



# Taxes in Sweden 2000

A summary of the Tax Statistical Yearbook  
of Sweden 2000



# Preface

The Swedish National Tax Board publishes a Swedish language Tax Statistical Yearbook of Sweden (Skattestatistisk årsbok). It presents an overview of the Swedish tax system as well as up-to-date statistics on relevant aspects of taxation.

To make the Yearbook accessible to an English speaking audience it contains a substantial English summary and all tables have English translations.

This publication, *Taxes in Sweden 2000*, is a special edition of the English summary of Tax Statistical Yearbook of Sweden 2000. The complete Yearbook, as well as this publication, is available on our web site [www.rsv.se](http://www.rsv.se).

National Tax Board in December 2000

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# Taxes in Sweden 2000

## 1. Introduction

This publication is a summary of the Tax Statistical Yearbook of Sweden 2000, which is produced by the Evaluation Unit (utvärderingsenheten) of the Swedish National Tax Board (Riksskatteverket). The Yearbook contains an overview of the Swedish tax system, as well as up-to-date statistics on tax bases, tax revenue and other relevant aspects of taxation.

Unlike most outlines of the Swedish tax system, which are written from a legal viewpoint, the Yearbook is edited from a tax policy perspective. This means that the description of the tax system is structured according to tax bases instead of the legal framework. The main focus is on the development of these bases and of tax revenue. Other issues covered are the impact of taxes on income distribution, compliance and public attitudes to taxes and tax authorities.

This summary is structured in the same way as the Yearbook and it is divided into three main parts. The first part (chapter 2) contains some general definitions and an overview of the tax system from a macro-economic perspective. The next part (chapter 3) describes tax bases and tax revenue: taxes on labour, taxes on capital, taxes on goods and services and business taxation. The third and last part (chapters 4-11) deals with special topics and issues of taxation and tax policy, i.e. the impact of taxes on the income distribution, tax evasion, tax fraud and sanctions and opinions on taxes. In chapter 11, Swedish taxes are placed in an international perspective.

The Yearbook (and this summary) contains relevant annual data available up to September 2000. Since income tax statistics depend on the outcome of the 1999 annual assessment, a complete picture of taxes on labour and capital is only obtainable for the income year of 1998, and earlier. The year 1998 will therefore serve as the normal year of reference throughout the book. All monetary values are expressed as Swedish kronor (SEK). At the end of 1998, one Swedish krona bought 0.12 US Dollar, 0.07 Pound Sterling and 0.21 Deutsche Mark.

The Yearbook, complete with an English summary and with all tables translated to English, is available on the National Tax Board's website [www.rsv.se](http://www.rsv.se). Copies of the printed version can be ordered from Riksskatteverket, utvärderingsenheten, S-174 91 Solna, Sweden.

## 2. Overview

### 2.1 Classification of taxes

Taxes may be classified in several ways. A common distinction is the one made between direct and indirect taxes. Another basis for classification is represented by the primary factors of production, labour and capital. In table S1 below, these two criteria for classification have been combined. Individual income taxes on earned income from employment or business (self-employment) are categorized as direct taxes on labour income, while social security contributions paid by employers are seen as indirect taxes on labour. Individual taxes on capital income and property are of course direct taxes on capital. According to this logic, however, company income tax (i.e. income tax on profits earned by legal entities) is regarded as an indirect tax on capital. Taxes on consumption of goods and services (VAT and excise duties) are, on the other hand, seen as indirect taxes on labour.

**Table S1:**  
Taxes and charges on labour and capital, on households and companies in 1998, as percentages of GDP.

	Households	Companies	Total
<b>Taxes on labour</b>			
Income taxes	17.4		17.4
Social security contributions	3.0	14.3	17.3
VAT and Excise duties		11.2	11.2
<b>Taxes on capital</b>			
Income taxes	0.7	2.4	3.1
Property and wealth taxes	1.2	1.2	2.4
<b>Total</b>	<b>22.3</b>	<b>29.2</b>	<b>51.8</b>

## 2.2 General government sector in the national accounts

In the National Accounts, the general government sector is divided into three sub-sectors:

- central government
- local government (municipalities, county councils and the parishes of the Church of Sweden<sup>1</sup>) and
- the social security funds

The total revenue of the general government sector in 1999 was equal to 60% of GDP. Total spending was about 58% of GDP, which resulted in total net lending

of about 2% of GDP in the general government sector. Since 1998, there has been a budget surplus in the general government sector. The major share of all government expenditure is made up of transfer payments of pensions and social benefits to households, subsidies to companies, membership dues to the EU and other international organizations, development aid and interest on central government debt.

The severe recession of the early 1990s produced a very large budget deficit. Relative to GDP, taxes fell and expenditure rose. To reduce the deficit, government spending was cut and taxes were increased. The combination of subsequent growth and higher tax rates has increased tax revenue relative to GDP from about 48% in 1993-94 to 54% in 1999.

A large proportion of general government spending (42% in 1997) goes on social security. Expenditure on social security and welfare is divided among central government, the social security sector and local government. Other important areas are health (11%), education (10%) and unclassified expenditure (11% – interest payments on the national debt included). Primary and secondary education are the responsibility of the municipalities, while most health care is provided by the county councils. The breakdown of expenditure by different functions has been relative stable over the 1993-1999 period.

**Table S2:**  
General government sector revenue and expenditure in 1997-1999 (SEK billion).

	1997		1998		1999	
	SEK billion	% of GDP	SEK billion	% of GDP	SEK billion	% of GDP
<b>Revenue</b>	<b>1 071</b>	<b>59%</b>	<b>1 145</b>	<b>61%</b>	<b>1 191</b>	<b>60%</b>
Taxes and social security contributions	929	51%	999	53%	1 046	53%
Other revenue	142	8%	146	8%	145	7%
<b>Expenditure</b>	<b>1 107</b>	<b>61%</b>	<b>1 110</b>	<b>59%</b>	<b>1 154</b>	<b>59%</b>
Transfers	574	32%	573	30%	572	29%
Consumption	485	27%	505	27%	533	27%
Investments	49	3%	32	2%	49	2%
<b>Net savings</b>	<b>- 37</b>	<b>- 2%</b>	<b>35</b>	<b>2%</b>	<b>37</b>	<b>2%</b>

**Table S3:**  
General government expenditure by function and sector in 1997, SEK billion, current prices.

Function	Sector					
	Total	Central government	Social security	Municipal councils	County councils	State church
<b>COFOG1</b>						
<b>Total</b>	<b>1 214.3</b>	<b>659.2</b>	<b>123.2</b>	<b>349.6</b>	<b>134.6</b>	<b>12.1</b>
04 Education	119.1	40.6	0.0	80.4	5.3	0.0
05 Health	130.2	19.7	0.0	11.6	101.6	0.0
06 Social security and welfare	508.5	233.4	122.4	150.3	4.7	0.1
14 Expenditures not classified (Interests on the national debt)	133.0	164.6	0.8	11.9	0.5	0.0

**Note:** The total figure is consolidated (transfers between different parts of the general government sector are not included) and is therefore not the sum of the part sectors.

1) In the year 2000, the Church of Sweden separates from the state and acquires the same status as other religious denominations. In most communities, however, the parishes are still responsible for some public services, such as maintaining cemeteries.

### 3. Tax bases and tax revenue

In 1998, total tax revenue was SEK 1,011 billion. Almost 2/3 of this amount may be regarded as tax on labour (i.e. tax on earned income and social security contributions).

**Table S4:**  
**Total taxes in 1998.**

	SEK billion	% of total taxes	% of GDP
Taxes on labour	659	65%	34.9%
Taxes on capital	109	11%	5.8%
Taxes on goods and services	243	24%	12.9%
<b>Total taxes</b>	<b>1 011</b>	<b>100%</b>	<b>53.5%</b>

#### 3.1 Taxes on labour

##### 3.1.1 Overview

Broadly speaking, taxes on labour consist in equal measure of individual income taxes (to the State and local government) and social security contributions).

**Table S5:**  
**Taxes on labour 1998 (SEK billion).**

	1998
Income taxes (a)	331
of which State income tax	32
of which local income tax	299
Social security contributions	330
Tax on occupational insurance	1
Tax relief for home repairs	- 2
<b>Total</b>	<b>659</b>

(a) State and local income taxes excluding

\* individual taxes on capital income and

\* company income tax which are treated as taxes on capital.

##### 3.1.2 Employment and income

About 45% of the Swedish population of 8.9 million in 1998 were either employed or self-employed, i.e. were part of the economically active population. This is a considerable drop from the level before the recession, 52% (1990). From the boom year of 1990 to the recession year of 1993, the number of hours worked decreased by 9%. Since then a recovery has occurred. Between 1993 and 1999 the number of hours worked increased by 7%. The increase is due to both higher employment and longer working days.

About 68% of all employees were full-time workers in 1998. Most part-timers were women. The median income of male full-time employees in 1998 was SEK 238,000 and of female full-time employees SEK 198,000. That year, 8% of all adults (over 18) had assessed earned incomes (non-capital income) exceeding SEK 300,000. They received 21% of the taxable income and paid 27% of the tax.

##### 3.1.3 Income tax on earned income (employment and business income)

Direct taxes on the employment and business income of an individual are made up of State (or central government) income tax and local (government) income tax. Local income tax includes taxes levied by municipalities, county councils and (until 1999) by the parishes of the Church of Sweden. The average combined rate of local income tax in 1998 was 31.65%.<sup>2</sup>

Below is an example to illustrate the computation of the income tax of an individual for the income year 1998. The example also includes general social security contributions and taxes on capital, which will be explained in later sections.

**Table S6:**  
**Example of the computation of tax of an individual (1998 income year).**

	Tax base	Tax rate	Tax amount
Net employment income	270 000		
Net business income	0		
General allowances (e.g. private pension premium payments)	- 10 000		
<b>Assessed earned income</b>	<b>260 000</b>		
General pension contribution (6.95% of net employment and business income)	- 18 800		18 800
Basic allowance	- 8 700		
<b>Taxable earned income/ Local income tax (average rate = 31.65%)</b>	<b>232 500</b>	<b>31.65%</b>	<b>73 586</b>
Less income threshold for State income tax (25%+SEK 200)	- 213 100		
	19 400	25%	5 050
<b>Sub-total (individual taxes on labour)</b>			<b>97 436</b>
Taxes on capital (see Chapter 4)			
State tax on capital income (30%)	30 000	30%	9 000
Real estate tax (1.7% of assessed value of property)	800 000	1.50%	12 000
General wealth tax (1.5% of net wealth exceeding 900,000)	200 000	1.50%	3 000
<b>Total tax</b>			<b>121 436</b>

The aggregate assessed income for individuals (employment income and business income, less general allowances) in 1998 was SEK 1,125 billion. This sum was almost entirely made up of remunerations derived from employment and pensions.

<sup>2</sup> The tax rate of 31.65% includes the entire parish tax, which includes both a real tax to finance the maintenance of cemeteries and (historic) church buildings, and a membership fee, which is only paid by members.

**Table S7:**  
**Aggregate assessed earned income in 1998, SEK billion.**

	1998
<b>Employment income:</b>	
Salaries and benefits	876
Pensions	239
Other taxable forms of remuneration	10
<b>Deductions</b>	
Commuting to work	-10
Other	-5
<b>Net employment income</b>	<b>1 111</b>
<b>Net business income</b>	<b>26</b>
General allowances	
Private pension premiums	- 11
Other	- 1
<b>TOTAL ASSESSED EARNED INCOME</b>	<b>1 125</b>

To arrive at the taxable income, a deduction is also made for the general social security contribution (6.95% in 1998) and a minimum basic allowance, SEK 8,700.

The taxable earned income is the basis for computing the local income tax and the State income tax. The local income tax is a proportional tax, but the tax rates vary between different municipalities. The local income tax is made up of three component taxes, and in 1998 the average rate was 31.65%:

Municipality tax	20.34%
County council tax	10.12%
Parish tax	1.19%
Total	31.65%

The lowest local income tax rates are generally found in well-to-do suburbs of the large cities, while the highest rates are found in the rural north or in municipalities hit by industrial decline. In 2000, the lowest rate was found in the Stockholm suburb of Danderyd (26.50%) and the highest rate in Ragunda in the northern interior of Sweden (33.12%). The gap would have been even wider had there not been a system of State grants and a system of internal redistribution between municipalities and county councils.

State income tax is only applied to taxable incomes that in 1998 exceeded SEK 213,100. This income threshold is adjusted annually. According to the principle established at the 1991 tax reform, this adjustment is set at the rate of inflation plus two additional percentage points (to allow for real incomes to rise without an increase in the marginal tax rate). In practice, however, these annual adjustments have been ruled by political considerations. In the years following the 1991 tax reform, State income tax was 20%. As a temporary measure to reduce the budget deficit the State income tax rate was raised to 25% in 1995. In 1999, the tax was again lowered to 20%. The 25% rate was, however, retained on taxable incomes exceeding SEK 360,000. The average top marginal tax rate in 2000 is 55.4% (at

an average local income tax rate of 30.4%). This rate applies to taxable incomes above SEK 374,000 (equal to assessed incomes above SEK 398,600). At lower levels, the effective marginal tax rates are also influenced by variations in the basic allowance and a special tax reduction for low incomes. In 1998, about 19% of the population aged 20 and older had incomes above the threshold for State income tax. Of full-time employees aged 20-64, 38% had incomes exceeding the threshold.

How much an individual may keep of an increase in salary depends not only on the marginal tax rate, but also on the marginal effects of means-tested benefits and income-related charges, for example housing benefits and charges for child day-care.

### 3.1.4 Social security contributions

Social security contributions are proper taxes only to the extent that there is no direct link between the amount paid and the level of pensions and benefits one is entitled to. According to this definition, about 60% of these contributions may be regarded as taxes and the remaining 40% as compulsory social insurance premiums. In this book, however, as in most descriptions of the Swedish tax system, all compulsory social security contributions are regarded as taxes.

There are three categories of social security contribution. The main part is paid either by employers as a payroll tax at the rate of 33.03% (1998) or by self-employed people themselves at the rate of 31.25%. In addition to this, all taxpayers pay a general pension contribution. In 1998, the rate was 6.95%. Because about 60% of social security contributions are in fact taxes, there is also a special wage tax on those items of remuneration that do not provide an entitlement to State pensions or benefits. In 1998, SEK 330 billion was paid as social security contributions.

