

Preface

The Swedish Tax Agency has just published the ninth edition of Tax Statistical Yearbook of Sweden 2006 (Skatter i Sverige 2006 – Skattestatistisk årsbok) in Swedish. It 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 2006, is an English summary of Tax Statistical Yearbook of Sweden 2006. All tables in the Swedish edition have English transla-

tions, and references to them are enclosed in square brackets in this English summary.

The complete yearbook, together with this publication, is available on our website www.skatteverket.se.

Swedish Tax Agency, December 2006

Mats Sjöstrand
Director General

Taxes in Sweden 2006

1 Introduction

This publication is a summary of the Tax Statistical Yearbook of Sweden 2006, which is produced by the Analysis Unit (Analysenheten) of the Swedish Tax Agency (Skatteverket). 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.

This summary also contains an appendix that gives a broad picture of the Swedish tax system and how it is run.

The yearbook contains relevant annual data available up to September 2006. 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 2004, which was assessed in 2005, and earlier. Therefore, 2004 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 Swedish Tax Agency's website www.skatteverket.se. Copies of the printed version can be ordered from Skatteverket, Analysenheten, 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 1, 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 1
Taxes and charges on labour and capital, on households and companies in 2004, as percentages of GDP [1.1]

	Households	Companies	Total
Taxes on labour			
Income taxes	17.7		17.7
Social security contributions	2.8	13.9	16.7
Tax credits	-2.4		-2.4
VAT and Excise duties		13.1	13.1
Taxes on capital			
Income taxes	0.5	2.8	3.3
Property and wealth taxes	0.9	0.8	1.7
Subtotal	19.6	30.7	50.6

Note: Subtotals are rounded down

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 council and the parishes of the Church of Sweden¹) and
- The social security funds

The total revenue of the general government sector in 2005 was equal to 56.6 percent of GDP. Total spending was 53.9 percent of GDP, which resulted in total net lending of 2.8 percent of GDP in the general government sector. Since 1998, there has been a budget surplus in the general government sector, except for 2002 with a deficit of 0.5 percent and 2003 with a deficit of 0.2 percent of GDP. The major share of government expenditure is made up by consumption 1999-2004, the opposite applied up to and including 1998. Transfer payments of pensions and social benefits to households, subsidies to companies, membership dues to the EU and other international organizations, capital transfers, development aid and interest on central government debt is almost at the same level as the consumption. [2.1]

The severe recession of the early 1990s produced a very large budget deficit. Relative to GDP, taxes fell and expenditure rose. To reduce the deficit, government spending was cut and taxes were increased. The combination of subsequent growth and higher tax rates has increased tax revenue relative to GDP from about 49-50 percent in 1993-94 to 53 percent in 1998-2000. From 2001 the quota fell and in 2005 the tax revenue relative to GDP is approximately 51 percent [2.3].

Table 2:
General government sector revenue and expenditure in 2003-2005 (SEK billion) [2.1]

	2003		2004		2005	
	SEK billion	% of GDP	SEK billion	% of GDP	SEK billion	% of GDP
Revenue	1 367.9	55.6	1 434.8	55.8	1 513.7	56.6
Taxes and social security contributions	1 127.5	49.9	1 294.9	50.3	1 360.4	50.9
Other revenue	140.4	5.7	140.0	5.4	153.3	5.7
Expenditure	1 371.8	55.8	1 393.7	54.2	1 439.5	53.9
Transfers	608.8	24.8	616.6	24.0	639.1	23.9
Consumption	691.7	28.1	704.8	27.4	727.7	27.2
Investments	71.3	2.9	72.2	2.8	72.6	2.7
Net lending/net borrowing	-3.9	-0.2	41.1	1.6	74.3	2.8

¹ In 2000, the Church of Sweden separated from the state 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.

Table 3:
General government expenditure by function and sector in 2004 SEK billion, current prices [2.4]

Function	Sector				
	Total	Central Government	Social Security	Municipal Councils	County Councils
9 Education	202.7	65.6	0.0	148.2	1.9
7 Health	179.6	32.9	0.0	1.6	172.6
10 Social protection	615.5	346.2	168.5	158.2	8.2
1 General public services**	161.3	175.8	0.0	36.4	6.0
Total*	1 393.7	804.2	168.5	400.2	198.4

* 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

** For example, interest on national debt

A large proportion of general government spending, 44 percent in 2004, is to social protection. Expenditure on social protection is divided among central government, the social security sector and local government. Other important areas are health (13 percent), education (15 percent) and general public services (12 percent – interest payments on the national debt included). Primary and secondary education is the responsibility of the municipalities, while most health care is provided by the county councils [2.4]. The breakdown of expenditure by different functions has been relative stable over the period 1995-2004 [2.5].

3 Tax bases and Tax revenue

In 2004, total tax revenue was SEK 1,296 billion. Almost 2/3 of this may be regarded as tax on labour (i.e. tax on earned income and social security contributions).

Table 4
Total taxes in 2004 [3.1]

	SEK, billion	% of total taxes	% of GDP
Taxes on labour	824	64%	32.0%
Taxes on capital	136	10%	5.3%
Taxes on goods and services	336	26%	13.0%
Total taxes	1 296	100%	50.4%
of which			
– taxes belonging to EU	7	0.6%	
– local income tax	420	32.4%	
– fees for the pension system	165	12.7%	
– state taxes	704	54.3%	

3.1 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 5
Taxes on labour 2004 (SEK billion) [4.1]

	2004
Income taxes*	395
– of which state income tax	34
– of which local income tax	420
– of which tax reductions	-59
Social security contributions	432
Tax on occupational insurance	1
Tax reduction for housing improvements	-2
Shipping support	-2
Total	824

* State and local income taxes excluding:
– individual taxes on capital income and
– company income tax which are treated as taxes on capital (see Chapter 3.2).

3.1.1 Employment and income

About 47 percent of the Swedish population of 9.0 million in 2004 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 percent. Since then a recovery has occurred. Between 1993 and 2005 the number of hours worked increased by 6.5 percent. The increase is due to higher employment. [4.2]

In 2004, about 70 percent of all employees were full-time workers. Most part-timers were women. The median income of male full-time employees in 2004 was SEK 289,000 and of female full-time employ-

ees SEK 244,700. [4.4-5]. In 2004, slightly more than 3 percent of all adults (over 18) had assessed earned income (non-capital income) exceeding SEK 500,000. They received 12 percent of the taxable income and paid 16 percent of the tax. [4.3]

3.1.2 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 2004 was 31.51 percent.

Below is an example to illustrate the computation of the income tax burden on an individual for the income year 2004. The example also includes general social security contributions and taxes on capital, which will be explained in later sections.²

The aggregate assessed income of individuals (employment income and business income, less general allowances) in 2004 was SEK 1,467 billion. This sum was almost entirely made up of earnings from employment and pensions.

To arrive at the taxable income, a deduction is also made for part (1/4) of the general pension contribution (7 percent of earned income in 2004) [4.35] and a basic allowance that varies between 11,600 and 26,400 SEK depending on income [4.18-19].

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 2004 the average rate was 31.51 percent:

Municipality tax	20.80 percent
County council tax	10.71 percent
Total	31.51 percent

Table 6
Example of the computation of tax on an individual (income year 2004), SEK

	Tax base	Tax rate	Tax amount
Net employment income	330 000		
Net business income	0		
General allowances (e.g. private pension premium payments)	-10 000		
Assessed earned income	320 000		
General pension contribution (7% of net employment and business income)			23 100
– of which 1/4 deductible	-5 800		
– of which 3/4 as a tax reduction			-17 300
Basic allowance	-11 600		
Taxable earned income/Local income tax (average rate = 31.51%+SEK 200)	302 600	31.51%	95 549
Less income threshold for State income tax	-291 800		
State income tax (20%)	10 800	20.00%	2 160
Special tax reduction (SEK 200)			-200
Subtotal (individual taxes on labour)			103 309
Taxes on Capital (see Chapter 5):			
State tax on capital income (30%)	30 000	30.00%	9 000
Real estate tax (1.0% of assessed value of property)	1 000 000	1.00%	10 000
General wealth tax (1.5% of net wealth exceeding 1.5 or 2.0 million SEK)*	200 000	1.50%	3 000
Total tax			125 309

* Single persons and persons with joint taxation have different wealth tax liability thresholds

² In 2004 an employee paying unemployment insurance fee will also get a tax reduction of 40 percent of the fee. And if you pay trade union dues you are entitled to a tax reduction of 25 percent of the sum paid. These reductions are not shown in the table.

