

# Taxes in Sweden

A summary of the Tax Statistical Yearbook of Sweden

2002





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of Sweden 2002



## Preface

The Swedish National Tax Board has just published the fifth Tax Statistical Yearbook of Sweden (Skattestatistisk årsbok) in Swedish. This presents an overview of the Swedish tax system as well as up-to-date statistics on relevant aspects of taxation.

This publication, Taxes in Sweden 2002, is an English summary of the Tax Statistical Yearbook of Sweden 2002. All tables in the Swedish edition have English translations, and references to them are enclosed in square brackets in the English summary.

The complete Yearbook, together with this publication, is available on our website [www.rsv.se](http://www.rsv.se).

National Tax Board, January 2003

*Mats Sjöstrand*  
*Director General*

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# Taxes in Sweden 2002

## 1 Introduction

This publication is a summary of the Tax Statistical Yearbook of Sweden 2002, which is produced by the Evaluation Unit (utvärderingsenheten) of the Swedish National Tax Board (Riksskatteverket). The yearbook contains an overview of the Swedish tax system, as well as up-to-date statistics on tax bases, tax revenue and other relevant aspects of taxation.

Unlike most outlines of the Swedish tax system, which are written from a legal viewpoint, this yearbook has been put together from a tax policy perspective. This means that the description of the tax system is structured by tax bases rather than along the lines of the legal framework. The main focus is on the development of these bases and of tax revenue. Other issues covered are the impact of taxes on income distribution, compliance and public attitudes to taxes and tax authorities.

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

The yearbook contains relevant annual data available up to September 2002. Since income tax statistics depend on the outcome of the annual assessment, a complete picture of taxes on labour and capital can only be obtained for the income year 2000, which was assessed in 2001, and earlier. Therefore, 2000 will serve as the normal reference year throughout the book. All monetary values are expressed as Swedish kronor (SEK).

In order to make the Swedish edition of the Yearbook accessible to an English-speaking audience, this English summary will provide a gateway to the bilingual tables contained in the Swedish edition of the yearbook. References to the tables are placed within square brackets. For example: a reference to table 3.19 in chapter 3 of the Swedish edition is written as [3.19].

The yearbook is also available on the National Tax

Board's website [www.rsv.se](http://www.rsv.se). Copies of the printed version can be ordered from Riksskatteverket, Utvärderingsenheten, SE-171 94 Solna, Sweden.

## 2 Overview

### 2.1 Classification of taxes

Taxes may be classified in several ways. A common distinction is the one made between direct and indirect taxes. Another basis for classification is represented by the primary factors of production, labour and capital. In table S1 below, these two criteria for classification have been combined. Individual income taxes on earned income from employment or business (self-employment) are categorised 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 made by legal entities) is regarded as an indirect tax on capital. Taxes on consumption of goods and services (VAT and excise duties) are, on the other hand, seen as indirect taxes on labour.

**Table S1:**  
Taxes and charges on labour and capital, on households and companies in 2000, as percentages of GDP [1.1]

|                               | Households  | Companies   | Total       |
|-------------------------------|-------------|-------------|-------------|
| <b>Taxes on labour</b>        |             |             |             |
| Income taxes                  | 16.7        |             | 16.7        |
| Social security contributions | 3.0         | 14.3        | 3.0         |
| VAT and Excise duties         |             | 11.5        | 11.5        |
| <b>Taxes on capital</b>       |             |             |             |
| Income taxes                  | 1.6         | 3.6         | 5.2         |
| Property and wealth taxes     | 1.2         | 1.1         | 2.3         |
| <b>Subtotal</b>               | <b>22.5</b> | <b>30.5</b> | <b>53.0</b> |
| Taxes not allocated           |             |             | 0.3         |
| <b>Total</b>                  |             |             | <b>53.4</b> |

**Note:** Subtotals are rounded down

Table S2:

## General government sector revenue and expenditure in 1999-2001 (SEK billion) [2.1]

|   | 1999         |           | 2000         |           | 2001         |           |
|---|--------------|-----------|--------------|-----------|--------------|-----------|
|   | SEK billion  | % of GDP  | SEK billion  | % of GDP  | SEK billion  | % of GDP  |
| <b>Revenue</b>                          | <b>1 179</b> | <b>59</b> | <b>1 232</b> | <b>59</b> | <b>1 291</b> | <b>60</b> |
| Taxes and social security contributions | 1 043        | 52        | 1 091        | 52        | 1 163        | 54        |
| Other revenue                           | 137          | 7         | 141          | 7         | 128          | 6         |
| <b>Expenditure</b>                      | <b>1 152</b> | <b>58</b> | <b>1 155</b> | <b>55</b> | <b>1 186</b> | <b>55</b> |
| Transfers                               | 568          | 28        | 560          | 27        | 558          | 26        |
| Consumption                             | 536          | 27        | 549          | 26        | 578          | 27        |
| Investments                             | 48           | 2         | 45           | 2         | 50           | 2         |
| <b>Net lending/net borrowing</b>        | <b>27</b>    | <b>1</b>  | <b>77</b>    | <b>4</b>  | <b>104</b>   | <b>5</b>  |

## 2.2 General government sector in the national accounts

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

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

The total revenue of the general government sector in 2001 was equal to 60% of GDP. Total spending was about 55% of GDP, which resulted in total net lending of 4.8% of GDP by the general government sector. Since 1998, there has been a budget surplus in the general government sector. The major part of all government expenditure is made up of transfer payments of pensions and social benefits to households, subsidies to companies, membership dues to the EU and other international organizations, development aid and interest on central government debt. [2.1-3]

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

in 1993-94 to 54% in 2001 [2.3]

A large proportion of general government spending (44% in 2001) goes to the social security system. Expenditure on social provision is divided between central government, the social security sector and local government. Other important areas are health (12%), education (13%) and general public services (including 15 % interest payments on the national debt). Primary and secondary education are the responsibility of the municipalities, while most health care is provided by the county councils [2.4]. Over the period 1995-2001, the breakdown of expenditure between different functions has been relatively stable [2.5].

## 3 Tax bases and Tax revenue

### 3.1 Overview

In 2000, total tax revenue was SEK 1,157 billion.<sup>2</sup> Almost 2/3 of this may be regarded as tax on labour (i.e. tax on earned income and social security contributions).

### 3.2 Taxes on labour

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

Table S3:

## General government expenditure by function and sector in 2000 (SEK billion), current prices [2.4]

| Function                                | Sector       |                    |                 |                    |                 |
|---|--------------|--------------------|-----------------|--------------------|-----------------|
|   | Total        | Central Government | Social Security | Municipal Councils | County Councils |
| <b>Total<sup>1)</sup></b>               | <b>1 155</b> | <b>710</b>         | <b>188</b>      | <b>336</b>         | <b>181</b>      |
| 1 General public services <sup>2)</sup> | 174          | 258                | 0               | 22                 | 6               |
| 7 Health                                | 134          | 20                 | 0               | 1                  | 162             |
| 9 Education                             | 155          | 45                 | 0               | 122                | 2               |
| 10 Social provision                     | 508          | 251                | 188             | 146                | 5               |

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

2) For example, interest on national debt.

<sup>1</sup> In 2000, the Church of Sweden was disestablished and acquired the same status as other religious denominations. In most communities however, the parishes are still responsible for some public services, such as maintaining cemeteries.

<sup>2</sup> The difference between this figure and the calculated tax revenue in the national accounts (table S2, SEK 1,091 billion) is due to different methods of allocation to periods.

**Table S4:**  
**Total taxes in 2000**

|                             | SEK billion  | % of total taxes | % of GDP     |
|-----------------------------|--------------|------------------|--------------|
| Taxes on labour             | 728          | 63%              | 34.7%        |
| Taxes on capital            | 161          | 14%              | 7.7%         |
| Taxes on goods and services | 268          | 23%              | 12.8%        |
| <b>Total taxes</b>          | <b>1 157</b> | <b>100%</b>      | <b>55.1%</b> |

**Table S5:**  
**Taxes on labour 2000 (SEK billion) [3.1]**

|                               | 2000       |
|-------------------------------|------------|
| Income taxes (a)              | 351        |
| of which state income tax     | 33         |
| of which local income tax     | 336        |
| of which tax rebates          | -19        |
| Social security contributions | 376        |
| Tax on occupational insurance | 1          |
| <b>Total</b>                  | <b>728</b> |

(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).

### 3.2.1 Employment and income

About 48% of the Swedish population of 8.9 million in 2001 were either employed or self-employed, i.e. were part of the economically active population. From the boom of 1990 to the recession of 1993, the number of hours worked decreased by 9%. Since then a recovery has occurred. Between 1993 and 2001 the number of hours worked increased by almost 9%. The increase is due to both higher employment and longer working hours. [3.2]

In 1999, about 70% of all employees were full-time workers. Most part-timers were women. The median income of male full-time employees in 2000 was SEK 253,000 and of female full-time employees SEK 214,000. [3.4-5]. In 2000, 4% of all adults (over 18) had assessed earned incomes (non-capital income) exceeding SEK 400,000. They received 15% of the taxable income and paid 19% of the tax. [3.3]

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

Direct taxes on the employment and business income of an individual are made up of State (or central government) income tax and local (government) income tax. Local income tax includes taxes levied by municipalities and county councils. The average combined rate of local income tax in 2000 was 30.38%.

Below is an example to illustrate the computation of the income tax burden on an individual for the income year 2000. The example also includes general social security contributions and taxes on capital, which will be explained in later sections.

The aggregate assessed income of individuals (employment income and business income, less general allowances) in 2000 was SEK 1,247 billion. This sum

**Table S6:**  
**Example of the computation of tax on an individual (income year 2000), SEK**

|  | Tax base       | Tax rate      | Amount of tax  |
|--|----------------|---------------|----------------|
| Net employment income  | 290 000        |               |                |
| Net business income  | 0              |               |                |
| General allowances (e.g. private pension premium payments)                     | -10 000        |               |                |
| <b>Assessed earned income</b>  | <b>280 000</b> |               |                |
| General pension contribution (7% of net employment and business income)        |                |               | 20 300         |
| - of which 3/4 deductible  | -15 300        |               |                |
| - of which 1/4 gives rise to a tax rebate                                      |                |               | -5 000         |
| Basic allowance  | -8 700         |               |                |
| <b>Taxable earned income/ Local income tax (average rate = 30.38%+SEK 200)</b> | <b>256 000</b> | <b>30.38%</b> | <b>77 972</b>  |
| Less income threshold for State income tax                                     | -232 600       |               |                |
| State income tax (20%+SEK 200)   | 23 400         | 20%           | 4 680          |
| <b>Subtotal (individual taxes on labour)</b>                                   |                |               | <b>97 952</b>  |
| Taxes on Capital (see Chapter 4)   |                |               |                |
| State tax on capital income (30%)  | 30 000         | 30%           | 9 000          |
| Real estate tax (1.5% of assessed value of property)                           | 900 000        | 1.50%         | 13 500         |
| General wealth tax (1.5% of net wealth exceeding 900,000)                      | 200 000        | 1.50%         | 3 000          |
| <b>Total tax</b>   |                |               | <b>123 452</b> |

**Table S7:**  
**Aggregate assessed earned income in 2000, (SEK billion) [3.10]**

|                                     | 2000         |
|-------------------------------------|--------------|
| <b>Employment income</b>            |              |
| Salaries and benefits               | 974          |
| Pensions                            | 258          |
| Other taxable earnings              | 14           |
| <b>Deductions</b>                   |              |
| Commuting to work                   | -11          |
| Other                               | -5           |
| <b>Net employment income</b>        | <b>1 230</b> |
| <b>Net business income</b>          | <b>31</b>    |
| <b>General allowances</b>           |              |
| Private pension premiums            | -13          |
| Other                               | -1           |
| <b>TOTAL ASSESSED EARNED INCOME</b> | <b>1 247</b> |

was almost entirely made up of earnings from employment and pensions.

To arrive at the taxable income, a deduction is also made for part (3/4) of the general pension contribution (7% of earned income in 2000) [3.34] and a minimum basic allowance of SEK 8,700 [3.18-19].

The taxable earned income is the basis for computing local and State income tax. Local income tax is a

proportional tax, but the rates vary between municipalities. It is made up of two components, and in 2000 the average rate was 30.38%:

|                    |        |
|--------------------|--------|
| Municipality tax   | 20.51% |
| County council tax | 9.87%  |
| Total              | 30.38% |

The lowest local income tax rates are generally found in well-to-do suburbs of the large cities, while the highest rates occur in the rural north and in municipalities hit by industrial decline. In 2002 the lowest tax rate was in the Malmö suburb of Vellinge (27.50%) and the highest in Kristinehamn in the western hinterland of Sweden (33.30%). [3.26-28]. 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. [3.29-30]

State income tax applies only to taxable incomes that exceeded SEK 232,600 (2000 figures). This threshold is adjusted annually. According to the principle established in the 1991 tax reform, this adjustment is set at the rate of inflation plus two additional percentage points (to allow for real incomes to rise without an increase in the marginal tax rate). In practice, however, 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 rate of State income tax was raised to 25% in 1995. In 1999, the rate was again lowered to 20%. The 25% rate was, however, retained on higher taxable incomes. In 2000 the 25% rate applied to taxable income exceeding SEK 374,000. [3.20]

The top marginal tax rate in 2002 is 55.5% (at an average local income tax rate of 30.5%). This rate applies to taxable incomes above SEK 414,200 (equivalent to assessed incomes above SEK 430,900). At lower levels, the effective marginal tax rates are also influenced by variations in the basic allowance and a special tax reduction for low incomes. [3.22]. In 2000, about 20% of the population aged 20 or more had incomes above the threshold for State income tax. Of full-time employees aged 20-64, 38% had incomes exceeding the threshold. [3.23]. In 2000-2002 there was an extra increase in the threshold for State income tax in order to reduce the number of persons paying it.

