

# Sweden

## MARKET REVIEW

Leasing is well established in Sweden, both as a form of financing equipment and as a form for vendors to promote their products. The book value 2020 decreased by 3.4% for finance companies authorised as credit market companies (from SEK90m to SEK87m) compared to 2019. The value of new contracts decreased by -8% (from SEK37m to SEK29m) compared to 2019.

The book value for all credit institutions, including banks showed a decrease by -0.35% (from SEK211.3m to SEK210.6m) compared to 2019. The value of new contracts (all credit institutions) decreased from SEK97m to SEK86m. However, the figures are not representative for the market development as, for example, large automotive finance companies changed status from credit market companies to financial institutions in recent years, which resulted in their businesses not being included in the official statistics. Apart from the Covid effects the actual market is developing better and increasing.

Leasing is furthermore an important and reliable source for corporate finance, especially for small and medium-sized companies in need of good and efficient solutions for new investments in equipment.

Leasing has spread into almost every area of business investment in Sweden. Of all investments in machinery and other types of equipment, approximately 20% are financed by way of leasing.

International leasing is mostly carried out by a few big leasing companies, owned by the export industry and banks. Approximately 20%–25% of all lessees are foreign companies.

All types of companies, small, medium-sized and large, of almost every trade take the advantage of leasing as lessees. Also, public bodies lease equipment to a significant extent. Consumer leasing of cars has been rapidly growing for a number of years and reached an all-time high, as around 45% of all new consumer cars were leased in 2020.

Equipment acquired for leasing makes up approximately 45% of the total assets of finance companies.

In the Swedish economy during 2020, the GDP decreased by 2.8% as a result of the Covid pandemic and the rate of inflation was 0.5% (but extremely uneven as prices in private housing increased by 13% and for apartments by 7% as a result of increased demand for larger homes). The average rate of unemployment was 8.3%.

Structure of the industry. The finance houses shown in Table

**Table 1: Trends in Swedish leasing contracts<sup>1</sup>**

Year	New equipment purchased (SEKm)	Yearly change (%)	Book value (SEKm)	Yearly change (%)
2016	79,895	+16.1%	122,690	+7.4%
2017	65,411	-18.1%	111,301	-9.1%
2018	40,557	-38.0%	99,739	-10.4%
2019	37,304	-8.0%	89,964	-9.8%
2020	28,785	-22.8%	87,037	-3.3%

Note: <sup>1</sup>The lessor/creditor being a finance company authorised as credit market company

**Table 2: Growth by asset sector in Sweden (book values, end-of-year)<sup>1</sup>**

Sector	2016	2017	2018	2019	2020
Buildings	174	201	140	155	155
Passenger cars	44,893	25,323	12,009	9,789	9,640
Other road vehicles	13,007	13,728	14,919	8,543	8,490
Other transport equipment	20,515	19,152	16,698	11,801	10,878
Contracting equipment	5,243	5,821	6,288	6,846	7,062
Engineering equipment	7,145	15,765	17,472	19,894	20,029
Computer equipment	12,165	11,758	12,018	12,547	11,767
Mobile telephones, communication equipment	1,898	1,825	1,869	1,987	2,287
Office, hotel, restaurant and store equipment	672	633	667	682	725
Graphical equipment	492	421	400	341	291
Medical equipment	567	728	1,068	1,284	1,349
Other	15,917	15,946	16,190	16,097	14,365
<b>Total</b>	<b>122,690</b>	<b>111,301</b>	<b>99,739</b>	<b>89,964</b>	<b>87,037</b>

Note: Value in SEKm

<sup>1</sup>The lessor/creditor being a finance company authorised as credit market company

4 are members of the Association of Swedish Finance Houses or the Swedish Bankers' Association. These two associations co-operate on the international level in matters relating to leasing through a joint organisation, AFINA, Association of Swedish Finance Houses'. AFINA is a member of Leaseurope.

Finance leasing is offered by finance companies, by companies owned by manufacturers and by vendor companies. Some of these require authorisation as credit market companies but others do not (see 'law and regulation' below).