Table 7
Aggregate assessed earned income in 2004, SEK billion [4.10]

	2004
Employment income	
Salaries and benefits	1 156
Pensions	292
Other taxable remunerations	12
Deductions	
Commuting to work	-12
Other	-4
Net employment income	1 444
Net business income	36
General allowances	
Private pension premiums	-12
Other	-1
Net general allowances	-13
Total assessed earned income	1 467

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 2006 the lowest tax rate was in the Malmö suburb of Vellinge (28.89 percent) and the highest in Dals-Ed close to the Norwegian border in the western interior of Sweden (34.24 percent). [4.27-29]. The gap would have been even wider had there not been a system of economic equalisation for municipalities and county councils. [4.30-31]

State income tax applies only to taxable income that exceeded SEK 291,800 (2004 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 income to rise without an increase in the marginal tax rate). In practice, however, annual adjustments have been ruled by political considerations [4.39]. In the years following the 1991 tax reform, State income tax was 20 percent. As a temporary measure to reduce the budget deficit, the rate of State income tax was raised to 25 percent in 1995. In 1999, the rate was again lowered to 20 percent. The 25 percent rate was, however, retained on higher taxable income. In 2004 the 25 percent rate applied to taxable income exceeding SEK 441,300. [4.20]

The top marginal tax rate in 2006 is 56.6 percent (at an average local income tax rate of 31.6 percent). This rate applies to taxable income above SEK 460,600 (equivalent to assessed income above SEK 472,300).

At lower levels, the effective marginal tax rates are also influenced by variations in the basic allowance. [4.23]. In 2004, about 16 percent of the population aged 20 or more had income above the threshold for State income tax. Of full-time employees aged 20-64, 31 percent had income exceeding the threshold. [4.24].

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. [4.25-26]

3.1.3 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 percent of these contributions could be regarded as taxes and the remaining 40 percent 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 32.70 percent (2004) or by self-employed people themselves at the rate of 30.89 percent. In addition to this, all taxpayers pay a general pension contribution. In 2004, the rate was 7 percent. Because some of the social security contributions are in fact taxes, there is also a special wage tax on those items of remuneration that do not provide entitlement to State pensions or benefits. In 2004, SEK 431 billion was paid as social security contributions. [4.32-35]

Table 8
Social security contributions in 2004 [4.32-33]

	SEK billion	Tax rate
1. Basic social security contributions paid by		
a. employers or	323	32.70%
b. self-employed	8	30.89%
2. General pension contribution paid by all active persons		
	72	7.00%
3. Special wage tax		
	28	24.26%
Total	431	

3.1.4 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 percent of 95 percent 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 2004, the total yield from this tax was SEK 1,350 million.

3.1.5 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 agency 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 agency matches these statements with the information supplied in the tax returns.

In April, taxpayers receive a tax return form on which all the data supplied by employers and financial institutions has already been entered by the tax agency. 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 agency by 2 May. Of the 7.1 million individual taxpayers who submitted income returns in 2005, 45 percent just signed and returned the form, while another 55 percent changed or added some information. [4.6-7]. In 2002 the taxpayers for the first time

could send their form to the tax agency by electronic media. In 2006 almost 40 percent of the taxpayers (2.7 million) made use of this opportunity.

Taxes are collected on a pay-as-you-earn (PAYE) basis. Employers withhold and pay 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 9
Collection of individual income taxes etc in the assessment year 2005³ [4.8]

	SEK billion	% of debited tax
Total tax debited on basis of assessment (final tax bill)	524	100%
of which paid by		
– employers, banks etc. by withholding	482	92%
– preliminary tax paid by entrepreneurs	23	4%
Remaining amount to be settled	19	4%
of which		
– tax payers' own additional payments	46	9%
– excess tax refunded to tax payers	-27	-5%

3.2 Taxes on capital

3.2.1 Overview

The tax reform of 1991 separated individual income tax on earned income (employment and business income) from income tax on capital income, to which a flat rate of 30 percent 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 2004, total taxes on capital raised SEK 136 billion, 10 percent of total tax revenue.

³ Most income assessed in 2005 were earned in 2004 and most of the preliminary taxes were paid in the form of PAYE during 2004. Supplementary payments are generally made in the spring of the assessment year, i.e. 2005. Most taxpayers receive their final tax bill (or refund) in the summer of the assessment year, but taxpayers with more complicated income have to wait until December.

Table 10
Taxes on capital 2004 (SEK million) [5.1]

	Paid by		Total
	individuals	companies	
Income tax on capital income	11 776		11 776
Income tax on company profits		71 510	71 510
Tax on funds retained for expansion	162		162
Real estate tax	13 811	10 192	24 003
Wealth tax	5 141	142	5 283
Inheritance tax	2 074		2 074
Gift tax	478		478
Tax on dividends to non-residents	2 480		2 480
Tax on pension fund earnings		11 140	11 140
Sub total	35 922	92 984	128 906
Stamp duty			7 118
Total			136 024

3.2.2 Household wealth

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 percent of GDP to 111 percent of GDP. This development can be explained by the growth of investment in shares and mutual funds and rising share prices. Since year 2000 net financial wealth has decreased to 90 percent of GDP and this can mainly be explained by declining stock values and increasing liabilities [5.10]. Since the beginning of the 1990s, households have shifted part of their savings from bank accounts to shares and other securities, as well as into private pension schemes. Because of the downward trend at the stock exchange bank savings has increased in recent years.

3.2.3 Individual capital income tax

Capital income is subject to income tax on interest, dividends and capital gains. Deductions are allowed for interest paid and capital losses. If capital income is negative, 30 percent of the loss up to SEK 100,000 and 21 percent 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 [5.3]

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. are 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 2004, aggregate net taxable capital income was about SEK 38 billion and net yield about SEK 12 billion.

Table 11
Financial assets and liabilities of households as percent of GDP [5.10]

	1990	1995	2000	2005
Cash and bank deposits	35.8	31.3	23.6	27.6
Bonds	6.7	9.8	4.9	4.0
Shares and other equity	17.4	23.4	50.3	45.2
Insurance savings	25.1	29.7	53.9	50.8
Other accounts receivable	..	17.6	31.5	30.3
Total financial assets	85.0*	111.7	164.3	157.8
Liabilities	63.2	49.0	52.6	67.3
Net financial assets	21.8*	62.7*	111.7	90.5

* The figure for 1990 does not include collective insurance (settled in agreements on the labour market) but the figures for 1995, 2000 and 2005 do. Collective insurance amounted to 27 percent of GDP in 2005.

Table 12
Tax on individual income from capital in 2004 (SEK billion) [5.11]

	Income	Expenditure and losses	Net income and tax
Interest received and paid, dividends	41.3	-64.1	-22.8
Capital gains/losses	68.2	-7.1	61.1
Administration costs		-0.3	-0.3
Net income from capital	109.5	-71.5	38.0
Net tax on income from capital			11.8

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. [5.10-12]

3.2.4 Company income tax

The State income tax on legal entities ("company income tax") is 28 percent 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 and private or public companies, are discussed in further detail in Chapter 3.5.

In 2004 (according to the 2005 annual assessment), 49 percent of all companies reported a total taxable profit of SEK 256 billion and paid SEK 72 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 2 percent of all companies reported 80 percent of total taxable profits.

3.2.5 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 percent of its market value. Every six years all property in a particular category of real estate is subject to assessment and a simplified assessment is made in the middle of the period. The real estate tax on private homes (one- or two-family dwellings including holiday homes) is 1.0 percent as from 2001. The tax rate on apartment buildings has been progressively reduced, and is 0.5 percent as from 2001. Commercial property is taxed at 1.0 percent of the tax value and industrial property at 0.5 percent. [5.5]. 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 2004, the total yield from real estate tax was SEK 24 billion, of which private homes accounted for SEK 14 billion. [5.6]

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 2005, the average taxable value of a family home in Stockholm County was SEK 1,633,000 and in the northern county of Västernorrland SEK 364,000. A particular problem is that rising property prices for holiday homes in attractive coastal areas have also caused a great increase in the tax burden for those areas' permanent residents, whose average income are considerably lower than those of the holiday-makers. In 2001 a rule was introduced limiting the real estate tax for households with normal income to maximum of 5 percent of household income.

Table 13
Real estate tax in 2004 [5.6]

	Tax base SEK billion	Standard tax rate in %	Tax revenue SEK million
Private homes (one- or two-family dwellings)	1 436	1.0	13 849
Apartment buildings	771	0.5	3 774
Commercial property	456	1.0	4 558
Industrial property	367	0.5	1 835
Total	3 030		24 017

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 2005 the price index was 387. [5.24]. 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. [5.9 and 5.24]

3.2.6 Net wealth tax

The tax on net wealth may be regarded as complementary to other taxes on capital to make taxation more progressive. Unlike other direct taxes, the wealth tax is not a purely personal tax. It is levied on the net wealth of the household, 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. Until year 2000 tax was levied at the rate of 1.5 percent 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 rose again, this time to SEK 2,000,000 for married couples and 1,500,000 for single taxpayers. [5.16] In 2005 the threshold rose once more but this time only for married couples, this time to SEK 3,000,000.

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 percent of the market value of the property). Assets employed in the owner's trade or business is exempt from tax, as are shares in most non-listed companies. Shares listed on the Stockholm Stock Exchange are assessed at 80 percent of their market value, but shares owned by principal shareholders (controlling 25 percent or more of the votes) are exempt.

In 2004 334,000 individuals paid SEK 5.2 billion in wealth tax. 12,000 legal entities paid a mere SEK 142 million. [5.15]

3.2.7 Inheritance and gift taxes

Since the 17th of December 2004 the inheritance- and gift tax in Sweden is totally abolished. The taxes still collect money, due to late tax decisions. In 2004, the yields from inheritance tax were SEK 2,074 million and from gift tax SEK 478 million.

