It is the duty of a good shepherd to shear his sheep, not to skin them.

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Summary in English

Introduction

This is the second annual edition of the Tax Statistical Yearbook of Sweden and the first with a substantial English Summary[1]. The yearbook is produced by the National Tax Board (Riksskatteverket – RSV). The purpose is to present 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, this 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.

The yearbook contains relevant annual data available up to September 1999. Since income tax statistics depend on the outcome of the 1998 annual assessment, a complete picture of taxes on labour and capital is only obtainable for the income year of 1997, and earlier. The year 1997 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 1997, one Swedish krona bought 0.12 US Dollar, 0.08 Pound Sterling and 0.23 Deutsche Mark.

To make the yearbook accessible to an English-speaking audience, all tables have English translations. The purpose of this summary is, therefore, not only to sum up the main content of the book, but also to serve as a gateway to the bilingual tables contained in the Swedish language chapters. References to the tables are placed within square brackets. For example: a reference to table 3.19 in 3 is written as [3.19].

The book and this summary are structured as follows. The first two chapters contain some general definitions and an overview of the tax system from a macro-economic perspective.

1) A direct predecessor of this yearbook is Taxes Income and Charges published by Statistics Sweden (Statistiska Centralbyrån – SCB) in 1992, 1994 and 1996.

Chapters 3-6 describe the tax system. Chapter 3 deals with taxes on labour income, i.e. taxes on earned income and social security contributions. Chapter 4 describes taxes on capital income (including corporation tax) and property. Taxes on goods and services are dealt with in Chapter 5. This part of the book ends at Chapter 6, which describes the most important features of business taxation.

The remaining chapters deal with special topics and issues of taxation and tax policy. Chapter 7 discusses the impact of taxes on the income distribution. Chapter 8 is about tax collection and collection losses. Tax evasion, tax fraud and sanctions are discussed in Chapters 8 and 9. Public opinion about taxes and tax administration as indicated by surveys is discussed in Chapter 10. Chapter 11 provides is a short description of the tax administration and Chapter 12 presents a very concise history of taxes and tax administration in Sweden during the last century. Chapter 13, finally, puts Swedish taxes in an international perspective.

Overview (Chapters 1-2)

Classification of taxes (Chapter 1)

Taxes may be classified in several ways. A common distinction is the one made between direct and indirect taxes. Another basis for classification is the primary factors of production, labour and capital. In table S1 below these two grounds of 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, as percentages of GDP. [1.1]

	Direct taxes Total	Indirect taxes (Households)	(Companies)
Taxes on labour			
Income taxes	18.1		18.1
Social security contributions	2.7	14.9	17.6
VAT and Excise duties		12.2	12.2
Taxes on capital			
Income taxes	0.7	3.4	4.1
Property and wealth taxes	1.3	0.7	2.0
Total	***22.8***	***31.2***	***54.0***

Table S1 provides a key to the structure of Chapters 3-5. Taxes on labour are described in Chapter 3 and taxes on capital in Chapter 4. Taxes on consumption of goods and services (VAT and excise duties), which theoretically should be treated as taxes on labour, are nonetheless described in a separate chapter, Chapter 5.

General government revenue and expenditure (Chapter 2)[2]

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[3]) and
- the social security funds

The total revenue of the general government sector in 1997 was equal to 61% of GDP. Total spending was about 62% of GDP which resulted in a total net borrowing of the general government sector of about 1% of GDP. In 1998 this deficit was replaced by a surplus. The major share of all government expenditure is made up of transfer payments; pensions and social benefits to households, subsidies to companies, membership dues to the EU and other international organisations, development aid and interest on central government debt. [2.1-3]

Table S2: General government sector revenue and expenditure in 1997 (SEK billion) [2.1]

	SEK billion	% of GDP
Revenue	**1 093**	**61%**
Taxes, social security contributions and other revenue	1 093	61%
Expenditure	**1 112**	**62%**
Transfers	620	34%
Consumption	449	25%
Investments	42	2%
Net lending/net borrowing	**- 19**	**- 1%**

The deep recession in 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 the level of about 48% 1993-94 to 54% in 1998. [2.3]

Apart from pensions, social insurance benefits and other transfers to the private sector, most public sector services are provided by local government. The county councils are the main health care providers, while the municipalities provide child care, schools, care of the elderly and a wide range of other municipal services. [2.4]

The tax system (Chapters 3-6)

In 1997, total tax revenue was SEK 953 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 S3: Total taxes in 1997.

	SEK billion	% of total taxes	% of GDP
Taxes on labour	616	65%	34%
Taxes on capital	109	11%	6%
Taxes on goods and services	228	24%	13%
Total taxes	**953**	**100%**	**53%**

Taxes on labour (Chapter 3)

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

Table S4: Taxes on labour (SEK billion) [3.1]

	1997
Income taxes (a)	315
of which state income tax	29
of which local income tax (b)	285
Social security contributions	302
Tax on occupational insurance	1
Tax relief for home repairs	- 2
Total	**616**

(a) State and local income taxes excluding
* individual taxes on capital income and
* company income tax
which are treated as taxes on capital (see Chapter 4).
(b) The part of the parish tax that is a membership fee is not included.

2) During 1999 the National Accounts have been reviewed and adjusted with respect to definitions of economic sectors and other classifications. The statistics presented in this chapter are, however, based on the old definitions (except for section 2.3 about general government expenditure and revenue per inhabitant. [2.4]
3) In the year 2000, the Church of Sweden will be separated from the state and given the same status as other religious denomination. In most communities, however, the parishes will still be responsible for some public services, such as maintaining cemeteries.

Employment and Income

About 44% of the Swedish population of 8.8 million in 1997 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). On the other hand, those in employment worked longer hours. Within this group, the average number of work hours per year increased from 1,502 in 1990 to 1,590 in 1997. [3.2]

About 68% of all employees were full-time workers in 1997. Most part-timers were women. The median income of male full-time employees in 1997 was SEK 230,000 and of female full-time employees SEK 192,000. [3.4-5] That year, 7% of all adults (over 18) had assessed earned incomes (non-capital income) exceeding SEK 300,000. They received 19% of the taxable income and paid 25% of the tax. [3.3]

Income tax on earned income (employment and business income)

Direct taxes on the employment and business income of an individual are made up by 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 1997 was 31.66%.[4]

Below is an example to illustrate the computation of the income tax of an individual for the income year 1997. The example also includes general social security contributions and taxes on capital which will be explained in later sections.

Table S5: An example of the computation of tax of an individual (1997 income year).

	Tax base	Tax rate	Tax amount
Net employment income	280 000		
Net business income	0		
General allowances (e.g. private pension premium payments)	- 10 000		
Assessed earned income	**270 000**		
General social security contribution (5.95% of net employment and business income)	- 16 700		16 700
Basic allowance	- 8 700		
Taxable earned income/ Local income tax (average rate = 31.66%)	**244 600**	**31.66%**	**77 440**
Less income below threshold for state income tax	- 209 100		
State income tax (25% + SEK 200)	35 500	25%	9 075
Subtotal (individual taxes on labour)			**103 215**
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	1.7%	13 600
General wealth tax (1.5% of net wealth exceeding 900 000)	200 000	1.5%	3 000
Total tax			**128 815**

The aggregate assessed income for individuals (employment income and business income, less general allowances) in 1997 was SEK 1,072 billion. This sum was almost entirely made up of remunerations derived from employment and pensions.

Table S6: Aggregate assessed earned income in 1997. [3.11]

	Employment income
Salaries and benefits	831
Pensions	232
Other taxable remunerations	9
Deductions	
Commuting to work	- 8
Other	- 5
Net employment income	**1,059**
Net business income	24
General allowances	
Private pension premiums	- 10
Other	- 1
TOTAL ASSESSED EARNED INCOME	**1,072**

To arrive at the taxable income, a deduction is also made for the general social security contribution (5.95% in 1997 and 6.95% in 1998) [3.31] and a minimum basic allowance, SEK 8,700 [3.17-18].