**Table S8:**  
**Social security contributions in 1998.**

	SEK billion	Tax rate
1. Basic social security contributions paid by		
a. employers or	251	33.03%
b. self-employed persons	6	31.25%
2. General pension contribution paid by all taxpayers	57	6.95%
3. Special wage tax	16	24.26%
<b>Total</b>	<b>330</b>	

### 3.1.5 Tax on life assurance for employed and self-employed persons

Most employees enjoy the benefit of life assurance based on agreements between employers' and employees' organizations. Self-employed persons can buy similar life assurance. For technical reasons, employees are not taxed for these benefits and self-employed persons may deduct the premiums. Instead, the insurance companies involved pay a special tax on the premiums received for this type of assurance. The rate is 45 % of 95 % of the premiums. Special rules apply to government workers and others who receive corresponding benefits (without having life assurance) and to life assurance with foreign insurance companies. In 1999, the total yield from this tax was SEK 1,004 million.

### 3.1.6 Tax relief on home repairs, rebuilding etc.

In order to stimulate employment in the building industry, a special tax reduction (or tax credit) was (until the spring of 1999) granted for repairs to and rebuilding of private homes, apartment buildings and holiday homes. The tax reduction was limited to 30% of the labour cost, and, in the case of private homes, to a maximum of SEK 14,000 over a three-year period. The total tax credit in 1998 was SEK 253 billion.

### 3.1.7 Assessment and collection

The year after the income year is called the assessment year. In the spring of the assessment year all taxpayers are required to file an income tax return. Employers also supply the tax authorities with income statements on remunerations paid to their employees. Financial institutions supply information on their customers' deposits, interest paid or received, dividends etc. During the assessment process, the tax authorities match these statements with information supplied in the tax returns.

Since 1995 most taxpayers have filed simplified income tax returns. In April, they receive a tax return form where all the data supplied by employers and financial institutions have already been entered by the tax authorities. The taxpayers check the figures, and if necessary, correct errors and add information or claims for deductions. They then sign and return the forms to the tax authorities by 2 May. Of the 6.8 million individual taxpayers who filed income returns in 1999, 48% just signed and returned the simplified form, while another 32% changed or added some information in the simplified return. The remaining 19% used a traditional (or special) tax return.

Taxes are collected on a pay-as-you-earn (PAYE) basis. Employers withhold and pay the preliminary tax of their employees, while self-employed persons have to pay their preliminary tax themselves. Early in the assessment year, supplementary payments may be

made if it is evident that final tax bill will exceed the preliminary tax paid so far. In the opposite case, excess tax will be refunded when the final tax bills are issued after the assessment.

**Table S9:**  
Collection of individual income taxes etc in the assessment year of 1999.<sup>3</sup>

	SEK billion	% of debited tax
<b>Total tax debited on basis of assessment (final tax bill)</b>	<b>436</b>	<b>100%</b>
of which paid by		
– employers, banks etc. by withholding	393	90%
– preliminary tax paid by entrepreneurs	18	4%
<b>Remaining amount to be settled</b>	<b>25</b>	<b>6%</b>
of which		
– tax payers' own additional payments	42	10%
– excess tax refunded to tax payers	- 17	- 4%

## 3.2 Taxes on capital

### 3.2.1 Overview

The tax reform of 1991 separated individual income tax on earned income (employment and business income) from income tax on capital income, to which a flat rate of 30% was applied. Taxes on capital also include income tax on company profits and a number of other taxes on capital income and property. In 1998, total taxes on capital brought in SEK 109 billion, 11% of total tax revenue.

**Table S10:**  
Taxes on capital 1998 (SEK million).

	Paid by individuals	Paid by companies	Total
Income tax on capital income	12 694		12 694
Income tax on company profits		45 752	45 752
Tax on funds allocated for expansion	248		248
Real estate tax	13 255	11 540	24 795
Wealth tax	5 893	134	6 027
Inheritance tax	1 755		1 755
Gift tax	250		250
Tax on dividends to non-residents	1 965		1 965
Tax on pension fund earnings		11 895	11 895
<b>Sub-total</b>	<b>36 060</b>	<b>69 321</b>	<b>105 381</b>
Stamp duty			3 953
<b>Total</b>			<b>109 334</b>

3) Most incomes assessed in 1999 were earned in 1998 and most of the preliminary taxes were paid in the form of PAYE during 1998. Supplementary payments are generally made in the spring of the assessment year, i.e. 1999. Most taxpayers receive their final tax bills (or refund) in August of the assessment year, but taxpayers filing special tax returns have to wait until December.

### 3.2.2 National and household wealth

In 1995, the value of total real assets in Sweden and net financial assets was estimated at SEK 4,721 billion.

**Table S11:**  
National wealth of Sweden in 1995 (SEK billion).

	Households	Business sector	Public sector	Total
<b>Real capital</b>				
Buildings, machinery, means of transport	1 097	1 891	858	3 846
Stocks	9	200	4	213
Mines and land	576	410	272	1 258
<b>Financial assets and liabilities</b>				
Assets (incl. tenant-owned apartments)	1 778	6 454	1 112	9 344
Liabilities	- 831	- 7 662	- 1 447	- 9 940
<b>Total</b>	<b>2 629</b>	<b>1 293</b>	<b>799</b>	<b>4 721</b>

In 1995, households accounted for more than half of the net wealth. The greater part consisted of private homes, including tenant-owned apartments. In recent years, financial investments have increased their share of total household wealth. Between 1990 and 1998, the net financial assets of households rose from about SEK 22 billion to about SEK 69 billion. This development may be explained by a growth in investments in shares and mutual funds and rising share prices. Since the beginning of the 1990s households have reduced their debts and shifted parts of their savings from bank accounts to shares and other securities, as well as into private pension schemes.

**Table S12:**  
Financial assets and liabilities of households as % of GDP.

	1990	1998
Cash and bank deposits	35.8	27.3
Bonds	6.7	8.1
Shares and other equity	17.4	44.6
Insurance savings	25.1*	39.9*
<b>Total financial assets</b>	<b>85.0</b>	<b>119.9</b>
Liabilities	63.2	50.5
<b>Net financial assets</b>	<b>21.8</b>	<b>69.4</b>

### 3.2.3 Individual capital income tax

Capital income is subject to income tax on interest, dividends and capital gains. Deductions are allowed for interest paid and capital losses. If capital income is negative, 30% of the loss up to SEK 100,000 and 21% of the loss exceeding this amount is credited against State and local income tax due on earned (employment and business) income. Investments, however, are also subject to real estate tax and wealth tax. The middle-aged and the elderly pay most of the capital taxes.

The net revenue yield from the individual income tax on capital varies a great deal from year to year. Declared income in the form of interest, dividends etc. is completely offset by deductions for debt interest (mainly

on home mortgage loans). On the other hand, capital gains generally exceed capital losses by a wide margin. In 1998, aggregate net taxable capital income was about SEK 40 billion and net revenue yield was about SEK 13 billion.

**Table S13:**  
Tax on individual income from capital in 1998 (SEK billion).

	Income	Expenditure and losses	Net income and tax
Interest received and paid, dividends and other current capital income	37.4	- 56.7	- 19.3
Capital gains/losses	64.1	- 4.5	59.6
Administration costs		- 0.5	- 0.5
<b>Net capital income</b>	<b>101.5</b>	<b>- 61.7</b>	<b>39.8</b>
Net tax on capital income			12.7

In the period 1992-1995, the revenue yield from capital income tax was negative, since deductible debt interest was much greater than income from interest, dividends and net capital gains. However, during the 1990s interest rates have fallen and household debt has been reduced. As a result, the gap between current capital income and debt interest has narrowed. Net capital gains vary greatly from year to year, depending on asset prices and tax planning in anticipation of changes in the tax rules the following year, but gains are mostly larger than losses. In recent years capital gains have grown substantially.

### 3.2.4 Company income tax

The State income tax on legal entities ("company income tax") is 28% of the net taxable profit. The same basic rules for calculating the taxable profit apply to all business enterprises, regardless of size and legal status. These general rules, as well as some rules that apply specifically to private firms, private or public companies, are discussed in further detail in Chapter 6.

In 1998 (according to the 1999 annual assessment), 2/3 of all companies reported a total taxable profit of SEK 160 billion and paid SEK 46 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 92% of all companies reported only 12% of total taxable profits.

### 3.2.5 Real estate tax

The tax value of real property is established via periodic real estate assessments. The tax value of the property is required to correspond to 75% of its market value. Every six years all property in a certain category of real estate is subject to assessment. In the intervening years the tax values are adjusted to reflect price changes in local property markets. However, to avoid sharp increases in the real estate tax, the tax values of private homes and apartment buildings have been frozen at the 1997 level. The intention is to end the freeze in 2001, which will cause a substantial increase in the tax values. At the same time, however, the tax rate is to be lowered.

In 1998, the real estate tax for private homes (one- or two-family dwellings including holiday homes) was levied at 1.5% of the tax value. Apartment buildings were also taxed at 1.5% in 1998, but step by step the tax rate has been brought down, and in Year 2000 the rate is 1.2%. Commercial property is taxed at 1% of the tax value and industrial property at 0.5%. To encourage construction, new dwellings are exempt from tax during the first five years and are then taxed at half the standard rate in the following five years. The total yield from the real estate tax in 1998 was SEK 25 billion, of which private homes accounted for SEK 13 billion.

**Table S14:**  
**Real estate tax in 1998.**

	Tax base SEK billion	Standard tax rate	Tax revenue SEK million
Private homes (one- or two-family dwellings)	909	1.50%	13 119
Apartment buildings	458	1.50%	5 697
Commercial property	304	1.00%	3 043
Industrial property	280	0.50%	1 401
Hydroelectric power stations	70	2.21%	1 547
<b>Total</b>	<b>2 021</b>		<b>24 807</b>

Since the tax value of property is determined by the market value, the real estate tax levied on family homes in different parts of the country varies widely. In 1998, the average tax value of a family home in Stockholm County was SEK 783,000 and in the northern county of Västernorrland SEK 314,000. A particular problem is that rising property prices for holiday homes in attractive coastal areas have also caused a great increase in the tax burden for these areas' permanent residents, whose average incomes are considerably lower than those of the holiday-makers.

Using 1981 as the base year (index=100), prices of family homes rose very fast during the boom years of the late 1980s and reached the level of 217 in 1991. Prices then fell to a level of 175 in 1993, but have since regained that loss, and in 1999 the price index was 237. But property prices must be placed in the context of general price fluctuations. If the property price index is linked to the consumer price index, real property prices actually fell during the first half of the 1980s, rose again in the second half and reached new heights around 1990, when a sharp decline began. Using this measure, 1998 prices are still below those of the boom years.

### 3.2.6 Net wealth tax

The tax on net wealth may be regarded as complementary to other taxes on capital to make taxation more progressive. Unlike other direct taxes, the wealth tax is not a purely personal tax. It is levied on the net wealth of the household, with each spouse being liable for tax according to his or her share of the net wealth. Certain legal entities (some co-operatives and foundations) are also liable to pay wealth tax. Tax is levied at the rate

of 1.5% on net worth exceeding SEK 900,000. To neutralize an anticipated rise in the tax values of private homes, a government proposal has been made to raise the tax threshold in 2001 to SEK 1,500,000 for married couples and to 1,000,000 for single tax-payers.

In computing the taxable base, the general principle used is that assets should be entered at their market values. Properties, however, are included at their tax value (which is required to correspond to 75% of the market value of the property). Assets employed in the owner's trade or business are exempt from tax, as are shares in most non-listed companies. Shares listed on the Stockholm Stock Exchange are assessed at 80% of their market value, but shares owned by principal shareholders (controlling 25% or more of the vote) are exempt.

In 1996, private homes made up about 35% of the value of assets subjected to wealth tax, while bank deposits represented about 24% and shares accounted for just 17%.

In 1998, 613,000 individuals (367,000 households) between them paid SEK 5.9 billion in wealth tax. 12,000 legal entities paid just SEK 134 million.

### 3.2.7 Inheritance and gift taxes

Inheritance tax is levied on property that is received by an individual by inheritance or will. The tax is progressive and close relatives pay less than other beneficiaries. To compute the taxable value of the inheritance, its value is reduced by a basic deduction. The spouse of the deceased is entitled to a basic deduction of SEK 280,000, with children and grandchildren receiving a basic deduction of SEK 70,000. Taxable amounts of less than SEK 300,000 are taxed at 10%, while amounts exceeding SEK 600,000 are taxed at 30%.

The main function of the gift tax is to prevent evasion of the inheritance tax through gifts to heirs and other future beneficiaries. Each recipient may acquire gifts worth up to SEK 10,000 annually from the same donor without having to pay gift tax. On amounts exceeding SEK 10,000, the same tax schedule as for inheritance tax is applied.

In 1998, the revenue yield from the inheritance tax was SEK 1,755 million and from the gift tax SEK 250 million.

### 3.2.8 Tax on dividends to non-residents

A final withholding tax of 30% applies to dividends from Swedish companies and mutual funds to non-residents, unless an exemption or a lower tax rate applies under a tax treaty. In 1988, the tax yield was SEK 1,965 million.

### 3.2.9 Tax on pension fund earnings

Up to a maximum amount, taxpayers are allowed deductions for premiums to private pension funds. To establish neutrality with other forms of saving, the tax reform of 1991 introduced a special tax on pension fund earnings. This tax also applies to premiums paid by employers. The tax is paid by insurance companies and other financial institutions that administer such funds.

The tax base is the estimated yield of the fund capital. The yield is calculated by multiplying the fund capital by the official State lending rate. In 2000, the tax rate applied to this yield is 15% in the case of pension capital funds and 27% for other (otherwise tax-privileged) funds. The total revenue yield in 1998 was SEK 11.9 billion.

### 3.2.10 Stamp duty

Stamp duty is levied at the acquisition of real property and the registration of mortgages. The standard tax rates are 1.5% of the value of the acquired property and 2% of the mortgage. In 1997, the stamp duty on property acquisitions was temporarily reduced to 1%. Other tax rates apply in special cases. In 1998, the revenue yield from the stamp duty was SEK 4.0 billion.