The amount of an increase in salary an individual may keep 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. [3.24-25]

### 3.2.3 Social security contributions

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

There are three categories of social security contribution. The main part is paid either by employers as a payroll tax at the rate of 32.92% (2000) or by self-employed people themselves at the rate of 31.11%. In addition to this, all taxpayers pay a general pension contribution. In 2000, the rate was 7%. Because some of the social security contributions are in fact taxes, there is also a special wages tax on those items of remuneration that do not provide entitlement to State pensions or benefits. In 2000, SEK 376 billion was paid as social security contributions. [3.31-34]

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

Most employees enjoy the benefit of life assurance based on agreements between employers' and employees' organizations. Self-employed persons can buy similar life assurance. For technical reasons, employees are not taxed on these benefits and self-employed persons may deduct the premiums. Instead, the insurance companies involved pay a special tax on the premiums received for this type of assurance. The rate is 45 % of 95 % of the premiums. Special rules apply to government workers and others who receive equivalent benefits (without having life assurance) and to life assurance with foreign insurance companies. In 2000, the total yield from this tax was SEK 904 million.

### 3.2.5 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 submit an income tax return. Employers also supply the tax authorities with income statements on remuneration 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 the information supplied in the tax returns.

Since 1995 most taxpayers have submitted simplified income tax returns. In April, they receive a tax return form on which all the data supplied by employers and financial institutions has already been entered by the tax authorities. The taxpayer checks the figures and, if necessary, corrects errors and adds information or claims for deductions. He/she then signs the form and returns it to the tax authorities by 2 May. Of the 7.0 million individual taxpayers who submitted income returns in 2001,

**Table S8:**  
**Social security contributions in 2000 [3.31-32]**

|   | SEK billion | Tax rate |
|---|-------------|----------|
| 1. Basic social security contributions paid by                          |             |          |
| a. employers or   | 284         | 32.92%   |
| b. self-employed  | 7           | 31.11%   |
| 2. General pension contribution paid by all economically active persons | 63          | 7.00%    |
| 3. Special wage tax   | 22          | 24.26%   |
| <b>Total</b>  | <b>376</b>  |          |

46% just signed and returned the simplified form, while another 36% changed or added some information in the simplified return. The remaining 18% 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 their employees' preliminary tax, while the self-employed have to pay their preliminary tax themselves. Early in the assessment year, supplementary payments may be made if it is evident that the final tax bill will exceed the preliminary tax paid so far. Conversely, excess tax will be refunded when final tax bills are issued after the assessment.

**Table S9:**  
**Collection of individual income taxes etc in the assessment year 2001<sup>3</sup> [3.8]**

|  | SEK billion | % of debited tax |
|--|-------------|------------------|
| <b>Total tax charged on basis of assessment (final tax bill)</b> | <b>493</b>  | <b>100%</b>      |
| of which paid by   |             |                  |
| -employers, banks etc. by withholding                            | 426         | 86%              |
| -preliminary tax paid by self-employed                           | 21          | 4%               |
| <b>Remaining amount to be settled</b>                            | <b>46</b>   | <b>9%</b>        |
| of which   |             |                  |
| - tax payers' own additional payments                            | 65          | 13%              |
| - excess tax refunded to tax payers                              | -19         | -4%              |

### 3.3 Taxes on capital

#### 3.3.1 Overview

The tax reform of 1991 separated individual income tax on earned income (employment and business income) from income tax on capital income, to which a flat rate of 30% was applied. Taxes on capital also include income tax on company profits and a number of other taxes on capital income and property. In year 2000, total taxes on capital raised SEK 161 billion, 14% of total tax revenue.

**Table S10:**  
**Taxes on capital 2000 (SEK million) [4.1]**

|                                     | Paid by individuals | Paid by companies | Total          |
|-------------------------------------|---------------------|-------------------|----------------|
| Income tax on capital income        | 34 078              |                   | 34 078         |
| Income tax on company profits       |                     | 72 489            | 72 489         |
| Tax on funds retained for expansion | 287                 |                   | 287            |
| Real estate tax                     | 13 316              | 9 943             | 23 259         |
| Wealth tax                          | 8 043               | 180               | 8 223          |
| Inheritance tax                     | 2 088               |                   | 2 088          |
| Gift tax                            | 460                 |                   | 460            |
| Tax on dividends to non-residents   | 2 083               |                   | 2 083          |
| Tax on pension fund earnings        |                     | 13 096            | 13 096         |
| <b>Sub total</b>                    | <b>60 354</b>       | <b>95 707</b>     | <b>156 061</b> |
| Stamp duty                          |                     |                   | 4 878          |
| <b>Total</b>                        |                     |                   | <b>160 939</b> |

<sup>3</sup> Most incomes assessed in 2001 were earned in 2000 and most of the preliminary taxes were paid in the form of PAYE during 2000. Supplementary payments are generally made in the spring of the assessment year, i.e. 2001. Most taxpayers receive their final tax bill (or refund) in August of the assessment year, but taxpayers submitting special tax returns have to wait until December.

#### 3.3.2 National and household wealth

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

**Table S11:**  
**National wealth of Sweden in 1995 (SEK billion) [4.2]**

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

In 1995, households accounted for more than half of net wealth. The greater part consisted of private homes, including occupier-owned apartments. [4.2-4.3] In recent years, financial investments have increased their share of total household wealth. Between 1995 and 2000, the net financial assets of households rose from about 63% of GDP to 108% of GDP. This development may be explained by the growth of investment in shares and mutual funds and rising share prices. [4.11, 4.21]. Since the beginning of the 1990s, households have reduced their debts and shifted part of their savings from bank accounts to shares and other securities, as well as into private pension schemes.

**Table S12:**  
**Financial assets and liabilities of households as % of GDP [4.11]**

|                               | 1990         | 1995          | 2001         |
|-------------------------------|--------------|---------------|--------------|
| Cash and bank deposits        | 35.8         | 31.3          | 26.8         |
| Bonds                         | 6.7          | 9.8           | 4.5          |
| Shares and other equity       | 17.4         | 23.4          | 44.9         |
| Insurance savings             | 25.1         | 29.7          | 57.0         |
| Other accounts receivable     | ..           | 17.6          | 13.0         |
| <b>Total financial assets</b> | <b>85.0*</b> | <b>111.7*</b> | <b>165.7</b> |
| Liabilities                   | 63.2         | 49.0          | 57.6         |
| <b>Net financial assets</b>   | <b>21.8*</b> | <b>62.7*</b>  | <b>108.0</b> |

\* The figure for 1990 does not include collective insurance (settled in agreements on the labour market) but the figures for 1995 and 2001 do. Collective insurance amounted to 17% of GDP in 2001.

#### 3.3.3 Individual capital income tax

Capital income is subject to income tax on interest, dividends and capital gains. Deductions are allowed for interest paid and capital losses. If capital income is negative, 30% of the loss up to SEK 100,000 and 21% of the loss exceeding this amount is credited against State and

local income tax due on earned (employment and business) income. Investments are, however, also subject to real estate tax and wealth tax. The middle-aged and the elderly pay most of the capital taxes. [4.4]

The net yield of the individual income tax on capital varies a great deal from year to year. Declared income in the form of interest, dividends etc. is completely offset by deductions for debt interest (mainly on home mortgage loans). On the other hand, capital gains generally exceed capital losses by a wide margin. In 2000, aggregate net taxable capital income was about SEK 113 billion and net yield about SEK 34 billion.

**Table S13:**  
**Tax on individual income from capital in 2000 (SEK billion)**  
**[4.12]**

|   | Income       | Expenditure<br>and losses | Net<br>income<br>and tax |
|---|--------------|---------------------------|--------------------------|
| Interest received and paid, dividends<br>and other current capital income | 43.1         | -56.8                     | -13.8                    |
| Capital gains/losses  | 132.9        | -5.7                      | 127.2                    |
| Administration costs  |              | -0.7                      | -0.7                     |
| <b>Net income from capital</b>  | <b>175.9</b> | <b>-63.2</b>              | <b>112.7</b>             |
| Net tax on income from capital  |              |                           | 34.1                     |

In the period 1992-1995, the 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 fell and household debt was reduced. As a result, the gap between current capital income and debt interest has narrowed. Net capital gains vary greatly from year to year, depending on asset prices and tax planning in anticipation of changes in the tax rules the following year, but gains are mostly larger than losses. In recent years capital gains have grown substantially. [4.12-14]

### 3.3.4 Company income tax

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

In 2000 (according to the 2001 annual assessment), 2/3 of all companies reported a total taxable profit of SEK 259 billion and paid SEK 72 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 96% of all companies reported only 19% of total taxable profits.

### 3.3.5 Real estate tax

The tax value of property is established through periodic real estate assessments. The tax value of the property is required to correspond to 75% of its market value. Every six years all property in a particular category of real estate is subject to assessment. In the intervening years the tax values are adjusted to reflect price chan-

ges in local property markets. However, to avoid sharp increases in the real estate tax, the tax values of private homes and apartment buildings have been frozen at the 1997 level. The freeze ended in 2001, which caused a substantial increase in taxable values. However, the tax rate was lowered at the same time. From 2003 the system will change; the yearly adjustment will be abolished and instead there will be a simplified real estate assessment in the middle of the period between the general assessments that takes place every sixth year.

In 1999 and 2000, the real estate tax on private homes (one- or two-family dwellings including holiday homes) was levied at 1.5% of the taxable value and this was reduced to 1,0% in 2001. Apartment buildings were taxed at 1.3% in 1999, but the tax rate has been progressively reduced, and in 2001 it was 0.5%. Commercial property is taxed at 1.0% of the tax value and industrial property at 0.5%. [4.6]. To encourage construction, new dwellings are exempt from tax during the first five years and are taxed at half the standard rate in the following five. In 2000, the total yield from real estate tax was SEK 23 billion, of which private homes accounted for SEK 13 billion. [4.7]

**Table S14:**  
**Real estate tax in 2000 [4.7]**

|  | Tax base<br>SEK billion | Standard<br>tax rate | Tax revenue<br>SEK million |
|--|-------------------------|----------------------|----------------------------|
| Private homes<br>(one- or two-family<br>dwellings) | 917                     | 1.50%                | 13 156                     |
| Apartment buildings                                | 433                     | 1,20%                | 4 566                      |
| Commercial property                                | 361                     | 1.00%                | 3 610                      |
| Industrial property                                | 366                     | 0.50%                | 1 832                      |
| <b>Total</b>                                       | <b>2 077</b>            |                      | <b>23 164</b>              |

Since the taxable value of property is determined by its market value, the real estate tax levied on family homes in different parts of the country varies widely. In year 2000, the average taxable value of a family home in Stockholm County was SEK 1,319,000 and in the northern county of Västernorrland SEK 345,000 [4.26]. A particular problem is that rising property prices for holiday homes in attractive coastal areas have also caused a great increase in the tax burden for those areas' permanent residents, whose average incomes are considerably lower than those of the holiday-makers. In 2001 a rule was introduced limiting the real estate tax for households with normal incomes to maximum of 5% of household income.

Using 1981 as the base year (index=100), prices of family homes rose very fast during the boom years of the late 1980s reaching an index of 217 in 1991. Prices then fell to an index of 175 in 1993, but have since recouped that loss, and in 2000 the price index was 284. [4.28]. However, property prices must be set in the context of general price fluctuations. If the property price index is related 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. In the late 1990s real property prices have gone up and 1999 prices were

at the same level as those of the boom years, since then prices have risen even further. [4.10 and 4.27]

### 3.3.6 Net wealth tax

The tax on net wealth may be regarded as complementary to other taxes on capital to make taxation more progressive. Unlike other direct taxes, the wealth tax is not a purely personal tax. It is levied on the net wealth of the household, each spouse being liable for tax according to his or her share of the net wealth. Certain legal entities (some co-operatives and foundations) are also liable to pay wealth tax. Tax is levied at the rate of 1.5% on net worth exceeding SEK 900,000. To neutralize the rise in the taxable value of private homes, the tax threshold was raised in 2001 to SEK 1,500,000 for married couples and 1,000,000 for single taxpayers. In 2002 the threshold will rise once more to SEK 2,000,000 for married couples and 1,500,000 for single taxpayers. [4.17]

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

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

In 2000, 691,000 individuals (419,000 households) paid SEK 8.0 billion between them in wealth tax. 12,000 legal entities paid a mere SEK 162 million. [4.16, 4.19]

### 3.3.7 Inheritance and gift taxes

Inheritance tax is levied on property that is received by an individual by inheritance or will. The tax is progressive and close relatives pay less than other beneficiaries. To compute the taxable value of the inheritance, its value is reduced by a basic deduction. The spouse of the deceased is entitled to a basic deduction of SEK 280,000, with children and grandchildren receiving a basic deduction of SEK 70,000. Taxable amounts less than SEK 300,000 are taxed at 10%, while those exceeding SEK 600,000 are taxed at 30%. [4.20]

The main function of the gift tax is to prevent evasion of the inheritance tax through gifts to heirs and other future beneficiaries. Each recipient may receive gifts worth up to SEK 10,000 annually from the same donor without having to pay gift tax. On amounts exceeding SEK 10,000, the same tax schedule as for inheritance tax applies. [4.20]

In 2001, the yield from inheritance tax was SEK 2,199 million and from gift tax SEK 377 million.

### 3.3.8 Tax on dividends to non-residents

A final withholding tax of 30% applies to dividends paid by Swedish companies and mutual funds to non-

residents, unless an exemption or a lower tax rate applies under a tax treaty. In 2001, the yield was SEK 2,503 million.

### 3.3.9 Tax on pension fund earnings

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

The tax base is the estimated yield of the fund capital. The yield is calculated by multiplying the fund capital by the official State lending rate. In 2001, the tax rate applied to this yield was 15% in the case of pension capital funds and 27% for other (otherwise tax-privileged) funds. The total yield in 2000 was SEK 13.1 billion.

### 3.3.10 Stamp duty

Stamp duty is levied on the acquisition of real property and the registration of mortgages. The standard rates are 1.5% of the value of the acquired property and 2% of the mortgage. Other tax rates apply in special cases. In 2000, the yield from stamp duty was SEK 4.9 billion.

