TAXATION OF FUND SAVINGS

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Taxation of investment funds (funds registered in Sweden)

As from 1 January 2012 investment funds are exempt from taxation and will not be liable to Swedish income tax. An equivalent tax is levied at unit-holder level.

Taxation of unit holders (direct ownership)

1. The rate of income tax payable on capital gains from fund units for individuals resident in Sweden and estates of deceased Swedish residents is 30 per cent. If the unit holder is a Swedish legal entity, the tax rate is 26.3 per cent. If the unit holder is situated abroad and has no significant connection to Sweden the unit holder will not be taxed in Sweden for capital gains from fund units.

2. As from 1 January 2012 a standard income tax is paid on fund units. The tax is levied as a capital gains tax based on a standard rate income corresponding to 0.4 percent of the value of the fund units the first of January each year. The amount is preprinted in the income tax statement. The unit holder will pay 30 percent capital gains tax on the standard rate income. The tax levied will amount to 0.12 percent of the value of the fund units and will be charged the first time through the income statement in 2013.

3. Unit holders, who are individuals resident in Sweden, or the estate of a deceased Swedish resident, pay 30 per cent income tax on dividends. Individuals resident abroad, or foreign legal entities, pay either 30 per cent Swedish withholding tax, or the lower tax rate specified in double taxation agreements between Sweden and the country in question.

Swedish income tax is thus levied on capital gains and dividends from all types of fund units held by Swedish residents at 30 per cent. The gain is taxed regardless of how long the units have been held. A capital loss on units in quoted funds, with the exception of fixed income funds that invest exclusively in SEK, may be offset in its entirety against capital gains on quoted equity-related assets and quoted and unquoted shares. Only five sixths of capital gains on non quoted shares may be offset.

Balanced funds and fixed income funds that invest in foreign currencies are also considered to constitute equity-related funds. If the total amount of capital losses exceeds the capital gains, the saver is allowed to deduct 70 per cent of the net loss against other income from capital, e.g. interest income and dividends. The saver is entitled to a tax reduction if a total deficit arises, i.e. 30 per cent of the deficit may be deducted against the tax on income from employment and business etc. If the total deficit exceeds SEK 100 000, the entitlement to a tax reduction falls to 21 per cent for that part of the deficit that exceeds SEK 100 000. A deficit that cannot be utilised one year may not be carried forward to subsequent years.

Capital losses for units in quoted fixed income funds that only invest in instruments issued in SEK, are fully deductible against any kind of income from capital. No more than 70 per cent of capital losses on shares or equity...
funds, for example, may be deducted against profits on fixed income fund profits. If the shares are not quoted only five sixths of the loss is deductible.

Losses on unquoted fund units are, after reduction to 70 per cent, deductible against any kind of income from capital.

The deduction rules differ in part for unit holders that are legal entities (with the exception of the estates of deceased persons).

**Statements of earnings and withholding tax and preliminary tax deductions**

The fund management company or depository bank or other institution shall also provide a statement of earnings with regard to capital gains or capital losses on the sale of fund units when the unit holder is an individual or the estate of a deceased Swedish resident. Net sales proceeds shall be reported instead in the event of the absence of data that enables a calculation to be made of the profit/loss.

A statement of earnings with regard to the standard income tax on funds must be provided to the Tax Authority for unit holders who are individuals or estates of Swedish deceased residents. Legal entities must calculate their standard income and pay the standard income tax on funds by themselves. The unit holders must, in their income statements state a standards rate income of 0.4 per cent of the underlying fund capital. The underlying fund capital is the value of the units as of first of January each year. The standard income is taxed as a capital gains tax and can be deducted from expenses on capital gains. For individuals this means that the tax is 30 per cent.

Swedish financial institutions that pay dividends to unit holders who are individuals resident in Sweden, or estates of deceased Swedish residents, are obliged to withhold Swedish preliminary tax at 30 per cent of the dividend. For unit holders resident abroad (both individuals and legal entities), withholding tax of 30 per cent, or the lower tax rate according to double taxation agreements between Sweden and the country where the unit holder is a resident for tax purposes, shall be withheld instead.

**Investment savings account (ISK)**

A new investment savings account (ISK) was introduced as of 1st of January 2012. Assets allowed in the account are financial instruments listed on a regulated market and all kinds of funds whether they are listed or not. Capital gains and dividends are not taxed within the ISK. Instead a standard income, based on the government bond yield the last of November the previous year, shall be levied as a capital gain. The standard income is preprinted on the income tax statement and is taxed with 30 per cent. For the income year 2012 the tax on ISK is 0.495 per cent of the average capital at the end of each quarter. The tax will be paid by the saver together with other tax on the income tax statement. Withdrawals from the ISK are not taxed.
Special rules for Individual Pension Saving (IPS), unit linked funds and premium pensions

The policy holder/unit holder does not pay ordinary Swedish income tax on capital gains or dividends in conjunction with savings within IPS or unit linked funds/pension insurance. Instead, an annual standard income tax is paid. The tax rate for the income year 2012 is 0.4 per cent of the savings capital on 1st January 2012. The standard rate is based on 15 percent of the average government bond yield the previous year. It is paid automatically for IPS and Swedish unit linked funds regarding pension insurances. The premiums paid to pension insurances and IPS savings are, furthermore, income tax deductible with a maximum of 12 000 SEK per year. Correspondingly, income tax is paid when the pension is disbursed, which may not occur before the age of 55, the shortest permissible disbursement period being 5 years. Disbursements from pension insurance policies are taxed as income from employment with between 32 and 57 percent tax.

A yearly standard income tax is payable also on unit linked funds/endowment insurance. For 2012, the tax rate is 0.495 per cent of the savings capital plus investments during the year. Only half of the value of investments made after July first will be included in the calculation. The standard rate is based on 30 percent the government bond yield the last of November the previous year. (Until 2011 the standard rate tax on unit linked funds/endowment insurance was based on 27 percent of the average government bond yield the previous year.) For endowment insurance policies the premiums are not deductible and disbursements are not taxed.

The tax is paid automatically for Swedish unit linked funds. Persons saving in foreign endowment insurance policies are obliged to submit their own tax declarations and payments.

Fund saving within the State premium pension system is not taxed until the amounts fall due for payment and are then taxed as income from employment. Fund savings within the occupational pensions systems are taxed as individual pension savings but are deductible for the employer.