## 3.3 Taxes on goods and services

### 3.3.1 Overview

Taxes on goods and services include value added tax (VAT), as well as excise and customs duties. In 1998, total revenue from these taxes was SEK 243 billion, representing about 1/4 of all tax revenue.

**Table S15:**  
Taxes on goods and services in 1997-99 (SEK billion).

	1997	1998	1999
Value added tax	150	163	171
Excise duties	78	80	82
<b>Total</b>	<b>228</b>	<b>243</b>	<b>252</b>

### 3.3.2 Value Added Tax (VAT)

A general sales tax (GST) of 4% was introduced in 1960. Step by step, the tax rate was increased. In 1969, the GST was replaced by value added tax (VAT). The tax rate was originally 10% (of the price including VAT), but it was soon increased to 15%. Today (2000), the standard VAT rate is 25% (of the tax base). A reduced rate of 12% applies to food, passenger transport, hotel accommodation and camping. Newspapers and cultural and sports events are taxed at 6%.

The purchase and rental of immovable property, as well as medical, dental and social care, education, banking and financial services and certain cultural and sporting activities are exempt from VAT.

There are 379,000 taxable persons identified for VAT purposes. The vast majority of these taxable persons file monthly VAT returns. An additional 437,000 taxable persons with a maximum annual turnover of SEK 1 million report VAT on annual income tax returns.

In 1998, gross payments of VAT totalled SEK 307 billion, of which 84% was collected by the tax authorities. About 41% was refunded and another 6% was input VAT on government spending, which in the government revenue accounts was offset against revenue received. The remaining net revenue was SEK 163 billion.

**Table S16:**  
VAT revenue 1998.

	1998 SEK billion	% of gross payments
VAT payments received by		
Customs	39	13%
Tax authorities	258	84%
Other	10	3%
<b>Total</b>	<b>307</b>	<b>100%</b>
VAT refunded by the tax authorities	- 125	- 41%
Input VAT on government expenditure	- 19	- 6%
<b>Net VAT revenue</b>	<b>163</b>	<b>53%</b>

In 1999, a total turnover of SEK 4,142 billion was reported in VAT returns submitted to the tax authorities: of the total, exports accounted for SEK 577 billion (exports are exempt from VAT). The 25% tax rate applied to about 87% of the reported non-export turnover. The wholesale and retail trade, together with the hotel and restaurant sector, accounted for about 38% of output tax and 51% of net revenue. Manufacturing, on the other hand, reported 22% of output tax, but because of large export sales this sector was entitled to a net refund of SEK 24 billion.

### 3.3.3 Excise and customs duties

Excise and customs duties have a long history in Sweden. A hundred years ago, customs duties, along with excise duties on aquavit and sugar, were the most important sources of government revenue. Now, excise duties make up a mere 8% of total tax revenue (customs duties are not included since they are collected for the EU budget). The excise duty on alcohol is still a significant source of revenue, but about 70% of total excise revenue comes from energy and environmental duties and motor vehicle taxes.

**Table S17:**  
Excise and customs duties 1998.

	SEK billion
Energy and environmental taxes	51 924
Taxes on road vehicles	6 525
Taxes on alcohol and tobacco	17 583
Customs duties and other import taxes*	3766
Other excise duties	2 438
<b>Total</b>	<b>82 236</b>

\* Collected for the EU budget

From an administrative point of view, excise duties are cost efficient, since the number of taxpayers is relatively low. About 10,000 businesses are registered as taxpayers, almost half of which pay advertising duty, most with a low turnover. There are only five registered taxpayers for lottery duty and 60 for tobacco duty, of which the largest taxpayer accounts for 99% of the revenue. Goods subject to "harmonized" excise duties (mineral oils, alcohol and tobacco) may be transported between authorized warehouses in the EU without being taxed.

### Energy and environmental duties

The oil crises of the 1970s clearly highlighted the great dependence of modern society on its energy supplies. Since then, dependence on fossil fuels has been somewhat reduced, but in 1994 fossil fuels (oil, coal and natural gas) accounted for about 40% of Sweden's energy supply. Nuclear power supplied another 33% and hydroelectric power 11%. [5.12] Because Sweden is a northern country, much energy is needed for heating. About 40% of all energy is consumed in homes and services, another 38% by industry and 22% by transport.

When duties on petrol and electricity were first introduced, the revenue was intended for roads and the electrification of rural areas. Today, the chief justification for energy duties is their revenue-generating capacity, but energy conservation and environmental considerations are given greater weight in determining how the tax burden is allocated between different sources of energy. There is, for example, a special carbon dioxide duty on all fossil fuels.

**Table S18:**  
Energy and environmental duties (SEK million).

	1998	1999
Energy tax	36 900	37 573
Carbon dioxide tax	12 796	12 811
Sulphur tax	115	104
Nuclear power tax	1 537	1 553
Tax on electricity from certain sources	0	0
Acidification tax	58	65
Taxes on fertilizers and biocides	389	399
Gravel tax	129	151
<b>Total</b>	<b>51 924</b>	<b>52 655</b>

Oil and petrol are classified according to their effects on the environment, and lower duty rates apply to those products that are deemed least harmful. Some energy duties are also geographically differentiated. Electricity duties are lower in northern Sweden.

In addition to being subject to excise duties, energy is also subject to VAT. VAT is levied on the price of energy including excise duties. Table S18 below shows what proportion of consumer prices are represented by different taxes.

**Table S19:**  
Taxes on and consumer prices of electricity and petrol (August 2000).

	Electricity SEK/Kwh	Percent	Petrol SEK/litre	Percent
Pre-tax price	0.45	59%	3.05	32%
Energy tax	0.16	21%	3.61	38%
Carbon dioxide tax			0.86	9%
VAT	0.15	20%	1.88	20%
<b>Consumer price</b>	<b>0.77</b>	<b>100%</b>	<b>9.40</b>	<b>100%</b>

### Taxes on motor vehicles

In addition to taxes on fuel, there are also taxes on cars and other motor vehicles. The vehicle tax was introduced in 1922 to pay for road maintenance. A special sales tax was added in the 1950s to slow the rapid expansion of motoring. It was abolished for passenger cars in 1996 and for lorries in 1998. The scrap fee was introduced in 1975 to finance a premium paid to car owners who turn in their run-down cars to authorized car breakers instead of leaving wrecks along the roadside.

**Table S20:**  
Taxes on motor vehicles (SEK million).

	1998	1999
Vehicle tax	6 103	6 421
Sales tax	270	230
Scrap fees	152	183
<b>Total</b>	<b>6 525</b>	<b>6 833</b>

In Year 2000, there were 5.4 million vehicles subject to vehicle tax, including 3.8 million passenger cars, 350,000 lorries and 700,000 trailers. In 2000, the vehicle tax on a petrol-driven passenger car with a kerb weight of 1,200 kg is SEK 1,032. The tax rises according to the weight of the vehicle. Owners of diesel-powered cars pay a higher vehicle tax to make up for a lower tax on diesel fuel.

Since 1998, a user charge has been payable on travel with lorries and vehicle combinations weighing 12 tons and more. In the case of lorries and vehicle combinations with not more than three axles, the user charge is SEK 6,556; for vehicles with four axles or more the charge is SEK 10,928. For Swedish vehicles, the charge applies to all roads in Sweden and is paid for one year at a time. For foreign vehicles, the user charge applies to motorways and certain highways that are not motorways. In 1999, about 192,000 licenses were sold to foreign vehicles and revenue totalled around SEK 23 million.

### Duties on alcohol and tobacco

Duties on alcohol and tobacco date back to the 16th and 17th Centuries. Although the need for revenue has always been the driving motive, these duties have also been justified on moral and health grounds.

The duty rates applied to alcohol are related to the alcohol content of the beverage. In the case of spirits, the duty is SEK 501.41 per litre of pure alcohol. Wines with an alcohol content of 8.5-15% are taxed at SEK 27.20 per litre and beers with an alcohol content exceeding 3.5% are taxed at SEK 1.47 for each percent of alcohol per litre. Beers with an alcohol content of maximum 2.8% are not taxed.

**Table S21:**  
Taxes and the retail price of alcoholic beverages,  
August 2000.

	Absolut Vodka 70 cl SEK	Wine max. 15% 75 cl SEK	Beer 5.2% 50 cl SEK
Pre-tax price	40	37	6.50
Alcohol tax	140	19	3.82
VAT	45	14	2.58
<b>Consumer (retail) price</b>	<b>226</b>	<b>70</b>	<b>12.90</b>

Retail sales of alcoholic beverages are carefully regulated in Sweden, and spirits, wine and export beer (with an alcohol content greater than 3.5% by volume) may only be sold at certain State-owned shops (Systembolaget). According to official statistics, domestic sales (at Systembolaget and in restaurants) of spirits have fallen during the 1990s, while beer and wine sales have increased. If these statistics were to reflect total consumption of alcohol, there has been a fall in consumption from 6.4 litres of pure alcohol per inhabitant over the age of 14 in 1990, to 6.1 litres in 1999. This conclusion is, however, premature, since the figures do not include legal private imports by tourists and business travellers, nor do they include smuggling and illegal production.

The duty rates on tobacco are defined separately for different tobacco products. The duty on cigarettes is made up of two components. There is a fixed rate of SEK 0.20 per cigarette and a variable rate of 39.2% of the retail price (including VAT, which may be seen as a third tax component).

**Table S22:**  
Taxes and the retail price of a pack of cigarettes,  
August 2000.

	SEK	%
Pre-tax price	10.28	29%
Fixed tobacco tax (SEK 0.20 per cigarette)	4.00	11%
Variable tobacco tax (39.2% of retail price)	13.72	39%
VAT (25% of pre-VAT price)	7.00	20%
<b>Consumer (retail) price</b>	<b>35.00</b>	<b>100%</b>

In 1997, the duty on cigarettes was raised by about 50%, which was expected to increase total revenue by a considerable amount. These expectations were not met, and sales dropped. Instead, legal private imports and smuggling increased. When, as a consequence, the duty was lowered in 1998, actual revenue exceeded budget estimates by SEK 300 million. A contributory factor to the improved yield was the fact that customs authorities were given the right to inspect postal packages and road shipments.

Since 1995, the total revenue yield from alcohol and tobacco duties has declined from SEK 19.0 billion to 18.0 billion. The main factors behind this development are lower sales of spirits and lower duty rates on beer, which have been brought down to counteract an increase in cross-border shopping since Sweden's entry into the European Union in 1995.

**Table S23:**  
Duties on alcohol and tobacco (SEK million).

	1996	1997	1998	1999
Tobacco tax	7 084	7 695	7 506	7 396
Alcohol tax on spirits	4 907	4 686	4 674	4 723
Alcohol tax on wine	3 233	3 094	2 998	3 313
Alcohol tax on beer	3 406	2 079	2 142	2 430
Tax on intermediate products			148	133
Profits from Systembolaget*	39	90	115	122
<b>Total</b>	<b>18 669</b>	<b>17 644</b>	<b>17 583</b>	<b>18 116</b>

\* Monopoly State-owned retail stores for the sale of alcoholic beverages

### Duties on imports

Since joining the European Union in 1995, customs duties and other import levies are only charged on imports from countries outside the Union. Revenue collected – less a 10% administration fee – is transferred to the EU budget.

In 1998, the value of Sweden's imports totalled SEK 514 billion, of which 69% came from other EU countries. Total revenue from customs duties and other import levies was SEK 3.5 billion.

### Other excise duties

Other excise duties include duty on advertising, duty on lottery prizes and duty on gambling. The duty on advertising was introduced in the 1970s to finance increased newspaper subsidies. Advertisements in daily newspapers are taxed at the rate of 4% and in other printed media at 11%. Advertisements on radio, television and the Internet are not subject to the duty. In 1999, the duty on advertising handouts was abolished for administrative reasons.

The duty on gambling applies to roulette and slot machine gaming. The rate is SEK 2,000 per month for each roulette table and SEK 1,500 per month for each slot machine.

The lottery prize duty applies to the return on some premium bonds (tax rate: 20%), the return on savings accounts where interest is decided by lottery (30%), and the surplus of a lottery with money prizes (36%).

In 1999, total government earnings from betting and lotteries were SEK 3.2 billion. This sum, however, includes profits from the State-owned company Svenska Spel, which organizes national lotteries, football pools etc. These profits are not regarded as duties. In 1997, the total tax revenue yield from these other excise duties was about SEK 2.3 billion.

**Table S24:**  
Other excise duties (SEK million).

	1998	1999
Tax on advertising	1 192	1 037
Tax on lottery prizes	1 183	1 201
Tax on gambling	63	103
<b>Total</b>	<b>2 438</b>	<b>2 341</b>

### 3.4 More about business taxation

#### 3.4.1 Introduction

Previous tax on business profits has been described either as tax on labour (business income earned by individuals) or as tax on capital (business income earned by legal entities). However, the same basic rules apply to the computation of assessed business income, regardless of legal status. This section will look at the business sector as a whole. The basic principles that apply throughout the sector will be pointed out as well as some provisions for certain types of business.

#### 3.4.2 The business sector

There are several ways to define a business enterprise. According to the widest possible definition, which includes all taxpayers declaring business income or VAT, there were about 800,000 such enterprises in Sweden in 1999. However, 3/4 of these businesses have no employees and most of them were combined with other employment.

**Table S25:**  
Number of business enterprises.

Number of employees	1998	1999	% (1999)
0	607 639	588 720	73.8%
1 - 4	140 368	144 829	18.2%
5 - 49	56 489	57 822	7.3%
50 - 499	5 023	5 137	0.6%
500 -	818	830	0.1%
<b>Total</b>	<b>810 337</b>	<b>797 338</b>	<b>100.0%</b>

Entrepreneurs have various legal forms to choose from when organizing their business enterprise. The most common are sole proprietorships or private firms, unlimited partnerships, limited companies, and economic associations.

The private firm (a registered or non-registered business run by a single owner) is the most common form. These firms are not recognized as legal entities and they are generally small and often run on a part-time basis. It is often difficult to distinguish income from small private firms, from employment income. To qualify as a business, certain criteria must be met, such as profit motive, duration and independence in relation to customers. Unlimited partnerships (handelsbolag) are legal entities, but they are not recognized as such by the income tax laws. Each partner declares his share of the partnership's profits in much the same way as the owner of a private firm.