## 3.4 Taxes on goods and services

### 3.4.1 Overview

Taxes on goods and services include value added tax (VAT), as well as excise and customs duties. In 2000, total revenue from these taxes was SEK 268 billion, representing about 1/4 of all tax revenue. [5.1-2]

**Table S15:**  
**Taxes on goods and services 2000-2001 (SEK billion)**  
**[5.1]**

|                 | 2000       | 2001       |
|-----------------|------------|------------|
| Value added tax | 183        | 185        |
| Excise duties   | 85         | 89         |
| <b>Total</b>    | <b>268</b> | <b>274</b> |

### 3.4.2 Value Added Tax (VAT)

A general sales tax (GST) of 4% was introduced in 1960. Its rate was progressively increased. In 1969, GST was replaced by value added tax (VAT). The rate was originally 10% (of the price including VAT), but was soon increased to 15%. Today (2001), the standard VAT rate is 25% (of the tax base). A reduced rate of 12% applies to food, hotel accommodation and camping. Newspapers, cultural and sporting events and passenger transport are taxed at 6%. From January 1st 2002 books and magazines are also being taxed at 6%. Before that date the tax rate was 25%. [5.3]

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

There are 388,000 taxable persons registered for

VAT purposes. The vast majority of these taxable persons submit 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 2000, gross payments of VAT totalled SEK 361 billion, of which 87% was collected by the tax authorities. About 44% was refunded and another 5% was input VAT on government spending, which was offset in government revenue accounts against revenue received. The resulting net revenue was SEK 183 billion. [5.5]

In 2001, a total turnover of SEK 5,241 billion was reported in VAT returns submitted to the tax authorities; of the total, exports accounted for SEK 766 billion (exports are exempt from VAT). The 25% tax rate applied to about 88% of the reported non-export turnover. [5.6] The wholesale and retail trade, together with the hotel and restaurant sector, accounted for about 39% of output tax and 56% of net revenue. Manufacturing, on the other hand, reported 25% of output tax but, because of large export sales, this sector was entitled to a net refund of SEK 35 billion. [5.7]

**Table S16:**  
**Vat revenue 2000 [5.5]**

|                                     | 2000<br>SEK billion | % of gross<br>payments |
|-------------------------------------|---------------------|------------------------|
| VAT payments received by            |                     |                        |
| Customs                             | 47                  | 13%                    |
| Tax authorities                     | 308                 | 85%                    |
| Other                               | 6                   | 2%                     |
| <b>Total</b>                        | <b>361</b>          | <b>100%</b>            |
| VAT refunded by the tax authorities | -160                | -44%                   |
| Input VAT on government expenditure | -19                 | -5%                    |
| <b>Net VAT revenue</b>              | <b>183</b>          | <b>51%</b>             |

### 3.4.3 Excise and customs duties

Excise and customs duties have a long history in Sweden. A hundred years ago, customs duties, along with excise duties on aquavit and sugar, were the most important sources of government revenue. Now, excise duties make up a mere 8% of total tax revenue (customs duties are not included since they are collected for the EU budget). The excise duty on alcohol is still a significant source of revenue, but about 2/3 of total excise revenue comes from energy and environmental duties and motor vehicle taxes.

From an administrative point of view, excise duties are cost efficient, since the number of taxpayers is relatively low. About 10,000 businesses are registered as taxpayers, almost half of which pay advertising duty, most with a low turnover. There are only four registered taxpayers for lottery duty and 72 for tobacco duty, the largest of which accounts for 99% of the revenue. Goods subject to "harmonized" excise duties (mineral oils, alcohol and tobacco) may be transported between authorized warehouses within the EU without being taxed. [5.9-11]

**Table S17:**  
**Excise and custom duties 2000-2001 (SEK million) [5.8]**

|  | 2000          | 2001          |
|--|---------------|---------------|
| Energy and environmental taxes         | 53 540        | 56 473        |
| Taxes on road vehicles                 | 7 379         | 7 221         |
| Taxes on alcohol and tobacco           | 18 737        | 19 127        |
| Customs duties and other import taxes* | 3 806         | 3 643         |
| Other excise duties                    | 2 386         | 2 193         |
| <b>Total</b>                           | <b>85 849</b> | <b>88 656</b> |

\*) Collected for the EU-budget

### Energy and environmental duties

The oil crises of the 1970s clearly highlighted the great dependence of modern society on its energy supplies. Since then, dependence on fossil fuels has been somewhat reduced, but in 2000 these fuels (oil, coal and natural gas) accounted for about 39% of Sweden's energy supply. Nuclear power supplied another 29% and hydroelectric power 13%. [5.15] Because Sweden is a northern country, much energy is needed for heating. About 35% of all energy is consumed in homes and services, another 38% by industry and 27% by transport. [5.16]

When duties on petrol and electricity were first introduced, the revenue was intended for roads and the electrification of rural areas. Today, the chief justification for energy duties is their revenue-generating capacity, but energy conservation and environmental considerations are given greater weight in determining how the tax burden is allocated between different sources of energy. There is, for example, a special carbon dioxide duty on all fossil fuels. [5.17]

In the years 2000-2002 the carbon dioxide duty has been raised, while other energy taxes have been reduced to a lower level. The purpose of this change is to create a more effective instrument for carbon dioxide reduction.

**Table S18:**  
**Energy and environmental taxes 2000-2001 (SEK million) [5.8]**

|                                   | 2000          | 2001          |
|-----------------------------------|---------------|---------------|
| Energy tax                        | 38 419        | 36 542        |
| Carbon dioxide tax                | 12 245        | 16 457        |
| Sulphur tax                       | 75            | 81            |
| Nuclear power tax                 | 1 726         | 1 841         |
| Acidification tax                 | 56            | 54            |
| Taxes on fertilizers and biocides | 434           | 428           |
| Gravel tax                        | 125           | 126           |
| Fees on waste                     | 816           | 945           |
| Reassessments of abolished taxes  | -355          |               |
| <b>Total</b>                      | <b>53 540</b> | <b>56 473</b> |

Oil and petrol are classified according to their effects on the environment, and lower duty rates apply to those products that are deemed least harmful. [5.12] 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 S19 below shows

what proportion of consumer prices are represented by different taxes.

**Table S19:**  
**Taxes and consumer prices of electricity and petrol (June 2002) [5.18-19]**

|                       | Electricity<br>SEK/kWh | Percent     | Petrol<br>SEK/litre | Percent     |
|-----------------------|------------------------|-------------|---------------------|-------------|
| Ex-tax price          | 0.52                   | 58%         | 2.85                | 31%         |
| Energy tax            | 0.20                   | 22%         | 3.16                | 34%         |
| Carbon dioxide tax    |                        |             | 1.46                | 16%         |
| VAT                   | 0.18                   | 20%         | 1.87                | 20%         |
| <b>Consumer price</b> | <b>0.89</b>            | <b>100%</b> | <b>9.34</b>         | <b>100%</b> |

### Taxes on motor vehicles

In addition to taxes on fuel, there are also taxes on cars and other motor vehicles. The vehicle tax was introduced in 1922 to pay for road maintenance. A special sales tax was added in the 1950s to slow the rapid expansion of motoring. It was abolished on passenger cars in 1996 and on lorries in 1998. On 1 January 2001, the last part of the sales tax was abolished, that is the sales tax on buses and motorcycles. The scrapping fee was introduced in 1975 to finance a premium paid to car owners who turn in their run-down cars to authorized car breakers instead of leaving wrecks along the roadside.

**Table S20:**  
**Taxes on road vehicles 2000-2001 (SEK million) [5.8]**

|                | 2000         | 2001         |
|----------------|--------------|--------------|
| Vehicle tax    | 6 868        | 7 017        |
| Sales tax      | 258          | -23          |
| Scrapping fees | 253          | 226          |
| <b>Total</b>   | <b>7 379</b> | <b>7 221</b> |

In 2002, there were 5.7 million vehicles subject to vehicle tax, including 4.0 million passenger cars, 410,000 lorries and 760,000 trailers. In 2002, the vehicle tax on a petrol-driven passenger car with a kerb weight of 1,300 kg was SEK 1,181. The tax rises with 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 has been payable on journeys by lorries and vehicle combinations weighing 12 tons and more. In the case of lorries and vehicle combinations with no more than three axles and subject to the most stringent exhaust requirements, the user charge is SEK 6,395; for vehicles with four axles or more it is SEK 10,658. 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 non-motorway main roads. In 2001, about 202,000 licenses were sold to foreign vehicles and revenue totalled around SEK 23 million.

### Duties on alcohol and tobacco

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

The duty rates applied to alcohol are related to the alcohol content of the beverage. In the case of spirits, the duty is SEK 501.41 per litre of pure alcohol. Wines with an alcohol content of 8.5-15% are taxed at SEK 22.08 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 no more than 2.8% are not taxed. [5.20]

Retail sales of alcoholic beverages are carefully regulated in Sweden, and spirits, wine and export beer (with an alcohol content greater than 3.5% by volume) may only be sold at certain State-owned shops (Systembolaget). According to official statistics, domestic sales (at Systembolaget and in restaurants) of spirits have fallen during the 1990s, while beer and wine sales have increased. If these statistics were to reflect total consumption of alcohol, there was a fall in consumption in the mid 1990s, from 6.4 litres of pure alcohol per inhabitant over the age of 14 in 1990 to 5.8 litres in 1998. Between 1998 and 2001 consumption increased by 0.7 litres to 6.5 litres per inhabitant. These figures do not include legal private imports by tourists and business travellers, nor do they include smuggling and illegal production.

The duty rates on tobacco are defined separately for different tobacco products. The duty on cigarettes is made up of two components. There is a fixed rate of SEK 0.20 per cigarette and a variable rate of 39.2% of the retail price (including VAT, which may be regarded as a third tax component). [5.21]

**Table S22:**  
**Taxes and retail price of cigarettes [5.24]**

|  | SEK          | %           |
|--|--------------|-------------|
| Ex-tax price                                 | 11.30        | 30%         |
| Fixed tobacco tax (SEK 0.20 per cigarette)   | 4.00         | 11%         |
| Variable tobacco tax (39.2% of retail price) | 14.70        | 39%         |
| VAT (25% of pre-VAT price)                   | 7.50         | 20%         |
| <b>Consumer (retail) price</b>               | <b>37.50</b> | <b>100%</b> |

**Table S21:**  
**Taxes and retail price of alcoholic beverages [5.23, 5.25-5.26]**

|                                | Spirits 40 %<br>70 cl |             | Wine max 15%<br>75 cl |             | Beer 5.2%<br>50 cl |             |
|--------------------------------|-----------------------|-------------|-----------------------|-------------|--------------------|-------------|
|                                | SEK                   | Percent     | SEK                   | Percent     | SEK                | Percent     |
| Ex-tax price                   | 43                    | 19%         | 39                    | 56%         | 6.50               | 50%         |
| Alcohol tax                    | 140                   | 61%         | 17                    | 24%         | 3.82               | 30%         |
| VAT                            | 46                    | 20%         | 14                    | 20%         | 2.58               | 20%         |
| <b>Consumer (retail) price</b> | <b>229</b>            | <b>100%</b> | <b>70</b>             | <b>100%</b> | <b>12.90</b>       | <b>100%</b> |

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

Between 1994 and 1998, the total yield from alcohol and tobacco duties declined from SEK 19.0 billion to 18.0 billion. [5.8] The main factors behind this development were lower sales of spirits and lower duty rates on beer, which have been brought down to counteract an increase in cross-border shopping since Sweden's entry into the European Union in 1995.

In 2001 the total yield from alcohol and tobacco has again increased to 19.0 billion. [5.8] The main reason for this is an increase in the consumption of taxed tobacco. Increased alcohol consumption has also contributed to some extent to this development.

**Table S23:**  
**Taxes on alcohol and tobacco (SEK million) [5.8]**

|                              | 2000          | 2001          |
|------------------------------|---------------|---------------|
| Tobacco tax                  | 7 792         | 8 043         |
| Alcohol tax on spirits       | 4 888         | 4 861         |
| Alcohol tax on wine          | 3 483         | 3 635         |
| Alcohol tax on beer          | 2 399         | 2 381         |
| Tax on intermediate products | 125           | 127           |
| Profits from Systembolaget*  | 50            | 80            |
| <b>Total</b>                 | <b>18 737</b> | <b>19 127</b> |

\* 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 charged only on imports from countries outside the Union. Revenue collected – less a 10% administration fee – is transferred to the EU budget.

In 2001, the value of Sweden's imports totalled SEK 623 billion, of which 65% came from other EU countries. [5.30] Total revenue from customs duties and other import levies was SEK 3.6 billion. [5.8]

### Other excise duties

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

The duty on gambling applies to roulette tables. The rate is SEK 2,000 per month for each roulette table. Until 2000 a duty also applied to slot machines.

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

In 2001, total government earnings from betting and lotteries were SEK 4.8 billion. This sum, however, includes profits from the State-owned company Svenska Spel, which organizes national lotteries, football pools etc. These profits are not regarded as duties. In 2001, the total tax yield from these other excise duties was about SEK 2.2 billion. [5.8]

**Table S24:**  
**Other excise duties (SEK million) [5.8]**

|                       | 2000         | 2001         |
|-----------------------|--------------|--------------|
| Tax on advertising    | 1 091        | 955          |
| Tax on lottery prizes | 1 199        | 1 198        |
| Tax on gambling       | 96           | 40           |
| <b>Total</b>          | <b>2 386</b> | <b>2 193</b> |

## 3.5 More about business taxation

### 3.5.1 Introduction

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

### 3.5.2 The business sector

There are several ways to define a commercial enterprise. According to the widest possible definition, which includes all taxpayers declaring business income or VAT, there were about 830,000 such enterprises in Sweden in 2001 [6.1]. However, 3/4 of these businesses had no employees and most of them were combined with other employment.

**Table S25:**  
**Number of business enterprises 2000-2001 [6.1]**

| Number of employees | 2000           | 2001           | -2001%        |
|---------------------|----------------|----------------|---------------|
| 0                   | 601 522        | 613 428        | 74.0%         |
| 1-4                 | 146 498        | 147 783        | 17.8%         |
| 5-49                | 60 537         | 61 612         | 7.4%          |
| 50-499              | 5 345          | 5 565          | 0.7%          |
| 500-                | 831            | 863            | 0.1%          |
| <b>Total</b>        | <b>814 733</b> | <b>829 251</b> | <b>100.0%</b> |

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

The private firm (a registered or non-registered business run by a single owner) is the most common form. These firms are not recognized as legal entities, are gene-

rally 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 are not recognized as such by the income tax laws. Each partner declares his share of the partnership's profits in much the same way as the owner of a private firm.