3.2.8 Tax on dividends to non-residents

A final withholding tax of 30 percent 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 2004, the yield was SEK 2,480 million.

3.2.9 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 income year 2005, the tax rate applied to this yield was 15 percent in the case of pension capital funds and 27 percent for other (otherwise tax-privileged) funds. The total yield in 2004 was SEK 11.1 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 percent of the value of the acquired property. Other tax rates apply in special cases. In 2004, the yield from stamp duty was SEK 7.1 billion.

3.3 Taxes on goods and services

3.3.1 Overview

Taxes on goods and services include value added tax (VAT), as well as excise and customs duties. In 2004, total revenue from these taxes was SEK 336 billion, representing about 1/4 of all tax revenue. [6.1-2]

Table 14
Taxes on goods and services 2003-2004
(SEK billion) [6.1]

	2003	2004
Value added tax	228	238
Excise duties	97	98
Total	325	336

3.3.2 Value Added Tax (VAT)

A general sales tax (GST) of 4 percent was introduced in 1960. Step by step, the tax rate was increased. In 1969, the GST was replaced by value added tax (VAT). The tax rate was originally 10 percent (of the price including VAT), but it was soon increased to 15 percent. Today (2006), the standard VAT rate is 25 percent (of the tax base). A reduced rate of 12 percent applies to food, hotel accommodation and camping. Newspapers, books, magazines, cultural and sports events and passenger transports are taxed at 6 percent. [6.3]

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

There are 420,000 taxable persons identified for VAT purposes. The vast majority of these taxable persons file monthly VAT returns. An additional 500,000 taxable persons with a maximum annual turnover of SEK 1 million report VAT on annual income tax returns. [6.4]

In 2004, gross payments of VAT totaled SEK 395 billion, of which 89 percent was collected by the tax authorities or reported in the income tax return. About 40 percent of the gross payments was refunded. The remaining net revenue was SEK 238 billion. [6.6] Besides that another 23 billion was input VAT on government spending, which in the government revenue accounts was offset against revenue received.

In 2005, a total turnover of SEK 6,087 billion was reported in VAT returns submitted to the tax authorities: of the total, exports and sales to other EC countries accounted for SEK 1,466 billion (turnover that are exempt from VAT). The 25 percent tax rate applied to about 80 percent of the

reported non-export turnover. [6.7] The wholesale and retail trade, together with the hotel and restaurant sector, accounted for about 39 percent of output tax and 50 percent of net revenue. Manufacturing, on the other hand, reported 21 percent of output tax, but because of large export sales this sector was entitled to a net refund of SEK 32 billion. [6.8]

Table 15
VAT revenue 2004 [6.6]

	2004, SEK billion	% of gross payments
VAT payments received by customs	44	11%
VAT payments received by tax authorities	346	88%
VAT reported in annual income tax returns	6	1%
Total	395	100%
VAT-refunded by the tax authorities	157	40%
Net VAT revenue	238	60%

3.3.3 Excise and customs duties

Excise and customs duties have a long history in Sweden. A hundred years ago, customs duties, along with excise duties on aquavit and sugar, were the most important sources of government revenue. Now, excise duties make up a mere 8 percent 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.

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 three registered taxpayers for lottery duty and 82 for tobacco duty, of which the largest taxpayer accounts for 97 percent of the revenue. Goods subject to "harmonized" excise duties (mineral oils, alcohol and tobacco) may be transported between authorized warehouses in the EU without being taxed. [6.10-12]

Table 16
Excise and custom duties 2003-2005 [6.9]

	2003	2004	2005
Energy and environmental taxes	63 794	64 914	66 669
Taxes on road vehicles	8 595	9 058	11 292
Taxes on alcohol and tobacco	19 199	18 429	18 121
Customs duties and other import taxes*	3 461	3 787	4 649
Other excise duties	1 970	2 062	2 107
Total	97 019	98 251	102 838

* 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 2004 fossil fuels (oil, coal and natural gas) accounted for about 38 percent of Sweden's energy supply. Nuclear power supplied another 35 percent and hydroelectric power 9 percent. [6.17] Because Sweden is a northern country, much energy is needed for heating. About 35 percent of all energy is consumed in homes and services, 37 percent by industry and 28 percent by transport. [6.19]

When duties on petrol and electricity were first introduced, the revenue was in-

tended 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. [6.20]

In recent years the carbon dioxide duty has gradually 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 reductions.

Table 17
Energy and environmental taxes 2003-2005, SEK million [6.13, 6.23]

	2003	2004	2005
General energy tax	36 498	35 380	37 685
Nuclear power tax	1 824	1 860	1 804
Carbon dioxide tax	23 753	26 193	25 810
Sulphur tax	136	93	74
Acidification tax	56	53	55
Taxes on fertilizers and biocides	437	370	406
Gravel tax	189	202	200
Fees on waste	902	765	635
Total	63 794	64 914	66 669

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. [6.14] Some energy duties are also geographically differentiated. Electricity duties are lower in northern Sweden. [6.16]

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 18 below shows what proportion of consumer prices are represented by different taxes.

Table 18
Taxes and consumer prices of electricity and petrol (July 2006) [6.21-22]

	Electricity, SEK/Kwh	Percent	Petrol, SEK/litre	Percent
Pre-tax price	0.70	57%	4.05	36%
Electricity certificate	0.03	2%	-	-
Energy tax	0.26	21%	2.86	25%
Carbon dioxide tax	-	-	2.13	19%
VAT	0.25	20%	2.26	20%
Consumer price	1.24	100%	11.30	100%

Taxes on motor vehicles

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

Table 19
Taxes on road vehicles 2003-2005
(SEK million) [6.33]

	2003	2004	2005
Vehicle tax	7 686	8 062	10 297
Road user charges	641	720	722
Scrap fees	268	277	270
Total	8 595	9 058	11 290

In year 2006, there were 6.2 million vehicles subject to vehicle tax, including 4.1 million passenger cars, 470,000 lorries and 850,000 trailers. In 2006, the vehicle tax on a petrol-driven passenger car with a kerb weight of 1,650 kg is SEK 2,184. The tax rises according to the weight of the vehicle. From 2006 the taxation of new cars are based on the emission of carbon

dioxide instead of the weight. Owners of diesel-powered cars generally pay a higher vehicle tax to make up for a lower tax on diesel fuel. [6.34-37]

The road user charges are paid by lorries and vehicle combinations weighing 12 tons and more. In the case of lorries and vehicle combinations with not more than three axles and which are subject to the severest demands on exhaust devices, the user charge is SEK 6,831; for vehicles with four axles or more the charge is SEK 11,385. For Swedish vehicles, the charge applies to all roads in Sweden and is paid for one year at a time. For foreign vehicles, the user charge applies to motorways and certain highways that are not motorways. In 2005, total revenue for road user charges sold to foreign vehicles was around SEK 42 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 percent are taxed at SEK 22.08 per litre and beers with an alcohol content exceeding 3.5 percent are taxed at SEK 1.47 for each percent of alcohol per litre. Beers with an alcohol content of maximum 2.8 percent are not taxed. [6.25]

Table 20
Taxes and retail price of alcoholic beverages [6.28-30]

	Spirits 40%, 70 cl		Wine max 15%, 75 cl		Beer 5.2%, 50 cl	
	SEK	Percent	SEK	Percent	SEK	Percent
Pre-tax price	43.00	18%	39.44	56%	6.5	50%
Alcohol tax	140.00	62%	16.56	24%	3.82	30%
VAT	46.00	20%	14.00	20%	2.58	20%
Consumer (retail) price	229.00	100%	70.00	100%	12.90	100%

Retail sales of alcoholic beverages are carefully regulated in Sweden. Spirits, wine and export beer (with an alcohol content greater than 3.5 percent by volume) may only be sold at special State-owned shops (Systembolaget). According to official statistics, domestic sales (at Systembolaget and in restaurants) of spirits fell during the 1990s, while beer and wine sales increased. These figures do not include legal private imports by tourists and business travellers, nor smuggling and illegal production. Looking at official statistics consumption of alcohol fell in the middle of the 1990s. Between 1998 and 2003 the consumption increased, and reached nearly 7 litres pure alcohol per inhabitant. In 2004 the upward trend was broken due to several factors. The Swedish limitations in bringing alcoholic beverages from other EU countries was abolished allowing for unrestricted private import. In addition taxes on spirits in the neighbouring countries Denmark and Finland were lowered. [6.26] The duty rates on tobacco are defined separately for different tobacco products. The excise 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 percent of the retail price (including VAT, which may be seen as a third tax component). [6.31]

Table 21
Taxes and retail price of cigarettes
[6.32]

	SEK	%
Pre-tax price	11.71	30%
Fixed tobacco tax (SEK 0.20 per cigarette)	4.00	10%
Variable tobacco tax (39.2% of retail price)	15.09	39%
VAT (25% of pre-VAT price)	7.70	20%
Consumer (retail) price	38.50	100%

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

Between 1995, when Sweden became a

member of the European union, and 2005 the total revenue yield from alcohol and tobacco has declined from SEK 19.0 billion to 18.1 billion. [6.24]

Table 22
Taxes on alcohol and tobacco
(SEK million) [6.24]

	2003	2004	2005
Tobacco tax	8 242	8 181	8 056
Alcohol tax on spirits	4 794	4 210	3 921
Alcohol tax on wine	3 330	3 331	3 407
Alcohol tax on beer	2 599	2 504	2 549
Tax on intermediate products	234	203	187
Total	19 199	18 429	18 121

Duties on imports

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

In 2005, the value of Sweden's imports totaled SEK 810 billion, of which 70 percent came from other EU countries. [6.39] Total revenue from customs duties and other import levies was SEK 4.6 billion. [6.38]

Other excise duties

Other excise duties include duty on advertising, duty on lottery prizes and duty on gambling. The duty on advertising was introduced in the 1970s to finance increased newspaper subsidies. Advertisements in daily newspapers are taxed at the rate of 3 percent and in other printed media at 8 percent. 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 was also applied to slot machines.