The total outstanding book value of leased objects, sorted by class of assets of authorised finance companies, is shown in Table 2. There are no official statistics available for lessors that are not authorised as credit market companies. However, it is estimated that the volume provided by such lessors is approximately 30% of all finance leasing in Sweden.

Besides leasing, finance companies offer a number of other forms of financing, e.g. instalment sales, hire purchase, factoring, stock financing, loans and various forms of consumer credits (credit cards, instalment credits, etc.).

**Lease contracts.** There is no Swedish legislation dealing exclusively with lease contracts. In the case of operational leasing, the lessor will sometimes undertake a greater responsibility for the delivery and functioning of the equipment. Financial lease contracts dominate the Swedish leasing market. Some typical clauses of finance lease contracts are as follows:

- The lessee is obliged to receive, examine and accept the leased equipment when it is delivered by the supplier. If the lessee at the receipt of the equipment discovers any defect or fault therein, he is obliged to report that in writing to the lessor.
- The equipment remains the property of the lessor throughout the lease term and thereafter. Consequently, ownership to the leased equipment is not transferred to the lessee by means of the lease contract. Name plates stating the lessor's ownership are or may be mounted on the equipment.
- The lessee is prohibited to transfer the equipment to any third party and to take any other action that may jeopardise the lessor's ownership of the equipment.
- The lessor is entitled to inspect the equipment during the lease term.
- Whilst the lessee requires the equipment to be without faults and defects, the lessor is not held responsible for the condition or functioning of the equipment. Different ways are used to achieve this. One way is that the lessor declares that he bears no responsibility in these respects but transfers to the lessee his right to raise claims against the supplier. Another way is that the lessor undertakes liabilities in these respects but limits such liabilities to his right to raise the corresponding claims against the supplier and to the supplier actually performing his corresponding obligations.

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- During the lease term, the lessee is responsible for the quality, performance, condition and suitability of the equipment.
- The lessee is required to take proper care of the equipment during the lease term and obliged to have the equipment properly serviced and maintained. Sometimes the lessee has to enter into an agreement with a third party for the maintenance and repair of the equipment.
- Inability of the lessee to utilise the equipment does not constitute grounds for withholding payment of the leasing fees.
- The amount of the leasing fees may vary with respect to a certain interest rate, e.g. STIBOR or LIBOR.
- The lessee is held liable for all damage to and for the loss of the equipment, whether or not caused by any fault of his own.
- If the equipment causes any such personal injury or damage

**Table 3: Hire purchase (Avbetalningsköp)<sup>1</sup> in Sweden (book values, end-of-year)<sup>2</sup>**

	2016	2017	2018	2019	2020
Total	53,659	59,153	49,721	45,611	50,286

Note: Value in SEKm  
<sup>1</sup>Ownership is transferred to the buyer/debtor at the inception but the creditor has a legal right to take the object back if the buyer/debtor fails to pay  
<sup>2</sup>The lessor/creditor being a finance company authorised as credit market company

to property of any third party for which the lessor is legally responsible, then the lessee shall indemnify the lessor.

- The equipment is to be insured throughout the lease term. If paid by the lessor, insurance premiums are either included in the rentals or charged to the lessee separately. The lessee may take out additional insurance to cover himself. Clauses regulating the sharing of insurance compensation paid under insurance policies are common.
- At the expiry of the lease, the lessee shall deliver the leased equipment to the lessor, often by sending it, on behalf of the lessor, to the supplier or to such other place as the lessor designates.

**Lease contracts for consumers.** There is no Swedish legislation dealing with leasing of movable property to consumers. The Association of Swedish Finance Houses has issued guidelines, known as FF 5, Consumer leasing/Private leasing (also available in English at [www.finansbolagen.se](http://www.finansbolagen.se)).

Leasing to consumers is referred to as a lease of movable property for private use for a fixed period of time. After the lease period, the leased property is to be returned to the lessor. The lessee is responsible for damage/loss of property during the lease term but not the object's market value beyond.

