Tax

At Castellum, there are a number of areas that are taxed: income tax on current earnings, property tax, VAT, stamp duty and energy taxes. Political decisions such as changes in corporate taxation, tax legislation and interpretations may lead to Castellum's tax situation increasing or decreasing.

Income tax

Castellum's recognized income from property management for 2018 amounted to MSEK 2,952 (2,530), while taxable income from property management totaled MSEK 1,433 (1,087). In the absence of tax loss carry forwards, a paid tax of MSEK 316 (239) attributable to the income from property management would arise, equivalent to 11% effective tax paid.

Depreciation for tax purposes

Property investments are divided into different components for which the Swedish Tax Agency specifies different depreciation rates:
Buildings (2–5% depending on type of property), land improvements 5% and inventories 20% or 30%. Land is not depreciated.

Tax deductible reconstructions

Costs for building repairs and maintenance can be deducted immediately. The "extended repair concept" allows for direct deduction for certain types of reconstructions, even if they add value and are capitalized in the accounts.

Sales of properties

Properties can be divested directly or indirectly in corporate wrappers; each have different tax consequences.

Profit on sales of properties that fiscally represent fixed assets is taxable, while a loss is put in a "fold" and can only be netted against profits within the Group from direct sales of properties that represents fixed assets. Profit on sales of shares that fiscally are considered fixed assets is not taxable, while a loss is not tax deductible.

For properties or shares that fiscally represent current assets, a profit is always taxable while a loss is tax deductible.

Changes in property and derivatives values

Swedish accounting laws do not allow recognition of properties at fair value in a legal entity, meaning that changes in value do not affect taxation. Certain financial instruments, such as interest rate swaps, may be recognized at fair value in legal entities. For Castellum, changes in value resulting in a negative value on the instrument constitute a tax-deductible expense, while changes in value up to the instrument's cost are considered taxable income.

Castellum has no ongoing tax disputes.

TAX CALCULATION 2018

MSEK	Basis current tax	Basis deferred tax
Income from property management	2,952	
Deductions for tax purposes		
depreciations	-1,031	1,031
reconstructions	-582	582
Other tax allowances	94	-79
Taxable income from property mgmt	1,433	1,534
– current income tax 22%, if tax losses are not utilized	*316*	
Properties sold	101	-1,803
Change in value on properties	–	5,326
Change in value on derivatives	152	–
Taxable income before tax loss carry forwards	1,686	5,057
Tax loss carry forwards, opening balance	-2,437	2,437
Tax loss carry forwards, closing balance	1,081	-1,081
Taxable income	330	6,413
Tax for the year 22%	**-74**	**-1,411**
Revaluation, deferred tax	**–**	**618**
Tax according to the Income statement for the period	**-74**	**-793**

NET DEFERRED TAX LIABILITY, DECEMBER 31, 2018

MSEK	Basis	Nominal tax liability	Actual tax liability
Tax loss carry forwards	1,081	231	221
Untaxed reserves	-144	-31	-31
Properties	-50,533	-10,428	-3,165
Total	-49,616	-10,288	-2,975
Properties, asset acquisitions	4,976	1,025	
In the balance sheet	**-44,640**	**-9,203**	

Deferred tax is in principle both interest-free and amortization-free, and can therefore be considered equity. Actual deferred tax is lower than nominal tax partly due to the possibility of selling properties in a tax-efficient way, and partly due to the time factor which means that the tax will be discounted.

The actual net deferred tax liability has been estimated at 6% based on a discount rate of 3%. Further, assessments have been made that tax loss carry forwards are realized in 2 years with a nominal tax of 21.4%, giving a present value for the deferred tax liability of 21%, and that the properties are realized over a period of 50 years where 33% are sold directly with a nominal tax of 20.6% and 67% are sold indirectly in corporate wrappers where the buyer's tax discount is 8%, which gives a present value for the deferred tax liability of 6%.

Deferred tax on the balance sheet
Above all, Castellum has three items that make up the basis for deferred tax: properties, tax loss carry forwards and untaxed reserves. All tax loss carry forwards are recognized since expected future taxable income may be used to net the tax loss carry forwards. Deferred tax attributable to properties arises primarily due to changes in value, tax deductions such as depreciation and deduction of certain reconstructions that are capitalized in the financial accounting. Untaxed reserves consist of transfers to the tax allocation reserve.

Property tax
Property tax is paid on almost all the Group's properties. Special buildings such as communication buildings, educational and healthcare buildings are tax exempt. For other properties, the tax rate — as set by the Swedish Tax Agency — depends on the type of building and site. For offices, the tax is 1% of the assessed value; for logistics and warehouse buildings, it is 0.5%. In Denmark and Finland, tax rates vary depending on which municipality the properties are located in. Property taxes for 2018 amounted to MSEK 315 (305), based on an assessed value of SEK 34 billion.

Value added tax (VAT)
Properties are exempt from compulsory VAT. If a premises is leased to a customer who runs a permanent VAT-liable business, the property owner can voluntarily register for VAT and thus deduct input VAT on both operating expenses and investments. No deductions can thus be made for input VAT attributable to operating expenses and investments in premises not registered for voluntary tax liability. Non-deductible VAT on operating expenses for 2018 totaled MSEK 21 and was recognized as an operating expense. Non-deductible input VAT on investments for 2018 was MSEK 120 and was recognized as investment in property.

Stamp duty
Upon acquisition of property in Sweden there is a stamp duty (title deed) of 4.25%, calculated on either the purchase price or the assessed value, whichever is greater. In Denmark, the corresponding tax is 0.6% and in Finland it is 4.0%. In Finland, a stamp duty of 2.0% can also be paid on shares in a property company. In 2018, MSEK 29 stamp duty was paid on acquisitions as part of the cost of acquisition. There is also an additional stamp duty of 2% (1.5% in Denmark) for mortgage deeds in properties. In 2018, this tax totalled MSEK 0 and is capitalized in the balance sheet.

Energy taxes
Castellum purchases energy to use for heating, cooling, ventilation and lighting in its properties. Of this, MSEK 31 pertains to energy taxes.

Employees
Employers in Sweden pay 31.42% in social security contributions based on salary and a payroll tax of 24.26% on pension contributions. Castellum has 388 employees for whom MSEK 85 was paid in social security contributions and payroll taxes.

Summary of tax
In 2018, Castellum's operations generated a total of MSEK 675 (572) in various taxes.

Summary of tax paid

MSEK	2018
Income tax	74
Property tax	315
VAT, not deductible	141
Stamp duty	29
Energy tax	31
Social security contributions and payroll tax	85
Total tax paid	**675**

New legislation on interest deduction limits and lowered corporate tax
During the first quarter, the government published the "New Tax Rules for the Business Sector" draft bill referred to the Council on Legislation for scrutiny. The bill includes proposals for interest expense deduction limitations pursuant to EU directives, and was adopted on June 13, 2018 and will enter force on January 1, 2019. Broadly speaking, the legislation entails a maximum net interest expense deduction of 30% on EBITDA (in Castellum's case, the proposal means profit before tax with the add-back of net interest, changes in property and derivatives values, and deductions for tax deductible redevelopments). Moreover, the government proposes a lowered corporate tax, introduced in two steps: 21.4% as of 2019, which will be lowered to 20.6% as of 2021.

Today's strong cash flow from operations, combined with historically low interest rates and reduced corporate taxes, mean that interest rate limitations in their present format do not significantly affect Castellum's tax paid.