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 by three component taxes and in 1997 the average rate was 31.66%:

Municipality tax	21.16%
County council tax	9.31%
Parish tax[5]	1.19%
	31.66%

The lowest local income tax rates are generally found in well-to-do suburbs of the large cities and the highest rates are found in the rural north or in municipalities hit by industrial decline. In 1999, the lowest rate was found in the Stockholm suburb of Danderyd (27.01%) and the highest rate in Ragunda in the northern interior of Sweden (34.35%). [3.23-25]. 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. [3.26-27]

State income tax is only applied to taxable incomes which in 1997 exceeded SEK 209,100. This income threshold is adjusted annually. According to the principle established at the 1991, tax reform this adjustment should be equal to 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

4) The tax rate of 31.66% includes the entire parish tax, which includes both a real tax to finance maintenance of cemeteries and (historical) church buildings and a membership fee, which is only paid by members.
5) Including the imembership feeî. See previous foot note.

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. [3.19]

The average top marginal tax rate in 1999 is 55.6% (at an average local income tax rate of 31.6%). This rate applies to taxable incomes above SEK 360,000 (equal to assessed incomes above SEK 389,500). At lower levels, the effective marginal tax rates are also influenced by variations in the basic deduction and a special tax reduction for low incomes. [3.20]. In 1997, about 18% of the population aged 20 and older had incomes above the threshold for State income tax. Of full-time employees aged 20-64, 39% had incomes exceeding the threshold. [3.21]

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. [3.22]

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 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 contributions. The main part is paid either by employers as a payroll tax at the rate of 32.92% (1997) or by self-employed people themselves at the rate of 31.25%. In addition to this, all taxpayers pay a general social security contribution. In 1997 the rate was 5.95%.[6] Because about 60% of social security contributions are in fact taxes, there is also a special wage tax on those items of remuneration which do not provide an entitlement to State pensions or benefits. In 1997, SEK 302 billion was paid as social security contributions. (3.28-3.31)

Table S7: Social security contributions in 1997

[3.28-29]

	SEK billion	Tax rate
1. Basic social security contributions paid by		
a. employers or	237	32.92%
b. self-employed	6	31.25%
2. General social security contributions paid by all taxpayers	46	5.95%
3. Special wage tax	13	22.42%
Total	**302**	

Tax on life assurance for employed and self-employed persons

Most employees enjoy the benefit of life assurance based on agreements between employersí and employeesí 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 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 1998, the total yield from this tax was SEK 802 million.

Tax relief on home repairs, rebuilding etc.

In order to stimulate employment in the building industry, a special tax reduction (or tax credit) has (until the spring of 1999) been granted for repairs 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. The total tax credit in 1997 was SEK 2.3 billion. (3.32)

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 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 1998, 48% just signed and returned the simplified form, while another 33% changed or added some information in the simplified return. The remaining 19% used a traditional (or special) tax return. (3.6-7)

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.

6) Since 1998 the general social security contribution has been replaced by a general pension contribution of 6.95%.

Table S8: Collection of individual income taxes etc in the assessment year of 1998.[7] tax returns have to wait until December. [3.8-9]

	SEK billion	% of debited tax
Preliminary tax paid by employers, banks etc	366	89%
Preliminary tax paid by self-employed	17	4%
Supplementary tax payments by individuals	33	8%
Other tax credited	1	0%
Total payments credited	**417**	**101%**
Total tax debited on basis of assessment (final tax bill)	- 412	100%
Excess tax to be refunded	- 17	4%
Remaining tax to be paid (back taxes)	12	3%

Taxes on capital (Chapter 4)

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 1997, total taxes on capital brought in SEK 109 billion or 11% of total tax revenue.

Table S9: Taxes on capital 1997 (SEK million). [4.1]

	Paid by individuals	Paid by companies	Total
Income tax on capital income	11 313		11 313
Income tax on company profits		46 509	46 509
Real estate tax	14 870	12 210	27 080
Wealth tax	5 329	124	5 453
Inheritance tax	1 573		1 573
Gift tax	222		222
Tax on dividends to non-residents	1 663		1 663
Tax on pension fund earnings		12 293	12 293
Sub total	**34 970**	**71 136**	**106 106**
Stamp duty			2 624
Total			**108 730**

National and household wealth

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

7) Most income assessed in 1998 are earned in 1997 and most of the preliminary taxes are paid in the form of PAYE during 1997. Supplementary payments are generally made in the spring of the assessment year, i.e. 1998. Most taxpayers receive their final tax bills (along with refunds) in August of the assessment year, but taxpayers filing special.

Table S10: National wealth of Sweden in 1995 (SEK billion). [4.2]

	House-holds	Business sector	Public sector	Total
Real capital				
Buildings, machinery, means of transport	1 097	1 891	858	3 846
Stocks	9	200	4	213
Mines and land	576	410	272	1258
Financial assets and liabilities				
Assets (incl tenant-owned apartments)	1 778	6 454	1 112	9 344
Liabilities	- 831	- 7 662	- 1 447	- 9 940
Total	**2 629**	**1 293**	**799**	**4 721**

In 1995, households accounted for more than half of the net wealth. The greater part consisted of private homes, including tenant owned apartments. [4.4] In later years, financial investments have increased their share of total household wealth. Between 1995 and 1997, net financial assets of households rose from about SEK 900 billion to about SEK 1,350 billion. This development may be explained by growing investments in shares and mutual funds and rising share prices. [4.3]. 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 S11: Financial assets and liabilities of households as % of GDP. [4.12]

	1990	1997
Cash and bank deposits	35.8	29.9
Bonds	6.7	8.3
Shares and other equity	17.4	40.0
Private pensions and other insurance policies and other accounts receivable	21.6	43.9
Other financial assets	3.5	1.3
Total financial assets	**85.0**	**123.4**
Liabilities	63.2	51.9
Net financial assets	**21.8**	**71.5**

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. [4.5] 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 do capital gains generally exceed capital losses by a wide margin. In 1997, aggregate net taxable capital income was about SEK 37 billion and net revenue yield was about SEK 11 billion.

Table S12: Tax on individual income from capital in 1997 (SEK billion). [4.13]

	Income	Expenditure and losses	Net income and tax
Interest received and paid, dividends and other current capital income	42.8	- 60.7	- 17.9
Capital gains/losses	59.3	- 4.2	55.1
Administration costs		- 0.5	- 0.5
Net capital income	**102.1**	**- 65.4**	**36.7**
Net tax on capital income			11.3

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. [4.13-14]

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 1997 (according to the 1998 annual assessment), 2/3 of all companies reported a total taxable profit of SEK 162 billion and paid SEK 44 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 93% of all companies reported only 15% of total taxable profits.

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 the 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.

In 1997, the real estate tax for private homes (one- or two-family dwellings including holiday homes) was 1.7% of the tax value. In 1998 the rate was lowered to 1.5%. Apartment buildings were also taxed at 1.7% in 1997, but step by step the tax rate has been brought down and in the year 2000 the rate will be 1.2%. Commercial property is taxed at 1% of the tax value and industrial property at 0.5%. [4.7]. To encourage construction, new dwellings are exempt from tax during the first five years and then taxed at half the standard rate in the following five years. The total yield from the real estate tax in 1997 was SEK 27 billion, of which private homes accounted for SEK 15 billion. [4.7]

Table S13: Real estate tax in 1997. [4.8]

	Tax base SEK billion	Standard tax rate	Tax revenue SEK million
Private homes (one- or two-family dwellings)	909	1.70%	14 729
Apartment buildings	453	1.70%	5 626
Commercial property	285	1.00%	2 846
Industrial property	283	0.50%	1 414
Hydroelectric power stations	73	3.42%	2 482
Total	**2 003**		**27 097**

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 780,000 and in the northern county of Västernorrland SEK 314,000. [4.24]. A particular problem is that rising property prices for holiday homes in attractive coastal areas also have caused a great increase in the tax burden for permanent residents of these areas, 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 the level of 175 in 1993, but have since regained that loss, and in 1998 the price index was again 217. [4.25]. But property prices must 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, the prices in 1998 are still well below those of the boom years. [4.11]

Net wealth tax

The tax on net wealth may be regarded as a complement to other taxes on capital to make taxation more progressive. Unlike other direct taxes, the wealth tax is not a purely individual 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.

