demand for labour and different types of resources, (such as machinery, computers, raw materials etc.). In the long term, however, society's losses are greater still. Society and business owners miss out on returns and profits that would have derived from this investment if it had been made. Profits for business owners are monetary, but benefits for society go primarily to consumers, as well as innovation and development that everyone can take advantage of. Better goods and services make our lives easier in many minor but important ways. It is these small steps that in the long-term create our prosperity, as they build upon each other year after year.

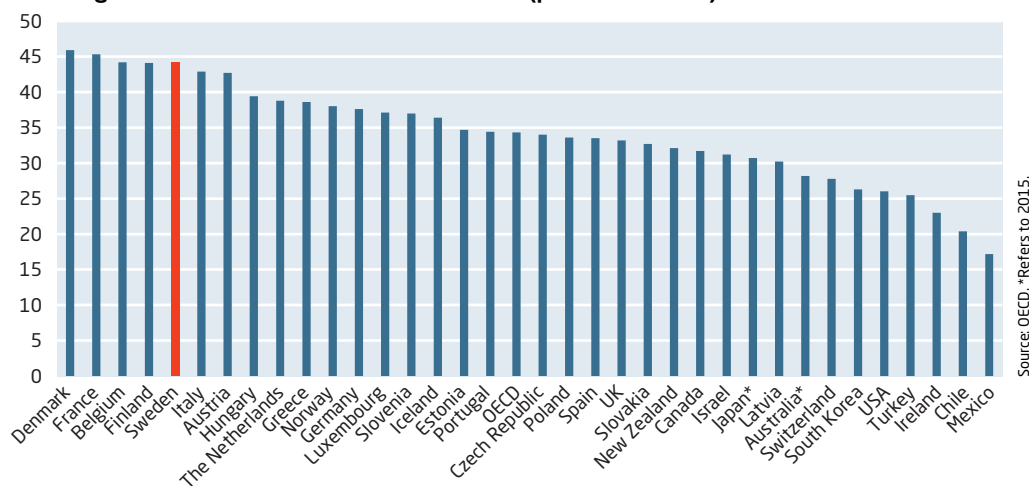
Before a company is established or invests, it calculates the expected profitability of the project. If it is sufficiently profitable, the investment is made; otherwise the investment is not made. In this calculation, owners are interested in the profit that remains after all tax is paid. Ownership taxes play a decisive role in this calculation because they account for between 20 and 60 per cent of any profit or dividend that can be made.

¹ SOU 2016:72, “Entreprenörskapsutredningen”.

A shift in the debate

If Sweden wants more people to take the risks associated with starting and running businesses, we need to ask ourselves whether the prevailing environment in Sweden is sufficiently attractive for risk-takers. If we believe that it is good for society that more companies are established, compete and develop, we need to ask ourselves whether Swedish tax rules provide sufficient encouragement for risk-taking enterprise, and whether we can learn from other countries. Conditions for entrepreneurship in Sweden are generally good, but taxation consistently emerges as a negative factor in comparison to other countries.² This is related to the fact that overall Sweden has an elevated tax burden – around 44 per cent of GDP, which is the fifth highest in the world (diagram 1).³ Sweden levies particularly high taxes on labour on above average incomes. This also hits business owners because this indirectly drives up labour costs, and active co-owners can be affected by employment tax on capital income. This report focuses on Swedish ownership taxes, which are also higher here than in rival economies.

Diagram 1. International tax burden 2016 (per cent of GDP).



Risk appetite is partly affected by the high degree of job security enjoyed by employees in Sweden. As an employee in Sweden, at the end of each month you have the right to your salary irrespective of whether the company that employs you has made a profit or loss, and regardless of how many customers your employer has lost. Employees have the right to time off, and the right to income when on holiday, on parental leave, when ill or injured, and training (time off rather than income). However, business owners are rarely able to use these rights in practice. Giving up these rights and this security to be an entrepreneur entails taking a major risk. And then there is the financial risk associated with running a business. After a lot of hard work, there may be a surplus remaining for those who have taken on the risk. If taxes on profits result in compensation that fails to reach a reasonable level relative to the risks taken, fewer people will want to leave that secure job with its perks and time off.

Entrepreneurship and employment are, therefore, two entirely different types of activity, and they require different tax rules. The key difference is the risk associated with starting and running a company. From the entrepreneur's point of view, employee salaries are a responsibility that simply must be met, irrespective of how many existing

² Entreprenörskapsutredningen (SOU 2016:72), section 2.4 relating to taxation.

³ OECD, 2016.

customers that may have left the company. Similarly, suppliers need to be paid. And the Swedish Tax Agency must receive the right amount of tax; municipal taxes, employee contributions, and VAT also need to be paid. Perhaps even excise duty or property tax. After that, there may be money left for your own salary or investment in the development of the company. And then there is corporate tax to pay on any residue. This goes on month after month, year after year. If the owner decides to sell their company, or take a dividend, Sweden's ownership tax comes into play.

In a market economy, business owners are responsible for their losses. Limited companies mean that this responsibility is limited to capital invested, and that risk and profit are distributed between owners. Without responsibility, incentives for excessive risk-taking become strong. If, for example losses can be shared with others in society. Responsibility for risk and loss also follows a basic right to potential profits. It is essential that this symmetry be maintained. To the extent to which the right to profit is inhibited through taxation, tax should be levied in a minimalistic way, and at the point of taxation, losses must be offset against income from other sources.

While there may exist principled and economic arguments for improved Swedish ownership tax regulations, this report deals with the economic arguments and positive societal effects of lower Swedish ownership tax. In this report, we show how tax rules can be more competitive. The benchmark we should use is not yesterday's Sweden or other countries. We can learn from each other, but the ambition should be that Swedish ownership taxes are set at the best possible level for Swedish companies' competitiveness.

It is rare to see changes to the tax system being implemented as a way of making a given cake grow faster, instead of sharing the existing cake. Pursuing a policy of redistribution by punishing work, risk-taking, and productive entrepreneurship through tax undermines Sweden's prosperity. Investment slows and Sweden becomes poorer in the long term. Fewer ideas are tested, and consumers and society consequently lose out on valuable opportunities for development. This report shows why a favourable tax climate for owners and risk-taking entrepreneurs is crucial to a growing and more dynamic Sweden.

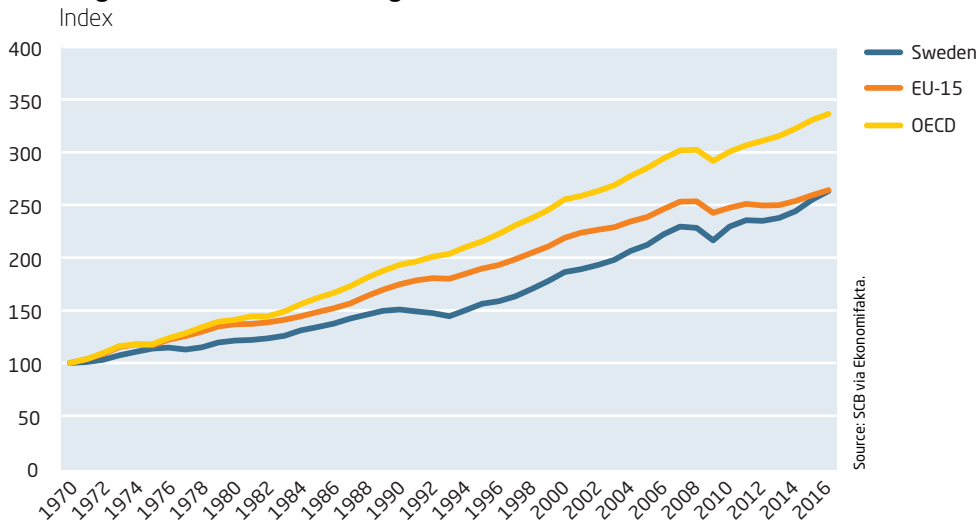
Productivity and prosperity

The single most important factor that drives economic prosperity is long-term increases in productivity.⁴ Higher living standards, (GDP per capita), makes more resources available for the goods and services that people need and demand. In this way, conflicts over access to resources in a society can be reduced. Growth and prosperity contribute, therefore, to social and political stability, which makes it easier for people and businesses to plan long-term and make long-term investments – investments that, in turn, pave the way for further investment and increased prosperity. Sweden ranks eleventh in terms of global prosperity. This is not bad, but neither is it good by Swedish standards. Per capita, Sweden is poorer than countries such as the US, Iceland, the Netherlands, Austria, Denmark, and Germany. Over time, small differences in growth have significant impacts. This is clearly demonstrated in diagram 2 that shows Swedish growth compared to the rest of the world. Between 1970 and the middle of the 1990s, Sweden lost substantial ground in terms of prosperity compared to other countries. Structural problems on the labour market and high inflation contributed, in combination with exceptionally high marginal tax rates on business owners and employees, (up to 90 per cent), to ensure that Swedish

⁴ Jones, 2002.

industrial competitiveness evaporated, which hit growth. It was not until after the financial crisis of the 90s, the culmination of the previous 20 years' failed policies of stabilisation, that this trend was reversed.

Diagram 2. International GDP growth.



Improved productivity is driven primarily by innovation, technological development, and smarter organisational methods. Innovation refers to significantly new or developed goods and services that have commercial potential. Many innovations require resources, not least for research and/or development, to come to fruition. In innovative businesses, it is primarily owners who, through investing share capital, make this possible. Even if inventions have the potential to be revolutionary, they only become significant in peoples' lives when they receive greater exposure. Companies that market and sell innovations typically enable such exposure. In this way, innovation and growth are clearly linked.

Far from all companies are, however, innovative. Research often defines companies as one of three types: established large companies, small companies, and entrepreneurial companies.⁵ Large established companies generally already have one or more products that they sell to mature markets. However, they may have been innovative companies in the past, but have grown in line with a technology that has matured and fallen in price. The second type of company is the small business that is not genuinely innovative; rather, it aims to provide its owners with sufficient income to provide a living, but perhaps does not have the ambition to expand its operations. This group is characterised primarily by self-sufficiency, and in numerical terms is the largest group, (some 800,000 of Sweden's total 1.1 million companies are sole proprietor firms⁶). It is the third group, the entrepreneurial companies, which, according to this definition, are innovative.

Entrepreneurial businesses develop new goods and services, and through this change the way resources are produced and consumed. It is, for example, easy to see what huge difference various innovations based on mechanisation, electrification and digitalisation have made to our lives. Thanks to thousands of innovations, large and small, our lives are physically easier, longer and healthier; and for the vast majority of people, probably better than they were a hundred years ago. A condition for all this development is, however, investment. Consequently, investment incentives are central

⁵ Henreksson and Sanandaji, 2014. 6 SCB.

⁶ SCB.

to economic growth and development. The more investment opportunities that are judged to be worth taking, the more likely it is that more important innovations are commercialised and benefit society.

Entrepreneurial companies seek to take large market share or launch new products and services that can generate extremely large profits for a period. After a time however, competitors typically catch-up, putting downward pressure on market prices and profits. At this point, benefits migrate from producers to consumers through lower prices and a better and larger choice. Competition is a powerful equalizing force in a functioning market economy because profits and surpluses shift from a small number of producers to a substantially larger number of consumers. No single political reform is likely to be able to achieve the same broad spread of prosperity that occurs when increased purchasing power and better goods and services reach a country's population.

Entrepreneurship and societal benefit

Behind every successful innovative company, there is a story of risk-taking. Perhaps someone has mortgaged his or her home to obtain the necessary risk capital. Another has perhaps left a full-time position to join a start-up. But for every successful company, there are also less successful ventures. According to a US study, 75 per cent of all investment in entrepreneurial companies generates no return at all, or even negative returns.⁷

To understand the societal benefit of risk-taking entrepreneurship, a comparison with venture capital funds is useful. These are funds that invest money and skills into risk-exposed business projects that need external support to grow. Returns from such funds depend to a disproportionately large extent on profit in a small number of extremely successful companies. Because it is not known in advance which companies these are, such funds make a large number of investments. If taxes and other regulations limit the total number of investments, some extremely profitable and socially beneficial projects do not come to fruition, to the disadvantage of the fund. If, however, expected returns increase, for example through an improved tax environment for business owners, more risky projects will be conducted, and some of these will be exceptionally fruitful. Some will bear so much fruit that both the company and society will be big winners. How returns are distributed between society and owners is hard to measure accurately, but attempts have been made that suggest only a small proportion of profits actually flow to producers (owners). The greatest benefit from new innovation goes to society and consumers.

Research conducted in the US on the situation there indicate that up to 95 per cent of the value of technological progress benefits society (consumers), and only five per cent goes to companies (producers).⁸ Just like a venture capital fund, lower investment makes it less likely that some large-scale investments are made. Company risk is primarily taken on by owners who invest – and they can lose their entire investment. However, profits are shared by investors, i.e. owners, and society in general.⁹ There is therefore a societal interest to stimulate and encourage risk-taking conducted within a framework for entrepreneurial and innovative companies. For lawmakers, a relevant question is therefore how innovation can be started and developed in Sweden.

⁷ Hall and Woodward (2010).

⁸ Nordhaus 2005.

⁹ The benefit for society is not the taxation of owners' profits. In economic terms, taxation is simply redistribution between individuals and the state. Societal benefits consist of benefits for consumers, employment and income, as well as potential positive externalities.

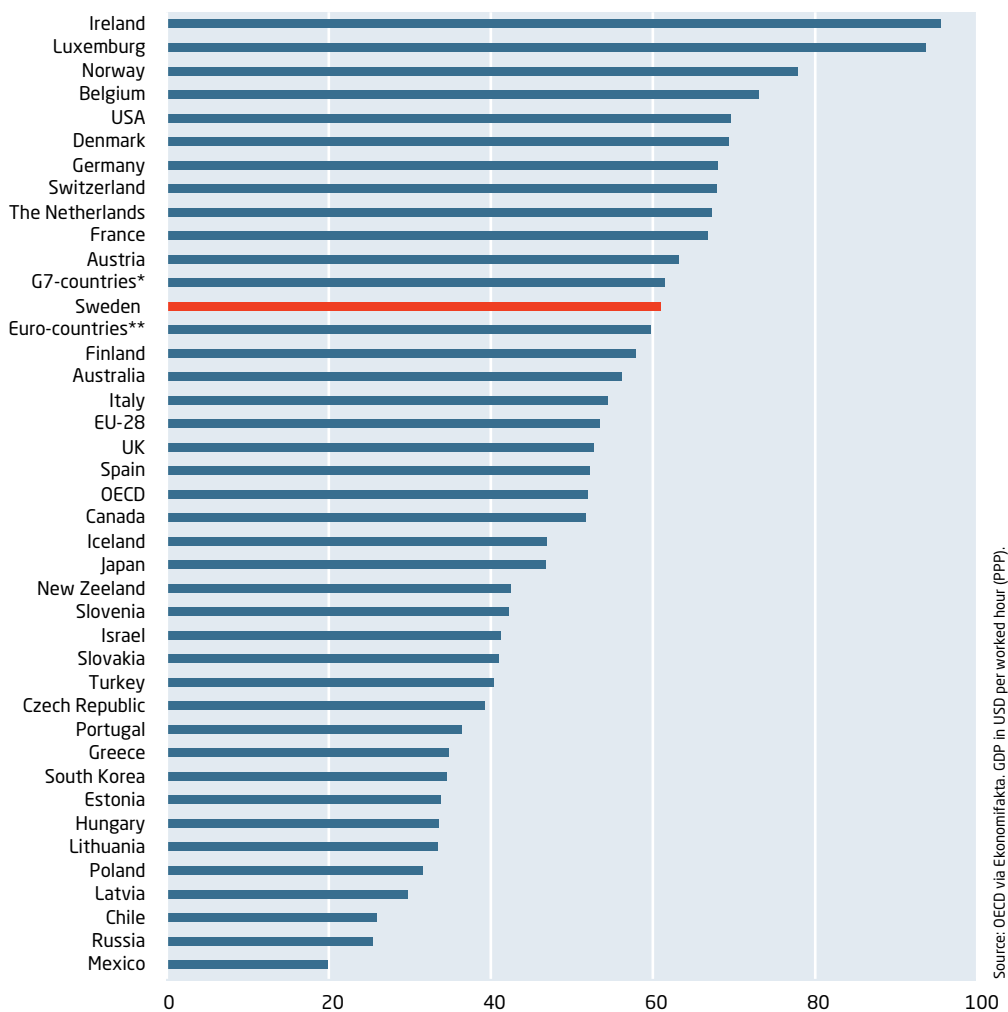
Sweden's entrepreneurship and competitiveness

Entrepreneurship is hard to define and therefore hard to measure. The Swedish Agency for Growth Policy Analysis conducts an annual survey of Swedish venture capital investment, which can be used as an approximation of entrepreneurship. The latest available statistics relate to 2016, and show that combined venture capital investment in Sweden that year amounted to SEK 2.2 billion.

A majority of this went to companies' in IT and life sciences, a sign that investment was being directed towards innovative segments. In the past ten years, venture capital investment has fallen. In 2007, it amounted to SEK 4 billion, and in 2008 it was SEK 5 billion. Since then, investment in venture capital companies has halved.¹⁰

One way to measure productivity is to divide a country's GDP by the total number of hours worked in the country. In an international productivity ranking, (diagram 3), Sweden is more productive than the OECD average, but it is far from the top. The measure shows that to increase productivity, and thereby prosperity, you need to focus on what generates a high degree of added value. If the number of worked hours in Sweden increases more than GDP, our productivity falls. Through technical development and innovation, we earn more for less work. Are we achieving this?

Diagram 3. International productivity.