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

In 2005, total government earnings from betting and lotteries were SEK 4.9 billion. [6.40] 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 2005, the total tax revenue yield from these other excise duties was about SEK 2.1 billion.

Table 23
Other excise duties (SEK million) [6.40]

	2003	2004	2004
Tax on advertising	753	821	875
Tax on lottery prizes	1 184	1 210	1 202
Tax on gambling	33	31	30
Total	1 970	2 062	2 107

3.4 Business taxation

3.4.1 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.

3.4.2 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 900,000 such enterprises in Sweden in 2005 [7.1]. However, 3/4 of these businesses had no employees and most of them were combined with other employment.

Table 24
Number of business enterprises 2004-2005 [7.1]

Number of employees	2004	2005	% (2005)
0	651 609	676 359	75.1 %
1-4	149 049	153 142	17.0 %
5-49	63 150	64 262	7.1 %
50-499	5 535	5 548	0.6 %
500-	846	840	0.1 %
Total	870 189	900 151	100.0 %

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 generally small and often run on a part-time basis. It is often difficult to distinguish income from small private firms from employment income. To qualify as a business, certain criteria must be met, such as profit motive, duration and independence in relation to customers. Unlimited partnerships (*handelsbolag*) are legal entities but 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 2004) drops to about 870,000. Most are run as private firms, but limited companies account for almost 90 percent of total turnover. [7.4]

Table 25
Number of enterprises and employees in 2004* [7.3, 7.21]

	Number of enterprises	Number of employees
Individuals, private firms	486 866	41 365
Unlimited partnerships	73 681	39 628
Limited companies	247 272	2 243 464
Economic associations	19 401	52 038
Clubs, societies and other unincorporated associations	27 194	99 328
Foundations	4 218	23 135
Other	10 817	23 520
Total	869 449	2 522 478

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

3.4.3 Some general principles of business taxation

Taxable business income is computed according to “generally accepted accounting standards”. The accounting records therefore form the basis 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 percent of the residual value or at 20 percent of the acquisition value. Buildings are depreciated by 2-5 percent per year depending on their use. Stock is valued at 97 percent of its acquisition value using the first-in, first-out (FIFO) principle.

3.4.4 Taxation of limited companies and other legal entities

The total tax bill of legal entities according to the 2005 general tax assessment was about SEK 115 billion. Company profits account for the lion’s share of total tax. About 67 percent of the tax was paid by limited companies. Together with bank and insurance companies, limited companies paid 87 percent of the tax total [7.6].

About 49 percent of all limited companies declared profits in the 2004 tax assessment and 36 percent declared losses. The remaining 15 percent had no results to declare. Total profits were SEK 256 billion and losses SEK 473 billion. A small number of large companies account for the bulk of these profits and losses. [7.8]

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 25 percent of net profits¹ to a tax allocation reserve². After six years the reserve must be liquidated and added to income. From the 2006 general tax assessment interests are accounted on the allocated profits in the tax allocation reserve. 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.

Table 26
The tax bill for legal entities according to the 2004 and 2005 tax assessments (SEK billion) [7.5]

	2004	2005	Change, %
State tax on business income (profits)	48.9	71.5	46.2
Tax on pension fund earnings	12.3	11.0	-10.6
Special wage tax on pensions	20.8	21.7	4.3
Real estate tax	10.4	10.2	-1.8
Other	1.8	1.1	-0.4
Total	94.2	115.5	22.6

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. [7.11]

Table 27
Assessed profits and losses for limited companies, 2005 tax assessment [7.8]

Profit or loss	Profits		Losses	
	Number of companies	Assessed income, SEK billion	Number of companies	Assessed loss, SEK billion
0-1 million	116 481	23.0	80 756	16.2
1-100 million	16 700	83.5	14 858	118.4
More than 100 million	203	149.9	623	338.4
Total	157 831	256.5	115 285	473.0

⁴ Before 2002 tax assessment the limit for allocation of profits was 20 percent

⁵ Periodiseringsfond

Table 28
Main profit adjustments, 2005 tax assessment [7.11]

	Profits, SEK billion	Losses, SEK billion
Income after financial income and expenses	462.1	119.6
Deductions		
Excess depreciations	21.4	8.9
Transfers to the tax allocation reserve	45.6	0.0
Group contributions to other companies	139.3	84.2
Exempt income	218.2	161.4
Deferred revenue on shares	0.1	0.1
Losses brought forward from previous years	46.1	401.8
Other net adjustments	128.7	53.3
Income added		
Liquidated excess depreciations	23.6	7.0
Liquidated tax allocation reserve	40.4	9.9
Group contributions received	123.5	93.4
Non-deductible expenditure	153.3	40.0
Liquidated deferred revenue on shares	0.0	0.1
Other net adjustments	-	-
Total adjustments	-258.5	-559.4
Assessed surplus or deficit	203.5	-439.8

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 percent.

Table 29
Assessed income for private firms, 2005 tax assessment [7.14]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits, SEK	Number of taxpayers	Assessed losses, SEK
0 - 100,000	218 713	6 093	206 717	5 505
100,000 - 300,000	91 235	16 090	43 205	7 337
300,000 -	17 596	7 550	15 509	10 976
Total	327 544	29 733	265 431	23 818

Table 30
Assessed income for partners in unlimited partnerships, 2005 tax assessment [7.15]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits, SEK	Number of taxpayers	Assessed losses, SEK
0 - 100,000	46 930	671	38 024	869
100,000 - 300,000	18 876	3 347	5 730	974
300,000 -	3 931	1 718	2 449	1 775
Total	69 737	5 736	46 203	3 618

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

3.4.5 Taxation of private firms and partnerships (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 31.71 percent (2005), while the latter pay a special wage tax at 24.26 percent (2005). Persons over 65 always pay the special wage tax.

According to the 2005 tax assessment, there were 480,000 persons reporting either profits or losses from businesses in which they were actively involved (private firms and partnerships). Another 230,000 individuals declared profits or losses without taking an active part in the business. [7.12]

In 2005, total assessed profits of private firms were SEK 29 billion and losses SEK 24 billion. [7.13-14]

Total assessed profits for partners in unlimited partnerships were SEK 6 billion and losses SEK 4 billion, according to the 2005 tax assessment. [7.13, 7.15]

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

According to the 2005 tax assessment about 23,000 businesses made allocations of this kind, totalling SEK 1.9 billion. About 24,000 allocations (SEK 1.4 billion) were liquidated. Including the 2005 net allocation of 0.6 billion, accumulated allocations rose to SEK 13.3 billion. [7.17]

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 percent 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 percent) of the equity capital as shown on the balance sheet. In the 2005 tax assessment about 128,000 taxpayers took advantage of this rule and SEK 5.8 billion of business profits were taxed as capital income. [7.18]

If equity capital is negative, this procedure is reversed. Capital income is then reduced by a certain percentage (the State lending rate plus 1 percent) of the equity and added to business income. In 2005, this rule, whose application is compulsory, applied in about 48,000 cases and about SEK 800 million was added to business income. [7.18]

4 Taxes and income distribution

4.1 Overview

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

4.2 Direct taxes paid by individuals

In 1989, an individual with an average income paid 36 percent of this income in direct taxes.⁷ Immediately after the 1991 tax reform, this share dropped to 29 percent, but in 2004 it had bounced back to 33 percent. The tax reform made some previously non-taxed employment benefits taxable imposed new restrictions on travel expense deductions and broadened the base for capital income tax. One effect was that the assessed income of high-income earners rose, but at the same time the tax rates applied to this income were lowered considerably. Taxes paid by the lowest income groups increased throughout the 1980-2004 period. [8.1-4]

Table 31:
Direct taxes as a percentage of assessed income for some income groups, 2003 prices [8.2 and 8.5]

Total assessed income (KSEK)	1980	1989	1991	2004
0 – 50	9%	16%	21%	19%
100 – 150	28%	32%	26%	27%
200 – 250	35%	35%	28%	31%
500 –	53%	57%	39%	42%
All age 18 or older	33%	36%	29%	33%
Highest marginal income tax rate (based on the average local income tax rate)	85%	73%	51%	57%

⁶ 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.