In computing the taxable base, the general principle is that assets should be entered at their market values. Properties, however, are included at their tax value (which should 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 only accounted for 17%.

In 1997, 578,000 individuals (342,000 households) between them paid SEK 5.3 billion in wealth tax. 12,000 legal entities paid just SEK 124 million. [4.16-18]

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 50,000. Taxable amounts of less than SEK 300,000 are taxed at the rate of 10%, while amounts exceeding SEK 600,000 are taxed at 30%. [4.19]

The main function of the gift tax is to prevent evasion of the inheritance tax by gifts to heirs and other future beneficiaries. Each recipient may acquire gifts worth of 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. [4.19]

In 1997, the revenue yield from the inheritance tax was SEK 1,573 million and from the gift tax SEK 222 million.

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 1997, the tax yield was SEK 1,663 million.

Tax on pension fund earnings

Up to a maximum amount taxpayers are allowed deductions for premiums to private pension funds. In order to achieve 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 administrate 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 1999, the tax rate applied to this yield is 15% in the case of pension capital funds and 27% in other (otherwise tax privileged) funds. The total revenue yield in 1997 was SEK 12.3 billion.

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 1997, the revenue yield from the stamp duty was SEK 2.6 billion.

Taxes on goods and services (Chapter 5)

Taxes on goods and services include value added tax (VAT) as well as excise and customs duties. In 1997 total revenue from these taxes was SEK 228 billion, representing about 1/4 of all tax revenue. [5.1-2]

Table S14:
Taxes on goods and services 1996-98 (SEK billion). [5.1]

	1996	1997	1998
Value added tax	154	150	163
Excise duties	78	78	80
Total	**232**	**228**	**243**

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 (1999), the standard VAT rate is 25% (of the tax base). A reduced rate of 12% applies to food, passenger transport, and hotel accommodation and camping. Newspapers and cultural and sports events are taxed at 6%. [5.3]

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

There are 386,000 taxable persons identified for VAT purposes. The vast majority of these taxable persons file monthly VAT returns. An additional 450,000 taxable persons with a maximum annual turnover of SEK 1 million report VAT on annual income tax returns. [5.4]

In 1997, gross payments of VAT totalled SEK 286 billion, of which 86% was collected by the tax authorities. About 40% was refunded and another 7% was input VAT on government spending, which in the government revenue accounts was offset against revenue received. The remaining net revenue was SEK 150 billion.

Table S15:
VAT revenue 1997. [5.5]

	SEK billion	% of gross payments
VAT payments received by		
Customs	38	13%
Tax authorities	245	86%
Other	3	1%
Total	**286**	**100%**
VAT refunded by the tax authorities	- 117	- 41%
Input VAT on government expenditure	- 19	- 7%
Net VAT revenue	**150**	**52%**

In 1998, a total turnover of SEK 4,328 billion was reported in VAT returns submitted to the tax authorities: of the total exports accounted for SEK 963 billion (exports are exempt from VAT). The 25% tax rate applied to about 86% of the reported non-export turnover. [5.6] The wholesale and retail trade, together with hotels and restaurants, accounted for about 40% of output tax and 57% 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. [5.7]

Excise and customs duties

Excise and customs duties have a long history in Sweden. A hundred years ago, customs duties together 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 S16: Excise and customs duties 1997. [5.9]

	SEK billion
Energy and environmental duties	49 223
Taxes on motor vehicles	6 787
Duties on alcohol and tobacco	17 644
Customs duties and other import duties*	3 808
Other excise duties	2 285
Total	**79 747**

*) Collected for the EU-budget

From an administrative point of view excise duties are cost effective, since the number of taxpayers is relatively low. About 10,000 businesses are registered as taxpayers, almost half of which pay advertising duty, most having low turnovers. There are only five registered taxpayers for lottery duty and 24 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. [5.10-12]

Energy and environmental duties

The oil crises of the 1970s clearly highlighted the great dependence of modern society on its supply of energy. Since then, the dependence on fossil fuels has been somewhat reduced, but in 1994 fossil fuels (oil, coal and natural gas) accounted for about 40% of Swedenís energy supply. Nuclear power supplied another 33% and hydro-electric power 11%. [5.13] 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. [5.16]

When duties on petrol and electricity were first introduced, the revenue was intended for roads and 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 fuel. [5.17]

Table S17: Energy and environmental duties (SEK million). [5.9]

	1997	1998
Energy duty	34 270	36 958
Carbon dioxide duty	12 599	12 796
Sulphur duty	134	115
Nuclear power duty	1 478	1 537
Duty on electricity from certain sources	194	0
Duties on fertilizers and pesticides	427	389
Gravel duty	121	129
Total	**49 223**	**51 924**

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. [5.14] Some energy duties are also geographically differentiated. Electricity duties are lower in northern Sweden. [5.14] 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 made up by different taxes.

Table S18: Taxes and consumer prices of electricity and petrol (May 1999). [5.18-19]

	Electricity SEK/kWh	percent	Petrol SEK/litre	percent
Pre-tax price	0.40	58%	2.49	29%
Energy duty	0.15	22%	3.58	41%
Carbon dioxide duty			0.85	10%
VAT	0.14	20%	1.73	20%
Consumer price	0.69	100%	8.65	100%

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 down 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 S19: Taxes on motor vehicles (SEK million). [5.9]

	1997	1998
Vehicle tax	6 242	6 103
Sales tax	207	270
Scrap fees	338	152
Total	**6 787**	**6 525**

In 1999 there were 5.2 million vehicles subject to vehicle tax, including 3.8 million passenger cars, 300,000 lorries and 700,000 trailers. The vehicle tax 1999 on a petrol-driven passenger car with a kerb weight of 1,200 kg is SEK 1,032. The tax increases 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. [5.27-29]

Since 1998, a user charge is payable for travel with lorries and vehicle combinations weighing 12 tonnes and over. For lorries and vehicle combinations with not more than three axles the user charge is SEK 6,963; for vehicles with four axles or more the charge is SEK 11,605. 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 1998, about 175,000 licences were sold to foreign vehicles and revenue totalled around SEK 20 million.

Duties on alcohol and tobacco

Duties on alcohol and tobacco dates 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 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. [5.20]

Table S20: Taxes and the retail price of acholic beverages. [5.23 and 5.25-26]

	Absolut Vodka 70 cl SEK	Wine max 15% 75 cl SEK	Beer 5.2% 33 cl SEK
Pre-tax price	35	37	6.09
Alcohol duty	140	19	2.55
VAT	44	14	2.16
Consumer (retail) price	**219**	**70**	**10.80**

Retail sales of alcoholic beverages are carefully regulated in Sweden, and spirits, wine and export beer (with an alcohol content greater than 3.5%) may only be sold at certain State-owned shops (Systembolaget). According to official statistics, domestic sales (at Systembolaget and in restaurants) of spirits have dropped during the 1990s, while beer and wine sales have increased.[5.22]. 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 5.8 litres in 1998. This conclusion is however premature, since the figures do not include legal private imports by tourists and business travellers, 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). [5.21]

Table S21: Taxes and the retail price of a pack of cigarettes. [5.24]

	SEK	%
Pre-tax price	9.87	29%
Fixed tobacco duty (SEK 0.20 per cigarette)	4.00	12%
Variable tobacco duty (39.2% of retail price)	13.33	39%
VAT (25% of pre-VAT price)	6.80	20%
Consumer (retail) price	**34.00**	**100%**

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 the 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 transports.

Since 1995, the total revenue yield from alcohol and tobacco duties has declined from SEK 19.0 billion to 17.6 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 increased cross-border shopping since Sweden's entry into the European Union in 1995.