FF 5 contains guidance on the lease period, early termination, leasing fee, amendments to lease payments, addendum to the lease fee, delivery and errors, shortages, etc., and the lessee's liability for the item. The Association's members have been recommended to follow the guidelines. FF 5 was revised in June 2019.

The Association has also helped the MRF (Swedish Association for Motor Retail Trades and Repairs) to develop a popular and easy to read user guide to private leasing and order form to be used when ordering a private leasing car.

**Law and regulation. Leasing companies.** Finance companies may be specialised leasing companies or general finance companies that provide other kinds of financing besides leasing. There is no specific legislation concerning leasing contracts. Finance as well as operating lease contracts are concluded in the market.

Leasing can be offered by credit institutions, i.e. banks and authorised finance companies (credit market companies), regulated under the Banking and Financing Business Act.

Leasing is also provided by finance companies that in legal terms are 'financial institutes'. Such financial institutes are subject to registration by the Swedish FSA but are not under the authority's supervision.

One important difference between a 'financial institute' and a 'credit market company' is that only the latter may acquire funding/deposits from the public. In principle, also companies which are not authorised or registered can offer leasing.

The Swedish FSA supervises banks, credit market companies, consumer credit institutions and intermediaries, insurance companies, securities dealers and investment funds (financial institutes are not subject to supervision by the Swedish FSA). Regulations are based on applicable EU-directives regarding credit institutions, capital requirement, supervision of credit institutions, etc.

Consumer credit institutions and consumer credit intermediaries are as of July 1, 2014 subject to supervision not only by the FSA but also by the Consumer Ombudsman. This law does however not regulate consumer leasing. As mentioned above there is no Swedish legislation/regulation that deals especially with leasing.

**Table 4: Finance houses engaged in leasing**

Members of the Association of Swedish Finance Houses	Owners
BNP Paribas Leasing Solutions AB	BNP Paribas
BMW Financial Services Scandinavia AB	BMW Holding BV
DNB Bank ASA, filial Sverige (branch office)	-
De Lage Landen Finans AB	De Lage Landen International BV
Deutsche Leasing Sverige AB	Deutsche Sparkassen Leasing AG & Co KG
GCC Capital AB	Accastum AB
Göteborgs Stads Leasing AB	Göteborgs Stadshus AB
Ikano Bank Företag	Ikano SA
Jyske Finans Filial (branch office)	Jyske Finans A/S
Lantmännen Finans AB	Lantmännen ek. för
LeasePlan Sverige AB	LeasePlan Corporation N.V.
Mercedes-Benz Finans Sverige AB	Mercedes-Benz Danmark AS
Nordic Finance Business Partner AB	Private owners
Scania Credit AB	Scania CV AB
Scania Finans AB	Scania CV AB
SG Finans AS Norge, Sverige Filial (branch office)	Société Générale
Siemens Financial Services AB	Siemens AG
Svea Ekonomi AB	Private owners
Telia Finance AB	Telia Company AB
Toyota Kreditbank GmbH Tyskland, Sverige Filial (branch office)	Toyota Motor Corporation, Japan
Toyota Material Handling Commercial Finance AB-TMHCF	Toyota Industries Corporation
Volkswagen Finans Sverige AB	Volkswagen Bank GmbH
Members of the Swedish Bankers' Association	Owners
Danske Bank Sverige (branch)	Danske Bank, Denmark
DNB Bank (branch)	DNB Norway
Handelsbanken Finans	Svenska Handelsbanken
Ikano Bank	IKANO S.A., Luxemburg
Marginalen Bank	Marginalen
Nordea Finans	Nordea, Finland
Santander Consumer Bank (branch)	Santander Consumer Bank, Norway
SEB	Listed on Nasdaq Stockholm
Svea Bank	Svea Ekonomi
Swedbank	Listed on Nasdaq Stockholm
Volvofinans Bank	Volvo Personvagnar
Wasa Kredit	Länsförsäkringar Bank

Consumer leasing of cars has been rapidly growing for a number of years and reached an all-time high, as around 45% of all new consumer cars were leased in 2020.