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

If the definition of business enterprise is restricted to firms registered for VAT and/or as employers, the total number (in 2000) drops to about 770,000. Most are run as private firms, but limited companies account for almost 90% of total turnover. [6.4]

**Table S26:**  
**Number of enterprises and employees in 2000 (a)**  
**[6.3,6.20]**

|  | Number of enterprises | Number of employees |
|--|-----------------------|---------------------|
| Individuals, private firms                             | 451 296               | 39 784              |
| Unlimited partnerships                                 | 76 313                | 38 853              |
| Limited companies                                      | 228 292               | 2 162 087           |
| Economic associations                                  | 17 319                | 55 361              |
| Clubs, societies and other unincorporated associations | 24 787                | 75 740              |
| Foundations  | 4 048                 | 22 387              |
| Other  | 10 813                | 28 021              |
| <b>Total</b>   | <b>812 868</b>        | <b>2 422 233</b>    |

Source: Statistical Yearbook of Sweden 2002, table 414

(a) All individuals and legal entities (except public bodies) registered for VAT or as employers

### 3.5.3 Some general principles of business taxation

Taxable business income is computed according to "generally accepted accounting standards". The accounting records therefore form the basis of 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. Stock is valued at 97% of its acquisition value using the first-in, first-out (FIFO) principle.

<sup>4</sup> 25% from 2002 tax assessment.

<sup>5</sup> *Periodiseringsfond*

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

The total tax bill of legal entities according to the 2001 general tax assessment was about SEK 114 billion. Company profits account for the lion's share of total tax. About 72% of the tax was paid by limited companies. Together with bank and insurance companies, limited companies paid 88% of the tax total [6.6].

**Table S27:**  
**The tax bill for legal entities according to the 2000 and 2001 tax assessments (SEK billion) [6.5]**

|  | 2000        | 2001         | Change, %    |
|--|-------------|--------------|--------------|
| State tax on business income (profits) | 53.5        | 72.5         | +35.6        |
| Tax on pension fund earnings           | 10.7        | 13.0         | +21.9        |
| Special wage tax on pensions           | 13.7        | 16.4         | +19.5        |
| Real estate tax                        | 10.1        | 9.9          | -1.2         |
| Other                                  | 1.5         | 2.1          | +40.0        |
| <b>Total</b>                           | <b>89.4</b> | <b>113.9</b> | <b>+27.7</b> |

About 59% of all limited companies declared profits in the 2001 tax assessment and 30% declared losses. The remaining 11% had no results to declare. Total profits were SEK 264 billion and losses SEK 290 billion. A small number of large companies account for the bulk of these profits and losses. [6.8]

**Table S28:**  
**Assessed profits and losses for limited companies 2000 [6.8]**

| Profit or loss        | Profits             |                             | Losses              |                           |
|-----------------------|---------------------|-----------------------------|---------------------|---------------------------|
|                       | Number of companies | Assessed income SEK billion | Number of companies | Assessed loss SEK billion |
| 0-1 million           | 141 067             | 23.4                        | 72 723              | 11.0                      |
| 1-100 million         | 18 250              | 95.3                        | 10 219              | 85.4                      |
| More than 100 million | 264                 | 145.7                       | 383                 | 194.1                     |
| <b>Total</b>          | <b>159 581</b>      | <b>264.4</b>                | <b>83 325</b>       | <b>290.4</b>              |

Since the tax reform of 1991, only two significant kinds of reserve have been allowed: the tax allocation reserve and excess depreciation. Taxpayers are allowed to allocate up to 20% of net profits<sup>4</sup> to a tax allocation reserve<sup>5</sup>. After six years the reserve must be liquidated 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 business profits are also allowed or required in establishing 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. [6.11]

**Table S29:**  
**Main profit adjustments at the 2001 tax assessment [6.11]**

|   | Profits       | Losses        |
|---|---------------|---------------|
|   | SEK billion   | SEK billion   |
| <b>Income after financial income and expenses</b> | 488.0         | -36.2         |
| <b>Deductions</b>                                 |               |               |
| Excess depreciations                              | 22.6          | 8.3           |
| Transfers to the tax allocation reserve           | 44.8          | 0.1           |
| Group contributions to other companies            | 156.9         | 63.4          |
| Exempt income                                     | 190.2         | 106.6         |
| Deferred revenue on shares                        | 86.4          | 13.3          |
| Losses brought forward from previous years        | 14.1          | 234.8         |
| Other net adjustments                             | 1.2           |               |
| <b>Income added</b>                               |               |               |
| Liquated excess depreciations                     | 14.7          | 9.2           |
| Liquidated tax allocation reserve                 | 23.8          | 3.1           |
| Group contributions received                      | 167.2         | 59.8          |
| Non-deductible expenditure                        | 86.1          | 82.0          |
| Liquidated deferred of revenue on shares          | 0.8           | 1.5           |
| Other net adjustments                             |               | 16.7          |
| <b>Total adjustments</b>                          | <b>-223.6</b> | <b>-254.2</b> |
| <b>Assessed surplus or deficit</b>                | <b>264.4</b>  | <b>-290.4</b> |

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 is, therefore, 50%. A profit of SEK 100 is first subject to company income tax at a rate of 28%. The dividend of SEK 72 (100-28) is then subject to individual income tax on capital income at a rate of 30%. Total tax may thus be computed as SEK 100 x 28% + SEK 72 x 30% = SEK 49.60.

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

For individuals who report business income, a distinction is made between those actively involved in the business and those who enjoy business income without active participation. The former pay social security contributions as self-employed persons at the rate of 31.11% (2000), while the latter pay a special wage tax at 24.26% (2000). Persons over 65 always pay the special wage tax.

According to the 2001 general tax assessment, there were 450,000 persons reporting either profits or losses from businesses in which they were actively involved (private firms and partnerships). Another 240,000 individuals declared profits or losses without taking an active part in the business. [6.12]

In 2001, total assessed profits of private firms were SEK 25 billion and losses SEK 17 billion. [6.13-14]

Total assessed profits for partners in unlimited partnerships were SEK 6 billion and losses SEK 3 billion, according to the 2001 general tax assessment. [6.13, 6.15]

A political ambition of recent years has been to achieve tax neutrality between various legal forms of business enterprise. As a consequence, private firms and partnerships are now allowed to reserve part of their

**Table S30:**  
**Assessed income for individuals with business, 2001 tax assessment [6.14]**

| Profit or loss (SEK) | Profits             |                                 | Losses              |                                |
|----------------------|---------------------|---------------------------------|---------------------|--------------------------------|
|                      | Number of taxpayers | Assessed profits<br>SEK million | Number of taxpayers | Assessed losses<br>SEK million |
| 0 - 100,000          | 230 729             | 6 407                           | 200 220             | 4 877                          |
| 100,000 - 300,000    | 84 243              | 14 325                          | 32 144              | 5 347                          |
| 300,000 -            | 9 205               | 4 183                           | 9 427               | 6 726                          |
| <b>Total</b>         | <b>324 177</b>      | <b>24 915</b>                   | <b>241 791</b>      | <b>16 950</b>                  |

**Table S31:**  
**Assessed income for partners in unlimited partnerships, 2001 tax assessment [6.15]**

| Profit or loss (SEK) | Profits             |                                 | Losses              |                                |
|----------------------|---------------------|---------------------------------|---------------------|--------------------------------|
|                      | Number of taxpayers | Assessed profits<br>SEK million | Number of taxpayers | Assessed losses<br>SEK million |
| 0 - 100,000          | 51 153              | 1 430                           | 36 978              | 776                            |
| 100,000 - 300,000    | 19 927              | 3 443                           | 4 764               | 798                            |
| 300,000 -            | 2 304               | 1 049                           | 1 691               | 1 294                          |
| <b>Total</b>         | <b>73 384</b>       | <b>5 922</b>                    | <b>43 433</b>       | <b>2 868</b>                   |

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 liquidated some years later, it is added to the assessed business income of that year and the special 28% tax is refunded.

In 2000, about 35,000 businesses made allocations of this kind, totalling SEK 2.5 billion. About 27,000 allocations (SEK 1.5 billion) were liquidated. Including the 2000 net allocation of 1.0 billion, accumulated allocations rose to SEK 11.7 billion. [6.17]

Another measure designed to establish greater neutrality between private firms and limited companies is to allow part of the business income of a private firm to be treated as capital income. This part of income will then be subject to a 30% tax rate rather than to the 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 as shown on the balance sheet. In 2000, about 135,000 taxpayers took advantage of this rule and SEK 5.2 billion of business profits were taxed as capital income. [6.18]

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 2000, this rule, whose application is compulsory, applied in about 51,000 cases and about SEK 700 million was added to business income. [6.18]

## 4 Taxes and income distribution

### 4.1 Overview

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

### 4.2 Direct taxes paid by individuals

In 1989, an individual with an average income paid 36% of it in direct taxes.<sup>6</sup> Immediately after the 1991 tax reform, this proportion fell to 29%, but by 2000 it had bounced back to 35%. The tax reform made some previously untaxed 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 those incomes were lowered considerably. Taxes paid by the lowest income groups increased throughout the 1980-2000 period. [7.1-4]

**Table S32:**

**Direct taxes as a percentage of assessed income for some income groups, 2000 prices [7.2 and 7.5]**

| Total assessed income   | 1980       | 1989       | 1991       | 2000       |
|---|------------|------------|------------|------------|
| 0,000 - 50,000  | 9%         | 14%        | 19%        | 21%        |
| 100,000 - 150,000   | 29%        | 33%        | 27%        | 30%        |
| 200,000 - 250,000   | 36%        | 36%        | 29%        | 34%        |
| 500,000 -   | 54%        | 58%        | 39%        | 41%        |
| <b>All age 18 or older</b>  | <b>33%</b> | <b>36%</b> | <b>29%</b> | <b>35%</b> |
| Highest marginal income tax rate (based on the average local income tax rate) | 85%        | 73%        | 51%        | 56%        |

A central aim of the 1991 tax reform, as well as of those that preceded it, was to lower marginal income tax rates. In 1980, the top rate was 85% and in the years before the tax reform it had been lowered to around 73%. The tax reform brought the rate down to slightly more than 50%, but since then the marginal tax rate has again increased. [7.5]

How much an individual can keep of an increase in income is determined not only by the tax rates applied, but also by means-tested benefits and income-related charges for social services. In 2002 an average of about 35% of a wage increase is lost to the individual – 29% in increased income tax, 5% in reduced benefits and 1% in higher charges. [7.6] However, these figures are averages. In individual cases, lost benefits and higher charges may have a much stronger impact.

### 4.3 Redistribution of incomes

Income redistribution depends on the net effect of taxes and benefits. Most households pay taxes and receive benefits, but the well-off pay more and receive less and vice versa [7.7].

**Table S33:**

**Redistribution by taxes and benefits, 2000, (all households 18-64 years) breakdown by income groups, (SEK thousand) [7.7]**

| Factor income<br>Income groups | Factor<br>income | Benefits  | Taxes      | Disposable<br>income |
|--------------------------------|------------------|-----------|------------|----------------------|
| 0 - 50                         | 18               | 128       | 31         | 115                  |
| 100 - 150                      | 125              | 84        | 58         | 151                  |
| 200 - 250                      | 224              | 50        | 85         | 189                  |
| 300 - 350                      | 324              | 68        | 124        | 268                  |
| 600 -                          | 1 109            | 44        | 419        | 733                  |
| <b>All</b>                     | <b>320</b>       | <b>71</b> | <b>126</b> | <b>265</b>           |

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 2000, benefits received by the average single parent were about 36% higher than taxes paid. [7.8]

In 2000, the total factor income of all households in Sweden was SEK 1088 billion, of which 81% was employment income, 3% entrepreneurial income and 16% capital income. Direct taxes and certain other charges totalled SEK 474 billion and transfers to households (benefits etc.) SEK 420 billion. This resulted in a total disposable income of SEK 1034 billion. [7.9]

The results show a continuous increase in households' disposable income since 1995. The share of households' gross income originating from income from work has decreased since 1975 while the share originating from income from capital and pensions has increased. [7.10]

### 4.4 Income distribution

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

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

During the 1980s, living standards (measured as median disposable income in fixed prices per consumer unit) rose by 14%. As a result of the severe recession in the early 1990s, living standards fell by 8% from 1990 to

<sup>6</sup> In this context, direct taxes include income and property taxes paid by individuals, together with social security contributions not paid by employers as payroll taxes.

1995. Between 1995 and 2000 living standards rose by 16%. Measured by the Gini coefficient, income differences widened only slowly during the 1980s, but grew more rapidly after 1990. [7.11]

Widening income differences are also reflected by the fact that in the late 1990s high-income households increased their incomes more than those with proportionately lower incomes. 2000 was no exception to this trend. [7.12]

**Table S34:**  
**Disposable income per consumer unit for all individuals, mean values for respective decile (SEK thousand) 2000 prices [7.12]**

| Decile     | 1996       | 1998       | 2000       | Change<br>1996 - 2000 |
|------------|------------|------------|------------|-----------------------|
| 1          | 44         | 45         | 48         | 9%                    |
| 5          | 88         | 90         | 98         | 11%                   |
| 10         | 237        | 226        | 324        | 37%                   |
| <b>All</b> | <b>106</b> | <b>106</b> | <b>124</b> | <b>18%</b>            |

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.<sup>7</sup> In 1991, 7% of all households reported capital gains on their income tax return; in 2000 the figure was 29%. This development has contributed significantly to the widening income differences recorded. [7.13]

The disposable incomes of men and women have evolved along parallel tracks; percentage changes have been roughly equal. All age groups experienced an increase in their disposable income between 1996 and 2000. There are, however, marked differences between age groups. Pensioners, people older than 64, have had a smaller increase in their incomes than the rest. [7.14]

**Table S35:**  
**Disposable income per consuming unit for all individuals, mean values for certain age groups (SEK thousand) 2000 prices [7.14]**

| Age     | 1996 | 1998 | 2000 | Change<br>1996 - 2000 |
|---------|------|------|------|-----------------------|
| 18 - 22 | 80   | 84   | 93   | 16%                   |
| 23 - 29 | 93   | 96   | 112  | 20%                   |
| 50 - 59 | 123  | 128  | 142  | 15%                   |
| 65 - 74 | 96   | 99   | 102  | 6%                    |

All types of household have increased their income since 1996. Co-habiting households have increased their income most. [7.15]

Unemployment was an important factor in falling disposable incomes during the mid-1990s. Those in employment in fact enjoyed rising real wages. After a fall of 2% between 1991 and 1993, the median income from work then rose by 18% in the period up to 2000. The equality of income from work as between men and women, which worsened during the 1980s, has since improved somewhat. [7.16]

**Table S36:**  
**Median annual income of full time employees, age 20-64 (SEK thousand) 2000 prices [7.16]**

|   | 1980       | 1991       | 2000       | Change<br>1991 - 2000 |
|---|------------|------------|------------|-----------------------|
| Women                                     | 173        | 176        | 214        | 22%                   |
| Men                                       | 200        | 219        | 254        | 16%                   |
| <b>All</b>                                | <b>191</b> | <b>202</b> | <b>235</b> | <b>16%</b>            |
| Women's<br>median income<br>as % of men's | 86%        | 80%        | 85%        |                       |

## 5 Tax arrears and collection losses

Not all taxes billed to taxpayers are paid on time. If the tax remains unpaid after a reminder, the tax authority notifies the enforcement authority. The enforcement authority will again demand payment<sup>8</sup> and, if the taxpayer still does not pay, the authority will take action to recover the amount due.