Table S22: Duties on alcohol and tobacco (SEK million). [5.9]

	1995	1996	1997	1998
Tobacco duty	7 246	7 084	7 695	7 506
Alcohol duty on spirits	5 483	4 907	4 686	4 674
Alcohol duty on wine	2 901	3 233	3 094	2 998
Alcohol duty on beer	3 162	3 406	2 079	2 142
Duty on intermediate products				148
Profits from Systembolaget*	215	39	90	115
Total	**19 007**	**18 669**	**17 644**	**17 583**

*) Monopoly state-owned retail stores for 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 1997, the value of Sweden's import was SEK 480 billion, of which 68% came from other EU-countries. [5.30] Total revenue from customs duties and other import levies was 3.8 billion. [5.9]

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 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 duty 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 1998 total government earnings from betting and lotteries were SEK 5.9 billion. This sum, however, includes profits from the state-owned company Svenska Spel, which organises national lotteries, football pools etc. These profits are not regarded as duties. [5.9]

In 1997 the total tax revenue yield from these other excise duties was about SEK 2.3 billion

Table S23:
Other excise duties (SEK million). [5.9]

	1997	1998
Duty on advertising	1 163	1 192
Duty on lottery prizes	1 078	1 183
Duty on gambling	44	63
Total	**2 285**	**2 438**

More about business taxation (Chapter 6)

In previous chapters 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 computation of assessed business income regardless of legal status. This chapter 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.

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 1998 [6.1]. However, 3/4 of these businesses have no employees and most of them were combined with other employment.

Table S24:
Number of business enterprises. [6.1]

Number of employees	1997	1998	% (1988)
0	596 304	607 639	75.0%
1 - 4	134 221	140 368	17.3%
5 - 49	55 106	56 489	7.0%
50 - 499	4 954	5 023	0.6%
500 -	800	818	0.1%
Total	**791 385**	**810 337**	**100%**

Entrepreneurs have various legal forms to choose from when organising 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 recognised 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 partnershipís 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 include 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 1996) falls to about 584,000. Most are run as private firms, but limited companies account for almost 90% of all employees and total turnover. [6.2-3]

Table S25: Number of Enterprises and employees in 1997 (a). [6.2]

	Number of enterprises	Number of employees
Individuals, private firms	446 583	39 208
Unlimited partnerships	74 955	38 211
Limited companies	220 162	1 988 889
Economic associations	15 536	62 114
Clubs, societies and other unincorporated associations	22 762	75 572
Foundations	3 491	21 481
Other	5 975	17 009
Total	**789 464**	**2 242 484**

Source: Statistical Yearbook of Sweden 1999, Table 299
(a) All individuals and legal entities (except public authorities) registered for VAT or as employers.

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.

Taxation of limited companies and other legal entities

The total tax bill of legal entities according to the 1998 general tax assessment was about SEK 80 billion, an increase of SEK 13 billion on the 1997 tax assessment. Company profits account for the major share of this increase. About 90% of the tax was paid by limited companies. [6.4-5]

Table S26: The tax bill of legal entities according to the 1997 and 1998 tax assessments. [6.4]

	1997	1998	Change
State tax on business income (profits)	36.4	46.5	+ 10.1
Tax on pension fund earnings	13.6	12.3	- 1.3
Special wage tax on pensions	7.5	8.7	+ 1.2
Real estate tax	9.0	12.2	+ 3.2
Other	0.4	0.6	+ 0.2
Total	**66.9**	**80.3**	**+ 13.4**

About 2/3 of all limited companies declared profits at the 1998 tax assessment and 1/3 declared losses. Total profits were SEK 162 billion and losses SEK 233 billion. A small number of large companies account for the greater amount of these profits and losses. [6.6]

Table S27: Assessed profits and losses for limited companies 1997. [6.6]

Profit or loss	Profits		Losses	
	Number of companies	Assessed income SEK billion	Number of companies	Assessed losses SEK billion
0 - 1 million	151 853	19.9	80 339	10.9
1 - 100 million	11 696	56.8	8 561	61.6
More than 100 million	129	60.5	268	160.1
Total	**163 678**	**137.2**	**89 168**	**232.6**

Since the tax reform of 1991, only two significant kinds of reserves have been allowed; the tax allocation reserve and excess depreciations. Taxpayers are allowed to allocate up to 20% of net profits[8] to a tax allocation reserve[9]. After five years[10] 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. [6.7]

Table S28: Main profit adjustments at the 1998 tax assessment. [6.7]

	SEK billion
Deductions	
Allocations to the tax allocation reserve	32
Excess depreciations	28
Capital contributions by shareholders	50
Other exempt income	186
Group contributions to other companies	132
Losses from previous years	217
Income added	
Group contributions received	134
Non-deductible expenditure	125

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.

8) 25% from the Year 2001 tax assessment.
9) Periodiseringsfond.
10) Six years from the Year 2000 tax assessment.

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% (1997), the latter pay a special wage tax at 22.42% (1997). Persons older than 65 pay always pay special wage tax.

According to the 1997 general tax assessment, there were 413,000 persons reporting either profits or losses from businesses in which they were actively involved. Another 247,000 individuals declared profits or losses without taking active part in the business. [6.10]

In 1997, total assessed profits of private firms and partnerships were SEK 24 billion (of which 20% from partnerships) and losses SEK 16 billion. Large losses (greater than SEK 500,000) are much more common than profits of the same size. [6.9-10]

Table S29: Assessed business income for individuals. [6.10]

Profit or loss (SEK)	Profits Number of taxpayers	Assessed profits SEK million	Losses Number of taxpayers	Assessed losses SEK million
0 - 100,000	298 164	8 211	237 080	5 327
100,000 - 500,000	88 267	15 102	33 511	6 443
500,000 -	1 099	911	3 285	4 537
Total	**387 530**	**24 224**	**273 876**	**16 307**

A political ambition of recent years has been to achieve tax neutrality between various legal forms of business enterprises. 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 1997, about 44,000 businesses made such allocations totalling SEK 2.7 billion. About 24,000 allocations (SEK 1.0 billion) were reversed. Including the 1997 net allocation of 1.7 billion, accumulated allocations rose to SEK 8.8 billion. [6.11]

Another measure to achieve 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 1997, about 140,000 taxpayers took advantage of this rule and SEK 4.5 billion of business profits were taxed as capital income. [6.12]

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 1997, this rule, which is compulsory, applied in about 37,000 cases and about SEK 500 million was added to business income. [6.12]

Special topics and issues (Chapters 7-14)

Taxes and income distribution (Chapter 7)

Chapter 7 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.

Direct taxes paid by individuals

In 1989, an individual with an average income paid 36% of this income in direct taxes[11]. Immediately after the 1991 tax reform this share dropped to 29%, but in 1997 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 made much lower. Taxes paid by the lowest income groups increased throughout the period 1980-1997. [7.1-4]

Table S30: Direct taxes as a percentage of assessed income for some income groups, 1997 prices. [7.2 and 7.5]

Total assessed income	1980	1989	1991	1997
0 - 50,000	9%	14%	18%	23%
100,000 - 150,000	29%	33%	27%	31%
200,000 - 250,000	36%	36%	29%	34%
500,000 -	54%	58%	39%	44%
All age 18 or older	33%	36%	29%	35%
Highest marginal income tax rate(based on the average local income tax rate)	85%	73%	51%	59%

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 down the rate to slightly more than 50%, but during the 1990s the marginal tax rate has again increased. [7.5]

How much an individual can keep to himself of an increase in income is not only determined by the tax rates, but also by means-tested benefits and charges for social services related to income. On average, about 43%

11) In this context direct taxes include income and property taxes paid by individuals, toghether with social security contributions not paid by employers as payroll taxes.

of a wage increase is lost to the individual – 37% in increased income tax, 3% in reduced benefits and 3% in higher charges. [7.6] But these figures are averages. In individual cases lost benefits and higher charges may have a much stronger impact.

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 [7.7].