¹⁰ http://www.tillvaxtanalys.se/download/18.25efc2a915fe149a65424035/1511867259273/statistik_2017_07_Riskkapital_statistik%202016.pdf

One way to measure how productive we are in Sweden compared to other countries is to look at trends in exports over time. Sweden's exports are considerable, around 45 per cent of GDP. This is a substantial improvement compared to, for example, the competitiveness crisis of the 1980s, when exports accounted for around 30 per cent of GDP on average.

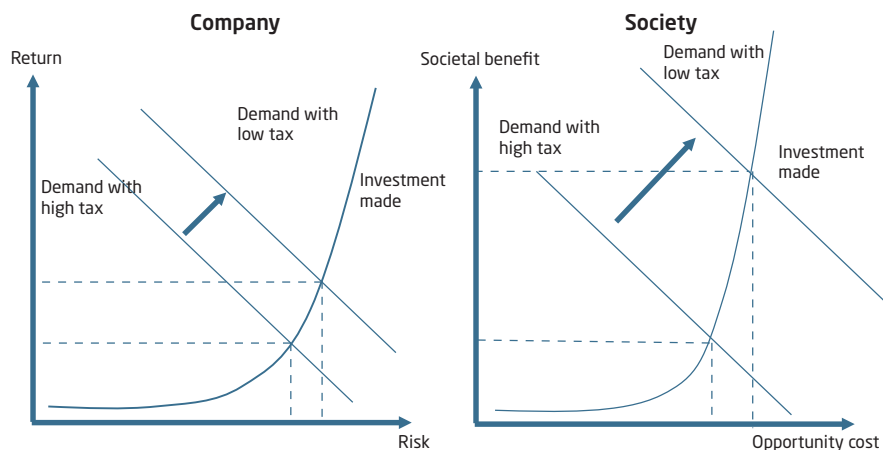
But we have seen our share of exports fall since 2008, when it was around 50 per cent.¹¹ Taken alone, this is not an indication of weakness, but a trend that we should be wary of if it continues: because to be able to export, companies need to be competitive in terms of costs and quality. Since 1993, Swedish companies have, however, had to pay increasing amounts for what they import in relation to what they export. The negative trend of this prosperity indicator ("terms of trade") has, however, eased since 2005.

A number of factors are working against Swedish competitiveness and entrepreneurship. While the level of prosperity per capita is high and the overall state of the economy is good, given our circumstances, the conclusion is that Sweden should be able to achieve a higher level of productivity than is currently the case.

Risk and societal benefits

There is a positive link between risk in an investment and the potential gains for owners and society. The greatest benefits accrue to companies that successfully establish an entirely new product on a market that previously did not exist, or that take large shares of existing markets. This allows a company to dominate the market, and generally generate healthy profits, while consumers gain greater benefit from new products that attract greater demand than older products. The challenges associated with developing new products, however, mean that such projects carry substantial risk. There is a very real risk that the project will fail, and the owner will lose their invested capital. However, if the project succeeds, profits can be considerable for owners and society. The largest benefits for consumers generally come in the form of entirely new types of products, rather than small improvements in existing technologies. Think of the value that smartphones have for billions of users worldwide. Initially, the iPhone cornered the entire market and all its profit. Now, we see many actors that offer cheaper and good quality smartphones. For a modest amount a month, virtually everyone can now communicate globally, and have the world's entire media offering at their fingertips. In future, prices and performance are likely to improve further, benefiting customers. Diagram 4 below clearly illustrates these linkages. The left-hand panel shows this link at a company level, the right at a societal level.

Diagram 4. The link between risk and benefit.



¹¹ SCB via Ekonomifakta.

Diagram 4 is a highly simplified model that aims to show the link between ownership taxation and investment. The amount of investment also determines company profits and societal benefit, which is measured on the vertical axis.

Projects that carry the greatest level of risk are associated with the greatest potential profit because, in general, such projects are related to new innovations or development of existing products. This link is shown by the positive supply curve for investment. The higher the level of return a project has, the higher the level of risk associated with it. The negative curve indicates that appetite to conduct projects reduces as risk increases. The two demand curves represent two scenarios: one with low ownership tax, one with high ownership tax. A reduction of ownership tax shifts demand to the right, which means that more investment will be made. Increased investment means greater risk-taking and increased returns for the company. The same applies at a society level, but there risk-taking is interpreted as the opportunity cost of related projects. Opportunity cost consists of resources that are used for these related projects that could have been used for other activities that in turn would have also created benefits for society.

Diagram 4 shows that benefits for society increase more than private returns in the event of increased entrepreneurship (risk-taking). If society's interests and private (owners') interests intersect in this way, even if in different orders of scale, it is positive for society if the state, for example through lower taxation, encourages such risk-taking. The fact that there are projects that are never attempted should, in terms of a society's economic wellbeing, be seen as a cost, even though these costs cannot be measured or observed. However, if taxation drives up costs for society, we need to focus on this when formulating tax policy.

Taxation research

According to research, an effective way to stimulate and increase investment is to improve ownership taxation. There is considerable scope for this in Sweden because taxation is higher than in our competitor countries. The following section reviews research on how ownership taxes affect growth, investment and entrepreneurship.

Just like all taxes, ownership taxation also affects prices and incentives in the economy. Tax generates tax income for the state and local government, but because taxes also affect prices of goods and services, they also affect people's choices. For example, if a tax is introduced on labour that results in a doubling of the price of labour, a number of things will happen. Firstly, demand for labour will fall due to its price increasing without a rise in income. Secondly, demand will shift more towards goods that are a substitute for labour, for example computers and robots, or illegal labour. Thirdly, demand for goods associated with labour will fall. In this example, this may be office furniture, or company cars.

Taxation entails social costs due to all the changes in people's choices they lead to. The starting point is that people can make their own rational choices, and consider all available information to make these choices. Given this, taxation represents a change of these choices, and these changes represent social costs. Society loses out on production and consumption due to taxation, and this is a social cost.

It is easy to identify income from a tax by, for example, reading a state's budget proposals, where every tax base is calculated and presented. However, this is not genuine income in economic terms because it only shifts resources between taxpayers and the state. It is redistribution between state and individual.

What the state's budget does not show are the societal costs of this redistribution. Social costs are extremely hard to measure because they consist of many poorly understood economic transactions that do not occur explicitly. Researchers have, however, attempted to calculate these costs. Researchers at Lund University found, for example, in a literature review of Swedish data that the cost of a tax krona raised in Sweden can be as high as SEK 2.00–3.00¹². This means that tax income is lower than the value of the displaced transactions by two to three times.

Tax income is then used to cover state and local government spending. Depending on how this spending is used, net taxation costs can reduce or increase further. For example, training seeks to increase human capital and improve people's employability on the labour market, which is beneficial for society and social conditions. But if spending is used, for example, in such a way that results in a waste of resources, or results in people not working even though they could, spending carries with it additional social costs. This general cost, with which all forms of tax raising is associated, must be considered, and caution should always be exercised with financing taxation. Furthermore, high taxation is more distortive and costly than lower taxation, which puts further demands on lawmakers to be especially cautious or avoid using high taxation altogether. If taxes on company ownership displaces investment and companies, this means that taxation carries with it social costs. The following section reviews how research interprets ownership taxation and important economic activity.

Research on ownership taxation

How does ownership taxation affect companies, investment, and a society's economy? Contemporary empirical research suggests that the approach to ownership taxation that has long been influential in Sweden needs to be reviewed.

The prevailing view on ownership taxation in Sweden has been increasingly questioned in a growing number of studies in the past 15 years. This is due, in part, to economic research making methodological progress on the issue of identifying causal links, (rather than purely statistical connections), and thereby not have to rely on theoretical models and assumptions that are not empirically proven. This is also due to a number of empirical studies that have been conducted following reforms in countries worldwide.

In the research field, the prevailing view until a couple of decades ago had come to be called the “new view” or the neutrality view.¹³ In short, what this meant for Sweden was that Swedish ownership taxation should not affect investment in Sweden. This was due to the theoretical model assuming that Swedish owners, who were discouraged from investing due to the tax, would be replaced by foreign owners. This was because the model assumed that yield requirements for risk investment were determined by international capital markets, (and not in Sweden), and that capital moves cost-free across the country's borders.¹⁴

Under these conditions, taxation levels applied in the Swedish ownership tax structure would not affect the level of investment in Sweden. This view has also influenced the formulation of ownership taxation, and is thereby not purely an academic issue. However, in a thorough research review by the Finance Department's expert group for studies in the public sector (ESO 2014:3), economists Magnus Henrekson and

¹² Hansson, Åsa 2009.

¹³ The expression “new view” should not be interpreted as indicating that the research is new. Rather, it is the most contemporary research that has thrown into doubt the “new view” in the past 15 years or more.

¹⁴ The so-called Open Economy Model is also affiliated to this theoretical perspective.

Tino Sanandaji demonstrate that good reasons exist to review this understanding in light of recent empirical research results. They wrote about the prevailing view in their concluding remarks:

“Overall, there are, in our judgement, convincing reasons to question the neutrality hypothesis. The view that assumptions behind ownership taxation’s neutrality are accurate has played a decisive role as the principle justification for the current rules on corporate taxation in Sweden. Support for the view that ownership taxation has a distortive effect on corporate activity has strengthened in line with the emergence of more recent empirical research that reveals clear effects of ownership taxation on ownership structure, loan ratio, dividend levels, and investment.”¹⁵

The authors conclude that the “new views” relevance should be questioned because it is based on assumptions that most likely do not correspond with reality. Instead, empirical research now exists to support the traditional view that taxes on Swedish owners affect the level of investment in Sweden. The authors base their conclusions on an extended review of empirical literature. In the following section, we review how ownership taxation affects the economy and business.

Ownership taxation and investment

An investment is a cost that is borne today with the aim of acquiring an asset that will generate income in the future. If future income from the asset is greater than its costs, when the project’s risk level has also been calculated, the investment is profitable and should be made. Naturally, not all investment is geared towards developing new technologies or improving processes, but it is unlikely that new technologies can be developed in the absence of investment. Investment is therefore necessary for technological development, as well as economic development, but this is not enough. What does contemporary research have to say about the link between ownership taxation and investment?

Companies can finance investment in different ways. One way is to use their existing capital or positive cash flow (internal financing). Another way is to turn to capital markets and attract financing through credit or share capital. Generally, growing businesses in their initial phase of development need to source external financing, because they are unable to generate profits. Taxation of dividends therefore creates a difference between these two financing approaches, because money from one company invested in a new company is taxed when it is paid to the owner. Consequently, businesses that are able to finance themselves with internal resources are at an advantage over companies that are unable to do so. On a broader level, taxes on dividends undermine dynamism and structural change. Capital and investment are increasingly concentrated in mature companies in mature sectors, instead of being directed to small and fast-growing businesses in immature segments where they would generate greater returns. This means that dividend taxes have different effects on different types of companies. Large profit-making companies can be expected to reduce dividends, but not necessarily investment. New and growing companies can instead be expected to reduce investment, because their access to external investment capital is restricted. These companies’ dividends should not be affected by a tax, because they are unable to pay out dividends in any case. What does the empirical research suggest?

¹⁵ ESO 2014:3, p. 48.

Several studies explore the link between tax on dividends and the size of company investment. In 2003, the US dividend tax was lowered from 35 to 15 per cent. Campbell et al. (2011) study this reform and find that investment increased after the introduction of the reform, although only in companies that needed to acquire funding on the financial markets. The effect on large profit-making companies was that they increased their dividends, which is what might have been expected based on theory. Similarly, Frank, Singh and Wang (2010) find that lower dividend tax in the US caused investment to increase, and that this occurred in growing companies with limited cash flow or their own funds. Larger companies tended to pay out more of their own cash, which supports the theory that capital is allocated from large and mature businesses to growing companies in need of capital. Frank (2010) also finds empirical support for the view that dividend tax counteracts a redistribution of capital from old companies with limited growth potential, to new and growing businesses that need and want to invest, but are not always able to access capital to do so. Yagan (2013) finds partly the same thing, and identifies other effects. Following the 2003 reform, dividends increased from profit-making companies. But the reform could not be shown to result in increased investment overall, according to the study.

Becker, Jacob and Jacob (2013), studying data from 25 countries between 1990 and 2008, find strong evidence to suggest that dividend taxation reduces dividends from mature companies, and reduces investment. They find that dividend taxation has negative effects on all types of business, but that this is most pronounced in companies that need to acquire external capital to be able to grow and invest. So this study provides the traditional view with clear empirical support. Morck and Yeung (2005) also find that dividend taxes reduce investment because they increase companies' capital costs. This effect also applies to businesses that are unable to entirely finance their expansion and investment internally.

Because investment in unlisted and new companies is, by definition, risky, statistically, many businesses will fail. In such a scenario, it is important how possible loss carry-forwards look. In Sweden, for example, rules for loss carry-forwards are insufficiently generous. Cullen and Gordon (2006) refer to this as one of the explanations as to why Sweden does not have as great a share of innovative small companies as the US. These studies apply contemporary econometric methods to be able to identify causal effects and not only correlations. All listed studies, with the exception of Yagan (2013), provide empirical backing for the traditional view of ownership taxes.

Dackehag and Hansson (2016) study the link between dividend taxation and countries' GDP growth. The study includes 18 European countries between 1990 and 2008, and finds that the link is negative, i.e. that lower ownership taxes are linked to stronger economic growth. Arnold et al. (2011) find in a study with a large number of economies, that countries that increase corporate taxation and income tax for physical people have lower GDP growth per capita.

The overall impression of research into dividend taxation suggests that taxes on dividends have two clear effects. With lower dividend taxation, companies distribute more of their retained profits, if they have any. This money is then invested in new and growing companies that offer higher returns on investment. These companies are characterised by a greater risk profile, and face greater challenges in obtaining financing on capital markets. But lower capital taxation would ease these financing problems and investment would increase. This also involves a redistribution of resources from larger, established companies with earned profits to start-ups and investing

companies that can find better use for such capital. This drives company investment and profitability, and increases growth and the potential production per capita in the long term.

International aspects of ownership taxation

Because our Swedish ownership taxes hit owners based in Sweden, the issue of how competitive Swedish ownership taxes is, naturally, international.¹⁶ Owners resident in foreign countries who consider investments in Sweden or other countries are not affected by Swedish ownership taxes; rather, they are influenced by their country's ownership taxes. Thus, ownership taxation differs from, for example, corporate taxation, that applies to profits earned by companies that are taxable in Sweden, regardless of where owners are domiciled.

One obvious consequence of this is that investors (physical owners) from different countries operate under different tax environments in terms of investing in Sweden. If Swedish owners consistently face greater tax burdens in their calculations, Swedish owners will be at a disadvantage when competing for the same projects. To the extent that Swedish and foreign owners are perfect substitutes, i.e. they are fully interchangeable, this will not affect the level of Swedish investment. To the extent that Swedish owners primarily invest in Sweden, and foreign owners systematically invest in their home countries, the amount of investment conducted in Sweden will be affected by the level of ownership taxation. If potential Swedish investors deem a given project to be too risky in relation to its expected return after tax, the presence of such a *home bias* can mean that we should not expect foreign owners to conduct the project, even if they enjoy sufficiently low ownership taxes. Home bias has been studied a great deal and has been demonstrated in empirical studies, and support for the idea that national borders in and of themselves, (in addition to rules), amount to barriers to entry and costs for economic activity is extensive.¹⁷ In a research review regarding home bias and Swedish ownership taxes, Henreksson and Sanandaji write that:

"Obviously, this does not imply that Swedish owners should benefit relative to foreign owners. However, neither is it reasonable for the tax system to disadvantage Swedish owners relative to foreign owners, especially if this is done based on theories that - contrary to what empirical evidence suggests - assume that domestic ownership can be replaced by foreign ownership cheaply."

Table 1 shows the effects Swedish ownership taxes can be expected to have on an investment judged too risky by Swedish investors, but in which foreign owners are in a position to secure the project. The table shows schematically how the presence of *home bias* can alter the amount of investment in Sweden. The table should be interpreted in terms of greater or lesser probability of different outcomes. Under *home bias*, there will be investments that are not carried out by anyone due to Swedish ownership taxes.

Table 1 shows that ownership taxes can undermine investment and job creation in Sweden. It is an empirical question to identify how significant an effect this is in reality.

¹⁶ Swedish income tax is payable on dividends and capital gains accruing to individuals living in Sweden, and refers to shares in companies domiciled in Sweden.

¹⁷ ESO 2014:3, p. 62–64.

With lower ownership taxes and increased Swedish ownership, Sweden can benefit from a greater share of profits. This is particularly valuable in technological advances and innovation. Furthermore, it would be possible for the Swedish state to tax these profits.

Table 1. Expected effect of high Swedish ownership taxes on investment in Sweden.

	No home bias	Home bias
Swedish owner	Do not make investment	Do not make investment
Foreign owner with lower ownership tax	Make investment	Do not make investment

Ownership taxation and entrepreneurship

Entrepreneurship is not easily defined, and academics refer to it in different ways. Here it is sufficient for us to understand entrepreneurial companies as those companies that develop new goods or services in a genuinely innovative way. Entrepreneurial companies are characterised by certain defining characteristics that mean their activities are often more risky, require more financing, and need specialised and advanced competence compared to the majority of non-entrepreneurial companies. This means that there is often a need for a number of support systems around entrepreneurial companies to ensure that they flourish. This involves non-risk averse and active investors (external), who contribute competence in terms of commercialisation, industrialisation, and various types of advice. Research or contact with researchers may be needed, and specific legal competence for the drafting of agreements about ownership issues, control and management, and options programmes. The literature speaks about *clusters* emerging where there exists groupings of such companies and supporting resources exist.

