



# Sweden: Taxation for Expatriates

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**SWEDEN**

**TAXATION FOR EXPATRIATES**

*Executive Summary*

*According to the Swedish Income Tax Act a person who has an unlimited tax liability is exempt from paying income taxes in Sweden if his employment requires that he reside abroad for at least six months and pay taxes in the country where the work is performed. Similarly, there are circumstances under which an employee who resides abroad for at least one year may be exempt from paying income taxes in Sweden even if he is not liable to pay taxes in the country where his work is performed.*

Swedish tax law distinguishes between limited and unlimited tax liability.<sup>1</sup> According to the Swedish Income Tax Act persons who reside in Sweden, live there on a regular basis, or enjoy a substantial connection to the country and have lived there previously are all subject to unlimited tax liability.<sup>2</sup> In order to determine whether a person who previously has resided in Sweden has a substantial connection to the country, the following circumstances are considered:<sup>3</sup>

- if he is a Swedish citizen;
- how long he has been a resident of Sweden;
- if he is not residing permanently at a specific location abroad;
- if he is residing abroad because of studies or health reasons;
- if he has a year round residence in Sweden;
- if his family resides in Sweden;
- if he operates a business in Sweden;
- if he is economically involved in Sweden through assets which provide him, directly or indirectly, with an essential influence over a business in Sweden;
- if he owns a land unit in Sweden; or
- similar circumstances.

A person who lives abroad continues to have a substantial connection to Sweden for a five-year period counted from the day he leaves the country, unless he proves otherwise. This rule is applicable

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<sup>1</sup> Statens Offentliga Utredningar [SOU] 2003:12 Ändrade skatteregler för utomlands bosatta, p. 19 (Swed.).

<sup>2</sup> Ch.3, 3 § Inkomsskattelag (Svensk författningssamling [SFS] 1999:1229) (Swed.).

<sup>3</sup> Ch. 3, 7 § Inkomsskattelag (Svensk författningssamling [SFS] 1999:1229) (Swed.).

only to persons who are Swedish citizens or who have resided or lived in Sweden on a regular basis for at least ten years.<sup>4</sup>

Generally, a person who has an unlimited tax liability is required to pay taxes on all income from Sweden and abroad.<sup>5</sup> Limited tax liability, on the other hand, includes only income that is derived from activities in Sweden.<sup>6</sup> There is an exception from unlimited tax liability for income that is derived from abroad. According to the Income Tax Act, a person whose employment requires that he reside abroad for at least six months is not liable to pay taxes for the income from such employment, to the extent that this income is taxed in the country where the work is performed (“six-month rule”).<sup>7</sup>

If during the course of employment the employee stays abroad (in the same country) for at least one year, he is not liable to pay taxes on the income, even if it is not taxed in the foreign country when this situation is due to legislation or another administrative practice in that country, or because of an agreement that is not a tax agreement. This “one-year rule” is not applicable to those who are employed by the state, a county council, a municipality, or a congregation within the Swedish Church, except for exported services (which are activities that are clearly demarcated from public activities).<sup>8</sup>

The six-month and one-year rules are not applicable to persons who are employed by Swedish, Danish or Norwegian airlines.<sup>9</sup> The rules also are not applicable generally to ship employees, but a person who is employed on a foreign ship does not have to pay income taxes if he has lived abroad for at least 183 days over a period of twelve months, the employer has an unlimited tax liability in Sweden, and the ship sails on the oceans (*Oceanfart*).<sup>10</sup> The rules are inapplicable to ships that sail within Sweden, on the Baltic Sea, the North Sea, along Europe’s coastline, on the Mediterranean and the Black sea. Similarly, shipping to Morocco, Western Sahara, the Canary Islands, and Madeira also are not considered *Oceanfart*.<sup>11</sup>

The six-month and one-year rules are applicable if the work abroad is terminated early due to circumstances the employee could not influence and it obviously would be unreasonable to tax the income. The circumstances that can interrupt employment can be of a personal nature, such as an illness, or outside events like strikes or war.<sup>12</sup>

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<sup>4</sup> *Id.*

<sup>5</sup> Ch. 3, 8 § Inkomsskattelag (Svensk författningssamling [SFS] 1999:1229) (Swed.).

<sup>6</sup> Statens Offentliga Utredningar [SOU] 2003:12 Ändrade skatteregler för utomlands bosatta, p. 19 (Swed.).

<sup>7</sup> Ch. 3, 9 § Inkomsskattelag (Svensk författningssamling [SFS] 1999:1229) (Swed.).

<sup>8</sup> *Id.*

<sup>9</sup> Ch. 3, 11 § Inkomsskattelag (Svensk författningssamling [SFS] 1999:1229) (Swed.).

<sup>10</sup> Ch. 3, 12 § Inkomsskattelag (Svensk författningssamling [SFS] 1999:1229) (Swed.).

<sup>11</sup> Ska du betala skatt i Sverige när du arbetar utomlands, Skatteverket, Skv 339, 11th ed., June 2005, available at <http://www.skatteverket.se/download/18.1e2bda7104d2f415098000807/33911farg.pdf>.

<sup>12</sup> Ska du betala skatt i Sverige när du arbetar utomlands, Skatteverket, Skv 339, 11th ed., June 2005, available at <http://www.skatteverket.se/download/18.1e2bda7104d2f415098000807/33911farg.pdf>; see also Ch. 3, 13 § Inkomsskattelag (Svensk författningssamling [SFS] 1999:1229) (Swed.).

Only income from employment abroad is excluded from taxation according to the six-month and one-year rules. Other forms of income from sources such as business and capital are not covered by these rules and are taxable.<sup>13</sup>

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<sup>13</sup> Ska du betala skatt i Sverige när du arbetar utomlands, Skatteverket, Skv. 339, 11th ed., June 2005, *available at* <http://www.skatteverket.se/download/18.1e2bda7104d2f415098000807/33911farg.pdf>.