A central aim of the 1991 tax reform, as well as of the reforms that preceded it, was to lower marginal income tax rates. In 1980, the top rate was 85 percent and in the years before the tax reform it had been lowered to around 73 percent. The tax reform brought the rate down to slightly more than 50 percent, but since then the marginal tax rate has again increased. [8.5]

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 charges for social services related to income. On average in Year

2006, about 41 percent of a wage increase is lost to the individual – 37 percent in increased income tax, 4 percent in reduced benefits and less than 0.5 percent in higher charges. [8.6] But these figures are averages. In individual cases, lost benefits and higher charges may have a much stronger impact.

4.3 Redistribution of income

Income redistribution depends on the net effect of taxes and benefits. Most households pay taxes and receive benefits, but the well-to-do pay more and receive less and vice versa. [8.7]

Table 32:
Redistribution by taxes and benefits, 2004, (all households 18-64 years)
breakdown into various income groups, KSEK [8.7]

Factor income Income groups	Factor income	Benefits	Taxes	Disposable income
0 – 50	16	155	38	133
100 – 150	125	100	60	165
200 – 250	226	61	84	203
300 – 350	323	69	120	272
600 –	929	47	357	619
All	331	82	131	282

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 2004 the average single parent received about SEK 38,500 more in benefits than taxes paid. [8.8]

In 2004, the total factor income of all households in Sweden was SEK 1,160 billion, of which 87 percent was employment income, 4 percent entrepreneurial income and 9 percent capital income. Direct taxes and certain other charges totaled SEK 524 billion and transfers to households (benefits etc.) SEK 526 billion. This resulted in a total disposable income of SEK 1,162 billion. [8.9]

The results show with exception from 2001 a continuous increase in the households' disposable income since 1995. The share of the households' gross income that originates from income from work has decreased since 1975 while the share of those origins from income from capital and pensions has increased. [8.10]

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 statisti-

cal purposes, members of households are thus assigned weightings and treated as consumer units:

One (single) adult	1.00 consumer units
Two (cohabiting) adults	1.51 consumer units
Other adult	0.60 consumer units
First child 0-19 years old	0.52 consumer units
Second child and following children	0.42 consumer units

During the 1980s, living standards (measured as median disposable income in fixed prices per consumer unit) rose by 14 percent. As a result of the severe recession in the early 1990s, living standards fell by 8 percent from 1990 to 1995. Between 1995 and 2004 living standards rose by 26 percent. Measured by the Gini-coefficient, income differences widened only slowly during the 1980s, but grew more rapidly after 1990. [8.11]

Widening income differences are also reflected by the fact that households with higher income increased their income more than households with proportionately lower income [8.12]

Table 33:
Disposable income per consuming unit for all individuals, mean values for respective decile, KSEK 2004 prices [8.12]

Decile	1991	1997	1999	2004	Change 1991-2004
1	65	59	58	68	5%
5	128	119	128	147	14%
10	294	315	345	388	32%
All	147	142	152	174	18%

During the 1990s, an increasing number of households have invested in the stock market, especially through mutual funds. As a result, more households report capital gains. The number varies depending on the movements of share prices and transactions made in anticipation of new tax legislation, but the general trend is a steady rise.⁷ In 1991, 8 percent of all households reported capital gains on their income tax return; in 2004 the figure was 20 percent. This development has contributed significantly to the widening income differences recorded. Notable is that 30 percent of all households reported capital gain in 2000. [8.13]

The disposable income of men and women has developed along parallel tracks; percentage changes have been roughly equal. All age groups have had an increase of their disposable income between 1991 and 2004. There are, however, marked differences between age groups. Young men and women between 18 and 29 have only had a slight increase of their income during the period. [8.14]

Table 34:
Disposable income per consuming unit for all individuals, mean values for certain age groups, KSEK 2004 prices [8.14]

Age	1991	1997	1999	2004	Change 1991-2004
18 – 22	137	118	126	142	3%
23 – 29	138	123	136	150	9%
50 – 59	175	165	176	200	15%
65 – 74	125	129	136	152	21%

⁷ 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.

⁸ The enforcement service is a sister service of the tax administration; the Tax agency is the parent agency of the enforcement service. 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.

All different types of households have increased their income since 1991. Co-living households have increased their income the most among the different households. [8.15]

Unemployment is an important factor behind falling disposable income during the mid 1990s. Those in employment have in fact enjoyed rising real wages. The median income from work rose by 24 percent from 1991 to 2004. Income from work equality between men and women, which worsened during the 1980s, has since then improved somewhat. [8.16]

Table 35:
Median annual income of full time employees, age 20-64, KSEK 2004 prices [8.16]

	1980	1991	2004	Change 1991-2004
Women	187	188	245	30%
Men	214	234	289	24%
All	204	216	269	25%
Women's median income in % of men's	87%	80%	85%	

4.6 Distribution of wealth

Wealth is unevenly distributed in Sweden. In 2004 the wealthiest 1 percent of the population possessed 25 percent of the total net wealth and had a median wealth of SEK 5.8 millions. The median value for all inhabitants were SEK 28,000.

Women's wealth is smaller than that of men. Of the total net wealth, women possessed 43 percent.

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 payment⁸ 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 Agency 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 2005 were SEK 4.6 billion, equal to 0.3 percent of total tax revenue. [9.1]

Table 36
Tax arrears and collection losses 2000, 2002, 2004-2005 (SEK billion) [9.1]

	2000	2002	2004	2005
Total tax revenue	1 172	1 170	1 292	1 357
Arrears notified to the enforcement authorities	14.1	15.5	12.8	13.1
Demands withdrawn or reduced	-4.4	-4.1	-3.1	-3.7
Net arrears	9.7	11.4	9.6	9.3
Payments to the enforcement authorities	-5.1	-5.0	-4.6	-4.7
Collection losses	4.5	6.3	5.0	4.6
Collection losses as % of total tax revenue	0.4%	0.5%	0.4%	0.3%

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 percent of total revenue and to 1.2 percent 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 2005 the level was about 7,200 businesses with 14,800 workers affected. [9.1 and 9.3]

In 2005 individual taxpayers accounted for about 29 percent of the collection losses, with legal entities making up the remaining 71 percent. 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. [9.4]

By the end of 2005, the balance of unpaid tax arrears was SEK 35 billion. The major share (61 percent) was attributable to insolvencies. Only 19 percent of the total debt was subject to active recovery measures. About SEK 1 billion, roughly 3 percent of the total amount due, consisted of penalties and accumulated interest. [9.5]

Table 37
Closing balance of tax receivables at the end of 2005 (SEK billion) [9.5]

	Taxes	Interest and penalties	Total
Bankruptcies, concluded	13.9	0.3	14.2
Bankruptcies, not concluded	7.0	0.1	7.1
Other arrears not subject to active recovery	6.4	0.4	6.7
Arrears subject to active recovery	6.3	0.3	6.7
Total	33.6	1.1	34.7

Time is a crucial factor in debt collection. In 2005, the enforcement authorities collected tax arrears worth SEK 4.6 billion. Most of this (70 percent) was made up of arrears that arose in the same year with a further 13 percent arising in the previous year. [9.6]

By the end of 2005, there were 497,000 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 188,000 debtors with tax arrears, of which 50,000 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. [9.7]

The bulk of total arrears are owed by a small number of debtors. About 75 percent of the arrears accumulated by private individuals are owed by 9 percent of the debtors, while 73 percent of the arrears run up by legal entities (mostly companies) are owed by 8 percent of the debtors. [9.8-9]

6 Tax errors and tax evasion

6.1 Introduction

There is a gap between the amount of tax that should be paid according to the law (theoretical tax) and the amount that is actually debited. This discrepancy is referred to as the assessment error or tax gap. Measuring the tax gap is, for obvious reasons, very difficult. The methods available may be divided into direct and indirect methods. Direct methods are based chiefly on surveys or interviews with randomly selected taxpayers. Indirect methods use available statistics, and match e.g. information on income and assets reported to the tax authorities against information on consumption and savings drawn from other sources. [10.1]

6.2 Undeclared income from work

Definitions and attitudes

The Swedish Tax Agency has during 2005-2006 made an extensive study on black work.⁹ When doing so a large number of investigations have been carried out. The aim was to get a more general view of the extent and scope of black work in Sweden today, the reasons for it and get a basis for ideas of what can be done to counteract black work.

Definition of black income from work:

- Payment for work carried out,
- that should be subjected to tax in Sweden

- but has not been declared to the Swedish Tax Agency.

The black incomes can be divided into:

- Undeclared income from employment (pay or benefits)
- Undeclared business income for self-employed

Swedes have relaxed attitudes towards black work. A majority who has bought black work is happy for having done a good business and only one of four would have a bad conscience [10.2]. Many of those who have bought black regard black work as necessary to keep Sweden going [10.3].

Black sector in the national accounts – SEK 115-120 billion

Gross Domestic Product (GDP) is measured in the Swedish National Accounts (NR). GDP shall include also undisclosed production such as income from work. The NR estimate of black income from work is based on the discrepancy between reported incomes and reported expenditures in the household sector. This discrepancy has for year 2002 been calculated to SEK 115-120 billion, which corresponds to some 10 percent of total income from work.