So-called network effects emerge in such clusters. Network effects are a phenomenon that many understand intuitively by observing how social media works. The more people who participate on a given platform, the greater the value for both existing and new members to be or to become involved on that platform. Business has taken on a geographical dimension that entrepreneurs need to be aware of, as there are considerable advantages to being active in locations where other actors and people working in the same areas are already active. This increases the likelihood of meeting fruitful new contacts, matching of skill sets, easier recruitment, and much more. The best known, and perhaps most successful cluster of entrepreneurs is San Francisco and Silicon Valley. What started as a defence and technology cluster is now home to many of the largest and most successful technology companies worldwide. Taxation, and taxation of personal options in particular, has proven to be a key partial explanation for the success of Silicon Valley.¹⁸ Three quarters of all American companies that are in receipt of risk capital use personal options.¹⁹

High ownership taxes on Swedish owners reduce the likelihood of clusters emerging because entrepreneurial activity reduces. In this case, not only does Sweden miss out on the individual companies and associated investment, Sweden also risks reducing the value of precisely the sort of network effects that arise in entrepreneurial company clusters. With the logic of the network, the value of future entrepreneurial businesses will decrease, as supporting and complementary networks become smaller and less numerous.

¹⁸ Source: SOU 2016:72, p. 121.

¹⁹ Bengtsson and Hand (2012).

Research on entrepreneurship

In traditional economic models, entrepreneurs seldom play a clear role. It's the same for key employees, investors and other individual actors. The textbook models thereby frequently consist of conflicting interests in management and among owners respectively. However, in recent years, research has increasingly focused on studying this area within the framework of so-called *agent theory*. This is the study of, for example, how incentives can differ between business managers, owners and investors. When rights and responsibilities in a company are regulated and distributed, tax issues can be significant, which can affect how a company is managed and what decisions are taken. They can, for example lead to conflicts in approach between entrepreneurs or founders and investors and key employees who are granted a smaller degree of ownership. For example, owners and directors have different motivations in relation to taxation, where owners want to avoid ownership taxes, while management primarily has the incentive to avoid taxes that hit their company's financial position or want to pursue their own favourite projects. A high tax rate on dividends may, for example, increase an owner's reluctance to pay dividends, which can prevent capital from being paid out by mature companies and invested in new companies with higher returns.

Entrepreneurial companies often choose to offer key employees partly salary, for their contribution as employees, and partly a share of the company's future profits, for their role in the entrepreneurial process. This is typically done through so-called personal options. These are based on the principle that employees receive a share of future increases in the value of a company by receiving shares under an options contract. Because personal options are associated with extremely high risk, they are lightly taxed in, for example, the US, Ireland and the Netherlands. A large proportion of innovation companies in the US use personal options.

A 2017 study shows how taxation of personal options in particular is implemented in a number of developed economies by comparing actual tax rates levied to these options in respective countries.²⁰ Ireland has the lowest rate at 7.4 per cent. Next comes the US and Hong Kong (15 per cent). Sweden lags long behind with a 54.3 per cent tax on personal options. The authors reach the conclusion that favourable tax conditions for personal options is important because this can drive growth in risk capital investment. The fact that the US has so much more, (relative to its economic size), risk capital investment can be partly explained by their having extremely good terms for this type of options that are especially important to entrepreneurial companies. The report's authors find a clear link between countries that have favourable terms for personal options and the prevailing amount of risk capital investment.

Another recent study reviewed a tax reform introduced in Canada in 2010 that increased the effective tax rate for personal options for certain companies.²¹ With the help of an experiment, the study showed that affected companies reduced their use of personal options.

Chang et al. (2015) study the link between personal options and innovation in American companies.²² All measures of innovation have a positive and significant link to companies' use of personal options.

The analysis indicates that personal options primarily foster innovation by promoting risk-taking in businesses.

²⁰ Henreksson and Sanandaji 2017.

²¹ Bird 2018.

²² Chang et al. 2015.

Several studies indicate that ownership taxes and taxation of personal options plays a key role for innovation. The mechanisms that research identifies in various studies differ, but overall the results can be summarised as ownership taxes affect incentives for risk-orientated initiatives on innovation, and that incentives need to be attractive to ensure that highly qualified people and capital gravitate towards risk-taking activities.

When economic models include what risk capitalists and entrepreneurs do in practice, it emerges that ownership taxes are a central factor for understanding entrepreneurial company behaviour.²³ This is because ownership taxes reduce the value of the company and investment it has already calculated. An external owner, in the form of a risk capital investor, is affected by this in the same way as a founder, namely by profit from a sale reducing in proportion to the tax levied. When risk capitalists contribute with complementary competences, the risk is not just that funding will not be available due to ownership taxes. When a risk capitalist rejects an investment opportunity in a company, the company also loses out on important supportive skill sets. On a company level, this can mean the difference between success and stagnation. Seen from a broader perspective, the effect of ownership taxes is lower investment and thereby also reduced distribution of the resources and competence that such actors contribute in addition to financing. Over time, this can be the difference between economic stagnation and growth and dynamism. A favourable tax environment for owners and entrepreneurs thereby affects the way the economy functions on a structural level.

Entrepreneurial companies that succeed in growing tend to grow rapidly. They constitute an extremely important part of the group of businesses described as fast growing and account for a disproportionally large share of new (net) job creation.²⁴ Many companies employ people and create jobs, but in contrast to other companies, jobs created by fast growing businesses boost net employment. Fast growing businesses are often entrepreneurial companies, which aligns with the fact that companies that successfully commercialise a new product or service are often able to acquire large market share extremely quickly. They take market share from existing companies, and create new markets if they are involved with an innovation that has not previously existed. The more numerous these companies are, the greater the rate of conversion in the economy. The risk of Sweden being hit by lower growth and increased structural unemployment as a result of this will reduce if Swedish companies are leaders in their respective areas. It is therefore a central political task to ensure that the business policy framework, including tax rules, helps fast growing companies establish, grow, and preferably stay in Sweden.

Gordon (2017) analyses how tax policy should be best formulated to support entrepreneurial companies. A tax policy that, specifically, seeks to encourage this form of business needs, according to the author, consider differences between them and other companies. Innovative firms run greater risks of failing due to difficulties associated with developing and marketing new business ideas and technologies. The type of activity that defines these businesses, and investment in these businesses, can be spurred by competitive tax rules for the management of losses. This can occur, for example, by allowing tax losses in a company to be sold to another company.

²³ ESO 2014:3, ESO 2014:3, p. 77.

²⁴ ESO 2014:3, p. 77.

This would increase incentives for establishing innovative start-up businesses, and increase the level of risk-taking in companies – for example through enhanced incentives to achieve more ambitious, and thereby risky new technologies.

The literature in this field gives overall support to the idea that taxation is a key element of innovation policy. This question is especially relevant in Sweden: a country that in comparison to other European economies has a high proportion of its workforce in the most knowledge-intensive companies.²⁵ Because the regulatory framework in Sweden is good in many ways, lower ownership taxes would represent a considerable change for companies and the Swedish economy. Based on research and ongoing analysis, taxation in Sweden is seen as a last barrier that needs to be removed to provide Swedish business with a comprehensively good framework within which to operate. We now have rules for so-called qualified personal options in place, but they are limited to small businesses with limited turnover.²⁶ Other countries, such as the UK, allow more employees and higher turnover. We have a well-educated population but high taxes on business ownership undermine entrepreneurship.

Ownership tax survey

The Confederation of Swedish Enterprise commissioned Skeppsbron Skatt to conduct a survey of how competitive Swedish ownership taxes are compared to 15 OECD countries.²⁷ In addition to Sweden, the survey includes the following countries: Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Spain, the UK, and the US. These countries include our major trading partners, such as Germany, Norway, the UK, and the US. Other countries have been selected because their economies are roughly the same size as Sweden's, or because they are located close to Sweden (Europe). All countries in the survey are OECD members.

Swedish ownership taxes

Swedish shareholders are generally taxed a capital tax rate of 30 per cent.²⁸ This is the nominal rate applied to dividends and profits from listed shares. For those who receive dividends or capital gains from unlisted shares, only five sixths of this amount is liable for tax. This means that the effective tax rate is 25 per cent of the taxable amount. For owners who are also active in a significant position, or have relatives who are, (and the company is owned by a limited number of individuals), the so-called 3:12 rules apply. These mean that the effective tax rate can be anything between 20 per cent and up to the maximum rate for employment income, which, for Stockholm residents for example, amounts to 55 per cent. Capital income becomes subject to labor income tax. Taxation of active small company owners' capital income is thus progressive. The applicable tax rate is determined by ownership share, individual salaries, and total salary costs. The fact that it is not always entirely clear which tax rate applies for a small company owner is negative in its own right because it adds uncertainty to company calculations. It is also worth noting that passive owners may be taxed at a lower rate than active owners, if the active owner is subject to payroll tax for his or her shares.

²⁵ Sanandaji and Fölster, 2017.

²⁶ Maximum 50 employees and maximum SEK 80m turnover.

²⁷ The survey conducted by Skeppsbron Skatt on behalf of the Confederation of Swedish Enterprise. The full survey is included as an appendix to this report.

²⁸ Capital taxes are one pillar of the double taxation levied on Swedish company earnings. Corporation tax comes in at 22 per cent of any company profits. Dividends and capital gains tax constitute the other pillar. A proposal before the Swedish parliament in 2018 seeks to cut corporation tax to around 20 per cent in 2020.

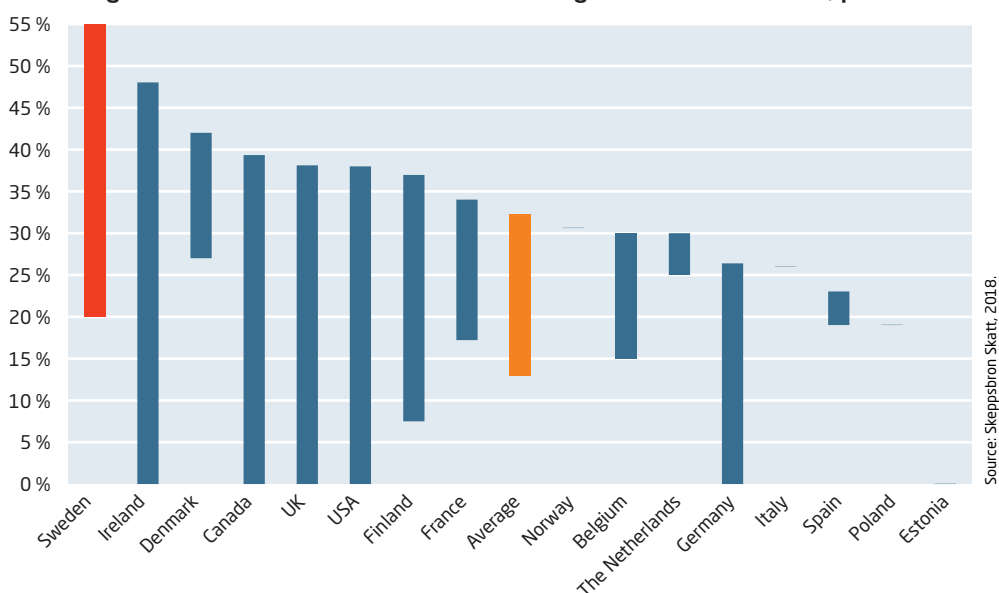
Dividends

As shown in diagram 5, Swedish rules for ownership taxation are uncompetitive in relation to our key trading partners. The 15 countries included in the comparison together account for the vast majority of Sweden's international trade. Sweden has by far the highest top rate for company owners. This is because Swedish rules for the taxation of small companies, (unlisted businesses owned by a small number of people), are, in many cases, progressive. This means that dividends and profits from the type of company that is most important for entrepreneurship, job growth and innovation, potentially face the highest tax burden of all. As small companies can be subject to employment taxes, tax rates on profits and dividends can reach 55 per cent, assuming municipal tax of 30 per cent.²⁹ None of the compared countries come anywhere near such a high rate. Four countries apply a flat tax rate on dividends.

The lowest Swedish tax rate of 20 per cent is levied on small company shares if certain criteria are fulfilled. If these conditions are not met, the tax rate can reach 55 per cent. In comparison to other countries' lowest tax levels, however, Sweden is not particularly attractive. Several of our major competitor countries have zero rates as their lowest levels. Both Germany and the US, for example, apply a zero rate in certain situations.

Unweighted averages for the highest and lowest effective tax rates respectively are shown in diagram 5 below in the orange-coloured bar. In both instances, Sweden is considerably higher than the average levels. The average highest tax rate is around 32 per cent. The average lowest tax rate is approximately 13 per cent, compared to Sweden's 20 per cent. It is worth noting that in common with many of the other countries, Sweden has a wide spread, (the difference between the highest and lowest), but the other countries with wide spreads, the difference is due to their applying zero rates in certain situations. Something Sweden never does.

Diagram 5. Effective taxation of dividends. Highest and lowest rates, per cent.

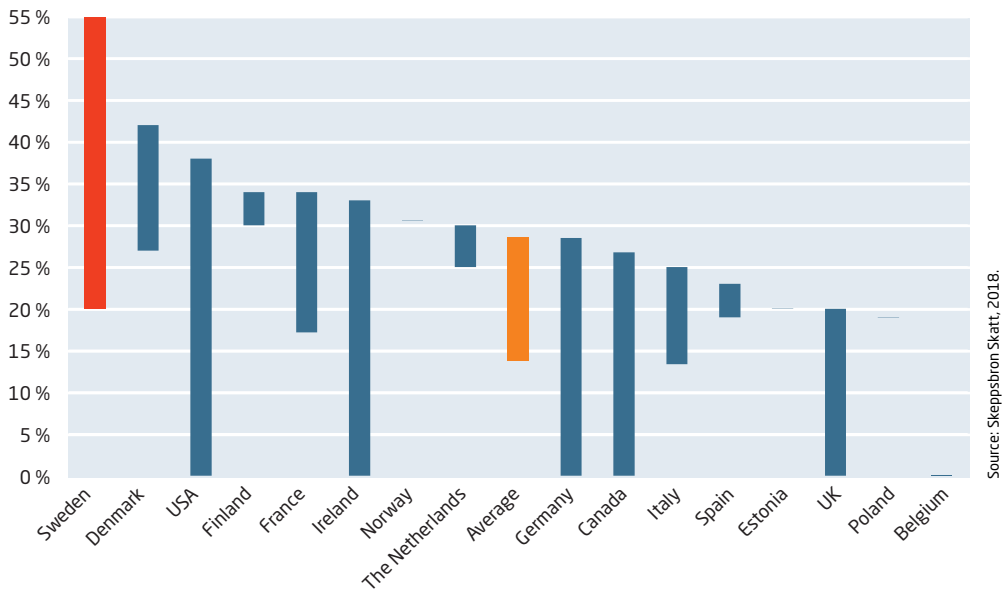


²⁹ If the owner lives in a highly taxed municipality, this rate can be as high as 60 per cent.

Capital gains

In terms of capital gains, Sweden comes bottom of the class among compared countries. The gap is large and Sweden's highest tax rate is not far from twice the international average. Several large countries have rules that allow tax exemption, for example the UK, Canada and Ireland. See diagram 6.

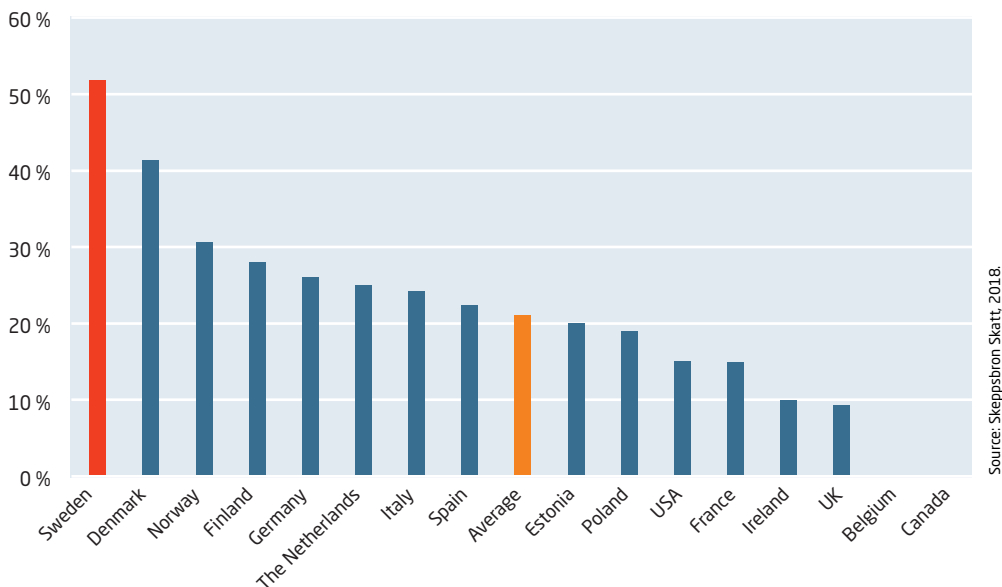
Diagram 6. Effective taxation of capital gains. Highest and lowest tax rates, per cent.



Example case

By calculating how a hypothetical typical company would be taxed in the 16 countries, we can compare the tax environment that owners face in each country. The example represents a start-up company. In 2010, the owner started a new company together with three other people. Each founder invested SEK 96,000 in 2010, (EUR 10,000), and each has been active in the company. After several years, income and profit is generated. The founders each take an annual salary of SEK 337,000 (EUR 35,000). Diagram 7 shows how the founders tax would be in the event of them selling their shares with a capital gain of SEK 1.83 million (EUR 190,000).

Diagram 7. Capital gains for start-up companies (typical), per cent.



Tax relief and incentives

Sweden has introduced a savings product, the ISK, which is an investment savings account. This means that savings are taxed at a standard flat rate, (a standard income is declared as capital income, and is taxed at 30 per cent capital gains tax). In practice, ISK results in a lower tax rate on saving, but only on the condition that the return exceeds a certain level. Over time, shares have given strong returns, but this is no guarantee for future returns. In certain years, in all probability, the stock will drop markedly in value. Such variations exemplify the meaning of financial risk. ISK only includes listed assets, so offers no incentive for entrepreneurship. However, it does represent a lower expected tax effect on savings, which should increase the amount of saved capital. A proportion of this capital can, in time, be expected to find its way to risky entrepreneurial activities, but because it is an extremely broad form of saving, the ISK is not an effective way to promote entrepreneurship. Sweden has also introduced an option for private individuals to deduct capital investment made in small companies, the so-called investor deduction. However, the limitation and requirements are fairly extensive, and to date, the deduction does not appear to have been used often. Can we learn from other countries about incentives and tax relief?