Many arrears occur because taxpayers do not file tax returns at all. In such cases, the tax authority issues a discretionary assessment. If the resulting tax bill is not paid, the enforcement authority is notified and issues a new demand for payment. In this situation the taxpayer often files a return that results in a lower assessment, which will reduce or cancel the arrears. 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 of collecting arrears at its disposal. One very common measure is to seize a refund due on another form of tax. Another is attachment of earnings. Saleable chattels of a recognised market value or real property may be seized and sold, and so on.

Taxes demanded but not paid within five years are normally written off. These amounts are referred to as collection losses. A standard, but approximate, measure of collection losses is net arrears in one year minus the amount collected by the enforcement service in the same year. By this measure, collection losses in 2001 were SEK 4.9 billion, equal to 0.4 % of total tax revenue. [8.1]

<sup>7</sup> Another factor that may explain the rising number of individuals reporting capital gains is the fact that financial institutions, from the income year of 1996, are required to issue control statements to the tax authorities on share transactions.

<sup>8</sup> 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, collect not only tax arrears, but also bad debts owed to companies and private individuals. The enforcement service's register of debtors is public, which in itself is a strong deterrent, since it will affect a person or company's credit.

**Table S37:****Tax arrears and collection losses 1999-2001 (SEK billion) [8.1]**

|  | 1999        | 2000        | 2001        |
|--|-------------|-------------|-------------|
| Total tax revenue                                  | 1 043       | 1 090       | 1 136       |
| Arrears notified to the enforcement authorities    | 13.2        | 14.1        | 13.2        |
| Demands withdrawn or reduced                       | -3.2        | -4.4        | -3.5        |
| <b>Net arrears</b>                                 | <b>10.0</b> | <b>9.7</b>  | <b>9.7</b>  |
| Payments to the enforcement authorities            | -4.3        | -5.1        | -4.8        |
| <b>Collection losses</b>                           | <b>5.7</b>  | <b>4.5</b>  | <b>4.9</b>  |
| <b>Collection losses as % of total tax revenue</b> | <b>0.5%</b> | <b>0.4%</b> | <b>0.4%</b> |

The current level of collection losses is about the same as in the late 1980s. In the early 1990s, they were much higher, however. In 1990, the level of losses rose sharply to 1.0% of total revenue and then to 1.2% in 1992. Behind this development was a steep rise in the number of insolvencies. Some were deliberate and part of tax fraud schemes, but most occurred as business failures when the economic boom of the 1980s suddenly came to an end. In 1992, more than 20,000 businesses with about 80,000 employees became insolvent. In 2001 the level was about 7,400 businesses with 24,000 workers affected. [8.1 and 8.3]

In 2001 individual taxpayers accounted for about 40% of the collection losses, with legal entities making up the remaining 60%. Income tax – especially back taxes and additional assessments resulting from audits – and VAT make up the greater part of all tax arrears. The introduction of the single tax account in 1998 – as a result of which all payments are registered on a single account for each taxpayer without differentiation by tax – makes it difficult to calculate how much of the loss is represented by each tax. Such unallocated losses are referred to as deficits on the taxpayers tax account. [8.4]

By the end of 2001, the balance of unpaid tax arrears was SEK 39 billion. The major share (57%) was attributable to insolvencies. Only 22% of the total debt was subject to active recovery measures. About SEK 8 billion, roughly 1/5 of the total amount due, consisted of penalties and accumulated interest. [8.5]

**Table S38:****Closing balance of tax receivables at the end of 2001 (SEK billion) [8.5]**

|  | Taxes       | Interest and penalties | Total       |
|--|-------------|------------------------|-------------|
| Bankruptcies, concluded                      | 10.8        | 3.5                    | 14.3        |
| Bankruptcies, not concluded                  | 6.8         | 0.8                    | 7.6         |
| Other arrears not subject to active recovery | 6.1         | 2.2                    | 8.3         |
| Arrears subject to active recovery           | 7.1         | 1.3                    | 8.4         |
| <b>Total</b>                                 | <b>30.7</b> | <b>7.8</b>             | <b>38.5</b> |

Time is a crucial factor in debt collection. In 2001, the enforcement authorities collected tax arrears worth SEK

4.6 billion. Most of this (69%) was made up of arrears that arose in the same year with a further 15 percent arising in the previous year. [8.6]

By the end of 2001, there were 560,000 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 259,000 debtors with tax arrears, of which 60,000 were legal entities. The total number of debtors increased during the 1990s until 1998, but has decreased annually since then. The number with tax arrears has fallen since 1996. [8.7]

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 6.9% of the debtors, while 65% of the arrears run up by legal entities (mostly companies) are owed by 6% of the debtors. [8.8-9]

## 6 Tax errors and tax evasion

### 6.1 Introduction

There is a gap between the amount of tax that should be paid by law (theoretical tax) and the amount actually charged. This discrepancy is known as the assessment error. Part of the assessment error is caused by mistakes on the part of taxpayers or tax authorities. But since unintentional errors tend to cancel each other out, most 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 concealing income or by claiming deductions on the basis of false information, it is tax fraud.

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

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

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

Several studies have been carried out to estimate the size of the black economy, i.e. legal economic activities that are not reported to the tax authorities. In 1997, the Government instructed the National Audit Office (NAO) to study the extent of illicit work in Sweden. The study used a combination of direct and indirect methods

and its final report was published in 1998.<sup>9</sup> According to the findings of the study, 11-14% of the adult population (or 650,000-800,000 people) had carried out such work at least once in the past 12 months.<sup>10</sup> To most people it was extra work, on average 5 hours a week bringing in SEK 112 per hour and about SEK 25,000 per year. According to the NAO estimates, illicit work accounted for 5% of total working hours and illicit earnings corresponded to around 3% of GDP.

The study also found that the group most active in the black economy was young men. This general conclusion is also supported by taxpayer surveys carried out by the National Tax Board (through a private opinion survey institute). In these studies, however, only 6-7% of respondents agreed with the statement: "I have personally carried out illicit ("black") work during the last year".<sup>11</sup> [9.2] Surveys carried out by the private opinion institute Observer have reached the same conclusions and also found that illicit work is most frequent among men and non-union workers [9.3]

Other studies have focused on particular types of household or particular industries. Mikael Apel has com-

pared the reported household incomes of self-employed persons and wage earners and estimated that the self-employed under-reported their income by 30%.<sup>12</sup> However, no allowance was made for the fact that entrepreneurs are allowed to reduce their tax liability by allocating some items of income to reserves, or that their patterns of consumption may differ from those of wage earners. Another study found that fishermen generally reported very low incomes.<sup>13</sup> A third inquiry noted the fact that firms in cash trades exposed to tough competition have strong incentives to evade taxes. According to this inquiry, tax evasion is well documented in trades such as taxi driving, hairdressing and restaurants.<sup>14</sup>

Income from private firms and partnerships is declared as business income by their owners. Many private firms are operated as a part-time activity. In 2001, about 440,000 individuals declared income from business activities in which they were actively involved. The majority also declared employment income. Only 14% reported net profits exceeding SEK 150,000.

**Table S39:**

**Number of individuals with assessed business income (or loss) in the assessment year 2000 [9.4]**

| Business income or loss  | Accounted income from business, MSEK | Number of individuals with income from business | Of which with employment income of, KSEK |                |               |               |
|--------------------------|--------------------------------------|---|--|----------------|---------------|---------------|
|                          |                                      |   | 0  | 1-150          | 150-250       | 250+          |
| <b>KSEK</b>              |                                      |   |  |                |               |               |
| <b>Profit of</b>         |                                      |   |  |                |               |               |
| 300+                     | 4 624                                | 10 651  | 7 300                                    | 2 823          | 258           | 270           |
| 150-300                  | 11 883                               | 57 708  | 37 952                                   | 17 869         | 1 064         | 823           |
| 1-150                    | 11 648                               | 232 929   | 103 531                                  | 71 594         | 32 235        | 25 569        |
| 0                        | 0                                    | 1 949   | 461                                      | 526            | 535           | 427           |
| <b>Loss of</b>           |                                      |   |  |                |               |               |
| 1-150                    | -4 141                               | 114 839   | 31 607                                   | 26 001         | 31 073        | 26 158        |
| 150-300                  | -2 609                               | 12 454  | 3 852                                    | 2 758          | 3 213         | 2 631         |
| 300-                     | -5 214                               | 7 707   | 2 816                                    | 1 756          | 1 509         | 1 626         |
| <b>Total</b>             | <b>16 191</b>                        | <b>438 237</b>                                  | <b>187 519</b>                           | <b>123 327</b> | <b>69 887</b> | <b>57 504</b> |
| <b>Total profit</b>      | <b>28 155</b>                        | <b>301 288</b>                                  | <b>148 783</b>                           | <b>92 286</b>  | <b>33 557</b> | <b>26 662</b> |
| <b>Total loss</b>        | <b>-11 964</b>                       | <b>135 000</b>                                  | <b>38 275</b>                            | <b>30 515</b>  | <b>35 795</b> | <b>30 415</b> |
| <i>Fraction of total</i> |                                      | 100%  | 43%                                      | 16%            | 13%           | 28%           |
| <i>Fraction profit</i>   |                                      | 69%   | 79%                                      | 75%            | 48%           | 46%           |
| <i>Fraction loss</i>     |                                      | 31%   | 20%                                      | 25%            | 51%           | 53%           |

<sup>9</sup> Riksrevisionsverket (The Swedish National Audit Office), *Illicit work in Sweden - a report on a welfare state dilemma*, RRV 1998:61.

<sup>10</sup> The question in the NAO study was phrased thus: "The following questions are about work which is carried out for payment without being reported to the authorities, known as "illicit work". There are reasons to believe that large sections of the population accept illicit work and transactions without receipts. The questions concern work that is paid for in cash, but also the exchange of goods or services among friends, acquaintances or family members not belonging to the household. It may also take the form of the sale of goods without receipts, e.g. from market stalls or other "black" transactions. Have you, during the past 12 months, carried out such work or sold goods without receipts?"

<sup>11</sup> An explanation for the diverging results may be that the questions were phrased differently. The question posed by the National Audit Office (see footnote above) may have led respondents to give a wider interpretation of illicit work than the corresponding statement posed by the National Tax Board, with which respondents were asked to agree or disagree.

<sup>12</sup> Apel, Mikael, *An Expenditure-Based Estimate of Tax Evasion in Sweden*. Tax Reform Evaluation Report No. 1, November 1994.

<sup>13</sup> Expertgruppen för studier i offentlig ekonomi (ESO), *Fisk och fusk - Mål, medel och makt i fiskeripolitiken*, DS 1997:81.

<sup>14</sup> SOU 1997:111, *Branschsanering - och andra metoder mot ekobrott*, Huvudbetänkande av branschsaneringsutredningen. (With a 9-page summary in English).

Comprehensive surveys of illicit work involving household services have been carried out in Denmark. Assuming that the findings are also applicable to Sweden, the National Tax Board has estimated<sup>15</sup> total sales of such illicit services in 1995 at SEK 10 billion, of which domestic services such as cleaning accounted for about 3 billion, home repairs 5 billion and car repairs 2 billion.

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

The size of the total black economy may also be studied using an indirect method based on the national accounts. This method (the disposable income method) is based on the discrepancies between reported income and reported expenditure: the two totals should match, since they both reflect the disposable income of households. On the expenditure side, income is calculated as the sum of households' financial savings, net investment and consumption. On the expenditure side, disposable income is calculated on the basis of declared income, plus the difference between positive and negative income transfers. The difference in disposable income as arrived at by these two procedures provides a basis for an estimate of Sweden's black economy.<sup>16</sup>

Three studies, all aiming to estimate the size of the black economy using the disposable income method, were carried out in Sweden in the 1980s and 1990s. The first was by Ingemar Hansson<sup>17</sup> in 1984 and the second by Åke Tengblad in 1993.<sup>18</sup> The third study was also by Tengblad. Reviewing earlier calculations, he found that the size of the black sector of the Swedish economy in 1995 was 4.6% compared to 3.3% in 1985.

These estimates, however, include items that have increased significantly in recent years without any satisfactory explanation: a residual item in financial savings and inexplicably high operating surpluses in the corporate sector. To regard growth in these items solely as a consequence of illicit work would probably be mistaken. In his 1995 study, Tengblad therefore also used the alternative GDP income method, which takes into account information about operating surpluses in limited companies.<sup>19</sup> By this method - and assuming that the black sector was 3.3% of GDP in 1985 - Tengblad estimated the size of the black sector in 1995 at 3.2%. Arriving at different results using different methods, Tengblad concluded that the likely level of illicit work was somewhere between 3.0 and 4.5% of GDP. [9.10]

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 a measure of the black economy. According to estimates by the Austrian economist Friedrich Schneider, the size of the hidden economy in Sweden (as in Norway and Denmark) in 1997/98 was 18-20% of the official GDP.<sup>20</sup> 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 the Scandinavian countries should be double that of Austria. [9.5] However the Riksbank, Sweden's central bank, was unable to explain in a 2001 study<sup>21</sup> 65 percent of the total value of coins and banknotes by normal cash transactions. [9.6]

### 6.4 Tax fraud involving financial assets

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

This estimate relates to capital income from domestic financial institutions. The dismantling of currency regulation in the late 1980s did, however, open up foreign financial markets to household savings and investments, and there are many indications that households are also taking advantage of these new opportunities. One such indication is that the residue of household savings unaccounted for in the national accounts has increased heavily during the 1990s. Assuming that taxable financial assets worth SEK 250 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 7.5 billion (tax on capital income and net wealth tax).