This discrepancy has been the starting point for the Swedish Tax Agency study – how much of the discrepancy can be explained by other methods?

The tax audit method reveals SEK 71 billion

A deep analysis has been made of tax audits carried out during recent years. The tax audit method can reveal 71 billion SEK of which amount 85 percent can be attributed to small companies with total wages of less than SEK 1 million [10.4-5]. Half of this sum is undeclared income from employment (pay or benefits) and the other half is undeclared business income for self-employed.

This result receives confirmation from three other surveys.

1. Established self-employed business owners compared with employees in the same sector have considerably lower “white” declared income (comparisons

⁹ *Purchasing and Performing Undeclared Work in Sweden. Part 1: Results from Various Studies. Report 2006:4B. The report is available in English on the Swedish Tax Agency web site: www.skatteverket.se*

- of median income in the two groups)
2. Other living standard indicators, including home size and car ownership show that entrepreneurs have a standard of living that is commensurate with a considerably higher income than is officially declared.
 3. An estimate of the true income in an entrepreneur household, compared with that for a wage earner based on food-stuff consumption, provides results in respect of under-declaration among business owners that is comparable with the auditing method.

To be mentioned is that the Swedish Tax Agency in its tax audits yearly only finds SEK one billion of undeclared income from work.

Interview surveys explain an additional SEK 20 billions

In an interview survey aimed at the general public, the Swedish Tax Agency has made separate assessments of the extent of black work carried out and of the purchase of black services. In respect of goods, a separate investigation was carried out concerning the purchase of untaxed goods. The surveys recently performed were the most detailed carried out anywhere in Scandinavia.

Interview surveys of this type only reveal a smaller part of the total black work, namely that part of which ordinary private individuals are aware and that is based on both purchaser and vendor agreeing that a price shall be black. The extent of the black work that was revealed by the surveys is estimated to be SEK 15 billion, of which SEK 10 billion is black work carried out for households, and SEK 5 billion for companies. Seen as a whole, the amount of black work caught by the interviews with the public accounted for 1.7 percent of the total working time in Sweden.

From the number of people who admitted that they had worked black, it is estimated by projection that there are about 800,000 altogether, and that this black work is the equivalent of 66,000 complete fulltime jobs, of which 25,000 is for companies. In respect of working for households, black work on the homes represents a total of about 21,000 complete fulltime jobs of work, and for other household services 20,000 complete fulltime jobs of work [10.7].

There is a considerable difference, e.g. depending on occupation, whether one has worked black during the previous year. Among students and national service soldiers the proportion is highest, at 25 percent compared to the general population (aged 18-74) where the proportion is 13 percent. The largest category which has worked black is trade workers, equivalent to an estimated total of 266,000 people. In general it can be said that among those who perform black work, there is a higher proportion of younger people, and those on a low income, while the purchase of black services is over-represented by people with higher incomes and those who own their own homes [10.8].

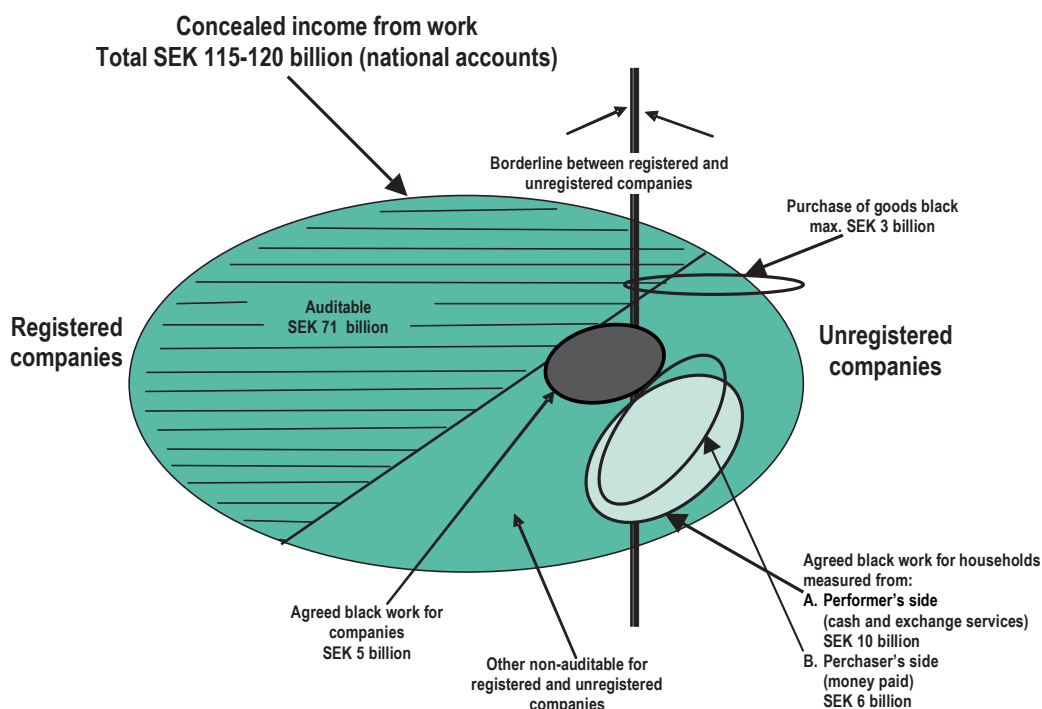
Much of the black work is carried out by relatives, neighbours and friends. About half of the compensation for black work in the household sector is provided in other ways than with money. Cash payment is more common in city areas. The degree of cash payment varies a great deal. For example looking after pets pays about SEK 7 per hour, cleaning SEK 69 per hour and construction work SEK 135 per hour. On average a person who works black and is paid in cash gets about SEK 19,000 per year, but when working for a company this rises to 29,000 in cash per year.

Every fifth household [10.9] has bought black services in recent years, and paid cash. On average a household has paid SEK 7,000, but for half the households the purchase sum amounts to less than SEK 3,000.

When comparing the extent of black work that was paid for in cash there was a difference between those who did the work and those who bought it. If you discount looking after pets, the volume of the purchased work was SEK 1.3 billion greater than that carried out. There are several possible explanations for this. One is that when we asked about black work performed, this was limited to people aged between 18 and 74 who are resident in Sweden. The purchasers, on the other hand, answered with the extent of all their purchases, regardless of who had done the work [10.10].

The interview survey described above covered *services* purchased black. But *goods* can also be purchased black. To get some idea of the extent, in the autumn of 2005 the Swedish Tax Agency commissioned a survey to investigate “the purchase of goods black” by private individu-

Diagram 38
A map showing revealed and un-revealed concealed income from work by different investigation methods



als. The problem when it comes to buying goods black is that it can be difficult for the purchaser to decide what is black or white, since it is usually up to the vendor to manage the accounting. The Swedish Tax Agency questions were therefore formulated so that the purchaser “had good reason to believe that the sale of the goods was not declared” and the interviewees were asked to respond to a number of different categories of goods, such as beverages, eatable farm products, construction material, forestry products, art objects, etc. 25 percent of Swedes admitted buying goods black in the previous 12-month period. Those who bought goods black had on average paid SEK 1,900. Nationwide, the purchase of black goods extrapolates in cash paid to about SEK 3.1 billion.

When we insert the black purchases of goods into the “map” of concealed income, this overlaps to a certain extent what can be identified by the audit method. Profit from illegal business – e.g. dealing in drugs – is not taxable. We indicate that there is a certain amount of illegal activities by putting a part of the black purchasing of goods outside the normal mapping diagram.

The development of black work

In 1997 the then Swedish National Audit Office carried out a comprehensive study of black work etc. in Sweden. In that study there was a similar survey among households. In comparison with that survey, working black is more widespread now; 13 percent in 2005, compared with 11 percent in 1997. If one looks at the volume of black work as the number of worked hours, this is adjudged to have increased, since there are more people working black. Black working has increased among young people and among white-collar workers. Over and above this, there are a number of other observations that also indicate an increase in black work.

All black work has not been revealed

Of the discrepancy in the national accounts, mentioned above, that indicates a black sector amounting to SEK 115-120 billions, only SEK 90 billions can be accounted for i.e. the methods used can “explain” 75 percent. However we cannot say that the discrepancy in the national accounts is at an incorrect level. On the one hand there is a general uncertainty in the estimates we

have made. And on the other hand, there are a number of reasons why there ought to be an unexplained remainder, of which the primary ones are:

- not everything is brought out in interviews
- not everything can be revealed in tax audits
- some people don't know what can be classed as black work.

If the completed investigation had been able to explain the entire discrepancy, the conclusion thus would be that the national accounting probably under-estimated the concealed income or that there was a fault in our investigations.

The shadow economy

In Sweden households' use of cash in point of sale transactions has decreased from 71 percent to 33 percent of the turnover in point of sale transactions between 1990 and 2004. Card payments have replaced checks and crowded out cash payment.