Canada operates a system that exempts accumulated capital gains from unlisted shares during a lifetime up to the equivalent of around SEK 5.5 million. The UK and Ireland also exempt or substantially reduce tax rates for entrepreneurial activities owned in unlisted shares, (with an effective tax rate of 10 per cent or exemption in some cases, and 10 per cent in some cases respectively). In the UK in particular, since 2016 three systems have simplified financing for entrepreneurship. The three systems are directed towards different types of actors: founders (the entrepreneur), individual investors, and professional investors. The three systems operate under different conditions, for example minimum investment, duration of ownership, tax rate, and deduction entitlements. Capital gains tax for those who qualify for one of the programmes, is 0 per cent at its lowest, (individual investors), and 10 per cent.

Reform of ownership taxation

Successful business owners are sometimes used as punching bags in the political debate in Sweden. One example is the argument that capital taxation should be increased to reduce tax on labour. The idea being that if Sweden's high marginal tax on labour was reduced, capital taxation should be increased to counteract the effect of the lower labour tax. If every change to a damaging tax, (in this case marginal tax), would have to be followed by a similarly damaging increase in other taxation, (capital taxes), not only would this result in unchanged distribution, but it would also leave competitiveness unchanged. This is short-term thinking. Instead, we need to address the most damaging taxes in a way that strengthens Swedish competitiveness.

Media and politicians often highlight successful companies. In public sector debate, it appears harder to justify improved tax rules for entrepreneurs, because entrepreneurs who are most visible are the most successful. Perhaps this is why the issue of capital taxation and taxes on ownership often become arguments over redistribution policy. But it undermines growth to pursue a policy of redistribution through working against investment and entrepreneurship. There are better ways to achieve political redistribution goals. The question of ownership taxes is, and must first and foremost be, a question of competitiveness and prosperity.

In the long term, this would make it easier to increase prosperity, and redistribution would not be as necessary. If we opt for the alternative strategy, the risk is that costs increase and competitiveness and the tax base shrink.

The research review, analysis, and survey that have been presented in this report show that Sweden has considerable opportunities to strengthen its competitiveness with fairly modest reforms. We have seen that the Swedish framework for entrepreneurship is favourable, with the exception of the tax environment. We have a well-educated and knowledgeable population, relatively effective authorities, and in general well-functioning administrative and political structures. We have a stable and relatively predictable legal system. But tax levels represent an unnecessarily high threshold for entrepreneurs and owners, which, among other studies, the survey on entrepreneurship showed. The survey of ownership taxes presented in this report paints the same picture. Sweden stands out with the highest ownership taxes of the 16 OECD countries with which we trade and compete most. Sweden's general tax rate on capital gains of 30 per cent is considerably higher than the average, and in principle we lack competitive rules and incentives directed towards entrepreneurial companies and owners. We also lack a powerful framework for personal options. The analysis that has been presented is supported by research into entrepreneurship and growth. One conclusion is that Sweden has an opportunity to achieve a transformative change through relatively limited tax reform, if devised in the right way. Entrepreneurship and fast-growing businesses create jobs, investment, growth, and improved productivity. Society stands to win a great deal from increased innovation and increased productivity. By reforming ownership taxes, and making conditions for entrepreneurs and innovators especially attractive, this potential can be realised. To achieve this, the Confederation of Swedish Enterprise believes it will be necessary to implement the reforms below over the long-term.

Reform proposal:

- Reduce general capital gains tax and tax on dividends to 20 per cent. This can be introduced gradually over time. The first step could well be to increase the standard flat rate for acquisition value.
- Investigate special tax relief for financing entrepreneurial companies. This should apply to professional investors and individual investors or founders.

Reduced general capital gains tax

As shown in the survey, the general Swedish capital tax rate (30 per cent) is higher than most other countries' equivalents, and considerably higher than the overall average, which is around 20 per cent. Swedish tax rates should be in line with the rest of the world's levels, and therefore the reform proposal to reduce the tax level to 20 per cent. This intensifies the tension in the 3:12 regulatory framework, which is not desirable in its own right. However, this tension should reduce as marginal tax is reduced from the currently maximum level of 60 per cent. The Confederation of Swedish Enterprise has previously presented a detailed reform proposal that would reduce the highest level of marginal tax to the average elsewhere in the world, 42 per cent.³⁰ Furthermore, under existing rules, 20 per cent capital gains tax and 42 per cent for the highest marginal tax means that the tension in 3:12 for unlisted assets is reduced. Lower capital gains tax should also cause the value of interest deductions

³⁰ https://www.svensktnaringsliv.se/migration_catalog/Reporter_och_opinionsmaterial/Reporter/talangjak_tenpdf_678487.html/BINARY/Talangjakten.pdf

to decrease. This justifies precautionary and gradual reductions to 20 per cent by the Swedish parliament. The first step could well be to increase the standard flat rate for acquisition value from today's 20 per cent to 50 per cent. At the current tax rate of 30 per cent, the effective maximum tax on sales would thereby fall from 24 to 15 per cent.

The research into the effect of ownership taxes on investment suggests in principle what has been the consensus among economists on corporate taxation – that reduced corporation tax reduces the rate of return and lead to greater investment. Even lower ownership tax can result in more investment being profitable and should therefore be considered a competition issue. Following the tax reforms of the 1990s, governments have successively cut corporation tax with the aim of maintaining competitiveness. In the same way, we now need to review ownership taxes to make them competitive.

Special tax relief for financing entrepreneurial companies

The UK, France, Ireland, Belgium, Italy and Canada offer investors in entrepreneurial companies various tax relief schemes. In the UK, an investor pays 0 per cent capital gains tax and a maximum of 10 per cent, assuming that companies qualify for them. Sweden should review how a competitive Swedish system could be designed. The regulatory frameworks of the UK and Ireland could be used for reference. Naturally, the EU's rules on state aid need to be considered. These improvements for, amongst other things, generational shifts, smaller equity shares and capital gains, as suggested by 2016's 3:12 review, also need to be implemented as soon as possible. The rules for qualified employee options also need to be improved to become competitive within the framework of EU rules.

Today, knowledge of and research into entrepreneurship is extensive and clear about the considerable value entrepreneurs contribute to society. To ensure that entrepreneurs and investors identify the major risks that are worth taking, incentives must be sufficiently strong. Therefore, in addition to a general reduction in capital gains tax, Sweden also needs special tax relief to encourage entrepreneurship.

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Appendix - Competitiveness of Sweden's ownership taxation

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– April 2018



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Summary

Introduction

This report compares capital gains tax in Sweden with tax rates in 15 comparison countries.

The survey includes income tax on dividends and capital gains paid by individuals living in respective countries, and on shares in companies domiciled in the same country.

In addition to Sweden, the report includes the following comparison countries: Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Poland, Spain, the UK, and the US. Certain countries have been included because they are considered important trade partners, such as Germany and the US. Other countries have been selected because they have economies of a similar size to Sweden's, or because they are located close to Sweden. All countries surveyed are OECD members.

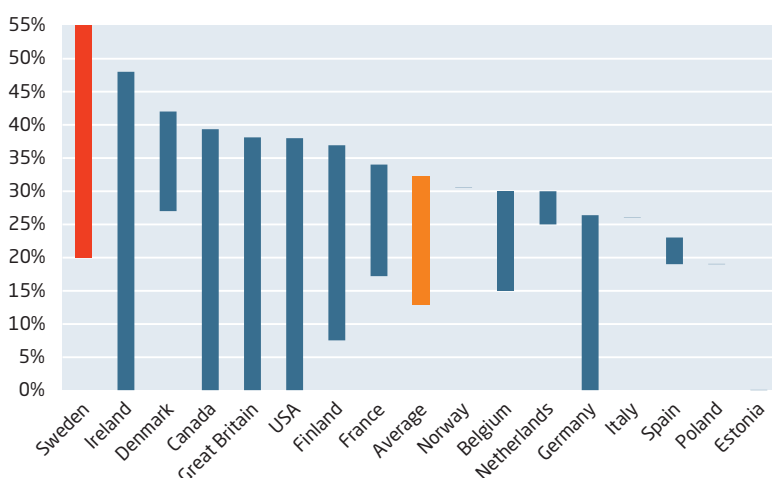
The report includes a review of the effective tax rates in respective countries, incentives and tax relief linked to taxation of dividends and capital gains, and an overview of the effects of these taxes in two example situations.

Effective tax rates

In terms of effective tax rates in respective countries, it can be stated that there is a considerable degree of variation between the countries surveyed. Some countries apply some form of progressive taxation, (11 countries on dividends and 10 countries on capital gains), while others apply flat rates. Sweden applies a flat rate of 30 per cent, or 25 per cent on unlisted shares. However, Sweden also applies progressive taxation on dividends and capital gains for active owners in closely held companies.

Diagram 1 below summarises the effective tax rates on dividends in respective countries.³¹

Diagram 1: Effective tax on dividends

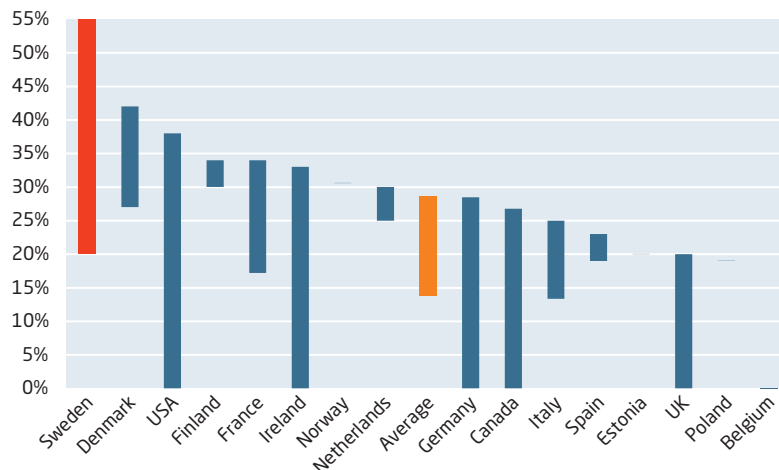


³¹ The summary shows the tax rates applied in capital cities in respective countries. For Sweden, the municipal tax rate levied in Stockholm is used (29.98 per cent). For those with higher incomes, state income tax of up to 25 per cent is added, resulting in a combined tax rate of 54.98 per cent.

As shown in diagram 1, Sweden applies the highest top tax rate on dividends of all countries surveyed (54.98 per cent). The lowest tax rate on dividends in Sweden is 20.00 per cent, which is higher than the lowest tax rate in 11 of the countries surveyed. It should also be noted that six of the surveyed countries apply a lower rate of 0 per cent, including Estonia that does not tax dividends.

The situation is essentially similar for capital gains. Diagram 2 below summarises tax rates levied on capital gains in respective countries.

Diagram 2: Effective capital gains tax



In terms of capital gains, Sweden also applies the highest top tax rate of all countries surveyed (54.98 per cent). The lowest tax rate on dividends in Sweden is 20.00 per cent, which is more than the lowest rate in 10 of the countries surveyed. Six of the countries surveyed apply a lower rate of 0 per cent, including Belgium that does not tax capital gains.

In summary, it can be stated that Sweden levies high rates of tax on dividends and capital gains compared to the countries surveyed.

Incentives and tax relief

In addition to the differences in tax rates, some countries offer incentives and tax relief that result in lower effective tax rates.

For example, Ireland and the UK offer incentives that mean that capital gains at the disposal of shares in unlisted companies are entirely exempt from tax, or are taxed at considerably lower rates, even for individuals with higher incomes. Furthermore, under Ireland's Retirement Relief scheme, capital gains are exempt from tax for those who have reached a certain age, (despite its name, this scheme does not require the beneficiary to retire). Canada allows a cumulative exemption from tax of capital gains from unlisted shares up to SEK 5.58m (CAD 848 t) over a taxpayer's lifetime.

Sweden also offers tax relief in the form of investor deductions for small, unlisted companies. However, this is linked to extensive criteria, and is not used to any great extent. Furthermore, in comparison to other countries' tax relief, the deduction results in a relatively limited reduction. Sweden's investment saver account (ISK) can be considered as a form of incentive scheme. The tax rate on the ISK is 30.00 per cent, and

in principle includes only listed shares. The tax is calculated on a standard flat rate income level, rather than actual income. For returns over certain levels, the ISK does represent tax relief. At the same time, tax is also paid on assets held in the ISK, even if they fall in value. Unlike the investor deduction, ISK is widely used.

In addition to the fact that Sweden applies higher levels of tax on dividends and capital gains, Sweden lacks the extensive incentives and tax relief that some of the countries surveyed have.

Two example situations

To illustrate the total effect of countries' different tax rates and tax relief rules, we have calculated effective taxation in two example situations.

In the first example, Andreas invests his savings in shares in a large stock market-listed company, and receives dividends of SEK 7.70t (EUR 800) or capital gains of SEK 77.06t (EUR 8t).

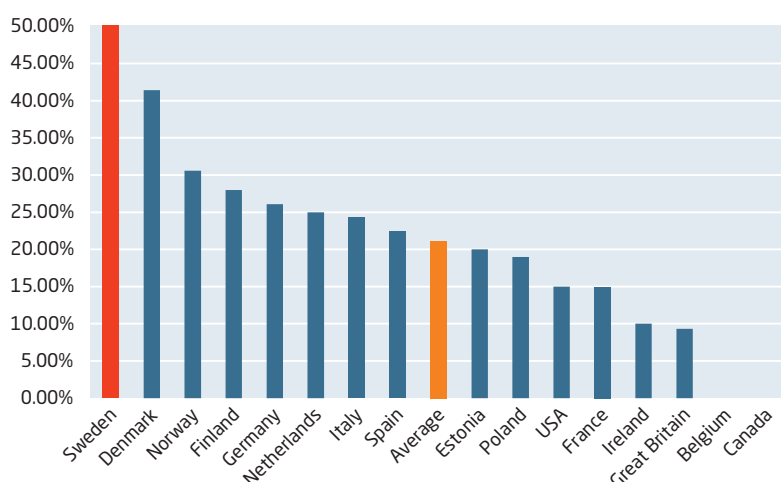
In the second example, Emelie is co-founder of a start-up, and receives dividends from the company of SEK 483t (EUR 50t) or capital gains of SEK 1.83m (EUR 190t).

In situation 1, the effective tax rate in Sweden is 30.00 per cent, which is the highest after Norway with 30.59 per cent, (applicable to dividends and capital gains). However, Sweden is far above the average of 16.38 per cent for dividends, and 19.71 per cent for capital gains respectively.

In the second situation, Sweden lands top in terms of dividends (42.88 per cent) and capital gains (51.80 per cent). This is considerably higher than the average of 24.12 per cent for dividends, and 21.12 per cent for capital gains respectively.

Diagram 3 below illustrates the difference in effective taxation of capital gains in situation 2.

Diagram 3: Capital gains, start-ups



The deviation in situation 2 relating to start-ups, is primarily due to Sweden levying progressive tax on dividends and capital gains from unlisted shares that are qualified, i.e. relating to small businesses with active owners. Sweden's tax rates are high in comparison with other countries surveyed, and thresholds are lower.

If co-founder Emelie had not been active to a significant extent in the start-up, she would instead have been subject to a flat rate of 25.00 per cent of the dividend and capital gains in example 2, which is about average in the dividend example, while it would be above average in the capital gains example.

It is especially noteworthy that an active owner in many cases is subject to higher taxation in Sweden.

Conclusions

Based on the review conducted for this report, it appears that Sweden applies the highest tax rates on dividends and capital gains. The normal tax rate on capital income in Sweden is 30.00 per cent, and a lower rate of 25.00 per cent is levied on income from unlisted shares. These tax rates are high compared to other countries surveyed, especially for lower incomes. Active co-owners in closely held companies are taxed with a tax rate of 20.00 per cent of the portion of the income included under a certain limited amount, while remaining income is taxed progressively at 29.98–54.98 per cent. Applicable tax rates used for progressive taxation of active owners in closely held companies appear to be especially high in comparison.

None of the countries surveyed apply effective tax rates on dividends or capital gains in excess of 50.00 per cent. Some countries do not tax dividends and capital gains at all, or only tax income that exceeds certain levels.

In addition to the difference in tax rates, there are also significant dispensations and tax relief schemes in some countries that result in relatively high income being tax exempt or subject to a low rate of taxation.

Calculations of effective tax rates have been conducted for two typical situations to illustrate the total effect of respective countries' taxation of dividends and capital gains. Even these calculations show that Sweden is at the higher end in comparison with other countries.

Our conclusion is that Sweden taxes dividends and capital gains more than the 15 surveyed comparison countries. This is especially true in the case of income from unlisted shares in which the owner is active.

1 Introduction

1.1 Background

Skeppsbron Skatt was commissioned by the Confederation of Swedish Enterprise to review the taxation of capital gains in 15 countries, for a comparison with taxation in Sweden.

The report includes income tax related to shareholdings, i.e. only taxation of dividends and capital gains.