Table S31: Redistribution by taxes and benefits, 1997 (all family units 18-64 years). Breakdown into various income groups (SEK x 1000). [7.7]

Factor income	Income groups: Factor income	Benefits	Taxes	Disposable income
1 - 50	16	86	- 22	80
100 - 150	126	68	- 57	137
200 - 250	223	43	- 86	180
300 - 350	325	47	- 123	249
600 -	996	26	- 393	629
All	**232**	**58**	**- 95**	**195**

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 1997, benefits received by the average single parent were about 39% higher than taxes paid. [7.8]

In 1997, the total factor income of all households in Sweden was SEK 877 billion, of which 84% was employment income, 3% entrepreneurial income and 13% capital income. Direct taxes and certain other charges totalled SEK 403 billion and transfers to households (benefits etc.) SEK 388 billion. This resulted in a total disposable income of SEK 862 billion. [7.9]

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 weights 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%. Because of the deep recession during the first part of the 1990s, living standards fell by 6% between 1990 and 1997. Measured by the Gini-coefficient income differences widened only slowly during the 1980s, but more rapidly after 1990. [7.10]

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 12% between 1991 and 1997. 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 10% until 1997. [7.11]

Table S32: Disposable income per consumer unit for all individuals. Mean values for respective decile. SEK x 1000. 1997 prices. [7.11]

Decile	1980	1991	1997	Change 1980-1991	Change 1991-1997
1 (bottom 10%)	39	39	34	+ 0%	- 12%
5	77	91	86	+ 17%	- 5%
10 (top 10%)	151	222	244	+ 47%	10%
All	**86**	**106**	**104**	**+ 23%**	**- 2%**

During the 1990s, an increasing number of households 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[12]. In 1991, 7% of all individuals reported capital gains on their income tax return; in 1997 24% did so. This development has contributed significantly to the widening income differences recorded. [7.12]

The disposable incomes of men and women have developed along parallel tracks; changes in percent have been roughly equal. There are, however, marked differences between age groups. Young people are worse off 1997 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 1997. 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 slower 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 with steadily improved living standards, however, are the pensioners. [7.13]

12) Another factor that explains the increasing number of individuals reporting capital gains may be that financial institutions from the income year of 1996 are required to issue control statements to the tax authorities on share transactions.

Table S33: Disposable income per consumer unit for all individuals. 1997 prices. Mean values for certain age groups. SEK x 1000. [7.13]

	1980	1991	1997	Change 1980-1991	Change 1991-1997
18-22	70	64	43	- 9%	- 33%
23-29	94	103	90	+ 10%	- 13%
50-59	104	132	129	+ 28%	- 3%
65-74	73	91	95	+ 24%	+ 4%

One of the consequences of the difficulties experienced by young people in finding jobs is that more of them continue to live with their parents. The incomes of this particular group have fallen more sharply than those of any other "family" group; by 28% between 1991 and 1997. Single parents and families with children have seen their real incomes fall by around 7-8% since 1991 because of reduced benefits. Pensioners apart, however, no type of household has escaped reductions in disposable incomes during the 1990s. [7.14]

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 9% in the period up to 1997. Wage equality between men and women, which worsened during the 1980s, has improved somewhat in the 1990s. [7.15]

Table S34: Median yearly incomes of full time employees aged 20-64. 1997 prices. (SEK x 1000). [7.15]

	1980	1991	1997	Change 1980-1991	Change 1991-1997
Women	172	174	192	+1%	+11%
Men	197	216	230	+9%	+7%
All	188	199	214	+6%	+7%
Women's median income as % of men's	87%	81%	83%		

Tax arrears and collection losses (Chapter 8)

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[13]. 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 approximative, measure of collection losses is net arrears in one year minus the amount collected by the enforcement service that same year. According to this measure, collection losses in 1997 were SEK 5.4 billion, which was equal to 0.6% of total tax revenue. [8.1]

Table S35: Tax arrears and collection losses 1997-98 (SEK billion). [8.1]

	1997	1998
Total tax revenue	*943*	*1001*
Arrears notified to the enforcement authorities	11.1	11.6
Arrears withdrawn or reduced	- 2.4	- 2.5
Net arrears	**8.7**	**9.1**
Payments to the enforcement authorities	- 3.3	- 3.9
Collection losses	**5.4**	**5.2**
Collection losses as % of total tax revenue	**0.6%**	**0.5%**

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 1998 level was about 9,000 business and 19,000 affected workers. [8.1-2]

In 1997 individual taxpayers accounted for about 42% of the collection losses and legal entities for the remaining 58%. Income tax – especially back taxes and additional assessments due to audits – and VAT account for 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. [8.3]

By the end of 1998 the balance of unpaid tax arrears was SEK 47 billion. The major share (65%) was attributable to bankruptcies. Only about 19% of the total debt was subject to active recovery measures.

13 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 serviceís register of debtors is public, which in itself is a strong deterrent, since it will affect a personís or a companyís credit rating.

About SEK 13 billion, roughly 1/4 of the total amount due, consisted of penalties and accumulated interest. [8.4]

Table S36:
Closing balance of tax receivables at the end of 1998 (SEK billion). [8.4]

	Taxes	Interest and penalties	Total
Bankruptcies, concluded	14.7	6.2	20.9
Bankruptcies, not concluded	7.8	2.4	10.2
Other arrears not subject to active recovery	5.6	1.7	7.3
Arrears subject to active recovery	6.9	2.3	9.2
Total	**35.0**	**12.6**	**47.6**

Time is a crucial factor in debt collection. In 1998, the enforcement authorities collected tax arrears worth SEK 3.9 billion. Almost half of this amount (46%) comprised arrears that arose in that same year, with a further 25% arising in the previous year. [8.5]

By the end of 1998 there were 662,000 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 298,000 debtors with tax arrears, of which 77,000 were legal entities. While the total number of debtors has increased throughout the 1990s, the number with tax arrears has actually fallen since 1996. [8.6]

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 6% of the debtors, while 63% of the arrears run up by legal entities (mostly companies) are owed by 5% of the debtors. [8.7-8]

Tax errors and tax evasion (Chapter 9)

Introduction

There is a gap between the amount of tax that should be paid according to the law (theoretical tax) and the amount which is actually debited. This discrepancy is referred to as the assessment error. Part of the assessment error is caused by mistakes on part of taxpayers or tax authorities. But since unintentional errors tend to cancel each other out, most of the gap 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 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. Methods available are 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 with information on consumption and savings drawn from other sources.

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.[14] 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.[15] 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.[16] This is a report from a taxpayer survey carried out in the autumn of 1998. The National Tax Board's survey programme is described in the summary of Chapter 11 (Taxpayer opinion) In this study, however, only 7% of respondents agreed with the statement: ”I have personally carried out illicit (”black”) work during the last year”.[17] [9.1]

Other studies have focused on particular types of households or industries. Michael Apel has compared the reported household income of self-employed and wage earners and has estimated that the self-employed under-reported their income by 30%.[18] However, no allowance was made for the fact that entrepreneurs are allowed to reduce their tax liability by allocating some

14) Riksrevisionsverket (The Swedish National Audit Office), Illicit work in Sweden - a report on a welfare state dilemma, RRV 1998:61
15) The question in the NAO study was phrased this way: "The following questions are about work which is carried out against remuneration without being reported to the authorities, so called illicit work. There are reasons to believe that large sections of the population accept illicit work and transactions without receipts. The questions concern work which is paid in cash, but also exchange of goods or services among friends, acquaintances or family members not belonging to the household. It may also take the form of 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 receipt?."
16) Riksskatteverket, Allmänhetens synpunkter på skattesystemet, skattefusket och myndigheternas kontroll. Resultat från en riksomfattande undersökning hösten 1998, RSV Rapport 1999:1.
17) 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 lead 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.
18) Apel, Mikael, An Expenditure-Based Estimate of Tax Evasion in Sweden. Tax Reform Evaluation Report No. 1, November 1994.

incomes 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.[19] A third inquiry noted the fact that firms in cash trades with 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.[20]

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 1996, about 400,000 individuals declared income from business activities in which they were actively involved. The majority also declared employment income. Only 8% reported net profits exceeding SEK 150,000. [9.2]

Table S37: Number of individuals with assessed business income (or losses). Assessment year 1996. [9.2]