Most limited companies (aktiebolag) are also small and owner operated, but this group also includes large multinationals. Limited companies dominate the economy in terms of turnover and employment. Many economic associations (or cooperative societies) are in fact housing cooperatives, but this group also includes manufacturing enterprises etc. There are also non-profit associations, such as clubs, societies etc., foundations and other legal entities registered as employers or for VAT.

If the definition of business enterprise is limited to firms registered for VAT and/or registered as employers, the total number (in 1998) falls to about 770,000. Most are run as private firms, but limited companies account for almost 90% of all employees and total turnover.

**Table S26:**  
Number of enterprises and employees in 1998 (a).

	Number of enterprises	Number of employees
Individuals, private firms	458 046	34 831
Unlimited partnerships	76 306	37 519
Limited companies	218 529	2 034 211
Economic associations	16 267	61 770
Clubs, societies and other unincorporated associations	23 207	74 874
Foundations	3 811	21 429
Other	12 255	24 742
<b>Total</b>	<b>808 421</b>	<b>2 289 376</b>

**Source:** Statistical Yearbook of Sweden 2000, Table 359  
(a) All individuals and legal entities (except public authorities) registered for VAT or as employers.

#### 3.4.3 Some general principles of business taxation

Taxable business income is computed according to "generally accepted accounting standards". The accounting records therefore form the basis for taxation. The principles of accrual accounting apply to all businesses regardless of size. In some respects, tax law specifies how assets are to be valued. Annual depreciation of machinery and other equipment is allowed at 30% of the residual value or at 20% of the acquisition value. Buildings are depreciated by 2-5% per year depending on their use. Inventories are valued at 97% of their acquisition value, according to the first-in, first-out (FIFO) principle.

#### 3.4.4 Taxation of limited companies and other legal entities

The total tax bill of legal entities according to the 1999 general tax assessment was about SEK 81 billion. Company profits account for the major share of total tax. About 70% of the tax was paid by limited companies. Together with bank and insurance companies, limited companies paid 88% of total tax.

**Table S27:**  
The tax bill of legal entities according to the 1998 and 1999 tax assessments, SEK billion.

	1998	1999	Change, %
State tax on business income (profits)	46.5	45.8	- 0.8
Tax on pension fund earnings	12.3	11.9	- 0.4
Special wage tax on pensions	8.7	11.2	+ 2.5
Real estate tax	12.2	11.5	- 0.7
Other	0.6	0.6	0.0
<b>Total</b>	<b>80.3</b>	<b>80.9</b>	<b>+ 0.7</b>

About 58% of all limited companies declared profits at the 1999 tax assessment and 31% declared losses. The remaining 11% had no result to declare. Total profits were SEK 160 billion and losses SEK 236 billion. A small number of large companies account for the major share of these profits and losses.

**Table S28:**  
**Assessed profits and losses for limited companies 1998.**

Profit or loss	Profits		Losses	
	Number of companies	Assessed income SEK billion	Number of companies	Assessed loss SEK billion
0-1 million	140 468	19.6	74 511	10.6
1-100 million	12 430	61.5	8 544	62.4
More than 100 million	151	78.6	292	163.1
<b>Total</b>	<b>153 049</b>	<b>159.6</b>	<b>83 347</b>	<b>236.2</b>

Since the tax reform of 1991, only two significant kinds of reserve have been allowed: the tax allocation reserve and excess depreciation. Taxpayers are allowed to allocate up to 20% of net profits<sup>4</sup> to a tax allocation reserve<sup>5</sup>. After five years<sup>6</sup> the reserve must be dissolved and added to income. Excess depreciation occurs because tax law in many cases allows equipment to be written off in a shorter time than the economic life of the asset. Other adjustments to the business profit are also allowed or required when establishing the taxable income. Such adjustments include deductions for exempt income, mainly inter-corporate dividends and capital contributions by shareholders. Contributions to other companies in the same group may be deducted and group contributions received are added to income. Losses may be carried forward indefinitely. They must be determined in the tax period in which they occur, and deducted from profits when a profit is available.

**Table S29:**  
**Main profit adjustments at the 1999 tax assessment.**

	SEK billion
<b>Deductions</b>	
Allocations to the tax allocation reserve	33
Excess depreciation	23
Capital contributions by shareholders	23
Other exempt income	211
Group contributions to other companies	102
Losses from previous years	213
<b>Income added</b>	
Dissolved tax allocation reserve	8
Group contributions received	116
Non-deductible expenditure	151

4) 25% from the Year 2002 tax assessment.

5) Periodiseringsfond

6) Six years from the Year 2000 tax assessment.

Companies are not allowed deductions for dividends to shareholders, and dividends received by shareholders are taxed as capital income. Dividends are thus taxed twice. From the point of view of a resident shareholder, the effective tax rate on adjusted company profits, therefore, is 50%. A profit of SEK 100 is first subject to company income tax at the rate of 28%. The dividend of SEK 72 (100-28) is then subject to individual income tax on capital income at the rate of 30%. Total tax may be computed as SEK 100 x 28% + SEK 72 x 30% = SEK 49.60.

### 3.4.5 Taxation of private firms (business income of individuals)

For individuals who report business income, a distinction is made between those actively involved in the business and those who enjoy business income without active participation. The former pay social security contributions as self-employed persons at the rate of 31.25% (1998), while the latter pay a special wage tax at 24.26% (1998). Persons older than 65 always pay the special wage tax.

According to the 1999 general tax assessment, there were 427,000 persons reporting either profits or losses from businesses in which they were actively involved (private firms and partnerships). Another 246,000 individuals declared profits or losses without taking an active part in the business. [6.10]

In 1999, total assessed profits of private firms were SEK 21 billion and losses SEK 15 billion.

**Table S30:**  
**Assessed income for individuals with businesses, 1999 tax assessment.**

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits SEK million	Number of taxpayers	Assessed losses SEK million
0 - 100,000	237 395	6 519	203 913	4 713
100,000 - 300,000	73 367	11 966	27 390	4 513
300,000 -	5 486	2 587	7 331	5 525
<b>Total</b>	<b>316 248</b>	<b>21 072</b>	<b>238 634</b>	<b>14 750</b>

Total assessed profits for partners in unlimited partnerships were SEK 5 billion and losses SEK 3 billion, according to the 1999 general tax assessment.

**Table S31:**  
**Assessed income for partners in unlimited partnerships, 1999 tax assessment.**

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits SEK million	Number of taxpayers	Assessed losses SEK million
0 - 100,000	52 812	1 501	39 256	792
100,000 - 300,000	18 325	3 051	4 381	731
300,000 -	1 385	635	1 457	1 213
<b>Total</b>	<b>72 522</b>	<b>5 188</b>	<b>45 094</b>	<b>2 736</b>

A political ambition of recent years has been to achieve tax neutrality between various legal forms of business enterprise. As a consequence, private firms and partnerships are now allowed to reserve part of their profit to finance expansion of the business. Sums allocated for expansion are deductible from ordinary business income and instead taxed at the same rate as for companies, i.e. 28%. When the allocation is reversed some years later, it is added to the assessed business income of that year and the special 28% tax is refunded.

In 1998, about 37,000 businesses made allocations of this kind, totalling SEK 2.3 billion. About 27,000 allocations (SEK 1.4 billion) were reversed. Including the 1998 net allocation of 0.9 billion, accumulated allocations rose to SEK 9.6 billion.

Another measure designed to establish greater neutrality between private firms and limited companies is to allow part of the business income (of a private firm) to be treated as capital income. This part of the income will then be subject to a 30% tax rate rather than to the tax rates applied to earned income and to social security contributions. The maximum amount allowed to be taxed as capital income is a certain percentage (the State lending rate plus 5%) of the equity capital according to the balance sheet. In 1998, about 138,000 taxpayers took advantage of this rule and SEK 4.8 billion of business profits were taxed as capital income.

If equity capital is negative, this procedure is reversed. Capital income is then reduced by a certain percentage (the State lending rate plus 1%) of the equity and added to business income. In 1998, this rule, which is compulsory, applied in about 41,000 cases and about SEK 600 million was added to business income.

## 4. Taxes and income distribution

Chapter 4 deals with the influence of direct taxes and social security benefits on the disposable incomes of households and individuals. It also describes how developments in the past two decades have affected income distribution.

### 4.1 Direct taxes paid by individuals

In 1989, an individual with an average income paid 36% of this income in direct taxes<sup>7</sup> Immediately after the 1991 tax reform, this share dropped to 29%, but in 1998 it had bounced back to almost 35%. The tax reform made some previously non-taxed employment benefits taxable, imposed new restrictions on travel expense deductions and broadened the base for capital income tax. One effect was that the assessed incomes of high-income earners rose, but at the same time the tax rates applied to these incomes were lowered considerably. Taxes paid by the lowest income groups increased throughout the 1980-1998 period.

<sup>7</sup> In this context, direct taxes include income and property taxes paid by individuals, together with social security contributions not paid by employers as payroll taxes.

**Table S32:**  
Direct taxes as a percentage of assessed income for some income groups, 1998 prices.

Total assessed income	1980	1989	1991	1998
0 – 50,000	9%	14%	18%	23%
100,000 – 150,000	29%	33%	27%	31%
200,000 – 250,000	36%	36%	29%	35%
500,000 –	54%	58%	39%	43%
<b>All age 18 or older</b>	<b>33%</b>	<b>36%</b>	<b>29%</b>	<b>35%</b>
Highest marginal income tax rate (based on the average local income tax rate)	85%	73%	51%	60%

A central aim of the 1991 tax reform, as well as of the reforms that preceded it, was to lower marginal income tax rates. In 1980, the top rate was 85% and in the years before the tax reform it had been lowered to around 73%. The tax reform brought the rate down to slightly more than 50%, but during the 1990s the marginal tax rate has again increased.

How much an individual can keep of an increase in income is determined not only by the tax rates applied, but also by means-tested benefits and charges for social services related to income. On average in Year 2000, about 43% of a wage increase is lost to the individual – 38% in increased income tax, 5% in reduced benefits and 0.5% in higher charges. But these figures are averages. In individual cases, lost benefits and higher charges may have a much stronger impact.

### 4.2 Redistribution of incomes

Income redistribution depends on the net effect of taxes and benefits. Most households pay taxes and receive benefits, but the well-to-do pay more and receive less and vice versa.

**Table S33:**  
Redistribution by taxes and benefits, 1998 (all family units 18-64 years).  
Breakdown into various income groups (SEK x 1000).

Factor income Income groups	Factor income	Benefits	Taxes	Disposable income
0 – 50	17	87	- 23	81
100 – 150	127	70	- 60	137
200 – 250	224	40	- 87	177
300 – 350	324	56	- 129	251
600 –	894	30	- 365	559
<b>All</b>	<b>234</b>	<b>59</b>	<b>- 98</b>	<b>195</b>

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 1998, benefits received by the average single parent were about 36% higher than taxes paid.

In 1998, the total factor income of all households in Sweden was SEK 889 billion, of which 87% was employment income, 3% entrepreneurial income and 10% capital income. Direct taxes and certain other charges totalled SEK 419 billion and transfers to households (benefits etc.) SEK 401 billion. This resulted in a total disposable income of SEK 872 billion.

### 4.3 Income distribution

If disposable income is to be used as a measure of living standards, the composition of households must be taken into account. Couples can share costs and adults need to consume more than children. For statistical purposes, members of households are thus assigned weightings and treated as consumer units:

One (single) adult	1.16 consumer units
Two (cohabiting) adults	1.92 consumer units
One child 0-3 years old	0.56 consumer unit
One child 4-10 years old	0.66 consumer unit
One child 11-17 years old	0.76 consumer unit

During the 1980s, living standards (measured as median disposable income in fixed prices per consumer unit) rose by 14%. As a result of the severe recession in the early 1990s, living standards fell by 8% from 1990 to 1995. Between 1995 and 1998 living standards rose by 5%. Measured by the Gini-coefficient, income differences widened only slowly during the 1980s, but grew more rapidly after 1990.

Widening income differences are also reflected by the fact that the mean disposable income per consumer unit rose faster in 1980-1991 and fell more slowly in 1991-1997 than the median disposable income. Those in the first decile (the 10% with lowest incomes) saw no real improvement between 1980 and 1991, and their incomes fell by 13% between 1991 and 1998. By contrast, those in the top decile increased their disposable incomes by almost 50% between 1980 and 1991 and their incomes continued to rise by another 5% until 1998.

**Table S34:**  
Disposable income per consumer unit for all individuals. Mean values for respective decile. SEK x 1,000. 1998 prices.

Decile	1980	1991	1998	Change 1991-1998
1	39	39	34	- 13%
5	77	91	88	- 3%
10	151	222	232	5%
All	86	106	105	- 1%

During the 1990s, an increasing number of households have invested in the stock market, especially through mutual funds. As a result, more households report capital gains. The number varies depending on the movements of share prices and transactions made in anticipation of new tax legislation, but the general trend is a steady rise<sup>8</sup>. In 1991, 7% of all households reported capital gains on their income tax return; in 1998 the figure was 21%. This development has contributed significantly to the widening income differences recorded.

The disposable incomes of men and women have developed along parallel tracks; percentage changes have been roughly equal. There are, however, marked differ-

ences between age groups. Young people are worse off 1998 than young people in 1980, while the opposite is true of age groups 30 and above. Between 1980 and 1991, the average disposable incomes of those aged 18-22 fell by about 9% and then declined by 32% up to 1998. This, of course, reflects the fact that young people have found it more difficult to get jobs and stay on in school. But it is also a fact that the incomes of young adults aged 23-29 rose more slowly in the 1980s and fell more sharply in the 1990s, compared to those of their elders. By contrast the middle-aged enjoyed substantial increases in income during the 1980s, and suffered only a moderate decline in the 1990s. The only age group to show steadily improved living standards, however, are the pensioners.

**Table S35:**  
Disposable income per consumer unit for all individuals. 1998 prices. Mean values for certain age groups. SEK x 1,000.

	1980	1991	1998	Change 1980-1991	Change 1991-1998
18 - 22	70	64	44	- 9%	- 31%
23 - 29	94	103	93	10%	- 10%
50 - 59	104	132	131	28%	- 1%
65 - 74	73	91	97	24%	7%

One of the consequences of the difficulties experienced by young people in finding jobs is that more of them are continuing to live with their parents. The incomes of this particular group have fallen more sharply than those of any other "family" group - by 31% between 1991 and 1998. Single parents and families with children have seen their real incomes fall by around 4-5% since 1991 because of reduced benefits. Pensioners apart, however, no type of household has escaped reductions in disposable incomes during the 1990s.