### 6.5 Excise duty fraud

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

<sup>15</sup> *Redovisning av privata tjänster. RSV Rapport 1996:5*

<sup>16</sup> *Riksrevisionsverket (Swedish National Audit Office), Illicit work in Sweden, p. 21.*

<sup>17</sup> *Hansson, Ingemar, Sveriges svarta sektor. Beräkning av skatteundandragandet i Sverige, RSV Rapport 1984:5.*

<sup>18</sup> *Tengblad, Åke, Beräkning av svart ekonomi och skatteundandragandet i Sverige 1980-91, in Malmer, Persson, Tengblad, Århundradets Skattereform, Effekter på skattesystemets driftskostnader, skatteplanering och skattefusk, Fritzes, 1994 (with a summary in English).*

<sup>19</sup> *Riksrevisionsverket (Swedish National Audit Office), Illicit work in Sweden, p 21.*

<sup>20</sup> *Schneider, Friedrich, The Value Added of Underground Activities: Size and Measurement of the Shadow Economy Labor Force all over the World.*

<sup>21</sup> *Andersson, M., Guiborg, G. Kontantvändningen i den svenska ekonomin. Penning- och valutapolitik 4/2001.*

## 6.6 Illicit production and smuggling of alcohol

For 1996/97, it is estimated that about 13% of total alcohol and 1/3 of all spirits consumed in Sweden reached consumers through illegal channels, either by smuggling or as illicitly distilled spirits.<sup>22</sup> [9.7] This represents a tax loss of SEK 2-3 billion.

## 6.7 Cigarette tax fraud

On a worldwide basis, the total volume of cigarette smuggling has been estimated by comparing recorded exports with recorded imports. According to one estimate, exports exceeded imports by about 280 billion cigarettes.<sup>23</sup> Apportioning this figure in proportion to 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 concluded, taking into consideration the fact that cigarette consumption in Sweden is relatively low, that this was an exaggeration and came up with an educated guess of about 150 million cigarettes smuggled into Sweden.<sup>24</sup> This volume represents about SEK 250 million in lost tax revenue.

A more recent study, however, points to a great increase in cigarette smuggling in recent years. Based on recorded seizures by customs and the estimated risk of detection, this study calculated that the number of cigarettes smuggled into Sweden had now reached 540 million. According to the study, this increase has been caused by a sharp increase in organized smuggling in 1997-98 in the wake of raised tax rates and retail prices.<sup>25</sup> However, cigarettes seized in Sweden may have been intended for sale to consumers in Norway.

## 6.8 Illegal trade in oil and petrol

Smuggling of oil and petrol has mainly been a problem along the border with Finland in the north of Sweden. There are also sales involving false documentation and authorized warehouses. Compared to alcohol and tobacco, illegal trade in oil and petrol is a lesser problem, and total fraud is estimated at a maximum of 1% of total tax revenue, or about SEK 200-300 million.

## 6.9 The Internet and electronic commerce

Transaction costs are much lower with electronic trade (e-trade) than with traditional cross-border trade. This increases the possibility of tax evasion. Not only different tax rates but also different pre-tax prices create incentives for tax evasion. It is difficult to maintain effective control where foreign e-trading firms are selling products to Swedish consumers. However, business-

to-consumer e-trade still accounts for a relatively small share of total consumption. The tax loss on consumer-oriented e-trade is estimated at a maximum of SEK 500 million.

It is also possible to sell shares and to gamble on websites abroad. This constitutes a potential risk of tax evasion.

## 6.10 VAT fraud

Tax authorities in all member state in the European Union have been misled into paying out VAT on false information in so-called carousel fraud cases. A Swedish inquiry has estimated the tax loss to be in the range of 5-10 SEK billion.

## 6.11 Estimates of tax error based on tax audits

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

Some audits, however, are directed against taxpayers selected at random. These are carried out in order to gauge general compliance among groups of taxpayers. [9.8]

## 6.12 How large is the total tax error?

On the basis of all available information on tax fraud and other errors made by taxpayers, the National Tax Board in 1998 made an attempt to estimate the total tax error, defined as the gap between the theoretical tax revenue and the total tax bill.<sup>27</sup> This estimate applies to 1992 and is based on the facts and indicators reported above. Obviously, these calculations are surrounded by a great deal of uncertainty and the purpose of this exercise is not to produce a figure for the tax error which may be used to monitor progress year by year, but to indicate its order of magnitude. The result of the estimate is shown in the table S40.

<sup>22</sup> Kühllhorn, E. et al, *Svenskarnas konsumtion av alkohol från legala och illegala källor vid mitten av 1990-talet*, 1997.

<sup>23</sup> Joosens, L. & Raw, M., *Smuggling and cross border shopping of tobacco in Europe*, 1996.

<sup>24</sup> Persson, Leif G. W., Andersson, Jan, *Cigarettsmuggling*, April 1997.

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

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

<sup>27</sup> *Skattefel och skattefusk, En utvärdering av skattekontrollen 1992-1997, RSV Rapport 1998:3.*

**Table S40:**  
**An estimate of the total tax error 1997 and 2000<sup>28</sup> [9.11]**

|  | National Tax Board<br>1997 | Updated calculation<br>2000 |
|--|----------------------------|-----------------------------|
|  | SEK billions               |                             |
| <b>Estimated tax due on undeclared income and assets</b>   |                            |                             |
| (1) Tax on undeclared income (Income tax, social security contributions and VAT)                                   | 60.4                       | 56.0                        |
| (2) Tax on financial investments abroad  | ..                         | 7.5                         |
|  | <b>60.4</b>                | <b>63.5</b>                 |
| <b>Estimated tax due on other errors detected by audits</b>  |                            |                             |
| (3) Estimates based on random audits of wage earners, private firms and small companies                            | 20.8                       | 25.3                        |
| (4) Coordinated audits of the biggest groups of companies  | 20.0                       | 16.0                        |
| (5) Less correction of tax error, double calculation   | -20.4                      | -20.7                       |
|  | <b>20.4</b>                | <b>20.7</b>                 |
| <b>Estimated excise duties due on unreported imports and sales</b>   |                            |                             |
| (6) Alcohol, tobacco, oil  | 3.0                        | 3.4                         |
| (7) Loss of VAT through e-commerce   | ..                         | 0.5                         |
| (8) Plain fraud, e.g. claiming VAT repayments  | ..                         | ..                          |
|  | <b>3.0</b>                 | <b>3.9</b>                  |
| <b>Total tax error, SEK billions</b>   | <b>83.8</b>                | <b>88.1</b>                 |
| <i>The total tax error as a percentage of GDP, (1 800 BSEK in 1997 and 2 083 BSEK in 2000)</i>                     | 4.7%                       | 4.2%                        |
| <i>The total tax error as a percentage of taxes in the public sector (950 BSEK in 1997 and 1,100 BSEK in 2000)</i> | 8.8%                       | 8.0%                        |

The 2000 estimate is basically the 1997 estimate adjusted for GDP growth and a lower rate of tax on company profits. The size of the black sector is however assumed to be only 4% of GDP, thus reflecting the figure in the national accounts for 2000. However, the 2000 estimate also includes revenue lost due to undeclared financial investment abroad.

In 2002 the National Tax Board published a study with an estimate of 20-35 SEK billion in tax errors due to cross-border transactions. [9.12]

In total the tax gap in Sweden is estimated to 100 SEK billion.

### 6.13 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 alongside of regular employment. Young men, skilled workers and professionals are relatively well represented in the black job market, while the unemployed are somewhat underrepresented. There is no general disapproval among the population of occasional and small-scale illicit work, or of exchange of services among acquaintances of different trades and professions. On the other hand, there is no public acceptance of illicit operations carried out on a large scale and in a systematic and organized fashion.<sup>29</sup>

Some trades and industries are more affected by tax evasion than others. In a survey commissioned by the National Tax Board, business respondents were asked whether they agreed or disagreed with the statement

“our firm is to a large extent exposed to competition from firms that evade taxes”. Only about 16% of all respondents agreed, but in the construction industry 37% did, and among hairdressers the figure was 64%. [9.14]

In other surveys, 10% of the general public confirmed the statement “I have at least once during the last year hired someone to carry out illicit work on my behalf”. Those with higher incomes were, however, more likely to do so. About 1/4 of persons with a monthly salary above SEK 30.000 agreed with the statement. Men, the self-employed and homeowners were also more likely to hire workers in the black market than women and people living in flats. [9.15] 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. [9.17]

The behaviour of ordinary taxpayers was reported in an RSV study in 2001.<sup>30</sup> The subject was a deduction of “other expenses” from income of employment. The deduction need not to be specified. The study showed that there was something wrong in four cases out of five and that the assessment error in this particular deduction exceeded 50%. The tax offices did not, however, exercise their power to make tax surcharges, see chapter 10. Against 34,000 reductions made by the tax authorities only 79 cases of tax surcharges were found. The deductions made by the taxpayers the following year were, however, much more accurate due to the tax inspection.

<sup>28</sup> This estimate does not include all taxes or all taxpayers - only the most important ones.

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

<sup>30</sup> RSV Rapport 2001:1 Om gratisslotter och preventiv effekt.

In its study of illicit work in Sweden, the National Audit Office also examined its causes [9.18] and made a distinction between those that were structural (or external) and individual (or internal). 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 to alienation from the ruling elites (financial scandals involving politicians and top business people have had a very negative effect on tax morals). When the National Tax Board asked respondents to point out which of a set of alternatives they believed was the main reason for the existing level of tax evasion, 67 percent chose "Taxes too high" And 63 percent indicated that the reason for tax fraud was that persons in high positions do not follow the social norms. [9.18-19]

A large majority of the Swedish population regards the amount of tax evasion to be a serious problem for society. [9.21] Different dimensions of the damage to society from tax evasion and tax fraud are shown in table [9.20].

## 7 Tax control audit and tax fraud

### 7.1 Introduction

In order to detect tax fraud, the tax authorities perform various forms of compliance checking. [10.1-5] Checks on taxes bring some money into the state coffers but what is more important is that the compliance checking has a deterrent effect. [10.6] The size of the deterrent (preventive) effect depends on how taxpayers assess the risk of detection and the consequences. The deterrent effect varies among taxpayers but is considered substantial. [10.7-8] Many cases of tax fraud are discovered during tax field audits. The number of tax field audits has been reduced from more than 18,000 per year in the late 1980s to about 6,000 in 1999. This fall is partly due to the fact that they increasingly target larger companies and more difficult cases. Another trend is that a larger proportion of all audits are integrated, i.e. they cover several taxes such as company income tax, VAT, PAYE and social security contributions. However, the reduction in numbers has also been caused by budget cuts and a high staff turnover [10.3]

### 7.2 Administrative sanctions

Two kinds of sanctions may be applied to tax fraud - the sanctions of the criminal justice system (fines, prison sentences etc.) awarded by the courts and administrative sanctions (tax surcharges and late return penalties), 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 errors irrespective of cause.

The administrative sanctions consist of tax surcharges and late return penalties. 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 2001 259,000 tax surcharge decisions were made, of which 77,000 related to income tax and 82,000 to VAT. Substantial sums are imposed as tax surcharges; in 2001 they totalled SEK 2.1 billion, of which SEK 1.7 billion related to income tax. [S41].

**Table S41:**  
**Tax surcharges imposed in 2001 [10.10-13]**

|   | Number of decisions | Total SEK million | Average SEK   |
|---|---------------------|-------------------|---------------|
| <b>Income tax</b>                                     |                     |                   |               |
| During annual assessment                              | 47 634              | ..                | ..            |
| After annual assessment<br>- additional tax surcharge | 12 744              | ..                | ..            |
| After annual assessment<br>- reduced tax surcharge    | 16 830              | ..                | ..            |
| <b>Subtotal</b>                                       | <b>77 208</b>       | <b>1 678</b>      | <b>21 732</b> |
| VAT   | 81 918              | 216               | 2 638         |
| Social security contributions<br>paid by employers    | 54 549              | 115               | 2 116         |
| Preliminary tax (PAYE)                                | 43 563              | 68                | 1 566         |
| Excise duties   | 1 787               | 1 678             | 15 669        |
| <b>Total</b>  | <b>259 025</b>      | <b>2 106</b>      | <b>8 129</b>  |

In addition to surcharges, there are late return penalties, which are imposed if tax returns are not filed on time. An individual who files his income tax return too late is normally charged SEK 500 and a legal entity SEK 1,000. In 2001, there were 92,000 decisions involving late return penalties on income tax returns and another 173,000 involving monthly VAT and PAYE returns. [10.17] The total amount of late return penalties for all returns was SEK 280 million. [10.18]

### 7.3 Sanctions by the criminal justice system

Since 1996, the Tax Fraud Act has defined all criminal tax offences. In 2001, the tax authorities reported 1,850 suspected tax offences to the public prosecutors, an upward trend over recent years. The total number has however fallen if we compare with figures at the beginning of the 1980s. [10.20] The frequency also varies between the tax regions. [10.21]

In 2001, 360 persons were fined, imprisoned, put on probation or given suspended sentences for offences against the Tax Fraud Act. [10.23] If to this figure we add persons found guilty of a tax offence as a secondary offence, the total number of convictions in 2001 rises to 1005. [10.24]. The number of unconditional prison sentences in 2001 was 120.