In some countries, in addition to income tax, tax is levied on shares in assets, i.e. different types of wealth taxes. However, wealth taxes are increasingly rare among countries comparable to Sweden. Among the EU's 28 member states, Spain is currently the only country to levy wealth tax, and only on a temporary basis. A decision is required from parliament every year to extend its collection, and at the time of writing, no decision to extend the tax into 2018 had been taken. France levied wealth tax until 2017, but this was scrapped with effect from January 1 2018. Among the 15 countries surveyed in this report, only Spain and Norway levy wealth tax. Similar to many countries in this report, Sweden has previously levied, but has now scrapped, wealth tax. The government justified the scrapping of wealth tax in Sweden due to implementation and enforcement difficulties, the tax's damaging effects on the economy, that the tax constituted a barrier to enterprise, and that the tax had come to be considered arbitrary and unfair.³²

Against a background of wealth tax no longer being common among the surveyed countries, this report is purely focused on taxes on income.

1.2 Method and demarcation

In essence, this report seeks to identify different factors and circumstances in tax systems that may be of interest for the Swedish system. The survey includes 15 countries that have been judged to be relevant to compare with Sweden. Some countries have been included because they are considered important trading partners, such as Germany and the US. Other countries have been selected because their economies are similar in size to Sweden's, or because they are geographically close to Sweden. All countries surveyed are OECD members. The survey includes 13 European countries, and Canada and the US.

The following countries are included:

- | | |
|------------|--------------------|
| 1. Belgium | 9. The Netherlands |
| 2. Denmark | 10. Norway |
| 3. Estonia | 11. Poland |
| 4. Finland | 12. Spain |
| 5. France | 13. UK |
| 6. Ireland | 14. Germany |
| 7. Italy | 15. USA |
| 8. Canada | |

³² Proposition 2007/08:26, p. 34.

Firstly, information on respective countries' tax system has been collected using a survey prepared by Skeppsbron Skatt and sent to local tax advisors in the international network Taxand (<https://www.taxand.com/>).

The collected information was translated, compiled and processed. Respective countries' tax systems were summarised in the country reports in Appendix 1. The information was analysed based on these summaries. The results of this analysis are presented in this report.

With the aim of enabling a comparison of respective countries' tax systems, and to give a fair picture, certain delimitations and simplifications have been made. Information in this report should only be seen as a generic description of the tax burden in respective countries, and not as tax advice. The following specific delimitations have been made:

- The report consists of a survey of the taxation of dividends and capital gains paid by individuals based in respective countries, and with respect to shares in companies domiciled in the same country. The survey relates to nominal tax rates and effective taxation in certain example situations, accounting for incentives and tax relief rules regarding dividends and capital gains on shares.
- The report refers to applicable tax rates as at January 1, 2018.
- In some countries, tax is levied on national/federal level and at regional/local level. Some countries apply progressive taxation on national/federal level and on regional/local level. This report primarily describes current tax rates in the regions where countries' capital cities are located. In the country reports in Appendix 1, however, there is also information about taxation in regions with the highest and lowest tax rates respectively.
- The survey does not include:
 - Effects of family taxation
 - International circumstances, (i.e. income on shares in companies in a country other than where the individual is domiciled)
 - Investments made through trusts, endowment insurance or other similar instruments or circumstances
 - Deferment of tax that does not amount to permanent relief
 - Voluntary taxation (e.g. church tax)
 - Tax relief targeted to a geographically limited area to encourage investment in that area, for example, for community reasons
 - Investment in companies that are tax-transparent, e.g. partnerships or other owner taxed companies
 - Dividends and capital gains generated from professional activities (e.g. corresponding trade in securities or shares from the activities of a private business)
 - Tax relief related to benefits resulting from an employee's acquisition of securities or other instruments at advantageous prices
 - Inheritance tax, gift tax or wealth tax

2 General information about the tax system

Of the 15 countries included in the survey, 14 of them has a double taxation system, i.e. that company earnings are taxed once at a business level when profit arises, (corporate tax), and again on an individual level when company profit is paid out to shareholders in the form of dividends.

Of the countries compared, only Estonia does not have a double taxation system. In Estonia, corporate profit is taxed once at a company level only when earnings are paid out to shareholders in the form of dividends. No additional taxation is levied at an individual level. Corporate earnings in Estonia are thereby not subject to a double taxation.

While Canada has a double taxation system, company-level and individual-level taxation is integrated. Total taxation should be the same, irrespective of which form income is earned. Put simply, this means the following: some companies are subject to a lower corporate tax. However, dividends from such companies are taxed at a higher individual level. In the opposite situation, when companies pay normal amounts of corporate tax, dividends are taxed at a lower individual level. This is achieved with a system of gross-up of received dividends and tax credits for corporation tax paid. The system is complex. Overall, the system should result in a uniform total level of tax. To give a fair picture of taxation in Canada, only taxation related to companies subject to normal corporation tax are described.

The US' tax system also contains characteristics that complicate a comparison. To be sure, the tax reform that came into effect there on January 1 2018 represents a degree of simplification of federal taxes – progressive corporation taxes at federal level have been replaced by a flat levy of 21.00 per cent. However, taxation at state level entails certain difficulties. Firstly, many states do not levy any form of income tax. Secondly, there is progressive taxation at state level, where other barriers than those for federal income tax apply. Finally, income taxes at state level can be deductible when calculating federal tax. To give a fair picture of taxation in the US, state taxes are therefore not included.

The Netherlands applies a box-system where individuals' personal income is split into three boxes with varying levels of taxation, (boxes 2 and 3 are relevant in this context). If shares exceed 5 per cent of a company, earnings are placed in box 2 and taxed at 25.00 per cent. If shares are less than 5.00 per cent, assets are placed in box 3 and are subject to taxation of 30 per cent calculated using a standard return. Thus it is not actual income that is taxed in box 3. The size of the standard return varies depending upon asset value, which gives a degree of progressiveness to the tax.

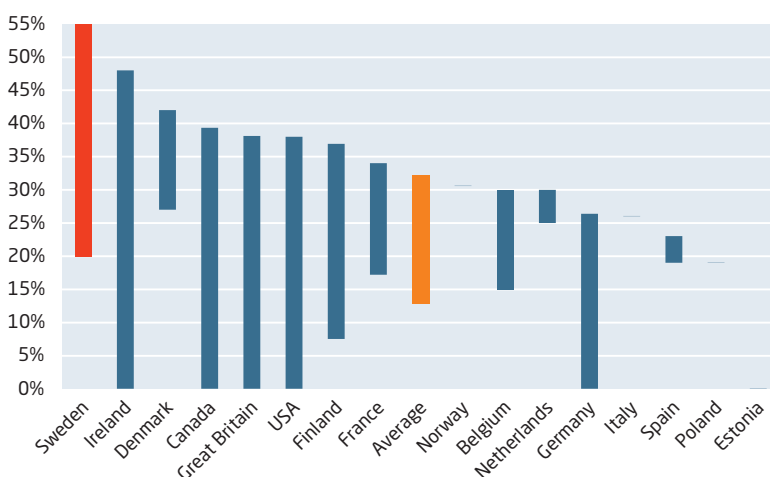
3 Tax rates on dividends

As indicated above, Estonia does not levy tax on dividends from Estonian businesses. Of the remaining 14 countries, four levy entirely flat rates, (Belgium, Italy, Norway and Poland), i.e. tax rates are not dependent on the size of the taxpayer's income.

The remaining 10 countries apply some form of progressive tax on dividends, (Finland, Ireland, Canada, the Netherlands, the UK, Germany, France, Spain, Denmark, and the US). Even Sweden levies progressive tax on dividends in certain cases. The general tax rate on dividends in Sweden is 30.00 per cent, while tax on dividends from passively owned unlisted companies is 25.00 per cent. If ownership of shares in an unlisted company is active, (so-called qualified shares), a progressive tax of 20.00–54.98 per cent is payable.

Diagram 4 summarises tax rates on dividends in respective countries.³³

Diagram 4: Effective taxation on dividends



As shown in *diagram 4* above, the lowest tax rate levied in Sweden is 20.00 per cent, which is higher than the lowest rate in 11 of the 15 countries surveyed. The highest tax rate in Sweden is 54.98 per cent, higher than in all other countries surveyed.

As shown in *diagram 4* above, six countries levy a lower rate of 0 per cent on dividends. Ireland allows a tax credit of SEK 16t (EUR 1.65t), and the UK allows a deduction of SEK 55t (GBP 5t). Canada, Germany and the US apply a tax rate of 0 per cent for lower incomes, and Estonia does not tax dividends.

³³ The summary shows tax rates in capital cities of respective countries. For Sweden, the municipal tax rate in Stockholm is used (29.98 per cent). High earnings attract state income tax of up to 25 per cent, which results in a combined taxation of 54.98 per cent.

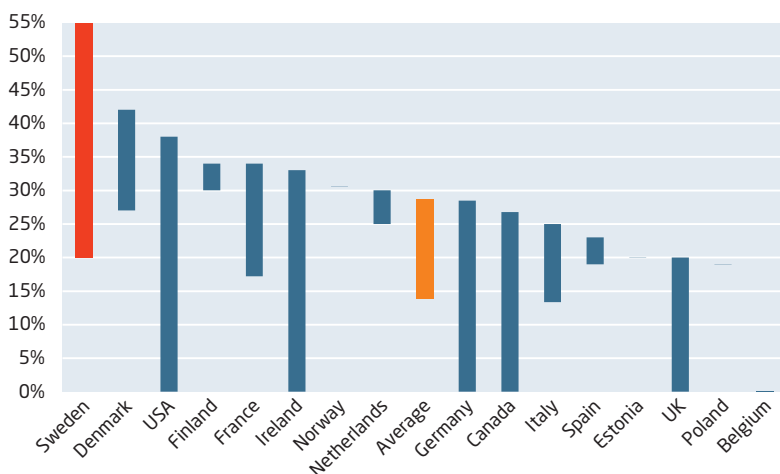
4 Tax rates on capital gains

With the exception of Belgium, all 15 countries surveyed generally tax capital gains on shares at the point of disposal. Of the remaining 14 countries, four apply flat rates, (Estonia, Ireland, Norway and Poland), i.e. tax rates are not dependent on the size of taxpayers' income.

The remaining 10 countries apply some form of progressive taxation on dividends, (Finland, Italy, Canada, the Netherlands, UK, Germany, France, Spain, Denmark, and the US). Even Sweden levies progressive taxation on capital gains in certain cases. Similar to dividends, the general tax rate for capital gains in Sweden is 30.00 per cent, while tax on dividends from unlisted companies is 25.00 per cent. If shares in an unlisted company are so-called qualified shares, a progressive tax of between 20.00 and 54.98 per cent is payable.

Diagram 5 summarises the tax on capital gains in respective countries.

Diagram 5: Effective taxation on capital gains



The highest tax rate in Sweden is 54.98 per cent, and is considerably higher than other countries surveyed. The lowest tax rate in Sweden is 20.00 per cent, and is higher than the lowest rate in 10 of the 15 countries surveyed.

As shown in *diagram 5* above, six countries apply a lower tax rate of 0 per cent on capital gains. As previously indicated, capital gains are generally not taxed in Belgium. Canada exempts capital gains on unlisted shares of up to SEK 5.58m (CAD 848t) from tax throughout the lifetime of a taxpayer. Ireland and UK allow generous tax relief for entrepreneurs and investors in unlisted companies, with the result that most capital gains are, in practice, untaxed. Furthermore, Ireland allows deductions that mean SEK 12,230 (EUR 1,270) in capital gains is exempt from taxation. The UK also allows such deductions, meaning that SEK 124,180 (GBP 11,300) in capital gains is tax exempt. Germany and the US apply a zero rate tax on lower incomes.

5 Incentives and tax relief rules

In addition to the considerable differences that exist between comparison countries in nominal tax rates, there are also large variations in terms of incentives and tax relief that target dividends and capital gains. Some countries, for example Estonia and Poland, apply simpler systems with flat rates and few or no exemptions. Simplicity, in combination with relatively low nominal tax rates, can in its own right be seen as an incentive to make it easier to build capital and drive investment.

Sweden levies different taxes depending on whether holdings relate to listed or unlisted shares; and for unlisted shares, to what extent the owner is active in the company. For active co-owners of closely held companies, the tax rate drops to 20.00 per cent, (instead of 30.00 per cent or 25.00 per cent), depending on the extent to which income exceeds a given amount. This amount is calculated either using the simplification rule, (approx. SEK 160t for all shares in the company), or according to the “main rule”, (based on invested capital and the company’s payroll costs). For active owners in closely held companies with significant payroll costs in relation to profitability, the framework can result in lower taxation. The framework can therefore be seen as an incentive in this respect. However, the opposite is true for active owners who hold less than 4.00 per cent of the shares in a company, or who own shares in companies that do not have high payroll costs. For such holdings, a larger proportion of dividends or capital gains is taxed as income, (progressive taxation with a high marginal tax rate). The fact that activity in a business attracts increased taxation on owners can be considered as unique to Sweden.

Sweden also levies an investor deduction, amounting to 50.00 per cent of the amount invested at the point of share issues in smaller companies, (SEK 650t per tax year). The investment deduction was introduced with the aim of increasing equity in smaller businesses. The deduction is, however, subject to complicated qualifying criteria.³⁴ Furthermore, in amount terms, the deduction is lower than equivalent deductions in other countries, (Ireland EUR 150t, Italy EUR 1m, UK GBP 1m). The investment deduction seems therefore not to have had any significant impact.

It is also possible to invest in the investment savings account, ISK. ISK includes mainly listed shares and carries a tax rate of 30.00 per cent, (i.e. the same rate as listed shares). Instead of using actual dividends or capital gains, the tax is based on a standard income amount. This means that tax is payable even in the event of losses. At a certain minimum increase in value, ISK entails a reduction in taxation. ISK can, therefore, also be considered as a type of incentive, even if the nominal tax rate is 30.00 per cent.

Tax is also payable in cases when holdings in ISK fall in value. In contrast to investor deductions, ISK is widely used.³⁵

A summary of the incentives and tax relief rules in effect in the countries surveyed is shown below. For more information regarding respective countries’ incentives and tax relief rules, see the country reports in Appendix 1.

³⁴ <https://www.skatteverket.se/download/18.361dc8c15312eff6fd1d779/1466497770970/remissvar--beskattning-av-incitamentsprogram--131-171847-16-112.pdf>

³⁵ Jfr prop. 2017/18:28, p. 12.

Country	Type	Comment
Sweden	Investor deduction	50.00% deduction of invested amount in smaller companies (max. SEK 650t)
	ISK	Tax based on standard earnings, (advantageous for high real return), in principle only applicable for listed securities
Belgium	Dividends	Lower tax on dividends from SME (instead of 30.00%): 2-year holdings 20.00%, 3-year holdings 15.00%
	Capital gains	Capital gains exempt from taxation
Denmark	Share savings account	Lower rate on dividends and capital gains, 17.00% (instead of 27.00%/42.00%), (effective 2019)
	Investor deduction	Deduction of 50.00% of invested amount in SME (effective 2019)
Estonia	Dividends	Dividends exempt from taxation
France	Share savings account	Lower rate to 17.20% (30.00-34.00%) for dividends and capital gains (tax calculated on actual return and payable on account withdrawals)
	Capital gains SME	Lower effective taxation for shares in SME (deduction of up to 85.00% of income)
	Non-taxable pension, SME	Company managers in SME who retire are entitled to a deduction of SEK 4.82m (EUR 500t)
Ireland	Capital gains tax Entrepreneurs relief	Lower rate to 10.00% (only active owners)
	Retirement relief	Tax exempt disposal of unlisted shares, if the person is aged 55 years (no requirement to retire despite name of the scheme)
	Entrepreneurs Relief	Tax exempt capital gains after reinvestment (deduction for invested amount also allowed), and investment deduction
	Employment and Invest- ment Incentive Scheme (investor deduction)	30.00-40.00% deduction of invested amount (max SEK 1.44m, EUR 150t)
Italy	Investor deduction	For innovative SME - tax credit of 30.00% of invested amount (max SEK 6.9m, EUR 1m)
	Voluntary step-up	Lower taxation on capital gains through voluntary step-up with returns of 8.00% of market value
Canada	Cumulative tax exemption for unlisted shares	Tax exempt capital gains up to SEK 5.58m, (CAD 848t during a lifetime (annual calculation))
Spain	Investor deduction	20.00% tax credit of invested amount (max. SEK 96t, EUR 10t)
UK	Entrepreneurs Relief	Lower tax rate of 10.00% on capital gains for unlisted shares, if the individual has been active in the company
	Investors Relief	Equivalent to Entrepreneurs Relief, but without the requirement to be employed. Tax rate cut to 10.00%
	Enterprise Investment Scheme	Investor deduction of 30.00% of the invested amount, (max. SEK 10.98m, GBP 1m), and capital gains from sale of shares tax exempt
	SEIS	Capital gains from new, smaller companies tax exemption. Investor deduction of 50.00% of invested amount (max. SEK 1.09m, GBP 100t)

6 Effective tax rates in two example situations

Section 3–4 above discuss which tax rates are levied on dividends and capital gains in respective countries. Some countries apply entirely flat rates, while others apply progressive tax. Tax rates and thresholds, however, differ significantly between countries. Section 5 discussed how several of the countries surveyed implement incentives and tax relief that, in practice, result in substantial reductions of effective taxation especially for capital gains.

In this section, we make calculations in two example situations of effective taxation in respective countries. The aim is to illustrate the effects of tax rates, thresholds and tax relief in different countries.

The first example situation shows the effective taxation for an individual who makes a smaller investment in a listed company, i.e. a small saver.

The second example situation shows the effective taxation for an individual who establishes and develops a new company (start-up).

