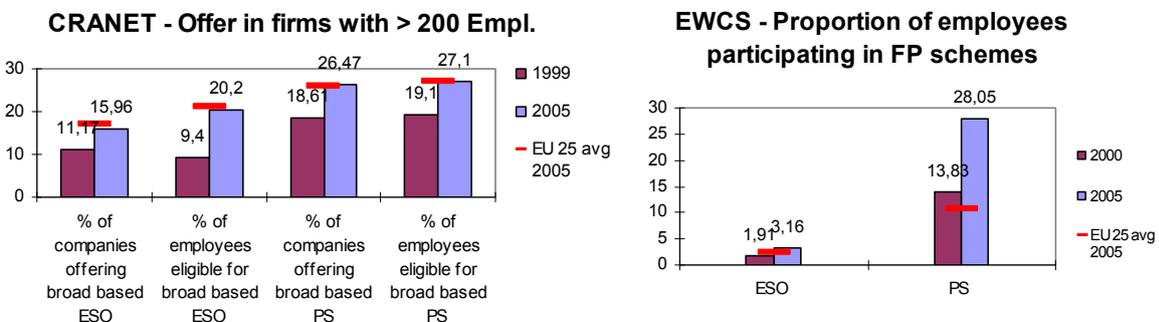


## XXVII. Sweden

There is no specific system for direct promotion of employees' financial participation in profits or shares in Sweden, despite the fact that discussions about financial participation that is wage earner funds started in Sweden already at the beginning of the 1960s. The Law on Wage Earner Funds was enacted in 1983<sup>197</sup>, whereby the majority of their assets were placed in shares of large companies. The obligation to make contributions to the funds was abolished in 1990.<sup>198</sup> There are no common definitions of different pay systems in Sweden, which makes comparisons difficult. There are no statistics on how many companies use financial participation. In Sweden, there is no particular national promotion for financial participation. One of the main thoughts behind the taxation reform in the late 1990s was that all different sources of work income should be handled in the same way, and therefore there are no income tax reliefs for the employees.

Profit-sharing foundations are used, but the extent is unknown because they are not registered with any authority. Performance-based pay is used in several companies and the collective agreements leave place for them. Performance based pay is based both on collective and individual results. It is not possible to distinguish, how many of these plans actually are profit-sharing plans.



<sup>197</sup> At that time, there were only discussions inside the Central Organisation of Trade Unions (LO). A workgroup around Rudolf Meidner proposed that 20 per cent of the profit in companies with over 100 workers should be invested in wage earner funds. Approximately 60 per cent of all employees in Sweden worked in such companies. The profits of these companies made up about 80 per cent of the profits in the whole country. The proposal was to create five regional wage earner funds which would be coordinated with the employment pension funds. Nevertheless, the law was different from the initial proposal. The funds got their assets from 20 per cent tax on the company real profit and from an increase in pension contribution. The public sector also participated in the funds.

<sup>198</sup> In 1991, the political right wing won the elections and started to close down wage earner funds. The draft law brought into the Parliament stipulated that the existing funds should be closed down and no new funds should be established. The accumulated capital of SEK 22 billion in shares was intended to be used to enhance private ownership and savings, but this proposition was rejected, since it would lead to volatility of financial markets. The government decided that 10 billion would be invested in research promotion and the remaining amount in subsidies for pension schemes.

One study shows that 19 per cent of the employees were involved in broad-based profit-sharing plans and 12 per cent in broad-based share ownership plans in 1998 and the number seems to have increased since.<sup>199</sup> The Swedish Trade Union Confederation's studies show large differences between different groups. In 1998, profit-sharing was most common among younger employees in the private sector with a full-time job and highly paid men working in the industry sector.

## 1. General Attitude

Employer associations regard financial participation as a good method of attaining increased flexibility in labour costs, depending on the success of individual firms. Because trade unions fear that financial participation will become a part of basic remuneration and affect regular raises in pay their view is neutral and sometimes negative. In practice, financial participation remains a local issue, while the national associations are more concerned with the taxation issues of financial participation as they affect their respective constituencies, for example, for employers the Confederation of Swedish Enterprises and for employees the Landsorganisationen (LO), the Swedish Confederation of Professional Associations (SACO), and the Swedish Trade Union Confederation (TCO). Government has little interest in financial participation and engages in no direct promotion. The government view is that employment income from different sources should be taxed at the same rate. The history of wage earner funds may still affect the debate on financial participation.