Unemployment is an important factor behind falling disposable incomes during the 1990s. Those in employment have in fact enjoyed rising real wages. After a fall of 2% between 1991 and 1993, the median wage then rose by 13% in the period up to 1998. Wage equality between men and women, which worsened during the 1980s, has improved somewhat in the 1990s.

**Table S36:**  
Median yearly incomes of full time employees aged 20-64. 1998 prices. (SEK x 1,000).

	1980	1991	1998	Change 1991-1998
Women	172	173	198	14%
Men	197	216	238	10%
All	188	199	222	12%
Women's median income in % of men's	87%	80%	83%	

8) Another factor that may explain the rising number of individuals reporting capital gains is the fact that financial institutions, from the income year of 1996, are required to issue control statements to the tax authorities on share transactions.

## 5. Tax arrears and collection losses

Not all taxes billed to taxpayers are paid on time. If the tax remains unpaid after a reminder, the tax authority notifies the enforcement authority. The enforcement authority will again demand payment<sup>9</sup>. If the taxpayer still does not pay the authority will take action to recover the amount due.

Many arrears occur because some taxpayers do not file tax returns. In such cases, the tax authority issues a discretionary assessment. If the resulting tax bill is not paid, the enforcement authority is notified and it issues a new demand for payment. In this situation the taxpayer often files a return which results in a lower assessment, which will reduce or cancel the arrear. Arrears may also be lowered or eliminated because of successful complaints or appeals against decisions by the tax authority.

The enforcement authority has several means at its disposal to collect arrears. A very common measure is to seize a refund due on another form of tax. Another is attachment of wages. Belongings with a market value or fixed property may be seized and sold, and so on.

Debited taxes that are not paid within five years are normally written off. These amounts are referred to as collection losses. A standard, but approximate measure of collection losses is net arrears in one year minus the amount collected by the enforcement service in that same year. According to this measure, collection losses in 1998 were SEK 5.2 billion, which was equal to 0.5% of total tax revenue.

**Table S37:**  
**Tax arrears and collection losses 1998-99 (SEK billion).**

	1998	1999
Total tax revenue	996	1 043
Arrears notified to the enforcement authorities	11.6	13.2
Demands withdrawn or reduced	- 2.5	- 3.2
<b>Net arrears</b>	<b>9.1</b>	<b>10.0</b>
Payments to the enforcement authorities	- 3.9	- 4.3
<b>Collection losses</b>	<b>5.2</b>	<b>5.7</b>
<b>Collection losses as % of total tax revenue</b>	<b>0.5%</b>	<b>0.5%</b>

The current level of collection losses is about the same as in the late 1980s. In the early 1990s, they were much higher, however. In 1990, the level of losses rose sharply to 1.0% of total revenue and then to 1.2% in 1992. Behind this development was a steep rise in the number of bankruptcies. Some were deliberate and part of tax fraud schemes, but most occurred as business failures when the bubble economy of the 1980s suddenly burst. In 1992, more than 20,000 business enterprises with about 80,000 employees went bankrupt. The 1999 level was about 7,000 businesses and 15,000 affected workers.

In 1998 individual taxpayers accounted for about 42% of the collection losses, with legal entities representing the remaining 58%. Income tax – especially back taxes and additional assessments due to audits – and VAT make up the greater part of all tax arrears. The introduction of the single tax account in 1998 – as a result of which all payments are registered on a single account for each taxpayer without differentiation by tax -, makes it difficult to calculate how much of the loss is represented by each tax. Such unallocated losses are referred to as deficits on the taxpayers tax account.

By the end of 1999, the balance of unpaid tax arrears was SEK 43 billion. The major share (61%) was attributable to bankruptcies. Only about 20% of the total debt was subject to active recovery measures. About SEK 11 billion, roughly 1/4 of the total amount due, consisted of penalties and accumulated interest.

**Table S38:**  
**Closing balance of tax receivables at the end of 1999 (SEK billion).**

	Taxes	Interest and penalties	Total
Bankruptcies, concluded	13.0	5.6	18.5
Bankruptcies, not concluded	6.5	1.5	8.0
Other arrears not subject to active recovery	5.9	2.3	8.2
Arrears subject to active recovery	7.0	1.5	8.5
<b>Total</b>	<b>32.4</b>	<b>10.9</b>	<b>43.3</b>

Time is a crucial factor in debt collection. In 1998, the enforcement authorities collected tax arrears worth SEK 4.4 billion. The greatest part of this amount (59%) comprised arrears that arose in that same year, with a further 20% arising in the previous year.

By the end of 1999, there were 588,000 debtors registered with the enforcement authorities. Most had debts to the public sector, some only to private creditors and many to both public and private creditors. Among these were 280,000 debtors with tax arrears, of which 69,000 were legal entities. While the total number of debtors has increased throughout the 1990s, the number with tax arrears has actually fallen since 1996.

The bulk of total arrears are owed by a small number of debtors. About 2/3 of the arrears accumulated by private individuals are owed by 0.6% of the debtors, while 63% of the arrears run up by legal entities (mostly companies) are owed by 5% of the debtors.

9) The enforcement service is a sister service of the tax administration; the National Tax Board is the parent agency of both services. The enforcement authorities, however, do not only collect tax arrears, but also bad debts owed to companies and private individuals. The enforcement service's register of debtors is public, which in itself is a strong deterrent, since it will affect a person's or a company's credit.

## 6. Tax errors and tax evasion

### 6.1 Introduction

There is a gap between the amount of tax that should be paid according to the law (theoretical tax) and the amount that is actually debited. This discrepancy is referred to as the assessment error. Part of the assessment error is caused by mistakes on the part of taxpayers or tax authorities. But since unintentional errors tend to cancel each other out, most of the discrepancy is caused by deliberate attempts to escape taxes. If this is done by stretching interpretation of the law too far (the courts have the final say) without concealing relevant facts, it does not constitute tax fraud. But if it is done by the concealment of income, or by claiming deductions on the basis of false information, it is tax fraud.

Most of this chapter is about tax fraud. A distinction is made between illicit work, which is the failure to report income from work or business activities to the tax authorities, and financial tax fraud, which is omitting income from investments (or assets subject to property taxes). In these cases the activities generating the income are legal; it is the failure to declare the income that constitutes fraud. There is also tax fraud based on illegal activities, such as smuggling, illicit distilling, claiming VAT refunds on the basis of forged documents etc.

Measuring the extent of tax evasion is, for obvious reasons, very difficult. The methods available may be divided into direct and indirect methods. Direct methods are based on surveys or interviews with randomly selected taxpayers. Indirect methods use available statistics, and match information on income and assets reported to the tax authorities against information on consumption and savings drawn from other sources.

### 6.2 Illicit work and the size of the black economy

Several studies have been carried out to estimate the size of the black economy, i.e. legal economic activities that are not reported to the tax authorities. In 1997, the Government commissioned the National Audit Office (NAO) to study the extent of illicit work in Sweden. The study used a combination of direct and indirect methods and its final report was published in 1998.<sup>10</sup> According to the findings of the study 11-14% of the adult population (or 650,000-800,000 people) had carried out such

work at least once in the past 12 months.<sup>11</sup> To most people it was extra work, on average 5 hours a week bringing in SEK 112 per hour and about SEK 25,000 per year. According to the NAO estimates, illicit work accounted for 5% of total work hours and illicit earnings corresponded to around 3% of GDP.

The study also found that the group most active in the black economy were young men. This general conclusion is also supported by a taxpayer survey carried out by the National Tax Board (through a private opinion survey institute) in 1998.<sup>12</sup> In this study, however, only 7% of respondents agreed with the statement: "I have personally carried out illicit ("black") work during the last year".<sup>13</sup>

Other studies have focused on particular types of households or industries. Michael Apel has compared the reported household income of self-employed persons and wage earners and has estimated that the self-employed under-reported their income by 30%.<sup>14</sup> However, no allowance was made for the fact that entrepreneurs are allowed to reduce their tax liability by allocating some items of income to reserves, or that their patterns of consumption may differ from those of wage earners. Another study found that fishermen generally reported very low incomes.<sup>15</sup> A third inquiry noted the fact that firms in cash trades exposed to tough competition have strong incentives to evade taxes. According to this inquiry, tax evasion is well documented in trades such as taxi driving, hairdressing and restaurants.<sup>16</sup>

Income from private firms and partnerships is declared as business income by their owners. Many private firms are operated as a part-time activity. In 1999, about 400,000 individuals declared income from business activities in which they were actively involved. The majority also declared employment income. Only 12% reported net profits exceeding SEK 150,000.

10) Riksrevisionsverket (The Swedish National Audit Office), *Illicit work in Sweden - a report on a welfare state dilemma*, RRV 1998:61.

11) The question in the NAO study was phrased thus: "The following questions are about work which is carried out for payment without being reported to the authorities, known as "illicit work". There are reasons to believe that large sections of the population accept illicit work and transactions without receipts. The questions concern work that is paid for in cash, but also the exchange of goods or services among friends, acquaintances or family members not belonging to the household. It may also take the form of the sale of goods without receipts, e.g. from market stalls or other "black" transactions. Have you, during the past 12 months, carried out such work or sold goods without receipts?"

12) Riksskatteverket, *Allmänhetens synpunkter på skattesystemet, skattefusket och myndigheternas kontroll. Resultat från en riksomfattande undersökning hösten 1998*, RSV Rapport 1999:1.

13) An explanation for the diverging results may be that the questions were phrased differently. The question posed by the National Audit Office (see footnote above) may have led respondents to give a wider interpretation of illicit work than the corresponding statement posed by the National Tax Board, to which respondents were asked to agree or disagree.

14) Apel, Mikael, *An Expenditure-Based Estimate of Tax Evasion in Sweden*. Tax Reform Evaluation Report No. 1, November 1994.

15) Expertgruppen för studier i offentlig ekonomi (ESO), *Fisk och fusk - Mål, medel och makt i fiskeripolitiken*, DS 1997:81.

16) SOU 1997:111, *Branschsanering - och andra metoder mot ekobrott, Huvudbetänkande av branschsaneringsutredningen*. (With a 9-page summary in English).

**Table S39:**  
**Number of individuals with assessed business income (or losses). Assessment year 1999.**

Business income	Total number	Of which with employment income of or loss		
		0-50,000	1-150,000	>150,000
<b>Loss of</b>				
>150,000	16 315	4 077	5 256	8 634
50,000 – 149,999	30 197	6 075	10 496	16 406
1 – 49,999	86 993	15 772	30 655	48 815
<b>Total deficit</b>	<b>133 505</b>	<b>25 924</b>	<b>46 407</b>	<b>73 855</b>
<b>Income of</b>				
1 – 49,999	139 879	52 448	57 980	51 491
50,000 – 149,999	100 363	74 464	41 640	9 742
>150,000	52 803	46 323	19 145	2 284
<b>Total surplus</b>	<b>293 045</b>	<b>173 235</b>	<b>118 765</b>	<b>63 517</b>
<b>Total</b>	<b>426 550</b>	<b>199 159</b>	<b>165 172</b>	<b>137 372</b>

An analysis of incomes of individuals who worked full-time in the business they owned revealed that the average income from private firms in 1994 was about SEK 124,000 for men and SEK 88,000 for women. The corresponding average income for owners of limited companies (close companies) was SEK 247,000 for men and SEK 210,000 for women. The average incomes of employees working full time were SEK 238,000 and SEK 183,000, respectively.

Comprehensive surveys of illicit work involving household services have been carried out in Denmark. Assuming that the findings are also applicable to Sweden, the National Tax Board has estimated total sales of such illicit services in 1995 at SEK 10 billion, of which domestic services such as cleaning accounted for about 3 billion, home repairs 5 billion and car repairs 2 billion.

### 6.3 Estimates of the black economy based on macro-economic data

The size of the total black economy may also be studied using an indirect method based on the national accounts. This method (the disposable income method) is based on the discrepancies between reported income and reported expenditure: the two aggregates should match each other, since they both reflect the disposable income of households. On the expenditure side, income is calculated as the sum of households' financial savings, net investment and consumption. On the expenditure side, disposable income is calculated on the basis of declared income, plus the difference between positive and negative income transfers. The difference between the disposable income arrived at by these two procedures is the basis for an estimate of Sweden's black economy.<sup>17</sup>

Three studies, each with the aim of estimating the size of the black economy using the disposable income method, were carried out in Sweden in the 1980s and 1990s. The first study was by Ingemar Hansson<sup>18</sup> in 1994 and the second by Åke Tengblad in 1993<sup>19</sup>. The third study was also by Tengblad. Reviewing earlier calculations, he found that the size of the black sector of the Swedish economy in 1995 was 4.6% compared to 3.3% in 1985.

These estimates, however, include items that have increased in significantly in recent years without any satisfactory explanation: a residual item in financial savings and inexplicably high operating surpluses in the corporate sector. To regard growth in these items solely as a consequence of illicit work would probably be mistaken. In his 1995 study, Tengblad therefore also used the alternative GDP income method, which takes into account information about operating surpluses in limited companies<sup>20</sup>. According to this method and assuming that black sector was 3.3% of GDP in 1995 Tengblad estimated the size of the black sector in 1995 at 3.2%. Arriving at different results using different methods, Tengblad concluded that the likely level of illicit work is somewhere between 3.0 and 4.5% of GDP.

A very different, but popular, approach is to estimate the hidden economy using the "currency demand method". This is based on the assumption that the black economy operates largely in cash transactions to leave no traces. The amount of excess cash in the economy may therefore be used as measure of the black economy. According to estimates by the Austrian economist Friedrich Schneider<sup>21</sup>, the size of the shadow economy in Sweden (as well as in Norway and Denmark) in 1994 is equal to 18-20% of the official GDP. However, these estimates are very difficult to reconcile with the other estimates referred to above (based on direct and indirect methods). It is also difficult to understand why, according to Schneider, the share of the black economy in all of the Scandinavian countries should be double that of Austria.

### 6.4 Tax fraud involving financial assets

In his 1993 study, Tengblad also estimated undeclared incomes earned by households from interest and dividends. In the early 1980s, this share was equal to about 1% of GDP, but by 1991 it had fallen to a few tenths of one percent. The most plausible explanation for this development is the introduction of control statements from banks to the tax authorities regarding income of this kind.