6.1 Example situation 1 - small savers

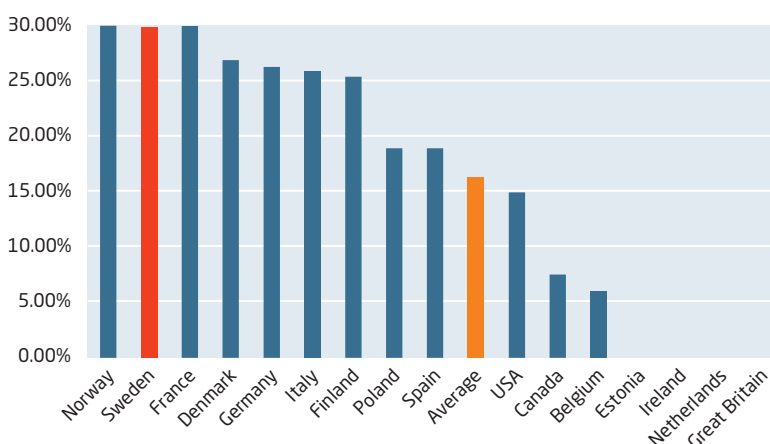
This example situation illustrates the effective taxation on dividends and capital gains related to shares in a listed company.

Dividends

Andreas lives in the capital city of his home country, and is employed by a large company. He earns an annual salary of SEK 337t (EUR 35t).³⁶ Andreas has private savings of SEK 96t (EUR 10t), which in 2010 he invested in shares of a larger listed company in Andreas' home country.

In 2018, Andreas receives a dividend of SEK 7.7t (EUR 800). The effective tax on this dividend in respective countries is shown below.

Diagram 6: Dividends, small savers



³⁶ Which corresponds with the OECD average, OECD average annual wages <https://data.oecd.org/earnwage/average-wages.htm>.

Andreas' dividend is subject to the highest effective tax rate in Norway – 30.59 per cent – closely followed by Sweden and France with rates of 30.00 per cent.

Dividends are tax-exempt in four of the comparison countries. Estonia does not tax dividends. Ireland and the UK have an allowance in place for dividends, such that Andreas' dividend is not taxed.

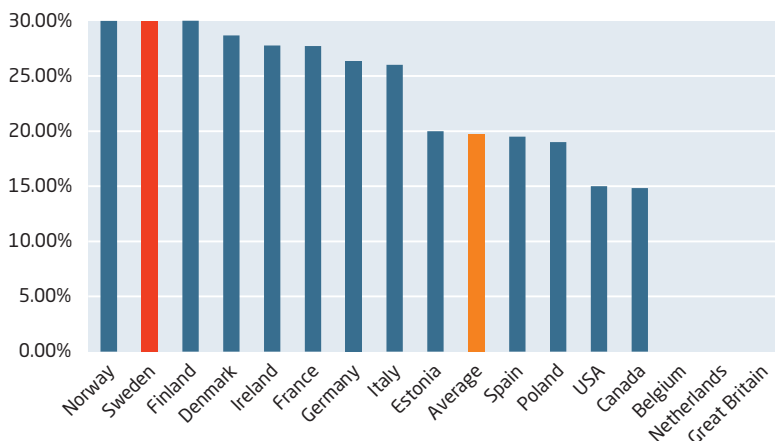
The Netherlands levies a standard tax rate in box 3, but allows dispensations for assets of SEK 289t (EUR 30t).

The average effective tax rate is 16.38 per cent. Sweden, with 30.00 per cent, is therefore significantly above average.

Capital gains

The assumptions are the same as above. Instead of dividends, Andreas sells his shares in 2018, making capital gains of SEK 77t (EUR 8t). The effective tax on this capital gain in respective countries is shown below.

Diagram 7: Capital gains, small savers



Similarly, for capital gains, Andreas is subject to the highest effective tax in Norway of 30.59 per cent, closely followed by Sweden and Finland with 30.00 per cent.

Capital gains are tax-exempt in three of the comparison countries. Belgium does not tax capital gains. The UK applies an allowance for capital gains of SEK 124t (GBP 11,3t), meaning that Andreas' capital gain is not taxed. The Netherlands levies a standard rate of tax in box 3, but allows exceptions for assets of SEK 289t (EUR 30t).

The average effective tax rate for the 15 countries surveyed, including Sweden, is 19.71 per cent. In this scenario, Sweden, with 30.00 per cent tax, is therefore significantly above average.

6.2 Example situation 2 - start-up founder

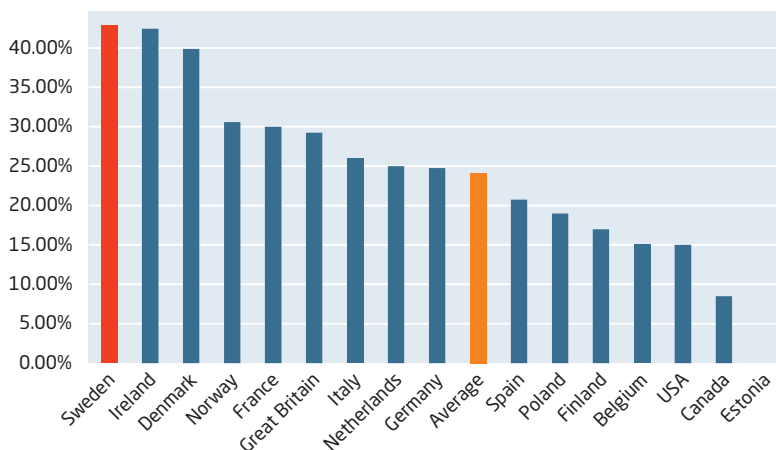
This example situation illustrates the effective taxation of dividends and capital gains for a co-founder of a smaller unlisted company.

Dividends

Emelie was previously employed as a programmer at a large technology company, but in 2010 she decided to start a new company with three other people. The company has developed a digital product that provides services to the consumer market. At the outset, each founder invested SEK 96t (EUR 10t), and has been active in running the company. After several years, the product was launched on the market, and gradually began to generate income. The founders now receive an annual salary of SEK 337t (EUR 35t).

Dividends for 2018 amount to SEK 1.93m (EUR 200t), of which SEK 482t (EUR 50t) accrue to Emelie. The effective tax on Emelie's dividend from the company in respective countries is shown below.

Diagram 8: Dividends, start-up



In this example, the average effective tax rate is 24.16 per cent, which is higher than in example situation 1, (for dividends and capital gains). This is because some countries levy progressive taxes on dividends, which impacts this typical situation because Emelie's income is higher than in example situation 1.

Emelie is subject to the highest effective tax in Sweden, at 42.88 per cent. Then comes Ireland with 42.42 per cent, and Denmark at 39.87 per cent.

It should be noted that Finland's taxation of dividends from unlisted companies is determined by the size of the dividend in relation to the value of the shares. Dividends that exceed 8.00 per cent of the value of the shares are declared up to 75.00 per cent and taxed according to the same rates that apply to income tax. In this calculation, it has been assumed that Emelie's shares are valued at SEK 1.927t (EUR 200t), and that SEK 154t (EUR 16t) of Emelie's dividend is calculated in the 8 per cent limit.³⁷

Countries with the lowest effective tax are Estonia, which does not tax dividends, and Canada, which taxes dividends at around 8.49 per cent.

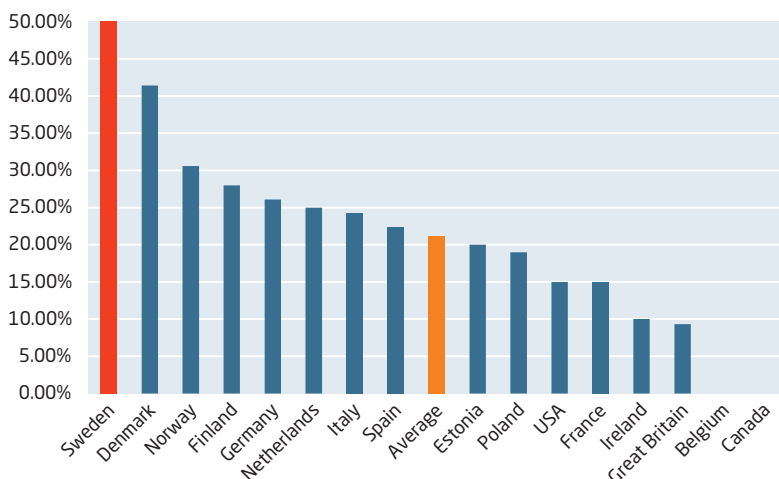
³⁷ This valuation corresponds with the capital gains below in example 2 relating to capital gains.

Capital gains

The assumptions are the same as above. Instead of distributing earnings in 2018, the founders opt to sell the company to a major player that sees potential to integrate the product in its own product offering.

The founders dispose of their shares in the company in 2018, and make capital gains of SEK 1.83m (EUR 190t) each. The effective tax on Emelie's capital gains at the disposal of her shares in respective countries is shown below.

Diagram 9: Capital gains, start-up



In the capital gains situation, once again Sweden has the highest effective taxation at 51.80 per cent. This is almost double the average of 21.12 per cent.

Capital gains are tax-exempt in two of the comparison countries. Belgium applies a general exemption for capital gains. Canada allows an exemption for capital gains accruing from the disposal of unlisted shares, up to a limit of SEK 5.58m (CAD 848t) throughout the lifetime of a taxpayer.

6.3 Comments on the example situations

In example 1, Sweden is second highest of the countries surveyed, for both dividends and capital gains. In example 2, Sweden is highest for dividends and capital gains. The table below shows the effective tax rate in Sweden, and the average effective tax rate in all surveyed countries.

SITUATION 1 - SMALL SAVERS		
	Sweden	Average
Dividends	30.00%	16.38%
Capital gains	30.00%	19.71%
SITUATION 2 - START-UP		
	Sweden	Average
Dividends	42.88%	24.12%
Capital gains	48.26%	21.12%

Sweden's deviation from the average in example 1 is due to Sweden levying a relatively high tax rate on dividends and capital gains for listed companies. This rate is comparatively especially high in relation to lower incomes.

The deviation in example 2 relating to start-ups is primarily due to Sweden levying progressive tax on dividends and capital gains from unlisted shares that are qualified, i.e. relate to closely held companies where owners are active in key positions. The nominal tax rates are high in comparison to other countries surveyed, and the threshold for the highest tax rate in Sweden is low.

In example 2, the taxpayer earns a high income. The example has been formed in this way to illustrate the effects of taxation if risk-taking is successful and profitable. It is especially noteworthy that the taxpayers' activity in the company in many cases results in higher taxation in Sweden.

If Emelie had not been active to a significant extent in the start-up, she could instead have been subject to a flat rate of 25.00 per cent of the dividend and capital gains in example 2. This could result in a tax rate close to the average in the dividend example, and higher than the average in the capital gains example. The fact that engagement and activity in the company attracts a higher rate of tax can be seen as unique to Sweden. In Ireland, Germany, and the UK, activity in the company results in more favourable taxation.

7 Conclusions

Every country's tax system is unique, and includes several subcomponents that should be reviewed as part of the whole. Against this background, we have sought to find those countries that generally apply tax systems comparable to Sweden's. When one looks more closely to capital taxation in particular, it becomes clear that significant differences exist between the tax systems of the various countries, even if the systems overall appear to have considerable similarities. These relate to differences in tax rates, whether taxation is progressive or flat, how income is calculated, and whether taxpayers' characteristics impact taxation, (degree of activity in a company, age, size of other income etc.).

The review conducted in this report shows that Sweden levies the highest tax rates on dividends and capital gains. The normal tax rate on capital income in Sweden is 30.00 per cent, and a lower tax rate of 25.00 per cent is levied on income from unlisted shares. These rates are high in comparison with other countries surveyed, especially for lower incomes. Active co-owners of closely held companies are taxed 20.00 per cent of their income under a specific limit, while remaining income is taxed progressively at between 29.98 and 54.98 per cent. The progressive tax rates for active owners in closely held companies are thereby shown to be particularly high in comparison.

None of the other countries surveyed apply effective tax rates on dividends or capital gains that exceed 50.00 per cent. Some countries do not tax dividends and capital gains at all, or only tax income that exceeds certain levels.

In addition to the differences in tax rates, significant dispensations and tax relief rules exist in certain countries, with the effect that relatively high incomes are exempted from taxation, or are subject to low taxation. In Canada, capital gains on unlisted shares are exempted from taxation, (up to SEK 5.58m (CAD 848t), throughout the lifetime of the taxpayer). In Ireland capital gains on unlisted shares are exempt from taxation if the taxpayer reaches a certain age, (applicable if proceeds of a sales do not exceed SEK 7.22m (EUR 750t); in addition capital gains are subject to lower taxation. The UK allows substantial exemptions for capital gains concerning unlisted shares. In Belgium, dividends from SME are taxed at a lower rate of 15.00 per cent if the participation period exceeds three years. In France, only 15.00 per cent of capital gains at disposal of shares in SME are liable for tax.

Sweden's lower tax rate of 20.00 per cent relating to income of active co-owners in closely held companies below the threshold limit can be considered as an incentive. For many owners in closely held companies, however, the framework entails increased taxation.

Sweden has also introduced an investor deduction, aimed at supporting capital growth in smaller businesses. However, this is linked to extensive criteria and has not been widely used. ISK can also be considered an incentive if return exceed a certain level. ISK is more widely used than the investor deduction.

Calculations of effective tax rates have been made for two example situations to illustrate the total effect of respective countries' taxation on dividends and capital gains.

In both examples, Sweden is shown to have a high effective tax rate in comparison to the countries surveyed.

For income from listed shares in example 1, Sweden's divergence is primarily due to the flat rate of 30.00 per cent being comparatively high, especially for low incomes. The average tax rate in this case is 16.38 per cent (dividends) and 19.71 per cent (capital gains) respectively.

Sweden's tax rates also diverge considerably from the average in the second example. In the dividend example, Sweden's effective tax rate is the highest at 42.88 per cent, compared to the average of 24.12 per cent. In the capital gains example, Sweden's 51.80 per cent is considerably higher than the 21.12 per cent average.

Divergence in the second example, (start-ups), this is primarily due to Sweden levying progressive tax on dividends and capital gains for active owners of closely held companies. In this case, the taxpayer earns high incomes – dividends of SEK 482t (EUR 50t) or capital gains of SEK 1.83m (EUR 190t). The example has been structured in this way to illustrate the effect of tax if risk-taking is successful and profitable. It is especially noteworthy that the taxpayers' activity in the company in many cases results in higher taxation in Sweden.

Our conclusion is therefore that Sweden taxes dividends and capital gains higher than the 15 surveyed comparison countries, especially in terms of income from unlisted shares in which the owner is active.

Appendix I - country reports

1 Belgium

1.1 General information about the tax system

Belgium has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level. The general corporate tax rate is 29.58 per cent, (29.00 per cent corporation tax and an additional 2.00 per cent so-called crisis tax).

SMEs are subject to a lower tax rate of 20.40 per cent, (20.00 per cent and an additional 2.00 per cent), for taxable profits up to SEK 963,260 (EUR 100,000). Taxable profits exceeding SEK 963,260 (EUR 100,000) are taxed at the general corporate tax rate of 29.58 per cent.

1.2 Taxation of dividends

In general, dividends are taxed at a flat rate of 30.00 per cent. Dividends up to SEK 6,165 (EUR 640) are tax-exempt.

1.3 Taxation of capital gains

Capital gains at the disposal of privately held shares are tax-exempt.³⁸

1.4 Incentives and tax relief

Dividends arising from newly issued shares in SMEs are subject to a lower rate of tax.

Dividends distributed during SMEs' second financial year, counted from the year after a capital injection was made, is subject to a tax rate of 20.00 per cent. Dividends distributed during or after an SME's third financial year, counted from the year after a capital injection was made, are subject to a tax rate of 15.00 per cent.

Dividends are therefore taxed in the following way:

Tax rate	Average
General	30.00%
SME, retention 2 years	20.00%
SME, retention 3 years	15.00%

³⁸ Capital gains that are included in business activity, or that are the result of "speculative activity" are not included in the exemption. Speculative activity refers to situations that fall outside normal private participation, e.g. a day-trader who spends large amounts of time dealing in shares, and who borrows funds to finance this activity. Such activity falls outside the scope of this report.

2 Denmark

2.1 General information about the tax system

Denmark has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Corporation tax is 22.00 per cent.

2.2 Taxation of share income

Dividends and capital gains on the sale of shares are taxed as “share income”. Dividends and capital gains on the sale of shares are therefore taxed in the same way and at the same rates.

An individual’s share income that is below around SEK 68,500 (DKK 52,900) is taxed at 27.00 per cent. Share income over this amount is taxed at 42.00 per cent.

2.3 Incentives and tax relief

Denmark does not offer incentives or tax relief on dividends and capital gains.

2.4 Other

There is a political agreement to, among other things, introduce two tax relief schemes that are due to take effect in 2019. The first involves the introduction of a share savings account, and the other involves incentives for investment in SMEs. However, no legislation is currently in place.

2.4.1 Share savings account

The share savings account aims to reduce the amount of tax payable by individuals on returns from savings in listed shares.

Tax is to be levied at a flat rate of 17.00 per cent on returns from dividends and realised and unrealised profits. The amount that can be deposited in the account per year in 2019 will be SEK 64,750 (DKK 50,000). This amount is meant to increase successively up to SEK 258,990 (DKK 200,000) in 2020.

2.4.2 Incentives for investment in SMEs

For individuals who invest directly in SMEs, there is a deduction of 50.00 per cent on investments up to SEK 517,980 (DKK 400,000). From 2023, this amount increases to SEK 1,035,950 (DKK 800,000). Because the scheme involves state aid rules, it needs to be approved by the European Commission.

3 Estonia

3.1 General information about the tax system

In Estonia, companies are not taxed prior to the distribution of earnings.

Estonia has a flat tax rate of 20.00 per cent of the net amount for distributed earnings. Dividends are not taxed again at an individual level. Estonia does not therefore apply a double taxation system.

Estonia has introduced new rules that mean that from 2019 dividends will be partially subject to a lower corporation tax rate of 14.00 per cent. Recipients of such dividends are taxed at 7.00 per cent instead of the 0 per cent applicable if the company is taxed at 20.00 per cent. Overall, corporation tax is lower but the recipient is subject to a degree of taxation. These rules apply from 1 January 2018, but in practice will affect dividends from 2019. This is therefore not considered in more detail in this report.