**Table S42:**

**Number of persons sentenced by a court for offences against the Tax Fraud Act as principal offence or who have assented to summary fines imposed by a prosecutor [10.20]**

| Main penalty        | 1983         | 1993       | 1999       | 2000       | 2001       |
|---------------------|--------------|------------|------------|------------|------------|
| Prison              | 317          | 100        | 119        | 102        | 120        |
| Probation           | 8            | 7          | 3          | 5          | 4          |
| Suspended sentence  | 391          | 61         | 83         | 99         | 144        |
| Fine                | 416          | 121        | 28         | 26         | 27         |
| Punitive surcharges | 4            | 8          | 29         | 139        | 65         |
| Other penalty       | 12           | 2          | 3          | 1          | 0          |
| <b>Total</b>        | <b>1 148</b> | <b>299</b> | <b>265</b> | <b>372</b> | <b>360</b> |

The ability of the police to handle tax crime has been questioned. As from 1998 tax fraud units within the tax authorities have been able to handle tax crime investigations. As can be seen from the tables [10.23-24], the benefit of this reform is reflected in the figures for 1999-2001. In 2004, the tax fraud units will have a staff of 200. For more details of the tax fraud units see [10.22]

Another sanction available to the courts is to ban a person from running a business. This sanction can be applied for a period of 3-10 years if a person has seriously neglected his duties as a businessman, for example by refusing to pay taxes. The number of bans in force is tending to increase and reached 422 in 2001. [10.26]

The social background of a person sentenced for theft deviates significantly from the background of the average Swede, but this is not true of people convicted of tax fraud. The money involved in cases where someone is convicted of a tax crime is very much higher than in theft cases and a person convicted of tax fraud is punished more severely than a thief.

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

### 8.1 Introduction

Since 1986, the National Tax Board has been surveying public opinion about the tax system and the service provided by the tax and enforcement authorities. In the last couple of years, compliance issues have also received attention.

The surveys have a number of aims:

- To evaluate how attitudes towards the tax system and the tax authorities are changing
- To evaluate how the general public and companies view the service from tax authorities, different kinds of tax evasion and the tax authorities' investigative activities.
- To support comparisons of regional tax authorities and suggest measures for improvement.

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, one national, one regional. The national survey, which targets about 3,000 respondents, concentrates on the tax system and compliance issues. The regional survey, which targets at least 1,000 respondents in each of the 10 regions, deals with service delivery and public confidence in the tax and enforcement authorities.

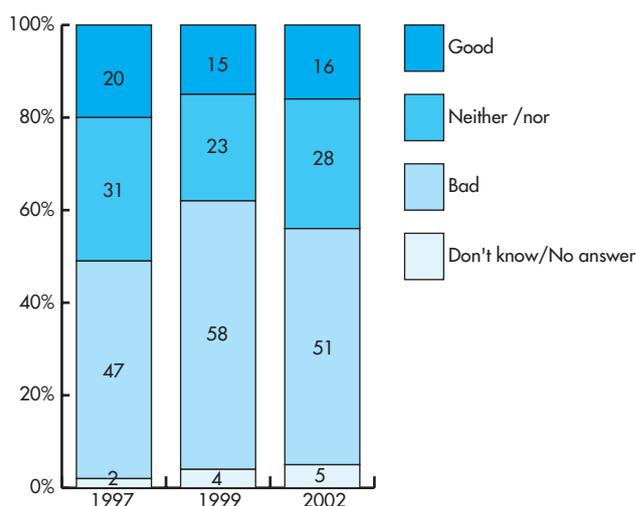
The 2002 surveys addressed businesses. The response rate in the national survey was 52%, and in the regional survey 54%.<sup>31</sup>

### 8.2 Attitudes to the tax system

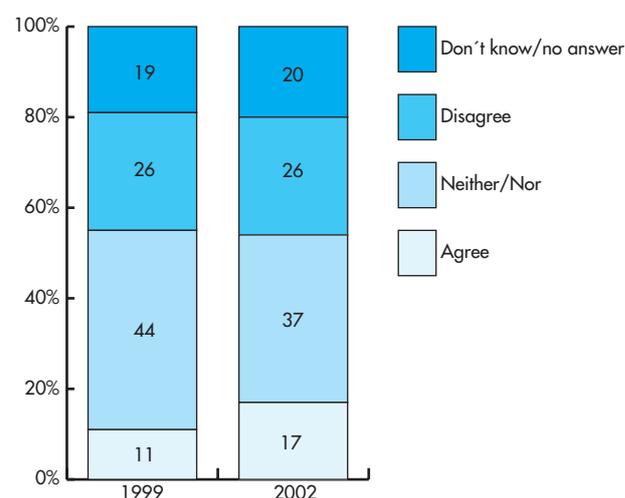
Approximately half of businesses in 2002 say they dislike the tax system, which matches the results of the survey in 1999. [11.1] A little over a third of businesses expressly disagree with the proposition that it is easy to make tax returns and to submit information on different taxes; this is a slight improvement on the result in 1999 [11.3].

**Table S43:**

**What is your general opinion on the tax system, i.e. tax levels and the design of tax rules? Business sector 1997, 1999 and 2002, percent [11.1]**

**Table S44:**

**It is easy for businesses to file tax returns and to submit information on different taxes, 1999 and 2002, percent [11.3]**



<sup>31</sup> The national survey: RSV Rapport 2002:12, The regional survey: RSV Rapport 2002:11.

### 8.3 The compliance issue

Promoting voluntary compliance is a strategic objective of the Swedish tax administration. It is assumed that most taxpayers are willing to comply as long as compliance is perceived as the general norm and is effectively enforced. In this survey, 84 percent of businesses agreed with the statement “Our company is prepared to pay taxes as long as everyone or almost everyone else does so”, and only 2 percent expressly disagreed. One fifth of Swedish businesses agree that they are exposed to competition from tax-evading companies. However, there are large differences between different industries, with a remarkable result from the hospitality trade; 56 percent is exposed to tax competition [11.7].

### 8.4 The service from the tax authorities

A majority (59%) of businesses are satisfied with their contacts with tax authorities; 9 % are dissatisfied. [11.9] When ranking different aspects of quality, businesses are most satisfied with the way they are received by the tax authority staff; this is followed by accessibility, expert knowledge, how easy it is to communicate with the tax authority, information, compliance control, speed of processing cases and fairness.

In general, businesses located in rural areas and those that have only had contact with the tax authority once in the past 12 months tend to have a more favourable impression of the tax authorities than large companies, book-keeping firms and companies that have had contact with the tax authorities more than six times in the past 12 months.

The table below presents a number of especially important questions that summarize views of the tax authorities in different areas of quality [11.10]

Finally, 52% of the businesses have confidence in the tax authorities while 10% state that they do not.

## 9 The tax administration

### 9.1 Introduction

Using a narrow definition, the Swedish Tax Administration may be described as being made up of the National Tax Board and the ten regional tax authorities. However, many other agencies and authorities are also involved in administering the tax system, for example the enforcement authorities and customs. In this chapter, the tax administration is viewed from this broad perspective.

Neither the political system nor the police nor judicial system is part of the tax administration, even if this wide definition is applied. However, in order to present a full picture, their roles in the tax system are also discussed in this chapter.

### 9.2 The political system

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

In the Swedish system of government, ministries are small and mainly concerned with formulation of policy and legislation. They are not directly involved in the implementation of government policy laid down in statutes and regulations. Comparatively large central agencies and their regional and local branches carry out most administrative functions. The Swedish constitution does not allow ministers to act on their own account and issue orders to the agencies. Such instructions must be decided on by the cabinet and not by individual ministers. Neither individual ministers nor the cabinet are allowed to interfere in the handling of individual cases by the agencies.

### 9.3 The tax administration

Using a wide definition, i.e. all administrative functions needed to run the tax system, regardless of their position in the organisation, the tax administration is made up of staff from 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 (stamp duty), the National Road Administration (road vehicle tax) and certain other agencies.

#### 9.3.1 The Swedish Tax Administration and Enforcement Service

In organisational terms, the narrowly defined Swedish Tax Administration is part of “the Tax Administration and the Enforcement Service” (skatteförvaltningen och exekutionsväsendet) with just over 13,000 employees. [12.1]

**Table S45:**

**Attitudes to a number of important service issues, the general public 2001, percent [11.10]**

| Statement   | Agree | Neither/nor | Don't agree | Don't know/no answer |
|---|-------|-------------|-------------|----------------------|
| It is easy to get in touch with the right person                                | 32    | 22          | 28          | 13                   |
| I get the assistance I need   | 59    | 21          | 11          | 9                    |
| When the Tax Authority has done something wrong, the error is quickly corrected | 30    | 23          | 23          | 24                   |
| The staff is competent  | 46    | 24          | 12          | 18                   |
| The Tax Authority gives good explanations in answer to my questions             | 37    | 29          | 14          | 20                   |

The National Tax Board (Riksskatteverket – RSV) is the parent agency to the regional tax and enforcement authorities. At the beginning of 2002, the Board had 1,144 employees, half of them in the IT department. The Board's mission is to lead, coordinate and support the regional authorities working in 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). [12.5] Each region has several local tax offices, which handle all the tax affairs of individuals and small companies. Larger companies are served by special regional tax offices. From 1992 to 2000, the number of tax authority employees fell by about 2,900 to 9,000. Most of this reduction was in basic processing, but checking activities (desk and field audits) were also affected. Since 2001 the number of employees has increased somewhat. Measured in staff years – 1 staff year being equal to 1,600 working hours – the time spent on field audits fell from 1,485 in 1996 to 959 in 2001. [12.2]

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 towns. [12.5] The enforcement authorities have not suffered staff reductions to quite the same extent as the tax authorities; there were 2,900 employees in 1994 and little over 2,500 in 2001. Debt collection is these authorities' main task, but they also perform other functions, such as supervision of insolvency. In 2001, the number of staff years in the enforcement authorities totalled 2,346. [12.3]

Taxation accounts for about 70% of total expenditure in the Swedish Tax Administration and Enforcement Services. In 2001, total outlay was SEK 7 billion. [12.4] In a submission to the Ministry of Finance, the National Tax Board has proposed that a new tax administration be formed by amalgamating the National Tax Board and the ten regional tax authorities. According to the submission, uniting the administration into one tax authority will give a number of advantages: greater flexibility, greater ease of standardizing legal practice etc. The enforcement authorities will remain in place with the National Tax Board as parent agency. Formation of the new administration will be completed by 1 January 2004 at the earliest.

### 9.3.2 Customs

Sweden's Customs Department (Tullverket) has about 2,300 employees. It has a head office in Stockholm and six regional offices. Effective trade and frontier protection takes up about 1,700 staff years. In 1999, total collection was almost SEK 51 billion, of which VAT accounted for SEK 47 billion. [12.6-7]

### 9.3.3 Other authorities

The district courts (tingsrätterna) are involved with tax administration in the field of stamp duty (title to real property and mortgages are registered by these courts).

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

### 9.3.4 Taxes and the judicial system

Apart from administration of inheritance tax and stamp duties, the tax function performed by the judicial system (the courts, the public prosecutors and the police) is resolution of tax disputes and enforcement of the Tax Fraud Act.

### 9.3.5 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 into the case, most are settled at this stage. However, if the matter is not settled to the satisfaction of the taxpayer, he may appeal to the county administrative court (länsrätt) and then again to the administrative court of appeal (kammarrätten). If the case is of importance to the interpretation of the law, the Supreme Administrative Court (Regeringsrätten) may grant leave to appeal and try the case.

### 9.3.6 Tax fraud

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

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

### 9.3.7 The cost of tax administration

A report evaluating the 1991 tax reform estimated the compliance and administrative costs of the tax system. In 1992, administrative costs were estimated as SEK 4.7 billion and compliance costs as SEK 9.3 billion. [12.8] Administrative costs were roughly 0.5% of total tax revenue and compliance costs 1.0%.<sup>32</sup>

<sup>32</sup> Malmer, H., Persson, A., Tengblad, Å., Århundredets skattereform. Effekter på skattesystemets driftskostnader, skatteplanering och skattefusk, Fritzes 1994.

# 10 A century of taxes

## 10.1 Development of the tax system

### 1900-1950

When the 19th century drew to a close, it was still possible to trace the structure of the Swedish tax system back to its medieval roots. The ancient land tax was, however, being phased out and central government relied mainly on customs and excise duties for its revenue. For local government, income and property taxes were the most important sources of revenue. [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, during the first half of the 20th century income tax gradually increased to become the most important source of revenue. [13.2-3]

### 10.2 The tax system, 1950-1970

By 1950, total tax revenue was equal to 21% of GDP, which was considerably less than in those countries that had taken an active part in the Second World War. [13.4]. In the ensuing years, however, Swedish taxes were to rise much faster than in other countries and in the 1970s reached 50% of GDP.

The main reason for this rapid increase was the expansion in social services and the social security system. Up to 1960, the public sector had relied mainly on income taxes and customs and excise duties to pay for its 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 gradually increased and in 1969 the tax was replaced by value added tax (VAT) at 10% (of the retail price including 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 converted to employer contributions. In the following years, 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 20% in 1970. [13.5]

### 10.3 Some tax policy trends since 1970

In 1970, income tax was reformed to make individuals instead of households the basic unit of direct taxation. This was in response to calls for equality between men and women as well as to 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 2000, most tax increases have been caused by higher indirect taxes, especially social security contributions. This is a consequence not only of more generous benefits, but also of making benefits taxable. To maintain the real value to recipients, their pre-tax levels have been

raised. Between 1970 and 2000 the level of social security contributions rose from 8% of GDP to 15%.

Indirect taxes in the form of VAT and excise duties rose relative to GDP from 12% in 1970 to 15% in 2000. When VAT was introduced in 1969 the rate was equal to 11% of the pre-tax price. In 2000 the basic rate was 25% of the pre-tax price.

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

## 11 Swedish taxes in an international perspective

### 11.1 Living standards

The Gross Domestic Product (GDP) per capita is commonly used as the main indicator for international comparisons of living standards. Using current exchange rates, GDP per capita in Sweden in 2000 (\$25,800) was above the EU average of \$20,800. [14.1]

**Table S46:**  
**GDP per capita in 2000, US Dollars [14.1]**

|            | Current<br>exchange<br>rates | Purchasing<br>power<br>parities |
|------------|------------------------------|---------------------------------|
| Sweden     | 25 800                       | 24 800                          |
| EU-15      | 20 800                       | 24 400                          |
| OECD Total | 22 700                       | 24 000                          |

Exchange rates, however, are determined mainly by supply and demand of different currencies in the international financial markets. Differences in GDP per capita on current exchange rates will therefore reflect not only the value of total production, but also 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 slightly over the EU average in 2000. [14.1]

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

A common measure of the general level of taxes in a country is the total tax revenue relative to GDP, often referred to as the tax quota. It can be misleading to use tax quotas for international comparisons of tax levels

since different levels also depend on the technical design of the tax and welfare system in a country. In some countries, like Sweden, social benefits are taxed, while similar benefits in many other countries are exempted from tax, or take the form of tax allowances or tax credits. In Sweden social security contributions are included in the tax quota since 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, however, similar benefits are the outcome of negotiations between employers and unions and therefore not treated as taxes or included in the tax quota.

