NATIONAL FOREIGN TRADE COUNCIL, INC.

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Thursday 26th June, 2014

RE: NFTC comments on the Tax Proposal presented by the Swedish Committee on Corporate Taxation

Dear Mr. Finance Minister,

The National Foreign Trade Council, organized in 1914, is an association of 250 U.S. business enterprises engaged in all aspects of international trade and investment. Our membership covers the full spectrum of industrial, commercial, financial, and service activities. Many of our members have for many years been significant investors in many foreign countries, including Sweden (both as a final destination, and as a Nordic hub). Sweden has, in part, been a favored destination for inward investment both because of its stable tax regime, and because of a consistent effort by Swedish lawmakers to provide an attractive investment environment.

Introduction: The Proposal

We are writing to express our concern about the proposal to introduce a new system for corporate taxation recommended by the Swedish Committee on Corporate Taxation. As we understand it, the Committee's proposal, which replaces the existing rules limiting the deduction of interest expense, consists of two parts:

- Withdrawing the deduction for "financial costs"; and
- Substituting this with a standard deduction for all financial costs – a "finance allowance" – at a rate of 25 percent of net taxable profit.

To finance these changes, the Committee proposes that the deductibility for existing losses from previous years is reduced to 50%.

Our members believe that if this proposal is enacted in its current form, it could have a very serious adverse effect on inward investment into Sweden, which for many years has been a favoured investment location because of its stable tax regime.

Inward Investor Concerns

We understand that the reason for this change of law is to establish greater neutrality between the taxation of equity and debt. However, we believe that this proposal is too far-reaching.

"Financial Costs"

The Committee proposes a new, broad definition of "financial costs" for tax purposes, which is very similar to the definition of financial costs used in accounting, on the grounds that equity and debt will be taxed similarly for the great majority of companies. This, however, in some cases will favour equity-financed investments over debt-financed investments, and this will disadvantage many genuine inward investors that choose debt-base funding because of its flexibility (e.g., broader and deeper debt markets, the ability to refinance, etc.).

"Financial Allowance"

The Committee proposes that interest deductions be limited based on net profits, a measure close to earnings before interest and taxes (EBIT), rather than the more widely utilized test based on earnings before interest, taxes, depreciation and amortization (EBITDA). This would be particularly adverse to capital-intensive investment. Furthermore, companies in cyclical industries may be unable to deduct the true economic costs of investment under the proposed rules for a "standardized deduction". Indeed, some companies may (according to the proposal) even have to pay taxes for years in which they report losses.

50% reduction of the existing Net Operating Losses ("NOLs")

The financing of the proposal through a 50% reduction of existing NOLs would result in the disallowance of existing losses that were properly carried forward based on the rules in force when they were generated. This will result in both an adverse effect on balance sheets, as well as on profit and loss accounts (as deferred tax assets are reversed). This, retrospective reversal of economic benefits will do enormous damage to the reputation of Sweden as a location for business investment.

Conclusion

We have sympathy with the aim of curbing the most aggressive tax practices in this area. However, these proposed measures to combat excessive interest deductions, and the 50% reduction of historical NOLs calls into question the predictability and stability of Swedish tax policy. Additionally, since such a system does not exist in any other country, the risk of international double taxation of Swedish companies will increase, and ultimately could make

Sweden an "outsider" among countries seeking active business investment.   Furthermore, it is precisely this lack of coordinated action that the OECD Base Erosion and Profit Shifting ("BEPS") project is intended to prevent.

We believe that these proposals should be withdrawn. We encourage you to consider other types of proposals that will not have such a detrimental impact on foreign investment into Sweden. Sweden has always in the past made an effort to provide an attractive investment environment.

Our members would be more than happy to meet with you to discuss this further, and to answer any questions concerning the impact of these proposed rules.

Sincerely,

William A. Reinsch
President