News

Reduced Capital Requirement for Private Limited Companies

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The Swedish government recently presented a proposal to reduce the minimum permitted share capital in private limited companies from SEK 50,000 to SEK 25,000, effective January 1, 2020.

Share capital requirements of a certain minimum size should ensure that, at least from an accounting perspective, there is a margin between the company's assets and liabilities. There are several rules in the Swedish Companies Act that aim to ensure that this margin does not decrease by e.g., shareholder dividends. At the same time, the proposal points out that the minimum requirement is, in practice, a weak protection for the creditors, and that the share capital should rather work as a barrier against dishonest businesses.

The share capital is part of the limited company's equity, which is divided into restricted and non-restricted equity. The share capital, together with any restricted funds, constitute the restricted equity, while other equity is considered non-restricted equity. The value of the company's assets will amount to at least the value of the company's liabilities, provisions, and share capital plus any other restricted equity. In these instances, the restricted equity is said to be "covered". If there seems to be a capital deficiency, the deficiency must either be cured, or the company must be liquidated. A board of directors must act as soon as there is reason to believe that the company’s equity is less than half of the registered share capital. Otherwise, the board of directors, and in some cases the shareholders, risk personal liability.

The size of a company’s share capital is determined when the company is formed. The share capital can later be increased or decreased, but it must always amount to the minimum requirement, which today is SEK 50,000. According to the proposal, the limit will be lowered to SEK 25,000. About 95 percent of the companies are formed with the lowest permitted share capital. By comparison, in many EU countries, it is possible to form companies without share capital or with a share capital of EUR 1.[1]

A company that has a higher share capital than the minimum requirement can, under certain conditions, reduce the share capital and repay the excess amount to the company’s shareholders. The decision must be made at a general meeting of shareholders, and must be registered with the Swedish Companies Registration Office. Sometimes the general meeting must decide on new articles of association at the same time. The company also must apply for a permit from the Swedish Companies Registration Office to implement the decision (i.e., to pay out the money to the shareholders). Before the Swedish Companies Registration Office gives permission, the Swedish Companies Registration Office issues a notice to the company’s creditors. The notice states that anyone who does not want the company to reduce the share capital must notify the Swedish Companies Registration Office (usually within two months). The Swedish Companies Registration Office also sends a notification to the Swedish Tax Agency. If no creditor notifies the Swedish Companies Registration Office in time, the company may implement the reduction of the share capital.

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[1] Lagrådsremiss – Lägre kapitalkrav för privata aktiebolag (*Eng. Lower capital requirement for private limited companies*), September 5, 2019.