3.2 Capital gains tax

Capital gains are taxed at a flat rate of 20.00 per cent.

3.3 Incentives and tax relief rules

Estonia does not offer incentives or tax relief on dividends and capital gains.

4 Finland

4.1 General information about the tax system

Finland has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

The corporate tax rate is 20.00 per cent.

4.2 Tax on dividends

In Finland, tax on dividends is determined by whether dividends are received from listed or unlisted companies.

4.2.1 Dividends from listed companies

Dividends from listed companies are taxed in the following way:

When calculating the threshold of SEK 288,980 (EUR 30,000), all capital income that is not taxed at the same amount as payroll tax is included, (see *Dividends that exceed the 8 per cent limit* below). All income is included when calculating the threshold, not only the taxable amount.

4.2.2 Dividends from unlisted companies

Dividends from unlisted shares are taxed differently depending on whether dividends exceed 8.00 per cent of the company's value (the 8 per cent limit).

Dividends that fall within the 8 per cent limit are taxed in the following way in the following way:

When calculating the threshold of SEK 288,980 (EUR 30,000), all capital income that is not taxed at the same rate as employment income is included, (see *Dividends that exceed the 8 per cent limit* below). All income is included when calculating the threshold, not only the taxable amount.

Dividends that exceed the 8 per cent limit

Dividend (EUR)	Nominal tax rate	Taxable amount	Effective tax rate
Up to 30,000	30.00%	85.00%	25.50%
Over 30,000	34.00%	85.00%	28.90%
Up to 30,000	30.00%	25.00%	7.50%
30,000-150,000	34.00%	25.00%	8.50%
Over 150,000	34.00%	85.00%	28.90%

Dividends that exceed the 8 per cent limit are taxable up to 75.00 per cent, and are taxed with the same progressive tax rates as employment income. Employment income is taxed with a federal and local tax. The highest local tax rate is 22.50 per cent, and the lowest is 16.50 per cent. In the capital city, the local tax rate is 18.00 per cent.

The taxable amount, (i.e. 75.00 per cent of the dividend), is included when calculating the thresholds below.

Dividends that exceed the 8 per cent limit are taxed using progressive rates that apply to employment income:

Taxable income (EUR)	Nominal tax rate	Local tax in capital city	Total nominal tax	Effektiv skattesats (prop. 75%)
Up to 17,200	0%	18.00%	18.00%	13,50%
17,200-25,700	6.00%	18.00%	24.00%	18,00%
25,700-42,400	17.25%	18.00%	35.25%	26,44%
42,400-74,200	21.25%	18.00%	39.25%	29,44%
Over 74,200	31.25%	18.00%	49.25%	36,94%

4.3 Capital gains tax

Capital gains up to SEK 288,980 (EUR 30,000) are subject to a capital income tax of 30.00 per cent. Capital income over SEK 288,980 (EUR 30,000) is taxed at 34.00 per cent. When calculating the threshold of SEK 288,980 (EUR 30,000), all capital income that is not taxed at the same rates as employment income is included, (see section above, *Dividends exceeding the 8 per limit*). All income is included when calculating the threshold, not only the taxable amount.

When calculating capital gains, individuals may use 20.00 per cent of the sales price as the purchase value. If the participation period exceeds ten years, 40.00 per cent of the sales price may be used.

4.4 Incentives and tax relief rules

The lower tax on dividends from unlisted companies included in the 8 per cent limit can be considered as an incentive. Otherwise, Finland does not offer incentives or tax relief on dividends and capital gains.

5 France

5.1 General information about the tax system

France has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

General corporation tax is 33.33 per cent. For incomes up to SEK 4,816,300 (EUR 500,000), a lower tax rate of 28.00 per cent is applied.

For companies that pay more than SEK 7,349,680 (EUR 763,000) in tax, an additional tax of 3.30 per cent is levied on profits that exceed SEK 7,349,680 (EUR 763,000). The effective tax rate on profits in excess of SEK 7,349,680 (EUR 763,000) is therefore 34.43 per cent.

For SMEs, a lower rate of 15.00 per cent is levied on income that exceeds SEK 367,190 (EUR 38,120).

5.2 Tax on dividends

Dividends are taxed at 30.00 per cent. Of this 30.00 per cent, 12.80 per cent is income tax and 17.20 per cent is social fees.³⁹

High-income earners are liable for a 3.00 per cent tax on income that exceeds SEK 2,408,150 (EUR 250 000), and 4.00 per cent for income that exceeds SEK 4,816,300 (EUR 500 000).

Dividends are therefore taxed in the following way:

Taxable income (EUR)	Tax rate
Up to 250,000	30.00%
250,000-500,000	33.00%
Over 500,000	34.00%

When calculating limit values, all income is included, i.e. also employment income.

5.2.1 Voluntary progressive taxation

An individual has the option of choosing whether to be taxed according to the same tax rates applicable to employment income, (progressive taxation). When these progressive rates are used, the individual can take advantage of a deduction of 40 per cent (i.e. only 60.00 per cent of the dividend is taxable). After proportioning, social fees are added, (17.20 per cent), and any top end income tax, (3.00 or 4.00 per cent). The effective tax rate amounts to between 17.20–48.20 per cent. The highest tax rate relates to income that after proportioning of 60.00 per cent exceeds SEK 4,816,300 (EUR 500,000). When calculating the thresholds, only the taxable amount of the dividend is included.

In practice, this means that it is profitable to levy progressive taxation on the sum of employment income and dividends proportioned by 60.00 per cent does not exceed SEK 260,909 (EUR 27,086). If the taxpayer only has income from dividends, it is beneficial to choose progressive taxation if the dividends do not exceed SEK 434,844 (EUR 45,143).

³⁹ Social fees constitute a tax.

5.3 Capital gains tax

Capital gains taxed in the same way as dividends, i.e. at 30 per cent.

For capital gains, individuals also have the option of applying a progressive tax for ordinary income, where 40 per cent of capital gains is exempted from tax, (i.e. only 60.00 per cent of capital gains is taxable). The effective tax rate then amounts to between 17.20 and 48.20 per cent.

If a participation period exceeds two years, the tax-exempt amount is 50.00 per cent, (which results in an effective taxation of 17.20–43.70 per cent). If a participation period exceeds eight years, this increases to 65.00 per cent, (which results in an effective taxation of 17.20–38.35 per cent).

If a participation period exceeds eight years, it is beneficial to apply progressive taxation on the sum of employment income and capital gains proportioned by 35.00 per cent does not exceed SEK 699,491 (EUR 72,617). If the taxpayer only has income from capital gains, it is beneficial to opt for progressive taxation if capital gains do not exceed SEK 1,998,543 (EUR 207,477).

5.4 Incentives and tax relief rules capital gains

5.4.1 Lower tax on capital gains (SME)

For SMEs, an additional increased deduction related to capital gains is applied, if the taxpayer opts for progressive taxation. If shares are held between one and four years, there is the right to a deduction of 50.00 per cent. If shares are held from four to eight years, there is the right to a deduction of 65.00 per cent. If shares have been held for more than eight years, there is a right to a deduction of 85.00 per cent.

Proportioning applies to shares acquired before 1 January 2018.

When the participation period exceeds eight years, the effective tax rates range from 17.20 to 28.55 per cent. In practice, therefore, it is always beneficial to opt for progressive taxation if conditions relating to SMEs are met, and the participation period exceeds eight years.

5.4.2 Pension tax relief (SME)

Business owners of SMEs who retire have the right to a deduction on income up to SEK 4,816,300 (EUR 500,000) on the sale of their shares.

To receive the deduction, the following conditions must be met:

- 75.00 per cent of a company's share capital or voting rights must be held by individuals directly or indirectly via SMEs
- The company must conduct certain activities for five years prior to the sale, for example industrial, commercial, independent or financial activities
- Shares must be held for at least one year
- The company manager must have direct or indirect shares of at least 25.00 per cent of the voting rights or of the financial rights
- As a rule, the company manager must sell the entire shareholding

5.4.3 Tax relief for share savings account

Dividends and capital gains on investments made through a special share savings account (PEA) are taxed at 17.20 per cent, (i.e. only social fees). Tax is levied when withdrawals are made from the account, but only on “value increase”. To be tax exempt, withdrawals may only be made after five years. The largest amount that can be invested is SEK 1,444,890 (EUR 150,000), and investments must be used to purchase qualified securities, for example shares issued by a French company.

A similar share savings account for SMEs was introduced in 2014 (PMI-ETI). Tax is the same for PEA, but the maximum amount that can be invested is SEK 722,450 (EUR 75,000).

An individual can have a PEA and a PMI-ETI, i.e. with a total invested amount up to a maximum of SEK 2,167,340 (EUR 225,000).

Income generated by these accounts is therefore subject to a lower effective tax rate. It is only the actual value increase that is taxed, and not, for example, a standard income.

6 Ireland

6.1 General information about the tax system

Ireland has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Corporation tax is 12.50 per cent. For some types of businesses, (including income from bland mining, leasing and investment), the tax rate is, however, 25.00 per cent.

6.2 Tax on dividends

Dividends are taxed as ordinary income and the following tax rates apply:

Income (EUR)	Tax rate	Social fees	Effective tax rate
Up to 12,012	20.00%	0.50%	20.50%
12,012-19,372	20.00%	2.00%	22.00%
19,373-34,500	20.00%	4.75%	24.75%
34,501-70,045	40.00%	4.75%	44.75%
Over 70,045	40.00%	8.00%	48.00%

A personal deduction of SEK 15,890 (EUR 1,650) is allowed on calculated tax.

6.3 Capital gains tax

In general, capital gains are taxed at 33.00 per cent.

Capital gains up to SEK 12,230 (EUR 1,270) are exempt. This is an annual entitlement.

6.4 Incentives and tax relief rules

6.4.1 Capital Gains Tax Revised Entrepreneur Relief⁴⁰

Some capital gains from the disposal of an entire business or part of a business are subject to a lower tax rate of 10.00 per cent. This lower rate may only be applied on capital gains up to SEK 9,632,600 (EUR 1,000,000), during the lifetime of an individual. To ensure that the lower tax rate is applicable, the following criteria must be met:

- Shares must be owned for a continuous period of at least three years in a five-year period
- Shares must be unlisted
- An individual must have a participation of at least 5.00 per cent of a company's share capital
- An individual must be employed, or manage the company, (at least 50.00 per cent), for at least three years in a five-year period

⁴⁰ Taxes Consolidation Act 1997, p.597AA, not to be confused with Entrepreneur Relief p.597A.

6.4.2 Retirement Relief

People who have reached the age of 55, but not 66, and who dispose of shares in companies that have conducted active business operations are subject to special tax relief from capital gains tax. Shares must have been held for at least 10 years, and taxpayers must have been active in the company full-time for five years, (during the participation period of at least 10 years). Despite the name of the scheme, there is no requirement that the recipient has, or will retire.

If a disposal is made to the taxpayer's children, and the taxpayer is 55 but not yet 65, there are no upper limits; rather, all capital gains are exempt from taxation. If the taxpayer is 66 or over, capital gains is exempt from tax if remuneration for the shares does not exceed SEK 28,897,800 (EUR 3,000,000). Earnings over this amount are taxed at 20.00 per cent.

If a disposal is made to someone other than the taxpayer's children, capital gains are tax-free if earnings from the shares do not exceed SEK 7,224,450 (EUR 750,000). If earnings exceed this threshold, capital gains are taxed at the lowest of the following:

- 20.00 per cent of actual capital gains
- 50.00 per cent of the difference between earnings for shares and SEK 7,224,450 (EUR 750,000). If the individual is aged 66 or more, the exemption is limited to SEK 4,816,300 (EUR 500,000) instead of SEK 7,224,450 (EUR 750,000)

6.4.3 Employment and Investment Incentive Scheme

For people who invest in certain unlisted companies with active business operations, a deduction of 30.00 per cent is allowed on the invested amount. If the company meets certain criteria related to employment, research and development, an additional 10.00 per cent can be deducted after four years. This deduction is limited to SEK 1,444,890 (EUR 150,000) per year. The component of the invested amount that may not be deducted for one year, due to the investment exceeding SEK 1,444,890 (EUR 150,000) or if income is not sufficiently low, can be rolled over to the following year.

6.4.4 Entrepreneur Relief⁴¹

An individual who has paid tax on capital gains at the disposal of shares, (first disposal), and who then reinvests in a new company may take advantage of tax relief on the sale of the reinvested shares, (second disposal).

The following conditions must be met to qualify for this tax relief:

- In cases where a business is run in company form, assets must be newly issued shares since 1 January 2014 or later in a company controlled by the individual, and that the individual works on a full-time basis as a company manager. The company must conduct new operations.
- The person requesting the relief must own at least 15.00 per cent of shares in the company.

⁴¹ Taxes Consolidation Act 1997, p.597A, not to be confused with Capital Gains Tax Revised Entrepreneur Relief, p.597AA.

- At the point of investment, the following criteria must be met regarding the company's size: maximum 250 employees, turnover of no more than SEK 481,630,000 (EUR 50,000,000), and assets of no more than SEK 414,201,800 (EUR 43,000,000).
- The investment must be at least SEK 96,330 (EUR 10,000) and no more than SEK 144,489,000 (EUR 15,000,000).

Shares must be owned for at least three years before the second disposal. The tax liability from the second disposal is reduced to an amount that amounts to the lowest of the following:

- The individual's tax on capital gains for the first disposal (made on 1 January 2010 or later).
- 50.00 per cent of tax on capital gains at the second disposal.

7 Italy

7.1 General information about the tax system

Italy has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Corporation tax is 24.00 per cent. For companies domiciled in Italy, a local tax of 3.90 per cent is added to productive activities. Local regions can choose to levy a higher or lower local tax. The highest levied local tax is 4.82 per cent, and the lowest is 2.98 per cent. The effective corporation tax in the regions that levy local tax on the 3.90 per cent is therefore 27.90 per cent (24.00 per cent + 3.90 per cent).

On 23 December 2017, the Italian parliament agreed to change the system for taxation of dividends and capital gains.⁴² The changes take effect from 1 January 2018 relating to dividends, and from and 1 January 2019 for capital gains.

7.2 Tax on dividends

Under the new regulations, dividends are taxed at a flat rate of 26.00 per cent.

7.3 Capital gains tax

Because the new regulatory framework takes effect from 1 January 2019, “the old” system remains in effect during the 2018 tax year.

The current regulatory system relating to capital gains differs between substantial and insubstantial shares. By contrast, the new system will not make this distinction.

7.3.1 Insubstantial holdings

Capital gains from shares in insubstantial holdings are subject to a flat tax of 26.00 per cent.

7.3.2 Substantial holdings

A substantial holding exists if an individual owns more than:

- 2.00 per cent of the voting rights or 5.00 per cent of the capital, if shares are market listed or
- 20.00 per cent of the voting rights or 25.00 per cent of the capital, shares are not market listed.

Capital gains on shares through substantial holdings are subject to a progressive individual income tax. The levy is calculated on 58.14 per cent of income. When calculating thresholds, the income of the taxpayer is also taken into account.

⁴² Law no. 205/2017.

Capital gains are taxed in the following way:

Taxable income (EUR)	Nominal tax rate	Effective tax rate (proportioning by 58.14%)
Up to 15,000	23.00%	13.37%
15,000-28,000	27.00%	15.70%
28,001-55,000	38.00%	22.09%
55,001-75,000	41.00%	23.84%
Over 75,000	43.00%	25.00%

7.4 Incentives and tax relief rules

7.4.1 Voluntary step-up

Individuals have the option to review the taxable value of unlisted shares so that it corresponds with the shares' market value (voluntary *step-up*). Voluntary step-up entails a tax rate of 8.00 per cent of the market value of the shares. Because this is a voluntary measure, it is only used in situations when such a step-up results in lower taxation.

7.4.2 Investment in innovative SMEs

An individual who invests in an "innovative SME" can benefit from a tax credit on individual income tax. The credit amounts to 30.00 per cent of the total invested capital up to a maximum of SEK 9,632,600 (EUR 1,000,000) per year. Individuals who make an investment may not sell his or her shares in the SME for three years to qualify for the tax credit. The incentive is linked to extensive criteria, for example relating to a company's age and size, and company development, production or marketing of innovative products or services with a high technological value. Demands are also made in terms of the scale of company R&D costs, as well as employees' academic level.

8 Canada

8.1 General information about the tax system

Canada has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Taxation at a company and individual level is determined by whether a company is a so-called Canadian Controlled Private Corporation (CCPC) or not. A company is a CCPC if it is a Canadian private company that is not controlled by one or more companies not domiciled in Canada or that are listed.

The tax system in Canada is complex and is built on the idea that income should be subject to comparable taxation regardless of whether business is conducted privately or through a company. The system means that individuals that receive dividends are subject to a special gross-up and a tax credit. An individual's tax rate is determined by whether a company that pays dividends is subject to a lower rate of corporation tax or not. The following section only discusses normal corporation tax, and only taxation of so-called eligible dividends. This is a simplification with the aim of providing an overview that enables a comparison with other tax systems.

8.2 General corporation tax

Federal corporation tax is 15.00 per cent. In addition to that, the provinces add local corporation tax rates from 11.50 per cent (Ontario) to 16.00 per cent (Nova Scotia/ Prince Edward Island). In Ontario, where the capital city is located, corporation tax is 11.50 per cent. This represents an effective tax rate of 26.50 per cent (15.00 per cent + 11.50 per cent).

8.3 Tax on dividends

8.3.1 Tax-free capital dividends

If a company makes capital gains, these are taxed only to 50.00 per cent in the company. If a company pays out capital gains to shareholders, the dividends are tax-free. These types of dividend are known as capital dividends, and are designed to ensure that it makes no difference whether a company or an individual makes capital gains.