17) Riksrevisionsverket (Swedish National Audit Office), *Illicit work in Sweden*, p. 21.

18) Hansson, Ingemar, *Sveriges svarta sektor. Beräkning av skatteundragandet i Sverige*, RSV Rapport 1984:5.

19) Tengblad, Åke, *Beräkning av svart ekonomi och skatteundragandet i Sverige 1980-91*, in Malmer, Persson, Tengblad, *Århundradets Skattereform, Effekter på skattesystemets driftskostnader, skatteplanering och skattefusk*, Fritzes, 1994 (with a summary in English).

20) Riksrevisionsverket (Swedish National Audit Office), *Illicit work in Sweden*, p 21.

21) Schneider, Friedrich, *Empirical Results for the Size of the Shadow Economy of Western European Countries over Time*, Department of Economics, University of Linz, 1997.

This estimate refers to capital income from domestic financial institutions. The dismantling of currency regulation in the late 1980s did, however, open up foreign financial markets to household savings and investments, and there are many indications that households are also taking advantage of these new opportunities. One such indication is that the residue of household savings unaccounted for in the national accounts has increased by almost SEK 200 billion during the 1990s. Assuming that taxable financial assets worth SEK 370 billion with an annual yield of 5% are not reported to the Swedish tax authorities, this would represent an annual tax loss of about SEK 11 billion (tax on capital income and net wealth tax).

### 6.5 Excise duty fraud

Until a few years ago tax evasion involving excise duties was not considered a major compliance problem. Sweden's entry into the European Union and the single market, leading to reduced border controls, and the resumption of normal trade relations with the former communist countries, have created a new situation. Several studies indicate rising tax fraud involving excise duties on spirits, cigarettes, oil and petrol.

### 6.6 Illicit production and smuggling of alcohol

In 1996/97, it is estimated that about 13% of total alcohol and 1/3 of all spirits consumed in Sweden reached consumers through illegal channels, either by smuggling or as illicitly distilled spirits.<sup>22</sup> This represents a tax loss of SEK 2-3 billion.

### 6.7 Cigarette tax fraud

On a world-wide basis, the total volume of cigarette smuggling has been estimated by comparing recorded exports with recorded imports. According to one estimate, exports exceeded imports by about 280 billion cigarettes.<sup>23</sup> Allocating this number according to the proportion of each country's share of the world's total population would indicate smuggling of about 400 million cigarettes into Sweden. A Swedish study published in 1997, taking into consideration the fact that cigarette consumption in Sweden is relatively low, concluded that this was an exaggeration and came up with an educated guess of about 150 million cigarettes smuggled into Sweden.<sup>24</sup> This volume represents about SEK 250 million in lost tax revenue.

A more recent study, however, points to a great increase in cigarette smuggling in recent years. Based on recorded seizures by customs and the estimated risk of detection, this study calculated that the number of cigarettes smuggled into Sweden had now reached 540 million. According to the study, this increase has been

caused by a sharp increase in organized smuggling in 1997-98 in the wake of raised tax rates and retail prices.<sup>25</sup>

### 6.8 The Internet and electronic commerce

Transaction costs are much lower for electronic trade (e-trade) than for traditional border trade. This increases the possibility – of tax evasion. Not only do different tax rates create incentives for tax evasion, but so do different pre-tax prices. It is difficult to maintain effective control in cases where foreign e-trading firms are selling products to Swedish consumers. However, business-to-consumer e-trade still accounts for a relatively small share of total consumption.

### 6.9 Illegal trade in oil and petrol

Smuggling of oil and petrol has primarily been a problem along the border to Finland in the north of Sweden. There are also sales involving false documentation and authorized warehouses. Compared to alcohol and tobacco, illegal trade in oil and petrol is a lesser problem, and total fraud is estimated at a maximum of 1% of total tax revenue, or about SEK 200 million.

### 6.10 Estimates of tax error based on tax audits.

Most of the estimates cited above are from studies conducted outside the tax administration. Through auditing activities, primarily field audits, the tax authorities have considerable first-hand knowledge of tax fraud and other tax errors<sup>26</sup>. Tax audits, however, are targeted at high-risk taxpayers for maximum deterrence, and the outcome of these audits can therefore not be aggregated into an estimate of the total tax error.

Some audits, however, are directed against taxpayers selected at random. These audits are carried out in order to gauge general compliance among groups of taxpayers, or compliance with certain rules. On the basis of random desk audits of wage earners in 1993 and some other audit results, the tax error attributable to this group was estimated at SEK 2 billion. Random field audits carried out in 1993-95 indicate that the total tax error of private firms and companies with a payroll of less than SEK 5 million is about SEK 12 billion.

Unlike smaller companies, all large companies are subject to planned audits on a regular basis. This system was introduced in 1988 and in the first round completed in 1994, all large companies in Sweden (as a rule companies with more than 800 employees) were audited. On the basis of these audits, the tax authorities increased the total tax bill of these companies by SEK 15-17 billion. A substantial part of this sum is, however, the subject of appeals in the courts.

22) Kühlnhorn, E. et al, *Svenskarnas konsumtion av alkohol från legala och illegala källor vid mitten av 1990-talet*, 1997.

23) Joosens, L. & Raw, M., *Smuggling and cross border shopping of tobacco in Europe*, 1996.

24) Persson, Leif G. W., Andersson, Jan, *Cigarettsmuggling*, April 1997.

25) Persson, Leif G.W., *Cigarettsmugglingens struktur, omfattning och utveckling under senare delen av 1990-talet. Från ax till limpa*. BRÅ 1999.

26) It is important to bear in mind that a considerable share of errors detected by audits cannot be classified as fraud. Some are mistakes, while others have to do with interpretation of tax law.

Medium-sized firms with a payroll exceeding SEK 5 million are also subjected to planned audits, but coverage of this group has not been completed. In the period 1992-1997, about 2,500 medium-sized firms were audited. The average audit outcome has been multiplied by the total number of companies in this group. This yields an estimated tax error of SEK 6.8 billion.

### 6.11 How large is the total tax error?

On the basis of all available information on tax fraud and other errors made by taxpayers, the National Tax Board in 1998 made an attempt to estimate the total tax error, defined as the gap between the theoretical tax revenue and the total tax bill.<sup>27</sup> This estimate applies to 1992 and is based on the facts and indicators reported above. Obviously, these calculations are surrounded by a great deal of uncertainty and the purpose of this exercise is not to produce a figure for the tax error which may be used to monitor progress year by year, but to indicate its order of magnitude. The result of the estimate is shown in the table S38.

**Table S40:**  
**An estimate of the total tax error.**<sup>28</sup>

	National Tax Board 1997	Updated calculation 1999
	SEK billion	
<b>Estimated tax due on undeclared income and assets</b>		
(1) Tax on undeclared income (Income tax, social security contributions and VAT)	60.4	67
(2) Tax on financial investments abroad	..	11
	<b>60.4</b>	<b>78.0</b>
<b>Estimated tax due on other errors detected by audits</b>		
(3) Estimates based on random audits of wage earners, private firms and small companies	20.8	24.3
(4) Coordinated audits of the biggest company groups	20.0	16.0
(5) Less correction of tax fault, double calculation	-20.4	-20.2
	<b>20.4</b>	<b>20.1</b>
<b>Estimated excise duties due on unreported imports and sales</b>		
(6) Alcohol, tobacco, oil	3.0	3.4
(7) Loss of VAT through e-commerce	..	0.5
(8) Plain fraud, e.g claiming VAT repayments	..	..
	<b>3.0</b>	<b>3.9</b>
<b>Total</b>	<b>83.8</b>	<b>102.1</b>

**Note:** SEK 83.8 billion is roughly equal to 4.7% of GDP and 8.8% of total tax revenue in 1997. SEK 102.1 billion is roughly equal to 5.1% of GDP and 9.7% of total tax revenue in 1999.

The 1999 estimate is basically the 1997 estimate adjusted for GDP growth and a lower rate of tax on company

profits. The size of the black sector is still assumed to be 5% of GDP. However, the 1999 estimate also includes revenue lost due to undeclared financial investment abroad.

### 6.12 The structure and causes of tax fraud

Studies of the black economy in Sweden, Denmark and the Netherlands indicate that most illicit work is carried out as jobs on the side of regular employment. Young men, skilled workers and professionals are relatively well represented in the black job market, while the unemployed are somewhat under represented. There is no general disapproval among the population of occasional and small-scale illicit work, or of exchange of services among acquaintances of different trades and professions. On the other hand, there is no public acceptance of illicit operations carried out on a large scale and in a systematic and organized fashion.<sup>29</sup>

Some trades and industries are more affected by tax evasion than others. In a survey commissioned by the National Tax Board, business respondents were asked whether they agreed or disagreed with the statement "our firm is to a large extent exposed to competition from firms that evade taxes". Only about 16% of all respondents agreed, but in the construction industry 37% did so, and among hairdressers the figure was 64%.<sup>30</sup>

In another survey, 10% of the general public confirmed the statement "I have at least once during the last year hired someone to carry out illicit work on my behalf".<sup>31</sup> Those with higher incomes were, however, more likely to do so. About 1/4 of those with monthly salaries between SEK 20,000 and 30,000 agreed with this statement. City dwellers and home owners were also more likely to hire workers in the black market than those in rural areas or living in flats. Only a minority agreed with a statement to the effect that those who hired workers in the black market should also be punished, not just the workers.<sup>32</sup>

In its study of illicit work in Sweden, the National Audit Office also examined its causes, and made a distinction between structural (or external) and individual (or internal) causes. Among the structural factors, the NAO stressed the level of social control in the community and the combined marginal effects of taxes, means-tested social benefits and income-related service charges. Apart from the obvious financial motive, important factors related to the individual are the perceived risk of detection and alienation from the ruling elites (financial scandals involving politicians and top business people have had a very negative effect on tax morals). When the National Tax Board asked respondents to point out which of a set of alternatives they believed was the main reason for the existing level of tax evasion, most (51%) chose "Too high taxes". "Low morals" was the second choice (29%), while 12% indicated "insufficient tax control" and only 6% agreed that "tax laws are too complicated".

27) Riksskatteverket, *Skattefel och skattefusk, En utvärdering av skattekontrollen 1992-1997, RSV Rapport 1998:3.*

28) This estimate does not include all taxes or all taxpayers - only the most important ones.

29) Riksrevisionsverket (The Swedish National Audit Office), *Illicit work in Sweden.*

30) RSV Rapport 1998:1. 31) RSV Rapport 1999:1. 32) RSV Rapport 1999:1.

## 7. Tax control and tax crime

### 7.1 Introduction

Two kinds of sanctions may be applied to tax fraud. There are the sanctions of the criminal justice system (fines, prison sentences etc.) decided by the courts, and there are administrative sanctions (tax surcharges and delay charges), which are decided by the tax authorities. The sanctions of the criminal justice system are directed against deliberate attempts to avoid tax (tax fraud etc.), while the administrative sanctions are directed against other errors.

In order to detect tax fraud, the tax authorities perform various forms of tax control. The existence of tax control also creates a deterrent effect. This depends on how the taxpayers judge the risk of detection and the following consequences. The deterrent effect is considered substantial. Many cases of tax fraud are discovered during tax field audits. The number of tax field audits have been reduced from more than 18,000 per year in the late 1980s to about 6,000 in 1999. This fall in the number of audits is partly due to the fact that they increasingly target larger companies and more difficult cases. Another trend is that a larger share of all audits are integrated, i.e. they cover several taxes such as company income tax, VAT, PAYE and social security contributions. However, the reduction in numbers has also been caused by budget cuts and a high staff turnover.

### 7.2 Administrative sanctions

The administrative sanctions consist of tax surcharges and delay charges. Tax surcharges are imposed if the taxpayer has supplied incorrect information or failed to file an income tax return, in which case a discretionary assessment is issued. The surcharge applied to income tax is equal to 40% of the evaded tax. In many circumstances, however, the surcharge will be reduced or dropped.

In 1999 315,000 decisions were made concerning tax surcharges, of which 85,000 referred to income tax and 106,000 VAT. Due to technical problems a large number of the decisions made in 1999 concerned the 1998 assessment. The number of decisions has increased during the 1990s.

Substantial amounts are imposed as tax surcharges; in 1999 this totalled SEK 1.9 billion, of which SEK 1.2 billion referred to income tax.

Most tax surcharge decisions taken during the annual income tax assessment concern individuals. In 1999, about 42,000 decisions affected individuals and 5,000 legal entities. The average surcharge for individuals was SEK 19,000 and for legal entities 50,000.

In addition to surcharges, there are delay charges, which are imposed if tax returns are not filed on time. An individual who files his income tax return too late is charged SEK 500 and a legal entity SEK 1,000. In 1999, there were 78,000 decisions concerning income

tax returns and another 2,000 concerning excise duties. The total amount of delay charges paid was SEK 120 million.

**Table S41:**  
Tax surcharges imposed in 1999.

	Number of decisions	Total SEK million	Average SEK
<b>Income tax</b>			
During annual assessment	46 837	..	..
After annual assessment			
– additional tax surcharge	21 746	..	..
After annual assessment			
– reduced tax surcharge	16 717	..	..
<b>Sub-total</b>	<b>85 300</b>	<b>1 230</b>	<b>14 416</b>
VAT	106 165	402	3 784
<b>Social security contributions</b>			
paid by employers	69 586	160	2 293
Preliminary tax (PAYE)	53 310	76	1 433
Excise duties	864	5	6 302
<b>Total</b>	<b>315 225</b>	<b>1 873</b>	<b>5 941</b>

### 7.3 Sanctions of the criminal justice system

Since 1996, all tax criminal tax offences have been defined by the Tax Crime Law. In 1999, the tax authorities reported 1,483 suspected tax crimes to the public prosecutors. The total number has fallen since the 1980s. In 1983, about 5,100 suspected offences were reported.<sup>33</sup> The frequency also varies between the tax regions. In 1999, the tax region of Stockholm reported most cases (40 per 100,000 inhabitants).

As the number of reported cases has dropped, so has the number of persons sentenced for tax crimes. In 1983, 1,148 persons were fined, sent to prison, put on probation or given suspended sentences for crimes against the Tax Crime Law. In 1998, the corresponding figure was 349. The number of prison sentences has fallen from 317 in 1983 to 135 in 1998. If persons found guilty of tax crime as a secondary offence are added, the total number of sentences in 1998 rises to 709.