Business income	Total number	Of which with employment income or loss 0-50,000	1-150,000	>150,000
Net loss of				
> 150,000	10 675	3 231	2 781	4 663
50,000 - 149,999	25 252	5 511	7 998	11 743
1 - 49,999	87 049	15 471	28 086	43 492
Total deficit	**122 976**	**24 213**	**38 865**	**59 898**
Net income of				
1 - 49,999	147 511	59 751	43 629	44 131
50,000 - 149,999	94 694	74 059	14 712	5 923
> 150,000	31 907	28 011	2 524	1 372
Total surplus	**274 112**	**161 821**	**60 865**	**51 426**
Total	**397 088**	**186 034**	**99 730**	**111 324**

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 incomes for owners of limited companies (close companies) were SEK 247,000 for men and SEK 210,000 for women. The average incomes of employees working full time was SEK 238,000 and SEK 183,000 respectively. [9.3]

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

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 householdsí 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 Swedenís black economy.[21]

Three studies, each with the aim to estimate the size of the black economy using the *disposable income method,* have been carried out in Sweden in the 1980s and 1990s. The first study was by Ingemar Hansson[22] in 1994 and the second by Åke Tengblad in 1993[23]. The third study was also 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 the development of 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[24]. 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 to 3.2%. Arriving at different results using different methods, Tengblad concluded that the 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[25] the size of Sweden's (as well as Norway's and Denmark's) shadow economy in 1994 is equal to 18% of 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 three times that of Austria. [9.4]

19) Expertgruppen för studier i offentlig ekonomi (ESO), Fisk och fusk - Mål, medel och makt i fiskeripolitiken, DS 1997:81.
20) SOU 1997:111, Branschsanering - och andra metoder mot ekobrott, Huvudbetänkande av branschsaneringsutredningen. (With a 9-page summary in English).
21) Riksrevisionsverket (Swedish National Audit Office), Illicit work in Sweden, p 21.
22) Hansson, Ingemar, Sveriges svarta sektor. Beräkning av skatteundandragandet i Sverige, RSV Rapport 1984:5
23) Tengblad, Åke, Beräkning av svart ekonomi och skatteundandragandet i Sverige 1980-91, in Malmer, Persson, Tengblad, ≈rhundradets Skattereform, Effekter på skattesystemets driftskostnader, skatteplanering och skattefusk, Fritzes, 1994 (with a summary in English).
24) Riksrevisionsverket (Swedish National Audit Office), Illicit work in Sweden, p 21
25) Schneider, Friedrich, Empirical Results for the Size of the Shadow Economy of Western European Countries over Time, Department of Economics, University of Linz, 1997

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 dropped 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.

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 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 200 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 6 billion (tax on capital income and net wealth tax), tax on capital gains not included.

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.

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 sprits.[26] [9.5-6] This represents a tax loss of SEK 2-3 billion.

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.[27] 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.[28] 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 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 organised smuggling in 1997-98 in the wake of raised tax rates and retail prices.[29]

Illegal trade in oil and petrol

Smuggling of petrol and oil 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 with 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.

Estimates of tax error based on tax audits.

Most of the estimates cited above are from studies carried out outside of the tax administration. Through auditing activities, primarily field audits, the tax authorities have considerable first hand knowledge of tax fraud and other tax errors[30]. 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 chosen by random selection. 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 20 billion. A substantial part of this sum is, however, the subject of appeals in the courts.

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.

26) Kåhlhorn, E. et al, *Svenskarnas konsumtion av alkohol från legala och illegala källor vid mitten av 1990-talet*, 1997.
27) Joosens, L. & Raw, M., *Smuggling and cross border shopping of tobacco in Europe*, 1996.
28) Persson, Leif GW, Andersson, Jan, *Cigarettsmuggling*, April 1997.
39) Persson, Leif G.W., *Cigarettsmugglingens struktur, omfattning och utveckling under senare delen av 1990-talet. Från ax till limpa*. BRÅ 1999.
30) It is important to bear in mind that a considerable share of errors detected by audits cannot be classified as fraud. Some are mistakes others have to do with interpretation of tax law.

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.[31] 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 can 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. [9.8]

Table S38: An estimate of the total tax error. [9.8][32]

		SEK, billion	
Estimated tax due on undeclared income and assets			
(1)	Tax on undeclared income (Income tax, social security contributions and VAT)	60.4	
(2)	Tax on financial investments abroad (no estimate available)	0.0	**60.4**
Estimated tax due on other errors detected by audits			
(3)	Estimates based on random audits of wage earners	2.0	
(4)	Estimates based on random audits of private firms and small companies	12.0	
(5)	Estimate for medium sized companies (payroll > SEK 5 million)	6.8	
(6)	Reported tax error by audits of the largest companies	20.0	
(7)	Less errors concerning reporting period, valuation of assets etc (items 4-6)	- 6.8	
(8)	Less overlap between item (1) and items (3-6). (1/3 of items 3-6)	- 13.6	**20.4**
Estimated excise duties due on unreported imports and sales			
(9)	Alcohol	2.5	
(10)	Tobacco	0.3	
(11)	Other excise duties (oil and petrol etc.)	0.2	**3.0**
Other tax fraud			
(12)	VAT refunds based on forged documents etc. (no estimate available)	0.0	**0.0**
Total			**83.8**

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

Tax on undeclared income (item 1) is estimated at SEK 60 billion on the basis of Tengblad's calculation of the black economy in 1992 (4.9% of GDP). Errors detected by audits include both unreported income and other errors (deductions that are not allowed etc). Therefore, there is an overlap between items (1) and items (3-6). This overlap is eliminated by item (8) assuming that 1/3 of audit results represents undeclared income already included in item (1). Errors detected by audits concerning reporting period, valuation of inventories, the speed at which machinery may be depreciated etc. have also been excluded. They are assumed to account for 1/6 of audit results (item 7).

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 on 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 systematic and organised fashion.[33]

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 64%.[34] [9.10]

In another survey, 10% of the general public confirmed a the statement ”I have at least once during the last year hired someone to carry out illicit work on my behalf”.[35] 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.[9.11] 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.[36] [9.12]

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 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% that ”tax laws are too complicated”. [9.14]

31) Riksskatteverket, Skattefel och skattefusk, En utvärdering av skattekontrollen 1992-1997, RSV Rapport 1998:3.
32) This estimate does not include all taxes or all taxpayers -only the most important.
33) Riksrevisionsverket (The Swedish National Audit Office), Illicit work in Sweden.
34) RSV Rapport 1998:1.
35) RSV Rapport 1999:1.
36) RSV Rapport 1999:1.

Sanctions (Chapter 10)

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.

Sanctions of the criminal justice system

From 1996, all tax criminal tax offences have been defined by the Tax Crime Law. In 1998 the tax authorities reported 1,776 suspected tax crimes to the public prosecutors. The total number has fallen since the 1980s. In 1983, about 5,100 suspected offences were reported.[37] [10.1]. The frequency also varies between the tax regions. In 1996-98 the tax region of Gävle reported most cases (45 per 100,000 inhabitants). [10.2] 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 345. The number of prison sentences has fallen from 317 in 1983 to 125 in 1998. [10.3]. If persons found guilty of tax crime as a secondary offence are added, the total number of sentences in 1998 will be 709. [10.4]

Table S39: Number of persons sentenced by a court for offences against the Tax Crime Law as a principal offence, or assenting tosummary fines imposed by a prosecutor. [10.3]

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
Total	**1 148**	**346**	**349**

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. [10.5]

Another sanction, which can be imposed by 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. In 1998 95 new bans were issued, bringing the number of bans in force to 262. [10.5]

Administrative sanctions

The administrative sanctions are 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 1998 115,000 decisions were made concerning tax surcharges, of which 75,000 concerned income tax and 26,000 VAT. The number of decisions has increased during the 1990s. [10.7]

Table S40: Tax surcharges imposed in 1998. [10.7-9]

	Number of decisions	Total SEK million	Average SEK
Income tax			
During annual assessment	45 310	930.3	20 532
After annual assessment – additional tax surcharge	14 675	738.9	50 348
After annual assessment – reduced tax surcharge	15 125	- 630.8	- 41 705
Subtotal	**75 110**	**1 038.4**	–
VAT	8 766	217.0	24 756
Social security contributions paid by employers	25 955	81.5	3 142
Preliminary tax (PAYE)	2 698	4.4	1 617
Excise duties	2 611	20.2	7 752
Total	**115 140**	**1 361.5**	–