8.3.2 Gross-up and dividend exemption rules

Individuals who receive dividends from Canadian companies are taxed at a lower individual rate than is the case for employment income. This is achieved by applying gross-up and tax exemption rules.

Dividends from a Canadian company that is classified as eligible dividends and that is not classified as capital dividends qualify for these exemption.

The aim of this lower tax rate is that the underlying company income should be as close as possible to the tax paid if the individual had instead earned the income directly and not through a company.

Eligible dividends are, in general, dividends accrued from an income that has not benefitted from advantageous tax rates.

The total tax rate for eligible dividends varies between different regions.

The lowest rate is levied in Saskatchewan, and is 29.64 per cent at most. The highest rate is in Newfoundland and Labrador, and is 42.61 per cent at most. In Ontario, where the capital city is located, the tax rate is a maximum of 39.34 per cent.

In the capital city, eligible dividends are taxed progressively in the following way:

Eligible dividends (CAD)	Tax rate
Up to 45,916	0.00%
45,916-74,316	7.56%
74,316-84,404	8.92%
84,404-87,557	12.24%
87,557-91,831	17.79%
91,831-142,353	25.38%
142,353-150,000	29.52%
150,000-202,800	31.67%
202,800-220,000	37.19%
Over 220,000	39.34%

8.4 Capital gains tax

Total tax rates for capital gains vary between different regions.

The lowest tax rate is levied in Saskatchewan, and the highest rate is 23.75 per cent. The highest rate is in Nova Scotia, and 27.00 per cent at its most. In Ontario, where the capital is located, the tax rate reaches a maximum of 26.76 per cent.

In the capital, capital gains are taxed progressively in the following way:

Income (CAD)	Tax rate
Up to 42,201	10.03%
42,201-45,916	12.08%
45,916-74,316	14.83%
74,316-84,404	15.74%
84,404-87,557	16.95%
87,557-91,831	18.95%
91,831-142,353	21.70%
142,353-150,000	23.20%
150,000-202,800	23.98%
202,800-220,000	25.98%
Over 220,000	26.76%

8.5 Incentives and tax relief rules

Under “the life-time capital gains exemption” (LCGE) capital gains on the sale of, among other things, qualified shares in CCPC up to SEK 5,580,480 (CAD 848,252) are tax-free. Three tests, including the following conditions, need to be fulfilled:

- *Small business corporation test*: more than 90.00 per cent of company assets must be used in active operations conducted in Canada by a CCPC, (there is however no requirement relating to company size).
- *Holding period test*: holding requirement of 24 months.
- *Basic asset test*: a company must be a CCPC and more than 50.00 per cent of the company’s assets must have been used in active business operations primarily conducted in Canada.

LCGE is not applicable if the sold shares are shares in a public company, a private company that is not a CCPC, or a CCPC that does not meet the criteria specified above. This type of income is not included when the threshold amount for other income is calculated.

9 The Netherlands

9.1 General information about the tax system

The Netherlands has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Income up to SEK 1,926,520 (EUR 200,000) is taxed at a corporation rate of 20.00 per cent. Income over SEK 1,926,520 (EUR 200,000) is taxed at a corporation rate of 25.00 per cent.

9.2 Capital gains and dividend tax

Tax on dividends and capital gains for individuals is determined by how much more or less than 5.00 per cent of share capital or voting rights a person has in a company.

9.2.1 Box 2

With a holding of more than 5.00 per cent, individuals are taxed according to the so-called Box 2-rule. The tax rate is therefore 25.00 per cent.

9.2.2 Box 3

With a holding of less than 5.00 per cent, individuals are liable for an income tax according to the so-called Box 3-rule. Dividends and capital gains are taxed at 30.00 per cent of a fixed flat income rate that varies according to the value of the assets.

The tax calculation is made in the following way: *Tax = 30.00 per cent x a fixed flat income rate (tax base (EUR) x relevant percentage).*

Tax base = the difference between the value of an individual's total assets and debts that are included in Box 3.

SEK 288,980 (EUR 30,000) is exempt from taxation.

Tax base (EUR)	Percentage
Up to 75,000	2.87%
75,000-975,000	4.60%
Over 975,000	5.39%

The calculation of tax is explained most easily with help of an example:

An individual hold 4.00 per cent of the shares in a company. The shares are valued at SEK 19,265,200 (EUR 2,000,000). The individual has debts of SEK 4,816,300 (EUR 500,000). The total *tax base* is therefore SEK 14,448,900 (EUR 1,500,000).

The fixed flat income is SEK 676,536 (EUR 70,234), which amounts to the sum of:

- EUR 75,000 x 2.87% = SEK 20,740 (EUR 2,153)
- EUR 900,000 x 4.60% = SEK 39,8790 (EUR 41,400)

- $\text{EUR } 495,000 \times 5.39\% = \text{SEK } 258,740$ (EUR 26,681)
(SEK 288,980, EUR 30,000, is the exception) The tax is SEK 202,960 (EUR 21,070), which amounts to 30.00 per cent of EUR 70,234.

9.3 Incentives and tax relief rules

The Netherlands does not offer incentives or tax relief on dividends and capital gains.

10 Norway

10.1 General information about the tax system

Norway has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

In general, corporation tax is 23.00 per cent.⁴³

10.2 Capital gains and dividend tax

Dividends and capital gains are subject to the ordinary tax rate of 23.00 per cent. Income is calculated by multiplying received dividends and capital gains respectively by a factor of 1.33. The effective tax rate is therefore 30.59 per cent.

10.3 Incentives and tax relief rules

Norway does not offer incentives or tax relief on dividends and capital gains.

⁴³ Companies that provide financial services are taxed at 25.00 per cent.

11 Poland

11.1 General information about the tax system

Poland has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Generally, corporation tax is 19.00 per cent. A tax rate of 15.00 per cent can, however, be applied to:

- SMEs that have income from sales that do not exceed SEK 11,559,12 (EUR 1,200,000, including VAT) in the previous tax year
- All taxpayers' first year in operation

11.2 Capital gains and dividend tax

Dividends and capital gains are taxed at a flat rate of 19.00 per cent. Capital gains on the sale of some listed securities acquired before 2004 are tax-free in certain circumstances.

11.3 Incentives and tax relief rules

Poland does not offer incentives or tax relief on dividends and capital gains.

12 Spain

12.1 General information about the tax system

Spain has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Corporation tax is 25.00 per cent. For individuals, income is divided into ordinary income and capital income. Dividends and capital gains are taxed as capital income. Spain's 17 autonomous regions have certain powers to levy tax alongside what is decided at a central level. Only the Basque and Navarra regions have used these powers and levy a corporation rate of 28.00 per cent instead of 25.00 per cent. Thresholds and tax rates for dividends differ somewhat, (20.00–25.00 per cent and 20.00–26.00 per cent respectively). The following section describes the tax rates that are decided centrally, and that are levied in all regions apart from these two.

12.2 Capital gains and dividend tax

Dividends and capital gains are taxed as capital income in the following way:

Capital income (EUR)	Tax rate
Up to 6,000	19.00%
6,000–50,000	21.00%
Over 50,000	23.00%

Thresholds relate to individuals' total capital income, although not ordinary income.

12.3 Incentives and tax relief rules

12.3.1 Deduction for investment in start-ups

A special tax credit is allowed for investment in new Spanish companies. The tax credit amounts to 20.00 per cent of the invested amount, and is limited to investments up to a maximum of SEK 481,630 (EUR 50,000) per year, which gives a maximum annual credit of SEK 96,330 (EUR 10,000).

To receive the tax credit, the following criteria must be met:

- A company must be an unlisted Spanish company, (sociedad de responsabilidad limitada, sociedad anónima or sociedad anónima laboral).
- A company must be active, (a company that, for example, only conducts passive capital management does not qualify).
- A company's equity may not exceed SEK 3,853,040 (EUR 400,000) at the beginning of the year. If a company is part of a group, these criteria relates to the entire group.
- The investment must be made in connection with the development of the company or in the three subsequent years.
- Shares must be owned for at least three years and for a maximum of 12 years from the date of the investment; (disposal before three years or continued participation after 12 years requires the repayment of the tax relief).

- The individual, or their relatives, may not directly or indirectly own more than 40.00 per cent of the capital or voting rights. This condition makes it advantageous for individuals to invest capital in newly established small companies in Spain. However, the requirement on maximum ownership participation typically means that founders of a start-up cannot enjoy the tax credit if their holding is below 40.00 per cent.

12.3.2 Other

Spain's autonomous regions can adopt specific incentives and tax relief. The existence of such regional tax relief rules is not relevant in this context. It can, however, be noted that the Madrid region does not levy any particular incentives or tax relief for dividends and capital gains.

13 UK

13.1 General information about the tax system

UK has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

The corporate tax rate is 19.00 per cent.

Individuals domiciled in the UK are subject to income tax for employment income, business revenue, and investment income.

For income from sources other than dividends and capital gains, tax rates are in general the following:

Income (GBP)	Tax rate
Up to 33,500	20.00%
33,501-150,000	40.00%
Over 150,000	45.00%

13.2 Taxation of dividends

Tax on dividends is determined by total individual income. Taxation on dividends occurs in the following way:

Total income (GBP)	Tax rate
Up to 33,500	7.50%
33,501-150,000	32.50%
Over 150,000	38.10%

Irrespective of an individual's total income, the first SEK 54,950 (GBP 5,000) in dividends is tax-free, but is included in the calculation of thresholds.

13.3 Capital gains tax

Tax on capital gains is determined by total individual income. Taxation of capital gains occurs in the following way:

The first SEK 124,180 (GBP 11,300) is tax exempt, and is not included in the calculation of thresholds.

If capital gains include so-called carried interest, an additional supplement of 8.00 per cent is payable.

13.4 Incentives and tax relief rules

13.4.1 Entrepreneur Relief

Capital gains at the disposal of shares in a so-called "personal trading company" (PTC) are subject to a lower tax rate of 10.00 per cent. There is a lifetime limit on capital gains of SEK 109,898,000 (GBP 10,000,000).

To benefit from the lower rate, the following conditions must be met:

- The participation must amount to 5 per cent of shares.
- The taxpayer must be employed by the company (or by another group company).
- The company must be operational.

13.4.2 Investors Relief

This tax relief scheme is similar to Entrepreneur Relief, but includes passive investors. This scheme also lowers the tax rate on capital gains to 10 per cent. Similar to Entrepreneur Relief, there is a holding requirement of three years, and a lifetime limit on capital gains of SEK 109,898,000 (GBP 10,000,000). However, there is no requirement linked to the size of the holding.

Total income (GBP)	Tax rate
Up to 33,500	10.00%
Over 33,500	20.00%

13.4.3 Enterprise Investment Scheme (EIS)

A company qualifies for the so-called “Enterprise Investment Scheme” (EIS) if it is unlisted with fewer than 250 employees and has assets of no more than SEK 175,833,600 (GBP 16,000,000). The company may not be more than seven years old. Shares must be held for at least three years.

For investment under EIS, a deduction of 30.00 per cent is allowed in the year an investment is made. There is an annual limit of SEK 10,989,600 (GBP 1,000,000).

In addition to the 30.00 per cent deduction on the investment, capital gains at the disposal of shares that qualify for EIS are exempt from taxation.

13.4.4 The Seed Enterprise Investment Scheme (SEIS)

“The Seed Enterprise Investment Scheme” (SEIS) is similar to EIS, but is directed at smaller businesses. If conditions are met, a deduction of 50.00 per cent is allowed on invested amounts. There is an annual limit of SEK 1,098,960 (GBP 100,000).

In addition to the 50.00 per cent deduction on the investment, capital gains at the disposal of shares that qualify for SEIS are exempt from taxation.

14 Germany

14.1 General information about the tax system

Germany has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

In general, dividends and capital gains are taxed in the same way and with the same rates.

Income generated in a company is subject to corporation tax and the so-called “trade tax”.

- Corporation tax is 15.00 per cent topped with a solidarity charge of 5.50 per cent. Total corporation tax is therefore 15.825 per cent.
- The trade tax is 3.50 per cent multiplied by a municipal tax rate which varies between 200.00 per cent⁴⁴ and 900.00 per cent⁴⁵.

In the capital city Berlin, the municipality applies a multiplier of 490.00 per cent. The trade tax here amounts to 17.15% (3.50% x 490.00 per cent).

The trade tax is calculated on a different basis to corporation tax. The basis for the calculation is extremely complex and includes a large number of dispensations. The trade tax is never topped up with the solidarity charge of 5.50 per cent.

The effective tax rate in Berlin municipality is therefore 32.975 per cent (15.825 per cent + 17.15 per cent).

14.2 Taxation of dividends

Taxation of dividends differs between two different methods: “the settlement tax” and “the partial income method”.

14.2.1 Settlement tax

The settlement tax is levied on dividends from shares that are held as private assets. Dividends are taxed at a flat rate of 25.00 per cent, which is topped up with a solidarity charge of 5.50 per cent. The effective tax rate is therefore 26.375 per cent.

14.2.2 Partial income method (optional)

Under certain circumstances, taxpayers can opt to pay progressive tax on dividends.

In such cases, 60.00 per cent of received dividend is taxable, and the remaining 40.00 per cent is tax exempt. The following requirements must be met to use this method:

- Minimum participation of 25.00 per cent of shares in a company, or
- Minimum participation of 1.00 per cent of shares in a company, if the individual is an employee.

⁴⁴ Brandenburg and Mecklenburg-Vorpommern.

⁴⁵ Dierfeld.

As the progressive individual tax also includes other income, thresholds and tax rates are determined by whether such income exists or not. Tax rates vary between 0 and 47.475 per cent, (including the solidarity supplement of 5.5 per cent). Because only 60.00 per cent of dividends are declared, this results in an effective taxation of between 0 and 28.485 per cent.

14.3 Capital gains tax

Capital gains are taxed at the point of sale. Tax on capital gains differs between two different methods: “the settlement tax” and “the partial income method”.

14.3.1 Settlement tax

The settlement tax is levied on capital gains on shares of less than 1.00 per cent. Capital gains are taxed at a flat rate of 25.00 per cent, to which is added a solidarity charge of 5.50 per cent. The effective tax rate is therefore 26.375 per cent.

14.3.2 Partial income method

If the taxpayer owns more than 1.00 per cent of a company, capital gains are subject to a progressive tax of between 0 and 47.475 per cent, (including the solidarity charge of 5.5 per cent). Because only 60.00 per cent of dividends are declared, the effective taxation is between 0 and 28.485 per cent.

In contrast to rule relating to dividends, the partial income method is not voluntary if holding requirements are met.

14.4 Incentives and tax relief rules

Germany does not offer incentives or tax relief on dividends and capital gains.

15 US

15.1 General information about the tax system

The US has a double taxation system, which means that company profits are taxed at company level, and dividends to shareholders are taxed again at an individual level.

Federal corporation tax is 21.00 per cent.

Some US states levy additional corporation tax. Iowa applies an additional corporation tax of 12.00 per cent, which results in a maximum total corporation tax of 33.00 per cent. In the District of Colombia, where Washington DC is located, corporation tax is 9.40 per cent. This results in corporation tax of 31.40 per cent (21.00 per cent + 9.40 per cent).

It should be noted that previously, the US has levied progressive corporation tax at a federal level. This was changed on 1 January 2018.⁴⁶

The US comprises 50 states. Some of these states levy income tax at state level, in addition to federal income tax. Many states do not levy income tax at all, and other levy varying and substantial exemptions from income tax. Furthermore, the method varies for the calculation of income tax and different thresholds are applied to calculate tax rates for different income levels. State tax can also be deductible from federal tax, which affects federal thresholds and tax rates in ways described below. It is therefore misleading to describe taxation purely from the table of tax rates at state level, and add these to federal tax rates. The following describes therefore only taxation of capital gains and dividends at federal level.

15.2 Taxation of dividends

Dividends are taxed differently depending on whether they are qualified or non-qualified.

15.2.1 Qualified dividends

Dividends that meet certain criteria are taxed as qualified dividends. The following conditions must be met:

Dividends must be paid out by US companies, or by companies that are listed on larger stock exchanges in the US, (for example the New York Stock Exchange or the Dow Jones).

Shares must have been owned for more than 60 days during a 121-day period calculated from 60 days prior to the dividend, and up to 60 days after the dividend.⁴⁷ Qualified dividends are taxed at lower rates in the following way:

Qualified dividends (USD)	Tax rate
Up to 425,800	15.00%
Over 425,800	20.00%

⁴⁶ Public law no. 115-97. Tax Cuts and Jobs Act (TCJA).

⁴⁷ For Qualified Preferred Stock Dividends, the participation requirement is instead 90 days in a 181-day period. Qualified Preferred Stock can generally be described as shares with less control and certain preference in the event of disposal, (often used by external financiers and it is unusual for private individuals to own such shares).

Thresholds are calculated separately from ordinary income.

If an individual's total income does not exceed SEK 329,570 (USD 38,600), dividends are not taxed.

15.2.2 Non-qualified dividends

Non-qualified dividends are taxed at the same rates as an individual's other income. The threshold relates therefore to the individual's ordinary income and calculated "at the top end" of, for example, wage income.

Non-qualified dividends are taxed in the following way:

Non-qualified dividends (USD)	Tax rate
Up to 9,525	10.00%
9,525-38,700	12.00%
38,700-82,500	22.00%
82,500-157,500	24.00%
157,500-200,000	32.00%
200,000-500,000	35.00%
Over 500,000	37.00%

15.3 Capital gains

Taxation of capital gains is determined by whether shares are classified as short- or long-term, (short- or long-term capital gains). Capital gains related to shares held for more than 366 days are considered long-term, and are taxed in the same way as qualified dividends. Other capital gains are considered short-term, and are taxed in the same way as non-qualified dividends.

15.4 Incentives and tax relief

The US does not offer incentives or tax relief on dividends and capital gains.

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