Even though the tax quota may exaggerate the difference between the tax level in Sweden and some other countries, there is no question that the level of taxation in Sweden is high by international standards. In 1999, Sweden and Denmark were the only two countries with a tax quota above 50% (52,2% and 50,4 respectively) well above the EU average of 41.6% and the OECD average of 37,3%. [14.3]

### 11.3 The structure of the tax system

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

Countries also place different emphases 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 revenues from income taxes, a little less from each of social security contributions and consumer taxes and the shortfall from property taxes. However, a closer look reveals that most countries diverge from this general pattern in one or two ways.

By comparing the seven most heavily taxed EU countries (according to their tax quotas), there are significant differences in how the tax burden is apportioned

between social security contributions and payroll taxes on the one hand, and taxes on income and business profits on the other. The Scandinavian countries – notably Denmark – collect a greater share of their revenue in income tax, while France in particular places greater emphasis on social security contributions and payroll taxes. The relative importance of consumer taxes is roughly similar and property taxes are relatively insignificant as a source of revenue. [14.5]

A comparison of the contribution of different taxes to the tax quota in Sweden and an unweighted EU average (based on revised GDP definitions for 14 countries) shows that both taxes on income and profits and social security contributions are higher in Sweden than in most other European countries. Taxes on personal income are highest in Denmark (29.6% of GDP compared to 21.7% in Sweden). Social security contributions in Sweden (13.2% of GDP) are at the same level or higher in quite a few EU countries: France (16.6%), Netherlands (16.8%), Austria (15.1%), Germany (14.8%) and Belgium (14.5%). VAT and excise duties combined are slightly lower in Sweden than the EU average (11.2% against 12.3%). [14.6]

The gap between the Swedish tax quota of 52,2% of GDP and the EU average of 41.6 % in 1999 is almost entirely represented by the higher taxes on labour in Sweden. [14.3]

The public sector is usually divided into central government, local government and the social security funds. In Sweden, more than half of all taxes go to central government (60.5%). This ratio varies in the EU between 30.4% (Germany) to 87% (Ireland). Taxes to local government in most EU countries account for a smaller proportion of all taxes. Sweden and Denmark are exceptions; in these countries, over 30% of all taxes go to local government. The impact of social security funds in the EU ranges between 4.2% of all taxes (Denmark) and 45.7% (France). Sweden, with 8,9%, is second lowest to Denmark. [14.10]

**Table S47:**  
**The tax quota and the tax mix (1999) [14.3,14.5]**

|                   | Tax quota   |                    | Tax revenue, share of total tax revenues, percent |            |                    |             |
|-------------------|-------------|--------------------|---|------------|--------------------|-------------|
|                   | Total tax   | Income and profits | Social security and payroll                       | Property   | Goods and services | Other taxes |
| Sweden            | 52.2        | 41.6               | 32.8  | 3.7        | 21.6               | 0.1         |
| Denmark           | 50.4        | 58.9               | 4.8   | 3.6        | 33.2               | 0.0         |
| Finland           | 46.2        | 41.0               | 25.5  | 2.4        | 30.7               | 0.1         |
| Belgium           | 45.7        | 38.6               | 31.7  | 3.2        | 24.9               | 0.0         |
| France            | 45.8        | 24.0               | 38.2  | 7.3        | 26.6               | 4.0         |
| Austria           | 43.9        | 28.7               | 40.5  | 1.3        | 27.9               | 1.0         |
| Italy             | 43.3        | 34.0               | 28.5  | 4.8        | 27.4               | 5.3         |
| <b>EU average</b> | <b>41.6</b> | <b>34.9</b>        | <b>28.7</b>                                       | <b>5.4</b> | <b>30.2</b>        | <b>0.9</b>  |

**Table S48:**  
**Tax revenue by recipient, as percent of total tax, 1999**  
**[14.10]**

|             | Federal or<br>Central<br>government | State<br>government | Local<br>government | Social<br>security<br>funds |
|-------------|-------------------------------------|---------------------|---------------------|-----------------------------|
| Sweden      | 60.5                                | -                   | 30.6                | 8.9                         |
| Austria     | 52.5                                | 9.4                 | 10.1                | 28.0                        |
| Belgium     | 36.3                                | 23.8                | 4.5                 | 35.4                        |
| Denmark     | 64.0                                | -                   | 31.9                | 4.2                         |
| Finland     | 53.0                                | -                   | 21.6                | 25.4                        |
| France      | 44.1                                | -                   | 10.2                | 45.7                        |
| Germany     | 30.4                                | 22.1                | 7.9                 | 39.5                        |
| Greece      | 69.3                                | -                   | 1.1                 | 29.6                        |
| Ireland     | 87.0                                | -                   | 1.9                 | 11.1                        |
| Italy       | 61.9                                | -                   | 9.4                 | 28.6                        |
| Luxembourg  | 68.6                                | -                   | 5.8                 | 25.6                        |
| Netherlands | 56.5                                | -                   | 3.0                 | 40.5                        |
| Portugal    | 66.7                                | -                   | 6.7                 | 26.6                        |
| Spain       | 48.4                                | -                   | 17.0                | 34.6                        |
| UK          | 78.5                                | -                   | 4.1                 | 17.4                        |

## 11.4 Taxes on labour

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

In Sweden, the disposable income in 1999 of a single (unmarried) worker with average pay was 67% of gross pay. In most OECD countries, disposable incomes were higher relative to gross pay. A person earning a salary 67% higher than the wage of an average worker had a disposable income of 61% of gross pay. Most married couples with children had disposable incomes between 73 and 76% of gross pay. [14.11]

**Table S49:**  
**Disposable income, by wage levels as a percentage of the average wage for an industrial worker, as percent of gross pay, 1999 [14.11]**

| Household | Single        |               | Married, 2 children |               |
|-----------|---------------|---------------|---------------------|---------------|
|           | Wage person 1 | Wage person 2 | Wage person 1       | Wage person 2 |
| Sweden    | 67.1          | 60.8          | 76.0                | 73.3          |
| Denmark   | 55.9          | 48.5          | 69.3                | 61.3          |
| UK        | 76.4          | 74.0          | 85.9                | 82.3          |
| France    | 73.2          | 69.5          | 85.0                | 80.8          |
| Germany   | 58.0          | 51.4          | 80.4                | 67.4          |

For married couples with children at average income levels, marginal income tax rates in Sweden are not notably higher than in many other OECD countries, but for single persons with high incomes, marginal tax rates in Sweden are higher than in most other countries. [14.12]

## 11.5 Taxes on capital

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

Again, comparisons are difficult. In many countries, interest on bank deposits is not taxed, while in Sweden all interest and dividends are taxed at 30%. On the other hand, in Sweden debt interest is deductible, which is generally not the case in countries where bank interest is exempt from tax. In 2000, deductions for debt interest exceeded reported interest income and dividends by SEK 14 billion. Net revenue yield depends on whether declared capital gains are large enough to make up for this deficit.

Along with a few other countries, Sweden has a wealth tax, which is applied at 1.5% to net household wealth exceeding SEK 1 million (1,5 million for married couple). In other countries with a wealth tax, either tax rates are lower or the tax threshold is higher. [14.13] The tax rate applied to company profits is comparatively low in Sweden, at 28%. [14.14] However, comparisons of this tax rate must also take account of the extent to which companies are allowed to create untaxed reserves, and whether dividends are subject to double taxation, as is the case in Sweden.

## 11.6 Taxes on goods and services

### 11.6.1 Value Added Tax (VAT)

The minimum standard VAT rate in EU countries in 2002 is 15% and the unweighted average 19.5%. Sweden, along with Denmark, has the highest standard tax rate - 25%. Lower tax rates apply to food, transport etc. Many other countries apply lower rates to water, pharmaceuticals, books etc. [14.15]

### 11.6.2 Excise duties

In Sweden, duties on energy (fuel, electricity etc) account for the lion's share of all revenue from excise duties. Sweden's excise duty rates on petrol and diesel oil are at the average European level, but VAT is levied at a higher rate than in other countries (with the exception of Denmark). [14.16]

Duties on alcohol are higher in Sweden than in any other EU country. The Swedish rate of duty on ethyl alcohol is EURO 51 per litre, compared to 37 in Denmark, 32 in Britain and 13 in Germany. Duty on wine is also relatively high (EURO 2,3 per litre). [14.17]

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. [14.18]

## 11.7 Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 2001, Sweden contributed SEK 23.3 billion to the EU budget and received SEK 8.4 billion in return. [14.19]

## Some National Tax Board publications in English

### General

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

### Direct taxes

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

### Indirect taxes

- Value Added Tax in Sweden, RSV 552B, 36 pages (available only on [www.rsv.se](http://www.rsv.se))
- Value Added Tax in EC Trade, RSV 558B, 72 pages
- Facts about Excise duties, RSV 493B, 4 pages
- Excise duties, RSV 510, 16 pages

### Tax collection

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



# List of terms

|                                |           |   |        |
|--------------------------------|-----------|---|--------|
| <b>A</b>                       |           |   |        |
| acidification tax              | 12        | duty on cigarettes                                  | 14     |
| administration costs           | 10, 27    | duty on gambling                                    | 14     |
| administrative court of appeal | 27        | duty rates on alcohol                               | 13     |
| administrative sanctions       | 24        | duty rates on tobacco                               | 14     |
| alcohol tax on beer            | 13        |   |        |
| alcohol tax on spirits         | 13        | <b>E</b>  |        |
| alcohol tax on wine            | 13        | economic associations                               | 15     |
| assessed income                | 7         | electronic trade                                    | 22     |
| assessment year                | 9         | employment  | 7      |
|                                |           | energy and environmental taxes                      | 12     |
|                                |           | energy duties                                       | 13     |
|                                |           | energy tax  | 13     |
| <b>B</b>                       |           | enforcement authority                               | 18     |
| bankruptcies                   | 19        | EU budget   | 30     |
| black economy                  | 19, 23    | excess depreciation                                 | 16     |
| business enterprise            | 14        | excess tax  | 9      |
| business income of individuals | 16        | excise and customs duties                           | 12     |
| business sector                | 14        | excise duties                                       | 30     |
| business taxation              | 14        | excise duty fraud                                   | 21     |
|                                |           |   |        |
| <b>C</b>                       |           | <b>F</b>  |        |
| capital gains/losses           | 9         | field audits  | 22, 24 |
| carbon dioxide tax             | 12        | financial assets                                    | 9      |
| causes of tax fraud            | 23        |   |        |
| central government             | 6         | <b>G</b>  |        |
| cigarette smuggling            | 22        | general government sector                           | 6      |
| collection losses              | 18        | general government sector revenue                   | 6      |
| company income tax             | 10        | general government expenditure                      | 6      |
| compliance costs               | 27        | general pension contribution                        | 7      |
| consumption of alcohol         | 13        | general sales tax                                   | 28     |
| county administrative court    | 27        | gift tax  | 9, 11  |
| criminal tax offences          | 24        | Gini-coefficient                                    | 18     |
| currency demand method         | 21        | gravel tax  | 12     |
| Customs Department             | 27        | Gross Domestic Product (GDP)                        | 28     |
| customs duties                 | 12        |   |        |
|                                |           | <b>H</b>  |        |
| <b>D</b>                       |           | harmonized excise duties                            | 12     |
| debtors                        | 19        | household services                                  | 21     |
| deductions                     | 9         |   |        |
| delay charges                  | 24        | <b>I</b>  |        |
| depreciation                   | 15        | illegal trade                                       | 22     |
| deterrent effect               | 24        | illicit work  | 19     |
| direct taxes                   | 5, 17, 28 | income differences                                  | 18     |
| direct taxes on capital        | 5         | income redistribution                               | 17     |
| direct taxes on labour         | 5         | income statements                                   | 9      |
| discretionary assessment       | 18, 24    | income tax  | 7, 28  |
| disposable income              | 17, 30    | income tax on capital income                        | 9      |
| disposable income method       | 21        | income tax on company profits                       | 9      |
| district courts                | 27        | income tax on interest, dividends and capital gains | 10     |
| dividends to non-residents     | 9, 11     | income tax return                                   | 8      |
| duties on alcohol and tobacco  | 13        | income threshold                                    | 8      |
| duties on imports              | 14        |   |        |
| duty on advertising            | 14        |   |        |

|  |           |                                     |            |
|--|-----------|-------------------------------------|------------|
| indirect tax on capital                              | 5         | social security contributions       | 7, 8, 28   |
| indirect taxation                                    | 28        | social security funds               | 6, 29      |
| indirect taxes on labour                             | 5         | special wage tax                    | 8          |
| inheritance tax                                      | 9, 11     | special tax return                  | 9          |
| Internet   | 22        | stamp duty                          | 9, 11      |
| <b>L</b>   |           | standard VAT rate                   | 11         |
| legal entities                                       | 15        | state income tax                    | 7          |
| limited companies                                    | 15        | sulphur tax                         | 12         |
| living standards                                     | 17, 28    | supplementary payments              | 9          |
| local (government) income tax                        | 7         | supplementary pension               | 28         |
| local government                                     | 6         | Supreme Administrative Court        | 27         |
| local income tax                                     | 7         | <b>T</b>                            |            |
| local income tax rates                               | 28        | tax administration                  | 26         |
| lottery prize duty                                   | 14        | tax allocation reserve              | 16         |
| <b>M</b>   |           | tax arrears                         | 18         |
| marginal effects                                     | 8         | tax authorities                     | 26         |
| marginal income tax rates                            | 8, 17, 30 | tax bases                           | 5, 28      |
| marginal tax rate                                    | 8, 28     | tax control                         | 24         |
| means-tested benefits and charges                    | 17, 23    | tax fraud                           | 24, 27     |
| Ministry of Finance                                  | 26        | Tax Fraud Act                       | 24         |
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