Even if the general criteria for authorisation as a ‘credit market company’ are at hand, there are a number of exceptions to the requirement of authorisation:

1. an undertaking that provides financing in connection with the sales of services which are offered or goods produced or sold by the undertaking; and
2. an undertaking which meets the financing requirements solely of other undertakings which are part of the same group, provided that the group does not have the main aim of engaging in financial business.

The temporary exemption for an undertaking that provides financing in connection with the sales of services which are offered or goods produced or sold by another undertaking of the same group, provided that the group does not have the main aim of engaging in financial business, became permanent in July 2009 (with some adjustments).

In order to benefit from this exemption, the funding from the public is to have a duration time of a minimum one year. In addition to that there is an exemption for all undertakings that only indirectly – through another undertaking of the same group – receives repayable funds from the public.

Another exception is related to the securitisation of receivables, for instance leasing claims. Under this exception no authorisation is required for a company that only, on a few occasions, acquire receivables from the originator, again provided that funding is not obtained from the public. The company acquiring the claims may not grant credits or enter into new lease contracts as lessor.

Under the single licence system of the EU, banks and other credit institutions that are established in a country belonging to the European Economic Area may set up affiliates in Sweden for the conduct of leasing in Sweden. Such companies may also, from their home country, offer leasing in Sweden as a regular line of business.

In none of these cases is a Swedish authorisation required but in both cases some formalities must be observed. A Swedish subsidiary of a foreign credit institution will, however, require Swedish authorisation to be able to conduct leasing business in Sweden.

**General private law legislation.** Even if there is no Swedish legislation dealing directly with leasing transactions, general private law legislation is directly applicable to lease contracts, e.g. the 1915 Act on Contracts and the 1984 Act on Contract Terms between Enterprises. Other legislation, like the 1936 Act on



Promissory Notes and the 1990 Sales Act, are to some extent applicable to leasing by analogy.

**Taxation. Income taxation of profits.** In Sweden, income tax is charged on business profits. The income tax rate on company profits is 22%. For such purposes, all leasing income is included in the profits, with the exception of VAT paid to lessors.

The cost of the acquisition of equipment for leasing may be deducted only as the equipment depreciates in value. Lessors having the legal title to the equipment make such deductions. In respect of machinery, office equipment and many other assets, the deductions may be made either at a straight-line rate of 20% or at a declining balance rate of 30%. Either method can be used in different years. The same method of depreciation must be applied to all assets, whether they are under lease or not.

These different methods of depreciation result in differences between the taxable profit and the commercial account profit before tax. The accumulated difference is known as “excess depreciation”, 70% of which forms a part of tier one capital for the purpose of determining capital adequacy of the finance houses.

However, if an asset is not expected to last for more than three years, then the cost of acquisition may be deducted from the company profits in whole during the year of the acquisition. Also, single acquisitions of low value (approximately SEK23,000) may be deducted from the company profits in whole during the year of the acquisition.

A lessee may deduct all rentals from his company profits as a business expense with the exception of the amount of VAT charged on rentals. However, if the lessee is not liable to report VAT (which is the case, e.g. in the case of banks), then the lessee may from his company profits also deduct the amount of VAT that is charged on the rentals.

If the lessee is an individual and the lease does not form part of any business conducted by him in his own name, then he may not deduct any part of the rentals, not even an amount that would correspond to the cost of interest.

**Legislation on the income taxation of leasing.** The current rules are in force from January 1, 2019. In short, the law means that the ceiling for interest deduction by 30% of a company's EBITDA and that an element of financial lease payments is treated as interest (rules essentially based on IAS 17). The rules will have a negative effect on leasing, especially towards SMEs (not used to complex IAS 17 type of rules) as they will face increasing administrative burdens and costs.

As part of the restart after Covid, the government proposed a tax reduction for investments in equipment acquired during the calendar year 2021. Natural and legal persons (e.g. lessors) with income from business activities are entitled to the tax reduction if they hold or have held equipment that is included in a basis for tax reduction.