## 2. Legal and Fiscal Framework

### a) Share Ownership

**Employee Shares** – The employer may offer stock purchase programmes to the employees at a discount price, but no incentives are available. Employees pay income tax on the difference between the discount and the market price, while the employer pays social security contributions at the time of grant if the grant price is below market. Future gains are taxed as capital income.

**Stock options** – Stock option programmes became more common in Sweden during the 1990s. One of the reasons was that generally tax is paid on capital income which is lower than that on income of employment. Nevertheless, employee stock options are not considered as financial instruments and thus, taxation is not as favourable as for other options. The employer has no contributions at time of grant; social security contributions are

<sup>199</sup> Würz (ed.) (2003), p. 116-128; on the general value and background of employee financial participation in Sweden.

paid at time of exercise.<sup>200</sup> Likewise employees are not taxed at time of grant. At the time of exercise the difference between the market price and the exercise price of the shares is taxed as income of employment and social security contributions are due; future gains are taxed as capital income (§ 12 of the Income Tax Law 1999/1299). Employee stock options usually have the following characteristics: only available to employees within a company or group, granted for free with an exercise period of five to ten years, not portable if the employee leaves the company.

## b) Profit-Sharing

Cash-based profit-sharing exists but remains unregulated by law. No incentives exist for cash bonuses. No statistics on profit-sharing are available.

**Profit-Sharing Foundations** – Although legally possible since 1962 (Law 1962/381), the first profit-sharing foundations in Sweden were established a decade later. A profit-sharing foundation is an entity for the benefit of employees, to which the employer company contributes a percentage of company profit and which is governed in accordance with legally defined principles. If the company decides to create a profit-sharing foundation, the employees, often through union representatives, establish the foundation and determine its charter, including the provision on how the contributions are to be invested. In listed companies, the assets are often partially invested in company shares. A profit-sharing foundation must fulfil certain requirements under the Law 1990/659. Employer contributions should represent a reward to employees for improving their performance. At least one-third of the employees must participate. Profit-sharing contributions are to be vested for at least three years. Terms and conditions must equally apply to all participants. When the foundation is terminated, its assets must be distributed directly to the employee participants, not to the company. The purpose of the foundation is to administer the allocated assets according to specific directions of its charter.

Employer contributions to the foundation were once exempt from social security contributions and payroll tax (1992-1997). This probably influenced the number of new funds. Today the employer pays a payroll tax of 24.26 per cent on contributions at the time they are made (Law 1996/97:21 s. 25) in lieu of a social security contribution of 32.28 per cent which is paid on wages. No tax incentives are given to employees; they pay taxes on income attributed to employment service at the time their trust accounts are distributed. The foundation pays capital tax 1.5 per cent on its assets (§ 20 of the Law on Governmental Capital Tax 1997:323). Since there is no systematic registration of profit-sharing foundations, it is impossible to know the extent of use or number. The most famous profit-sharing foundation in Sweden is that of Handelsbanken, called Oktogonen, enacted in 1973. Every year since then, except for 1992, Handelsbanken has contributed a part of its profit to the foundation. Shares are divided equally among employees, and the employee collects his or her payments at the age of 60. The foundation was Handelsbanken's largest shareholder in 2004, owning 10.1 per cent of the voting shares and 9.6 per cent of the capital. One third of foundation assets was invested in Handelsbanken shares, and the remainder was invested in the shares of publicly traded companies.

<sup>200</sup> This may involve the risk of large social security contributions for the employer in the future.

### **c) Participation in Decision-Making**

Employee financial participation is not connected to participation in decision-making. The extensive co-determination, representation and consultation rights of employees, mainly through trade union representatives, are governed by the Law on Board Representation (1987/1245) and the Law on Co-determination at Work (MBL 1976/580). The Act on Board Representation gives the local trade union the right to appoint two representatives to the board of directors if the company has at least 25 employees. If the company has at least 1,000 employees and operates in several industries or business sectors, the trade union has the right to appoint three board representatives. Under the Act on Co-determination at Work all important matters concerning the relation between employer and employees' organisations shall be determined by negotiation. The employee is always represented by the trade union organisation that has the right to negotiate. In the case of the employer, the right of negotiation may be exercised either by an employers' organisation or by the individual employer.