The figures in Table S39 do not include crimes against the Tax Collection Law. Very few people were sent to prison for such crimes. Most were fined or given suspended sentences.

**Table S42:**  
Number of persons sentenced by a court for offences against the Tax Crime Law as a principal offence, or assenting to summary fines imposed by a prosecutor.

Principal sanction	1983	1991	1998
Prison	317	70	135
Probation	8	5	4
Suspended sentence	391	97	118
Fine	416	168	64
Order of summary punishment	4	3	25
Other sanction	12	3	3
<b>Total</b>	<b>1 148</b>	<b>346</b>	<b>349</b>

**Note:** Due to data problems, figures for 1999 are not available.

33) Including crimes defined by the Tax Collection Law. From 1 July 1996 all tax crimes are defined by the Tax Crime Law.

Another sanction available to the courts, is to ban a person from running a business enterprise. This sanction can be applied for a period of 3-10 years if a person has seriously neglected his duties as an entrepreneur, for example by refusing to pay taxes. The number of bans in force is tending to increase and reached 318 in 1999.

## 8. Opinions on the tax system and the tax authorities

### 8.1 Introduction

Since 1986, the National Tax Board has surveyed public opinion about the tax system and the service provided by the tax authorities and the enforcement authorities. In the last couple of years, compliance issues have also received attention. The business sector (companies) was addressed for the first time in 1997 and most recently in 1999.

The surveys have a number of aims:

To evaluate how attitudes towards the tax system and the tax authorities are changing

To evaluate how the general public and companies view the service from tax authorities, different kinds of tax evasion and the tax investigation activities of the tax authorities.

To support comparisons of regional tax authorities and suggest measures for improvements

The present programme of annual surveys is based on a two-year cycle; the general public is addressed in the first year and the business sector in the next. Each year, two parallel surveys are carried out, a national survey and a regional one. The national survey, which targets about 3,000 respondents, is focused on the tax system and compliance issues. The regional survey, which targets 1,000 respondents in each of the 10 regions, deals with service delivery and public confidence in the tax authorities and the enforcement authorities.

The 1999 surveys addressed the business sector. The response rate in the national survey was 56% and in the regional survey 52%.<sup>34</sup>

### 8.2 Opinions on the tax system

More than half of businesses say they dislike the tax system in 1999, a rise since 1997. Regarding the general public, there have been considerable shifts in attitudes concerning the tax system. A low ebb was reached in 1989, but in connection with the 1991 tax reform, opinion became much more positive. Since then, attitudes have turned more sour again.

**Table S43:**  
What is your general opinion on the tax system i.e. tax levels and tax rules? Percent.

	Business sector		General public		
	1997	1999	1986	1992	1998
Positive or very positive (4+5)	20	15	13	25	16
Neither positive or negative (3)	31	23	24	29	25
Negative or very negative (2+1)	47	58	52	36	51
Don't know / No reply	2	4	11	9	8
<b>Mean value</b>	<b>2.6</b>	<b>2.3</b>	<b>2.3</b>	<b>2.8</b>	<b>2.4</b>

A major share (45-50%) of businesses *do not* think that the tax system is simple or that it is easy to file tax returns. Opinions on the brochures and forms from the tax administration are more positive. There is a very significant exception, however. Only 29% agree with the statement that brochures and forms are comprehensible.

### 8.3 The compliance issue

Promoting voluntary compliance is a strategic objective of the Swedish tax administration. It is assumed that most people are willing to comply as long as compliance is perceived as the general norm and is effectively enforced. In this survey, 88 percent of businesses stated that their business is prepared to pay the taxes as long as everyone or almost everyone else does. Businesses were also asked questions about tax evasion and 20 percent stated that they are exposed to competition with tax evading businesses and that they personally know business people who evade taxes. A majority (59%) agrees that the magnitude of tax evasion is a serious problem for society.

**Table S44:**  
Opinions on the tax system, tax returns, brochures and forms, business sector 1999, percent.

	We have a simple taxation system for businesses	It is easy for businesses to file tax returns and deliver information about different taxes	The tax authorities' brochures and forms are comprehensible
Agree (5+4)	13	17	29
Neither/nor (3)	29	27	35
Don't agree (2+1)	50	45	33
Don't know/no reply	8	12	4
<b>Mean value</b>	<b>2.4</b>	<b>2.6</b>	<b>2.9</b>

34) The national survey: Riksskatteverket, Företagens synpunkter på skattesystemet, skattefusket och myndigheternas kontroll. Resultat från en riksomfattande undersökning hösten 1999. RSV Rapport 2000:3. The regional survey concerning the tax authorities: Riksskatteverket, Företagens synpunkter på skattemyndigheternas sätt att arbeta. Resultat från en riksomfattande undersökning hösten 1999. RSV Rapport 2000:4.

**Table S45:**  
Opinions on a number of important service issues, business sector 1999, percent.

	Establishing contact with the right person is easy	The office's staff is friendly and helpful	The tax authorities handle cases fast	I can trust that the answers I get are correct	The tax authorities provide good explanations in response to my questions
Agree (5+4)	30	62	30	40	36
Neither/nor (3)	25	22	29	24	30
Don't agree (2+1)	36	10	27	20	21
Don't know/no reply	10	6	14	16	12
<b>Mean value</b>	<b>2.9</b>	<b>3.8</b>	<b>3.0</b>	<b>3.3</b>	<b>3.2</b>

## 8.4 The service from the tax authorities

A majority (57%) of businesses are satisfied with their contacts with tax authorities; 11% are not satisfied. [11.8] In ranking different aspects of quality, business respondents are most satisfied with the way they are *received by the tax authority staff*; this is followed by : *expert knowledge*, how easy it is to *communicate* with the tax authorities, *accessibility* and lastly *swiftness in handling cases*.

In general, small businesses, firms in rural areas and those with limited contacts with tax offices tend to have a more favourable impression of the tax authorities than accounting firms, big companies and firms in frequent contact with their tax office.

The table below presents a number of especially important questions to summarize views of the tax authorities in different areas of quality.

Finally, about 50% of companies have confidence in the tax authorities while 10% state that they do not. The rest (40%) are indifferent.

## 9. The tax administration

### 9.1 Introduction

Using a narrow definition, the Swedish Tax Administration may be described as comprising the National Tax Board and the ten regional tax authorities. However, many other agencies and authorities also take part in administering the tax system, for example the enforcement authorities and customs. In this chapter, the tax administration is viewed from this broad perspective. Neither the political system nor the police or judicial system are parts of the tax administration, even if this wide definition is applied. But in order to present a full picture, their roles in the tax system are also discussed in this chapter.

### 9.2 The political system

Within the government, tax policy and tax legislation are the responsibilities of the Minister of Finance. Tax bills are prepared by the tax department within the Ministry of Finance. These bills are often based on reports by government committees. All tax legislation is decided by Parliament (Riksdagen). Tax bills are referred to the parliamentary tax committee (skatteutskottet) before being put to the vote.

In the Swedish system of government, the ministries are small and mainly concerned with formulation of policy and legislation. They are not directly involved in the execution of government policy laid down in laws and regulations. Most administrative duties are performed by the comparatively large central agencies and their regional and local branches. The Swedish constitution does not allow ministers to act on their own and issue orders to the agencies. Such instructions must be decided by cabinet and not by individual ministers. Neither individual ministers nor the cabinet are allowed to interfere in the handling of individual cases at the agencies.

## 9.3 The tax administration

### 9.3.1 A wide definition

According to the wide definition of the tax administration (i.e. all administrative functions needed to run the tax system, regardless of their organisational location), it employs 11,200 people at the National Tax Board, the regional tax authorities, the regional enforcement authorities (collection of tax arrears), Customs (VAT, customs and excise duties on imports from countries outside the European Union), district courts (inheritance tax and stamp duty) and the National Road Administration (road vehicle tax) and certain other agencies. In Table S43 below, the estimated number of staff manning these functions are found within the thick black frame.

**Table S46:**  
Tax administration, Year 2000. Staff numbers according to a wide definition (within black frame) and narrow definition (grey area).

	Tax administration	Population registration	Elections, collection of private debts	Total
<b>Tax administration and enforcement service</b>				
The National Tax Board	800	70	200	1 070
Regional tax authorities	8 080	900		8 980
Regional enforcement authorities	500		2 100	2 600
<b>Sub-total</b>	<b>9 380</b>	<b>970</b>	<b>2 300</b>	<b>12 650</b>
Other agencies				
Customs	970			
District courts	70			
National Road Administration and other	20			
<b>Total</b>	<b>10 440</b>			

### 9.3.2 The Swedish Tax Administration and Enforcement Service

In organisational terms, the narrowly defined Swedish Tax Administration (the grey area in Table S46 above) is part of “the Tax Administration and the Enforcement Service” (skatteförvaltningen och exekutionsväsendet) with about 13,000 employees.

The National Tax Board (Riksskatteverket – RSV) is the parent agency of the regional tax authorities and the regional enforcement authorities. At the beginning of 2000, the Board had 1,072 employees, about 2/3 in the IT department. The Board’s mission is to lead, coordinate and support the regional authorities working with taxation, debt collection, population registration and general elections.

On 1 January, 1999, the former 21 county tax authorities were merged into 10 regional tax authorities (skattemyndigheter). Each region has several local tax offices, which handle all the tax affairs of individuals and small companies. Larger companies are served by special regional tax offices. Since 1994, the number of employees at the tax authorities has fallen by about 1,800 to 9,000. Most of this staff reduction has taken place in the area of basic processing, but in recent years control activities (desk and field audits) have also been affected. Measured in staff years – 1 staff year being equal to 1,600 working hours – the time spent on field audits fell from 1,485 in 1996 to 1,115 in 1999.

The regional enforcement authorities (kronofogdemyndigheter) were formed in 1997. Their regions are the same as the tax regions, but regional headquarters are often situated in other cities. The enforcement authorities have not suffered staff reductions on the same scale as the tax authorities; employees numbered 2,900 in 1994 and 2,700 in 1995. Debt collection is the main task of these authorities, but they also perform other functions, such as bankruptcy supervision. In 1999, the number of staff years in the enforcement authorities totalled 2,538.

Taxation accounts for about 80% of total expenditure in the Swedish Tax Administration and Enforcement Service. In 1999, total outlays were SEK 6.4 billion.

### 9.3.3 Customs

Sweden’s Customs Department (Tullverket) has about 2,400 employees. The Department has a head office in Stockholm and six regions. Effective trade and frontier protection employs about 1,500 staff years. In 1999, total collection was about SEK 41 billion, of which VAT accounted for SEK 37 billion.

### 9.3.4 Other authorities

The district courts (tingsrätterna) are involved with tax administration in the areas of inheritance tax (estate inventories are registered at the district courts) and stamp duty (titles to real property and mortgages are also registered by these courts). Duties relating to inheritance tax (including registration of estate inventories) are to be transferred to the tax administration on 1 July, 2001.

Road vehicle tax is paid to the National Road Administration (Vägverket), which is responsible for the road vehicle register. Many tasks concerning the road vehicle tax are, however, performed by the National Tax Board and the regional tax authority in Örebro.

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### 9.3.5 Taxes and the judicial system

Apart from the administration of inheritance tax and stamp duties, the function performed by the judicial system (the courts, the public prosecutors and the police) with respect to taxes is to resolve tax disputes and to enforce the tax crime law.

### 9.3.6 Appeals against tax decisions

If a taxpayer complains against a decision by the tax authority, the authority is required to review its decision. Since most complaints arise from simple errors or involve taxpayers bringing new facts to the case, most complaints are settled at this stage. However, if the matter is not settled to the satisfaction of the taxpayer, he may appeal to the county administrative court (länsrätt) and then again to the administrative court of appeal (kammarrätten). If the case is of importance to the interpretation of the law, the Supreme Administrative Court (Regeringsrätten) may grant leave to appeal and try the case.

### 9.3.7 Tax crime

The tax authorities are required to report suspected tax crimes to the public prosecutor. There are seven regional public prosecution authorities (åklagarmyndigheter) in Sweden and a national office for investigation of economic crimes (Ekobrottsmyndigheten). Crime investigations are directed by the public prosecutor and carried out by the police. In 1998, however, tax fraud investigation units were established at the tax authorities and empowered to investigate some forms of tax fraud under the supervision of the prosecutor.

Individuals prosecuted for tax crime are tried first at the district courts (tingsrätterna). Appeals are made to the court of appeal (hovrätten) and, if leave to appeal is granted, to the Supreme Court (Högsta Domstolen).

### 9.3.8 The cost of tax administration

A report evaluating the 1991 tax reform estimated the compliance and administrative costs of the tax system. In 1992, administrative costs were estimated at SEK 4.7 billion and compliance costs at SEK 9.3 billion. Administrative costs were roughly equal to 0.5% of total tax revenue and compliance costs were equal to 1.0%.<sup>35</sup>

35) Malmer, H., Persson, A., Tengblad, Å., Århundradets skattereform. Effekter på skattesystemets driftskostnader, skatteplanering och skattefusk, Fritzes 1994.

## 10. A century of taxes

### 10.1 Development of the tax system 1900-1950

When the 19th century drew to a close, it was still possible to trace the structure of the Swedish tax system to its medieval roots. The ancient land tax was, however, being phased out and the central government relied mainly on customs and excise duties for its revenue. Income and property taxes were the most important sources of revenue for local government.

The introduction of a progressive state income tax in 1902 heralded a new era. Although customs and excise duties continued to be very important, the income tax gradually increased during the first half of the 20th century to become the most important source of revenue.

### 10.2 The tax system, 1950-1970

By 1950, total tax revenue was equal to 21% of GDP, which was considerably less than in the countries that had taken an active part in the Second World War. In the years to come, however, Swedish taxes were to rise much faster than in other countries, and in the 1970s taxes reached 50% of GDP.

The main reason for this rapid increase was the expansion in social services and the social security system. Until 1960, the public sector had relied mainly on income taxes and customs and excise duties to pay for public sector expenditure. Now new sources of revenue were needed.

In 1960, a general sales tax of 4% was introduced. During the 1960s the tax rate was increased gradually and in 1969 the sales tax was replaced by value added tax (VAT) at 10% (of the retail price including the tax).