The Swedish Central Bank has studied cash use in recorded and non-recorded economic transactions¹⁰. In order to obtain an estimate of the value of cash spent annually in the shadow economy is needed a turnover ratio, for this sector. The size of the shadow economy is then obtained as the product of the value of the unexplained outstanding stock of cash and the turnover ratio. A ratio which has been used is the ratio between GDP and M1 (M1 includes cash and overnight loans and deposits in transaction accounts). Using this ratio means that one assumes that the turnover ratio in non-registered cash transactions and registered cash and non-cash economic activities are equal. Based on this turnover ratio the size of the shadow economy will amount to 6.5 percent of GDP in 2004 [10,13].

This can be compared to the mapping of hidden income from work at 5 percent of GDP in the Swedish Tax Agency study which doesn't include illegal activities. It should also be borne in mind that under-reported income from work not always involves the use of cash.

6.3 Other forms of tax evasion

Financial assets abroad

Tax evasion involving financial assets can influence interest, dividends, capital gains and wealth. In the early 1980s, the undisclosed share of interest was esteemed to be one percent of GDP, but by 1991 it had fallen to a few tenths of one per cent. 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.

Excise duty

A decade 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 and to a lesser extent oil and petrol.

The Internet and electronic commerce

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

It is also possible to participate in illegal gambling or by and sell shares in safe custody abroad and avoid Swedish taxes.

VAT-fraud

Tax authorities in all member state in the European Union have been misled to pay out VAT on false information in so-called MTIC-fraud cases¹¹.

Other tax errors with international connections

Establishing a company abroad is sometimes done with the primarily purpose of evading taxes. This goes for many establishments in so called tax paradises. When

¹⁰ Guibourg-Segendorf. *Cash use in recorded- and non-recorded activities in Sweden.* (Web site:www.riksbanken.se), forthcoming study.

¹¹ MTIC = Missing Trader Intra Community VAT Fraud

doing so the Swedish real owners are concealed as to make it difficult to tax him in Sweden.

Companies who run business in different countries have room to manoeuvre where they want gains to be reported and taxed. One way of moving gains to another country (with lower taxes) is to use wrong prices on internal goods and services in a group of companies.

Tax cheating among ordinary wage earners

Investigations made by the Swedish Tax Agency show that ordinary wage earners to a large extent make deductions in their tax returns for travelling to work and other expenses that they are not entitled to.

Some two million individuals own shares. More than half a million persons sell shares during a year and have to declare gain or loss. An investigation show that one third made errors when reporting but only in half of the cases the faults were intentional.

6.4 Lines of business with tax compliance problems

The study above by the Swedish Tax Agency on black work contains information on lines of business that are revealed through tax audits. The following compilation complements the picture.

A commission of inquiry¹² concluded that lines of business which primarily do business on a cash basis the tax control possibilities are limited due to the fact that cash receipt is not asked for by the customers. According to the commission these problems are well documented in lines of business such as taxi, hairdresser and restaurants.

Other investigations show low income among fishermen. When it comes to the use of black salary payment to the labour

force the building trade is often in focus. The Swedish Tax Agency has in an evaluation of tax control in the building trade concluded that the extent of black salary payments has resulted in unfair competition making it almost impossible for a tax serious entrepreneur.

New methods of tax control are under its way. Certificated cash registers and the obligation to have an up to date register of people working on place of work will increase the possibility to control income and wages in industries for which the new legislations is valid.

6.5 The Swedish Tax Agency assessment of the tax gap

On the basis of all available information on tax fraud and other errors made by taxpayers, the Swedish Tax Agency 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.¹³ This estimate applies to 1997 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 39.

The 2000 estimate is basically the 1997 estimate adjusted for GDP growth and a lower rate of tax on company profits. In 2002 the Swedish Tax Agency published a study with an estimate of SEK 20-35 billions of tax errors due to cross border transactions. [10.12]

In total the tax gap in Sweden is estimated SEK to 100 billions. The Swedish Tax Agency will during 2007 begin a new study describing and trying to do a new estimate of the tax gap.

¹² Branschsaneringsutredningen (SOU 1997:111)

¹³ Skattefel och skattefusk, En utvärdering av skattekontrollen 1992-1997, RSV Rapport 1998:3.

Table 39
An estimate of the total tax error 1997 and 2000, BSEK¹⁴ [10.11]

	The Swedish Tax Agency in 1997	Updated calculation in 2000
Estimated tax due on undeclared income and assets		
(1) Tax on undeclared income (Income tax, social security contributions and VAT)	60.4	56.0
(2) Tax on financial investments abroad	..	7.5
Subtotal	60.4	63.5
Estimated tax due on other errors detected by audits		
(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 fault, double calculation	-20.4	-20.7
Subtotal	20.4	20.7
Estimated excise duties due on unreported imports and sales		
(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
Subtotal	3.0	3.9
Total	83.8	88.1
The total tax error as a percentage of GDP, (1 800 BSEK in 1997 and 2 083 BSEK in 2000)	5%	4%
The total tax error as a percentage of taxes in the public sector (950 BSEK in 1997 and 1 100 BSEK in 2000)	9%	8%

6.6 The causes and effects of tax fraud

In its study of illicit work in Sweden, the National Audit Office (NAO) also examined its causes and made a distinction between structural (or external) and individual (or internal) causes. Among the structural factors, the NAO stressed the level of social control in the community and the combined marginal effects of taxes, means-tested social benefits and income-related service charges.

Apart from the obvious financial motive, important factors related to the individual are the perceived risk of detection and alienation from the ruling elites (financial scandals involving politicians and top business people have a very negative effect on tax morals).

In a survey in 2005 the Swedish Tax Agency asked respondents to point out which of a set of alternatives they believed was the main reason for tax evasion. Of the respondents 65 percent per cent indicated that the reason for tax fraud was that persons in high positions do not follow the norms in the society and 62 percent chose “The taxes are too high” [10.13]

A large majority of the Swedish population regards the size of tax evasion to be a serious problem to the society. [10.15]

Different dimensions of the damage to society from tax evasion and tax fraud are shown in table [10.14].

7 Tax control and tax fraud

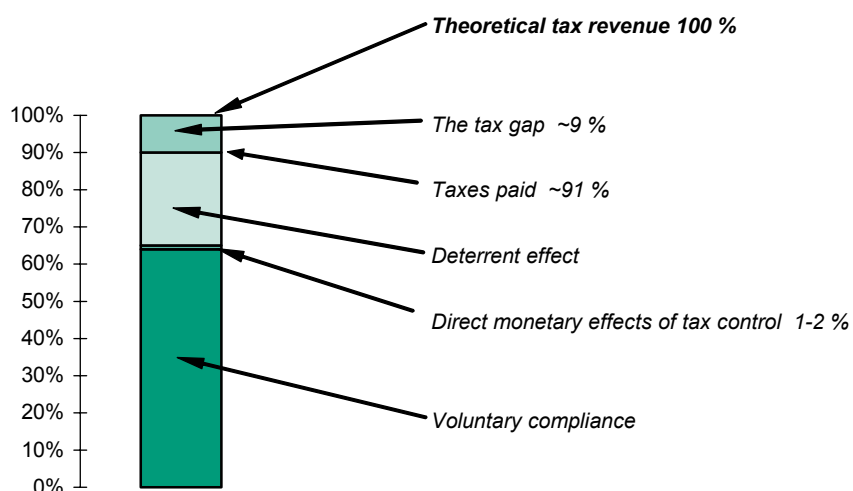
7.1 Introduction

The Swedish Tax Agency handles large volumes of tax returns from taxpayers. [11.1]

In order to detect tax fraud, the tax authorities perform various forms of compliance control [11.2-3, 11.5-8] The net value of tax liability due to compliance control in 2005 is SEK 14,500 million [11.4] The tax control thus brings in some money to the state but more important is that the compliance control creates a deterrent effect (Diagram 40). This effect is more important than the direct monetary effect of tax control.

¹⁴ This estimate does not include all taxes or all taxpayers – only the most important.

Diagram 40
Monetary and preventive effect of compliance control. [11.9]



Note: The size of voluntary compliance and deterrent effect are arbitrary

The size of the deterrent (preventive) effect depends on how the taxpayers judge the risk of detection and the following consequences. The deterrent effect varies among taxpayers but is considered stable and substantial. [11.10]

Many cases of tax fraud are discovered during tax field audits. The number of tax field audits has fallen from more than 18,000 per year in the late 1980s to about 7,000 in 2005 [11.5]. This fall in the number of audits is partly due to the fact that they increasingly target larger companies and more difficult cases [11.6]. Another trend is that a larger share of all audits is integrated, i.e. they cover several taxes such as company income tax, VAT, PAYE and payroll tax [11.7]. However, the reduction in numbers has also been caused by budget cuts and a high staff turnover.

7.2 Administrative sanctions

Two kinds of sanctions may be applied to tax fraud. There are the sanctions of the criminal justice system (fines, prison sentences etc.) decided by the courts, and there are administrative sanctions (tax surcharges and delay charges), which are decided by the Swedish Tax Agency. 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 more or less regardless of reason.

The administrative sanctions consist of tax surcharges and delay charges. Tax surcharges are imposed if the taxpayer has supplied incorrect information or failed to file an income tax return, in which case a discretionary assessment is issued. The normal surcharge applied to income tax is equal to 40 percent of the missing tax but normally only 20 percent for other taxes. In many circumstances, however, the surcharge will be reduced or dropped.