According to the proposal, the tax reduction should amount to 3.9% of the basis, which consists of the acquisition value of equipment acquired in 2021. Expenditure on acquisition shall be deducted through annual depreciation deductions. The new provisions are introduced in a new temporary law on tax reduction for investments in equipment acquired in 2021.

**VAT.** As a member of the EU, Sweden is obliged to follow the EU directives on VAT. Consequently, VAT paid on rentals is entirely deductible by the lessee from his VAT liability (with some exceptions, e.g. in the case of cars, where only 50% is deductible). The VAT rate is 20% (25% of the pre-tax price). If the lessor is liable to report VAT, then the lessor shall pay VAT received to the government. Normally, VAT is reported on a monthly basis.

In January 2019, the tax authority published a position on VAT and leasing. As the position was somewhat incomplete and unclear, the Swedish Finance Houses Association and the Swedish Bankers Association published a commentary in July 2019.

**Accounting. Legislation.** The accounting legislation in Sweden consists of mandatory accounting acts – the 1995 Annual Accounts Act, the 1995 Act on Annual Accounts of Credit Institutions, Investment Firms and Insurance Enterprises and the 1999 Bookkeeping Act being the most important ones offering a general framework for accounting and built on 'generally accepted accounting principles'.

The two first Acts are based on the EU Fourth, Seventh and Eleventh company law Directives. However, this legislation does not contain any particular rules for leasing.

**IFRS applies for listed companies.** According to the EU's 'IAS-regulation' all listed companies have to follow IFRS in their consolidated accounts.

**The Financial Reporting Board.** The Financial Reporting Board (*Rådet för finansiell rapportering*), has issued a recommendation 'RFR 2 Accounting for Legal Entities'. According to RFR 2 the parent company/legal entity should also apply IFRS in the non-consolidated financial statements. However, there are some exemptions from IFRS e.g. due to the tax legislation. RFR 2 provides exemptions from IAS 17 which permits all financial leases to be treated as operational leases in the accounts and financial statements for the legal entity. RFR was revised in 2016 to prepare for IFRS 16 so that all leases can be treated as operational leases in the accounts and financial statements for the legal entity e.g. due to the tax legislation.

**IFRS applies for financial companies under FSA supervision.**

Since January 1, 2007 all financial companies under supervision<sup>1</sup> of the Swedish FSA have to apply the 'IFRS-adjusted' accounting regulations issued by the Swedish FSA. In principle, this means that companies under supervision – among other IFRS-standards – shall apply IAS 17. However, due to the tax legislation in principle, the same exemptions as in RFR 2 applies for all companies under the Swedish FSA's supervision.

According to the Swedish FSA's regulation the exemption is only applicable on the legal entity level (individual company). On group level, no such exemption applies. When financial leases are treated as operational leases, the rules for operational leases are (in principle) applicable, i.e. IAS 16. Even if the annuity method is not explicitly mentioned in IAS 16.62, a recommendation issued by the Swedish FSA confirms that the annuity method can be applied.

**Swedish Accounting Standards Board.** The Swedish Accounting Standards Board (*Bokföringsnämnden*, BFN) is a governmental body with the main objective of promoting the development of generally accepted accounting principles regarding current recording as well as the drawing up of annual accounts.

The Board has developed a set of guidelines: K1 for very small companies with one physical person as owner, K2 for small limited companies and K3 for larger limited but unlisted companies. K3, applicable from 2013, is to large extent based on IFRS for SME. Accordingly, K3 prescribes that accounting for leasing is to be based on the concept of economic ownership rather than on the legal title to the equipment. However, this principle is mandatory only at group level. With respect to individual companies, K3 permits accounting to be based on the legal ownership of the equipment, even when the owner is member of a company group.

**The Association of Swedish Finance Houses.** The Association of Swedish Finance Houses has issued guidelines, known as FF 3, for lease accounting. The Association's members have been recommended to follow the guidelines. In order to take into account the introduction of IFRS, etc., the guidelines were reviewed in 2011.

**Note:**

- 1 Companies with authorisation from the Swedish FSA, i.e. credit market companies and banks.



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