Substantial amounts are imposed as tax surcharges; in 1998 SEK 1.4 billion, of which SEK 1.0 billion concerned income tax. The latter figure is the net outcome of SEK 0.9 billion imposed during the annual income tax assessment and another 0.7 billion imposed at later stages (based on tax audits etc.) minus surcharge reductions of SEK 0.6 billion (because of complaints and appeals). [10.8-9]

Most tax surcharge decisions taken during the annual income tax assessment concern individuals. In 1998, about 39,000 decisions affected individuals and 6,000 legal entities. The average surcharge for individuals was SEK 19,000 and for legal entities 28,000. [10.10]

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 1998 there were 80,000 decisions concerning income tax returns and another 2,600 concerning excise duties. [10.11] The total amount of delay charges paid was SEK 121 million. [10.12]

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

Taxpayer opinion (Chapter 11)

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 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 1998 surveys were aimed the general public. The response rate of the national survey was 68% and of the regional survey 69%.[38]

Opinions about the tax system

Certain questions about the tax system have been asked in every survey since 1986. In some respects, the pattern of responses has been very stable. For more than decade, about 40% have replied that they are interested in tax issues. [11.1] On the other hand, there have been considerable shifts in public opinion about the tax system. A low ebb was reached in 1989, but in connection with the 1991 tax reform opinion became much more positive (1992). Since then, attitudes have turned more sour again. In 1998, only 16% had a positive attitude to the tax system, while 51% were negative. [11.2]

Table S41: What is your general opinion about the tax system i.e. tax levels and tax rules. [11.2]

	1986	1992	1998
Positive or very positive (4+5)	13	25	16
Neither positive or negative (3)	24	29	25
Negative or very negative (2+1)	52	36	51
Don't know/No reply	11	9	8
Mean value of total population	**2.3**	**2.8**	**2.4**
Mean value of self-employed	–	2.6	2.0
Positive minus negative	- 39	- 11	- 35

In the 1998 survey, respondents were asked about the level of taxation and the fairness of the system.[39] About 60% did not think that tax levels were reasonable and 65% did not find the tax system fair. [11.3] There was less disagreement with the proposition that the tax authority treats everybody in an equal and fair way (19%) and that the decisions made by the tax authority are correct (18%). On the other hand, only a few more agreed with those same statements (21% and 23% respectively). [11.4]

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 end effectively enforced. To confirm this assumption, the statement ”I am prepared to pay my taxes as long as everybody or almost everybody does so” was put to respondents. In 1998 78% agreed with this proposition and 8% disagreed. [11.5] Given the hypothetical nature of the question, respondents were also asked to respond to the statement ”Given the opportunity, I would withhold income from taxation”, to which 20% agreed and 53% disagreed. [11.6] More than 1 in 4 were personally acquainted with people who evade taxes and 65% agreed that the extent of tax evasion is a serious social problem, but only 1 in 10 thought that the tax authorities were effective in fighting tax fraud. [11.7-8]

Information and service to taxpayers

Voluntary compliance is also promoted by information and service to taxpayers. Generally speaking, respondents held a higher opinion about the tax administration's capability in this respect than about its ability to fight tax fraud. About 50% agreed that the brochures and forms issued by the tax administration were useful while 11% disagreed. [11.9] About 60% confirmed that these brochures and forms contain the information they need, but only 45% agreed – and 18% disagreed – with the statement that they were com-prehensible. [11.10]

While very few (13%) thought that the Swedish tax system was simple, 63% still agreed that it is easy to file a tax return. This probably reflects the fact that most people use the simplified income tax return, which almost 50% of all taxpayers just sign and return to the tax authority. [11.11]

In 1999, the National Tax Board has conducted a study with the aim of estimating the compliance costs to individuals of filing income tax returns.[40] According to this study, total compliance costs in connection with the 1998 income tax assessment were SEK 5.1 billion, of which SEK 2.4 billion sonsisted of the assigned monetary value of time spent on completing the return and SEK 2.7 billion were direct outlays. The average cost to individuals who just signed and returned the form to the tax authorities was estimated at SEK 153, while the average cost to individuals who reported business income was SEK 3,481. [11.12]

38) The national survey: Riksskatteverket, Allmänhetens synpunkter på skattesystemet, skattefusket och myndigheternas kontroll. Resultat från en riksomfattande undersökning hösten 1998. RSV Rapport 1999:1. The regional survey concerning the tax authorities: Riksskatteverket, Allmänhetens synpunkter på skattemyndigheternas sätt att arbeta. Resultat från en riksomfattande undersökning hösten 1998. RSV Rapport 1999:2.

39) These questions, like most questions in the survey, are framed as statements and respondents are asked whether they agree or disagree on a scale 1-5, where 5 indicates full agreement and 1 complete disagreement. In the following alternatives 4+5 will be interpreted as agreement and 1+2 as disagreement.

40) Riksskatteverket, Så här är det att deklarera. Individernas fullgörandekostnader för inkomstdeklarationen 1998. RSV Rapport 1999:9.

Opinion about the tax authorities

In the same way as respondents were asked about their general opinion of the tax system, they were asked to state their opinion about the tax authorities. Compared with the tax system, attitudes to the tax authorities were more positive and stable over time. Neither was there any marked difference between the views of the self-employed and other respondents. [11.13]

Table S42: What is your general opinion of the tax authorities i.e. the tax officers and the way they perform their duties. [11.13]

	1986	1992	1998
Positive or very positive (4+5)	21	30	26
Neither positive or negative (3)	26	27	33
Negative or very negative (2+1)	17	12	11
Don't know/No reply	36	30	30
Mean value of total population	**3.0**	**3.3**	**3.2**
Mean value of self-employed	–	3.2	3.1
Positive minus negative	4	18	15

On the negative side, however, more respondents disagreed than agreed (32% against 28%) with the statement that it is easy to get in touch with the right official at the tax office.[41] But once contact has been established 52% agreed (and only 13% disagreed) that the official "can answer my questions". However, mean values reported for entrepreneurs reveal that their responses to these statements were more negative. [11.14]

Of those who had been in touch with the tax authority, 59% declared that they were satisfied with the contact and 10% that they were not. A larger proportion of entrepreneurs (15%) and those earning more than SEK 30,000 per month were dissatisfied. [11.15]

To sum up their opinion of the tax authority, respondents were asked to respond to the statement "All in all, I have confidence in the tax authority": 42% of all respondents agreed and 12% disagreed. Those who had been in contact with the authority held more firm views: 49% agreed and 14% disagreed. [11.16]

The tax administration (Chapter 12)

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 the administering of the tax system, for example the enforcement authorities and customs. In this chapter the tax administration is viewed in this broad perspective Neither the political level nor the police and the judicial system are parts 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.

The political level

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.

According to 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 cabinet are allowed to interfere in the handling of individual cases at the agencies.

The tax administration

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. [12.1]

Table S43: The tax administration. Staff numbers according to a wide definition (within black frame) and narrow definition (grey area). [12.1]

	Tax administration	Population registration of private debts	Elections, collection	Total
Tax administration and enforcement service				
The National Tax Board	830	50	195	1 075
Regional tax authorities	8 405	830		9 235
Regional enforcement authorities	900		1 829	2 729
Sub total	**10 135**	**880**	**2 024**	**13 039**
Other agencies				
Customs	1 000			
District courts	75			
National Road Administration and other agencies	20			
Total	**11 230**			

41) These and the following questions were only put to those who reported that they had been in touch with the tax authority.