Another innovation of the 1960s was to shift responsibility for social security contributions from individuals to their employers. A first step in this direction was taken when the new supplementary pension was introduced in 1960. Later in the decade other social security contributions were transformed into employer contributions. In the years that followed, social security contributions rose from 4% of GDP in 1960 to 8% of GDP in 1970.

Direct taxes also rose at a steady pace throughout this period, from 12% of GDP in 1950 to 15% in 1960 and to 20% in 1970.

### 10.3 Some tax policy trends since 1970

In 1970, income tax was reformed to make individuals instead of households the basic unit of direct taxation. This was in response to calls for equality between men and women as well as a labour shortage, which created a need to clear away disincentives for married women to join the work force.

A strong trend in the late 20th Century is a shift from direct to indirect taxation. Although average local income tax rates have risen from 21% in 1970 to 31% in 1999, most of the tax increases have been caused by

higher indirect taxes, especially social security contributions. This is not only a result of more generous benefits, but is also a consequence of making benefits taxable. To maintain their real value to recipients, their pre-tax levels have been raised. Between 1970 and 1997 the level of social security contributions rose from 8% of GDP to 15%.

Indirect taxes in the form of VAT and excise duties rose relative to GDP from 12% in 1970 to 16% in 1997. When VAT was introduced in 1969 the rate was equal to 11% on the pre-tax price. In 1999, the basic rate is 25% on the pre-tax price.

In the 1970s, the problem of narrow tax bases and high tax rates received more attention. When inflation soared, taxpayers adapted their behaviour in ways that made both the tax system and the economy as a whole less efficient. A first step to correct this was taken through a political compromise in 1981, which lowered marginal tax rates and reduced the value of debt interest deductions. A more radical reform came in 1991. The top marginal tax rate was then lowered from about 73% to about 51% (at a local tax rate of about 31%). The tax on capital income was separated from the tax on earned income and levied at a flat rate of 30%. Lower income tax rates were financed by a general broadening of the tax base and by higher rates of indirect taxes.

### 10.4 Collection of taxes

Not only has the tax system been transformed in terms of tax bases and tax rates, administrative procedures and structures have also changed completely. An early reform of tax collection took place in 1917, when post offices were given a central role in the system. The postal giro system was established a few years later (in 1925). A second major reform was carried out in 1947, when the pay-as-you-earn (PAYE) system was introduced. This reform also created personal identity numbers based on the date of birth.

Social security contributions paid by employers were initially administrated by the National Social Insurance Board, but in 1985 this task was shifted to the tax administration and collection of these contributions was coordinated with the collection of preliminary tax (PAYE) from employers. A further reform of the tax collection system was carried out in 1998, when the single tax account was created.

### 10.5 Organisation

Compared with the dynamic development of the tax system, the organisational structure of the tax administration has adapted only slowly to the new world. Up to 1971, when the National Tax Board was formed, Sweden had three major central tax agencies (besides Customs). At regional and local level the old complex structure was maintained until 1987, when 24 county tax authorities were created and subordinated to the National Tax Board.

The enforcement service was brought under the umbrella of the National Tax Board in two stages. In 1973, its central coordinating body was made a department of the Board and, in 1988, 24 county enforcement authorities were created and given the same status as the county tax authorities. In 1997, the number of enforcement authorities was reduced to 10 regional authorities. In 1999, a similar regional structure was created for the tax authorities.

## 10.6 Rationalization

A central feature of administrative development since the 1960s has been computerisation. The first system was fully operational in 1969. About ten years later, a second-generation system, based on terminal access to databases stored in a central computer system, became operational. At this stage, only about 600 terminals were available, but by the early 1990s every tax officer had his own work-station.

The way the tax administration has developed is also reflected in staff numbers. In the late 1960s, the agencies and the regional and local authorities that were later to form the tax administration and enforcement service had about 11,400 employees. Many new officers were recruited in the 1970s and early 1980s, and by 1983 the total had risen to 14,500. After taking over responsibility for population registration from the church in 1991, the number of employees reached a maximum of 15,600. The 1990s, however, have been characterised by rationalizations and budget cuts and in 2000 staff numbers have fallen to below 13,000.

# 11. Swedish taxes in an international perspective

## 11.1 Living standards

The Gross Domestic Product (GDP) per capita is commonly used as the main indicator for international comparisons of living standards. Using current exchange rates, GDP per capita in Sweden in 1998 (\$26,900) was above the EU average of \$22,600 and roughly equal to that of Germany (\$26,200).

Exchange rates, however, are determined mainly by supply and demand for different currencies in the international financial markets. Differences in GDP per capita according to current exchange rates will therefore reflect not only the value of total production, but also the varying price levels. Conversion on the basis of purchasing power parities (PPP) will therefore provide a more accurate measure of living standards. Using PPP, GDP per capita in Sweden was close to the EU average in 1998 and on the same level as in Finland and Britain.

## 11.2 The general level of taxation (the tax quota)

A common measure of the general level of taxes in a country is the total tax revenue relative to GDP, often referred to as the tax quota. International comparisons

**Table S47:**  
GDP per capita in 1998 (US Dollars).

	Current exchange rates	Purchasing power parities
Germany	26 217	22 998
Sweden	26 863	21 857
Britain	23 692	21 675
<b>EU-15</b>	<b>22 575</b>	<b>21 288</b>
<b>OECD</b>	<b>21 417</b>	<b>21 496</b>

Source: OECD

based on the tax quota are often flawed, however, because different levels also mirror the technical designs of the tax and welfare systems. In some countries, like Sweden, social benefits are taxed, while similar benefits in many other countries are exempt from tax, or take the form of tax allowances or tax credits. Furthermore, in Sweden, social insurance contributions are included in the tax quota, because they are regulated by law, collected by the tax authorities and to a large extent (60%) not directly linked to benefits. In some other countries, similar benefits are enjoyed on the basis of insurance agreements negotiated between employers and unions. In such cases contributions are not defined as taxes.

Even though the tax quota may exaggerate the difference between the tax level in Sweden and some other countries, there is no denying that the tax level in Sweden is high by international standards. In 1997, the tax quota of Sweden (52%) was the only one above 50% (the next was Denmark at 49.5%) and it was well above the EU average of 41.5% and the OECD average of 37%.

The national accounts (including GDP and tax revenue) have recently been revised in many of the OECD countries (including Sweden). This affects (lowers) the tax quota and it makes it difficult to compare countries that have adopted this revision with those who have not.

## 11.3 The structure of the tax system

The tax quota reflects both the size of government and its welfare commitments, and the way the public sector (including social security funds) is financed.

Countries also place different emphasis on different taxes. For the purpose of comparison, taxes may be grouped into

- taxes on incomes and profits,
- social security contributions and payroll taxes
- taxes on goods and services
- taxes on property.

An average EU country collects 1/3 of its revenue from income taxes, a little less from each of social security contributions and consumer taxes, and then collects what is missing from property taxes. But a closer look reveals that most countries diverge from this general pattern in one or two ways.

**Table S48:**  
The tax quota (1997) and the tax mix (1997).

	Tax quota	Tax mix, % of total tax revenue				
	Total tax	Taxes on revenue in incomes and relation to profits GDP (%)	Social security & payroll taxes	Taxes on property	Taxes on goods and services & other	Other taxes
Sweden	51.9	41%	32%	4%	22%	0%
Denmark	49.5	60%	4%	3%	33%	0%
Finland	46.5	41%	25%	2%	31%	0%
Luxembourg	46.5	39%	25%	8%	27%	1%
Belgium	46.0	39%	32%	3%	27%	0%
France	45.1	20%	43%	5%	28%	4%
Italy	44.4	35%	34%	5%	26%	0%
EU average	41.5	34%	30%	4%	31%	1%

Source: OECD and Eurostat.

Comparing the seven most highly-taxed EU countries (according to the tax quotas), there are significant differences in how the tax burden is allocated between social security contributions and payroll taxes on the one hand, and taxes on income and business profits on the other. The Scandinavian countries – notably Denmark – collect a greater share of their revenue in income tax, while France in particular places greater emphasis on social security contributions and payroll taxes. The relative importance of consumer taxes is roughly similar and property taxes are relatively insignificant as a source of revenue.

Comparing the contribution of different taxes to the tax quota in Sweden against unweighted EU averages (1997) (based on revised GDP definitions for 14 countries), shows both taxes on income and profits and social security contributions to be higher in Sweden than in most other European countries. As regards tax on personal income alone in Denmark, the tax is higher (25.9% of GDP against 18.2% in Sweden). Social security contributions in Sweden (15.2% of GDP) are at the same level or higher in a few EU countries: France (18.3%), Italy (14.9%) Germany (15.5%) and Austria (15.2%). VAT and excise duties combined are slightly lower in Sweden than the EU average (11.6% against 12.6%).

The gap between the Swedish tax quota (in 1997) of 52% of GDP and the EU average of 41.5% is almost entirely represented by higher taxes on labour in Sweden.

The public sector (general government sector) is commonly divided into central government, local government and the social security funds. In Sweden, almost half of all taxes go to central government (46%). This ratio varies in EU between 43% in Finland and 85% in Ireland. Taxes to local government in most EU countries account for a smaller proportion of all taxes. Sweden and Denmark are exceptions; in these countries, more than 30% goes to local government. The impact of social security funds in the EU ranges between 3% of all taxes in Denmark and 45% in France. Sweden is somewhere in the middle, at 22%.

**Table S49:**  
Tax revenue per recipient, as % of total tax 1997.

	Supra-national	Central government	State government	Local government	Social security funds
Sweden	1%	46%	..	30%	22%
Denmark	1%	65%	..	31%	3%
Finland	0%	51%	..	22%	26%
Belgium	1%	36%	23%	5%	35%
France	1%	43%	..	10%	45%
Italy	0%	60%	..	6%	34%
Ireland	1%	85%	..	2%	11%

Source: OECD

## 11.4 Taxes on labour

The complexity of tax legislation makes it difficult to compare tax levels between countries with respect to different taxes. This is especially true of income tax. One way to solve the problem is to compare disposable incomes as percentages of gross pay, which also takes social benefits into account. Here, the disposable income is equal to gross income plus social benefits and other transfers, minus income tax.

In Sweden, the disposable income in 1998 of a single (unmarried) worker with average pay was 66% of gross pay. In most OECD countries, disposable incomes were higher relative to gross pay, but in some countries disposable incomes were lower. A person earning a salary 67% higher than the wage of an average worker had a disposable income of 58% of gross pay. Married couples with children had disposable incomes slightly above 70% of gross pay.

**Table S50:**  
**Disposable income 1998 as a percentage of gross pay.**  
**Wage levels as % of the average production worker.**

Household	Single		Married, 2 children	
Wage person 1	100%	167%	100%	100%
Wage person 2			0%	67%
Britain	75	73	83	81
Denmark	57	50	70	62
France	73	69	85	81
Germany	58	52	78	66
Sweden	66	58	74	71

At average income levels, marginal income tax rates in Sweden are not notably higher than in other European OECD countries, but for single persons with high incomes, marginal tax rates in Sweden are higher than in most other countries.

### 11.5 Taxes on capital

With the exception of real estate, capital is a fluid tax base. This places a limit on tax rates. At the same time there is an ambition to apply the same tax rate to income from capital as to income from work. This creates a tax policy dilemma.

Again, comparisons are difficult. In many countries, interest on bank deposits is not taxed, while in Sweden all interest and dividends are taxed at 30%. On the other hand, in Sweden debt interest is deductible, which is generally not the case in countries where bank interest is exempt from tax. In 1997, deductions for debt interest exceeded reported interest income and dividends by SEK 18 billion. Net revenue yield depends on whether declared capital gains are large enough to make up for this deficit.

Along with a few other countries, Sweden has a wealth tax, which is applied at 1.5% to net household wealth exceeding SEK 900,000. In the other countries, either tax rates are lower or the tax threshold is higher.

The tax rate applied to company profits is comparatively low in Sweden, at 28%. Comparisons of this tax rate, however, must also take account of the extent to which companies are allowed to create untaxed reserves, and whether dividends are subject to double taxation, which is the case in Sweden.

### 11.6 Taxes on goods and services Value Added Tax (VAT)

The minimum standard VAT rate in EU countries in Year 2000 is 15%, and the weighted average is 17.5%. Sweden, along with Denmark, has the highest standard tax rate, 25%. Lower tax rates are applied to foodstuffs, transport etc. Other countries apply lower rates on water, pharmaceuticals, books etc.

### 11.7 Excise duties

In Sweden, duties on energy (fuel, electricity etc) account for the major share of all revenue from excise duties. Sweden's excise duty rates on petrol and diesel oil are at the average European level, but VAT is levied at a higher rate than in other countries (with the exception of Denmark).

Duties on alcohol are higher in Sweden than in all other EU countries. The Swedish rate of duty on ethyl alcohol is EURO 57 per litre, compared to 37 in Denmark, 30 in Britain and 13 in Germany. Duty on wine is also higher than in other countries (EURO 3.11 per litre), but is still comparable to the rates of duty in Ireland (2.73) and Britain (2.30).

Taxes (VAT and excise duty on tobacco) make up about 70% of the retail price of tobacco in Sweden. This percentage is among the lowest in Europe, but the price of a pack of cigarettes in Sweden is still higher than in most other countries, because of high production costs and high wholesale and retail margins.

### 11.8 Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 1999, Sweden contributed SEK 21 billion to the EU budget and received SEK 9 billion in return.

## Some National Tax Board publications in English

### General

- Dahlgren, Stellan, A Fiscal History of Sweden, The National Tax Board (Riksskatteverket), RSV 114b, 16 pages
- National Tax Board, Organization and Duties, 1997, RSV 116b, 16 pages
- Tax Administration and The Swedish Tax system, RSV 132B, 12 pages

### Direct taxes

- The Swedish tax system - income from wages and capital, RSV 346B, 4 pages
- Working in Sweden, RSV 376B, 4 pages

### Indirect taxes

- Value Added Tax in Sweden, RSV 552B, 32 pages
- Value Added Tax in EC Trade - Summary, RSV 558B, 74 pages
- Facts about Excise duties, RSV 493B, 8 pages
- Excise duties, RSV 510, 16 pages

### Tax collection

- Tax Account for Entrepreneurs, RSV 409B, 28 pages

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