The Swedish Tax Administration and Enforcement Service

In organisational terms the narrowly defined the Swedish Tax Administration (the grey area in Table S43 above) is part of the ”Tax Administration and the Enforcement Service” (skatteförvaltningen och exekutionsväsendet) with about 13,000 employees. [12.2]

The **National Tax Board** (Riksskatteverket – RSV) is the parent agency of the regional tax authorities and the regional enforcement authorities. At the beginning of 1999, the Board had 1,075 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). [12.6] Each region has several local tax offices, which handle all the tax affairs of individuals and small companies. Larger companies are served by a special regional tax offices. Since 1994, the number of employees at the tax authorities has fallen by about 1,800 to 9,200. Most of this staff reduction has taken place in basic processing, but in recent years control activites (desk- and field audits) have also been affected. Measured in staff years – 1 staff year being equal to 1,600 working hours – time spent on field audits fell from 1,485 in 1996 to 1,329 in 1998. [12.3]

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.[12.6] 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 1998, the number of staff years in the enforcement authorities totalled 2,600. [12.4]

Taxation accounts for about 80% of total expenditure in the Swedish Tax Administration and Enforcement Service. In 1998 total outlays were SEK 6.1 billion. [12.5]

Customs

Sweden’s Customs Department (Tullverket) has about 2,600 employees. The Department has a head office in Stockholm and six regions. Collection of VAT, customs duties and excise duties employs about 1,000 staff years. In 1998 total collection was about SEK 42 billion, of which VAT accounted for SEK 38 billion. [12.7-8]

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 the district courts). Duties relating to inheritance tax (including registration of estate inventories) are however expected to be transferred to the tax administration in a few yearsí time.

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.

Taxes and the judicial system

Apart from 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.

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.

Tax crime

The tax authorities are required to report suspected tax crimes to the public prosecutor. There are seven regional public prosecutor 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).

The cost of tax administration

In a report evaluating the 1991 tax reform, compliance costs and administrative costs of the tax system were estimated. In 1992, administrative costs were estimated at SEK 4.7 billion and compliance costs at SEK 9.3 billion. [12.9] Administrative costs were roughly equal to 0.5% of total tax revenue and compliance costs were equal to 1.0%.[42]

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

A century of taxes (Chapter 13)

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. [13.1]

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. [13.2-3]

The tax system 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 active part in the second world war. [13.4]. In the years to come, however, Swedish taxes were to rise much faster than in other countries and in the 1970s taxes reached the level of 50% of GDP.

The main reason for this rapid increase was the expansion of 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. [13.5]

Some tax policy trends since 1970[43]

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 also a consequence of making benefits taxable. To maintain their real value to recipients, their pretax levels have been raised. Between 1970 and 1997 the level of social security contributions increased 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 pretax price. In 1999, the basic rate is 25% on the pretax 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 effective. A first step to correct this was taken through a political compromise in 1981, which lowered the 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.

Collection of taxes

Not only has the tax system been transformed in terms of tax bases and tax rates, the 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.

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

43) This section is based on Chapter 1.

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.

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 staff numbers have fallen to about 13,000. [13.6]

Swedish taxes in an international perspective (Chapter 14)

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 1997 ($25,700) was above the EU average of $21,600 and roughly equal to that of Germany ($25,500). [14.1]

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 1997 and on the same level as in Finland and Britain. [14.2]

Table S44: GDP per capita in 1997 (US Dollar). [14.1]

	Current exchange rates	Purchasing power parities
Germany	25 470	22 049
Sweden	25 746	20 439
Britain	21 740	20 483
EU-15	21 617	20 456
OECD	22 428	21 487

Source: OECD

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 in relation to GDP, often referred to as the tax quota. International comparisons 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 1996/97 the tax quotas of Sweden (54%) and Denmark (53%) were well above the EU average of 43% and the OECD average of 38%. [14.3]

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.

Comparing the seven most highly taxed EU-countries (acording 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 as income tax, while France, the Netherlands and Austria place 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. [14.5]

Table S45:
The tax quota (1996/97) and the tax mix (1996). [14.3 & 14.5]

	Total tax revenue in relation to GDP(%)	Taxes on incomes and profits	Taxes on Social security & payroll taxes	Taxes on property	Taxes on goods & services	Other taxes
Sweden	54.1	41%	32%	4%	23%	0%
Denmark	53.1	60%	4%	3%	33%	0%
Finland	47.5	42%	26%	2%	30%	0%
Belgium	46.6	38%	32%	3%	27%	0%
France	46.3	18%	45%	5%	28%	4%
Netherlands	45.9	27%	40%	4%	29%	0%
Austria	44.9	28%	41%	1%	29%	1%
EU average	42.6	34%	30%	4%	31%	1%

Source: OECD and Eurostat.

Comparing the contribution of different taxes to the tax quota in Sweden with the EU average (1995), it is evident that neither social security contributions nor consumer taxes are much higher in Sweden than in most other European countries. Social security contributions are slightly lower in Sweden (14% of GDP compared with the EU average of 15%) and VAT and excise duties combined are slightly higher (15.1% against 13.6%). The one important difference is direct taxes paid by individuals (19% in Sweden against the EU average of 10%). [14.6] The gap between the Swedish tax quota (in 1995) of 51% of GDP and the EU average of 42% is almost entirely accounted for by higher taxes on labour in Sweden. [14.7]

The public sector (general government sector) is commonly divided into central government, local government and the social security funds. The typical pattern is that taxes to the central government account for about 23-27% of GDP, contributions to social security funds etc. for about 10-13% and taxes to local government for 2-4% of GDP. The Scandinavian countries, notably Sweden and Denmark, are important exceptions with respect to local government taxes. In Sweden, local income tax accounts for 90% of all individual income tax revenue. [14.8]

Table S46:
Tax revenue in % of GDP per recipient. [14.8]

	Central govern-ment	Local govern-ment	Social security funds	EU	Total
Sweden	25%	17%	11%	1%	54%
Denmark (a)	32%	17%	2%	1%	51%
Finland	24%	11%	12%	1%	47%
Belgium	27%	2%	17%	1%	47%
France	21%	5%	19%	1%	46%
Netherlands	24%	2%	19%	1%	46%
Britain (b)	27%	0%	6%	1%	34%

(a) 1996, (b) 1995.
Source: Eurostat

Taxes on labour

The complexity of tax legislation makes it difficult to compare tax levels with respect to different taxes between countries. 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 into account social benefits. The disposable income is here equal to gross income plus social benefits and other transfers minus income tax.

In Sweden in 1997, the disposable income 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 which was 67% higher than the wage of an average worker had an disposable income of 58% of gross pay. Married couples with children had disposable incomes slightly above 70% of gross pay. [14.9]

Table S47:
Disposable income 1997 as percent of gross pay. Wage levels as % of the average production worker. [–14.9]

	Household	Single	Married, 2 children	
Wage person 1	*100%*	*167%*	*100%*	*100%*
Wage person 2			*0%*	*67%*
Britain	75	73	83	81
Denmark	55	48	69	60
France	72	69	85	80
Germany	58	52	78	66
Sweden	66	58	73	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. [14.10]

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 on income from work. This creates a tax policy dilemma.

Again, comparisons are difficult to make. 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 deductable, 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% on net household wealth exceeding SEK 900,000. In the other countries, either tax rates are lower or the tax threshold is higher. [14.11]

The tax rate applied to company profits is comparatively low in Sweden, at 28%. [14.12] Comparisons of this tax rate, however, must also take into account 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.

Taxes on goods and services

Value Added Tax (VAT)
The minimum standard VAT rate in EU countries 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, transports etc. Other countries apply lower rates on water, pharmaceuticals, books etc. [14.13]

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 for 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). [14.14]

Duties on alcohol are higher in Sweden than in all other EU countries. The Swedish rate of duty on ethyl alcohol is EURO 54 per litre, compared to 37 in Denmark, 28 in Britain and 13 in Germany. Duty on wine is also higher than in other countries (EURO 2.93 per litre), but is still comparable to the rates of duty in Ireland (2.88) and Britain (2.14). [14.15]

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. [14.16]

Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 1998 Sweden contributed SEK 21 billion to the EU budget and received SEK 10 billion in return. [14.17]

Some National Tax Board publications in English

General

- Dahlgren, Stellan, A Fiscal history of Sweden, The National Tax Board (Riksskatteverket), RSV 114b, 16 pages
- Natonal 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