In 2005 205,000 decisions were made concerning tax surcharges, of which 46,000 referred to income tax and 73,000 VAT. Substantial amounts are imposed as tax surcharges; in 2005 this totaled SEK 1,100 million (Table 41).

In addition to surcharges, there are delay charges, which are imposed if tax returns are not filed on time. If an income tax return comes in after August 1st – the delay charge will be SEK 1,000 for an individual and 5,000 for a legal entity. In 2005, there were 66,000 decisions concerning delay charges on income tax returns and another 170,000 concerning monthly VAT, payroll and PAYE returns [11.17]. The total amount of delay charges for all returns was SEK 274 million. [11.18]

Table 41
Tax surcharges imposed in 2005 [11.12-14]

	Number of decisions, thousands	Total SEK million	Average SEK
Income tax			
During annual assessment	22
After annual assessment - additional tax surcharge	13
After annual assessment – reduced tax surcharge	11
Subtotal	46	629	13 636
Preliminary tax , PAYE	36	69	1 943
Payroll tax	49	148	3 006
VAT	73	256	3 509
Excise duties	1	16	13 220
Total	205	1 118	5 453

7.4 Sanctions of the criminal justice system

The reports on crimes to prosecutors was 3,600 persons in 2005 [11.20]. Since 1996, the Tax Fraud Act has defined all criminal tax offences. In 2005, 1,797 persons were suspected of tax crime by the public prosecutors, an upward trend during recent years. [11.21]

In 2005, 609 persons were fined, sent to prison, put on probation or given suspended sentences etc. for offences against the Tax Fraud Act (Table 42). The total number of sentences has however fallen if we compare with figures in the beginning of the 1980s.

If we to above figures add persons found guilty of tax offence as a secondary offence, the total number of sentences in 2005 rises to 1,740 [11.25]. The average length of prison sentences was 18 months in 2005 [11.26].

The capacity of the police to handle tax crimes has been questioned. With start in

1988 tax fraud units within the Swedish Tax Agency can handle tax crime investigations to help the prosecutor. The good result of this reform is reflected in the figures for 1999-2005. [11.22]

Another sanction available to the courts is to ban a person from running a business enterprise. This sanction can be applied for a period of 3-10 years if a person has seriously neglected his duties as an entrepreneur, for example by refusing to pay taxes. The number of bans in force is tending to increase and reached 729 in 2005. [11.27]

The social background of a person sentenced for theft deviates significant from the background of the average Swede. But this is not the case for a person sentenced for tax fraud. The money involved in a case where a person is sentenced for a tax crime is very much higher than in a theft case and a person sentenced for tax fraud gets a more severe punishment than a thief.

Table 42
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 [11.23]

Principal sanction	1983	1993	1999	2000	2001	2002	2003	2004	2005
Prison	317	100	119	102	120	128	161	142	263
Probation	8	7	3	5	4	8	10	5	11
Suspended sentence	391	61	83	99	144	129	149	147	198
Fine	416	121	28	26	27	44	57	37	32
Order of summary punishment	4	8	29	139	65	87	92	138	103
Other sanction	12	2	3	1	0	0	1	2	2
Total	1 148	299	265	372	360	396	470	471	609

8 Opinions on the tax system and the Tax Agency

8.1 Introduction

Since 1986, the Tax Agency has surveyed the public opinion about the Swedish tax system and the services provided by the tax authorities and the enforcement authorities. In the last couple of years, non-compliance issues have also received attention.

The surveys have a number of aims:

- To evaluate how attitudes towards the tax system and the Tax Agency are changing.
- To evaluate how the general public and companies view the service from the Tax Agency, different kinds of tax evasion and the tax investigation activities of the Tax Agency.
- To support comparisons of regional departments of the Tax Agency and suggest measures for improvements.

The present program of annual surveys is based on a two-year cycle; the general

public is addressed in the first year and the business sector in the next. Each year, two parallel surveys are carried out, a national survey and a regional one. The national survey, which targets about 3,000 respondents, is focused on the tax system and compliance issues. The regional survey, which targets at least 1,000 respondents in each of the nine regions, deals with service delivery and public confidence in the Tax Agency and the enforcement authorities.

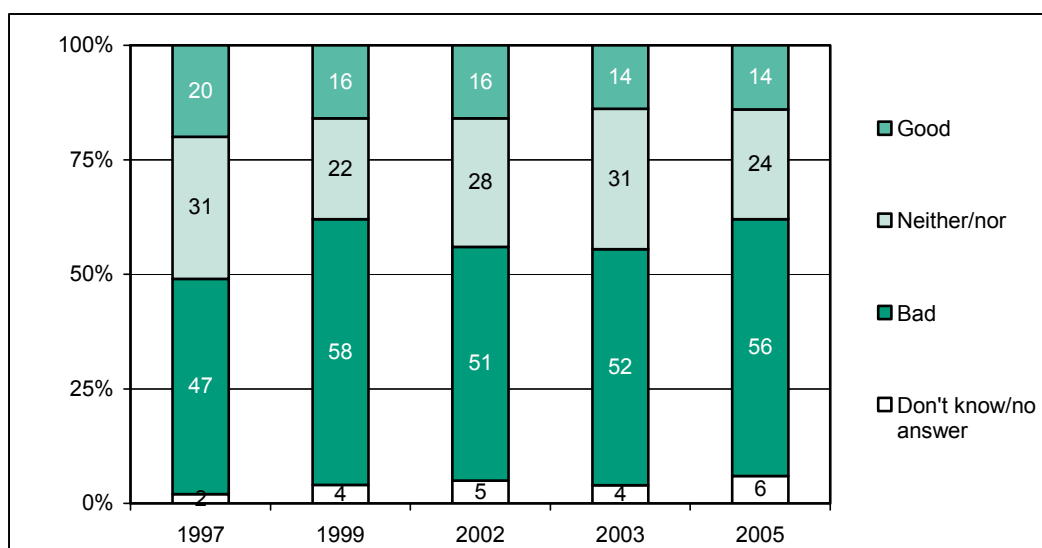
The 2005 surveys addressed companies. The response rate in the national survey was 51 percent, and in the regional survey 55 percent.¹⁵

8.2 Opinions on the tax system

More than half of the companies expressly dislike the tax system 2005. [12.1] This matches the companies' disagreement with the statement "The tax system for companies is simple". [12.2] Not many companies find it easy to fill in the different tax return forms, but the percentage of companies that expressly finds it hard has decreased, from 44 percent in 1999 to 34 percent in 2003. [12.3]

Diagram 43

What is your general opinion on the tax system, i.e. tax levels and the design of tax rules? business sector 1997-2005, percent [12.1]



¹⁵ The regional survey: SKV Rapport 2006:2, The national survey: SKV Rapport 2006:1

8.3 Companies and tax evasion

A majority of the companies feels that on the whole, the extent of tax evasion is a serious problem to society. [12.8] And 38 percent find it likely that the tax authority would discover tax evasion in a company like theirs.

27 percent do not find this likely, while 34 percent answered “neither/nor” or “don’t know/no answer”. Over the years, fewer companies find it likely the authority would be able to discover tax evasions in companies like theirs.

Diagram 44
On the whole, the extent of tax evasion is a serious problem to society, percent [12.8]

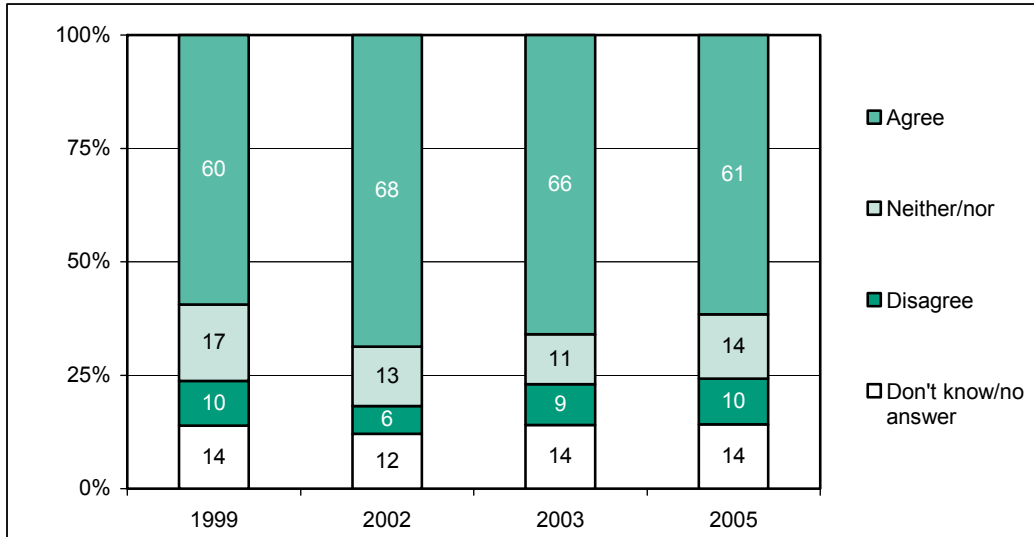
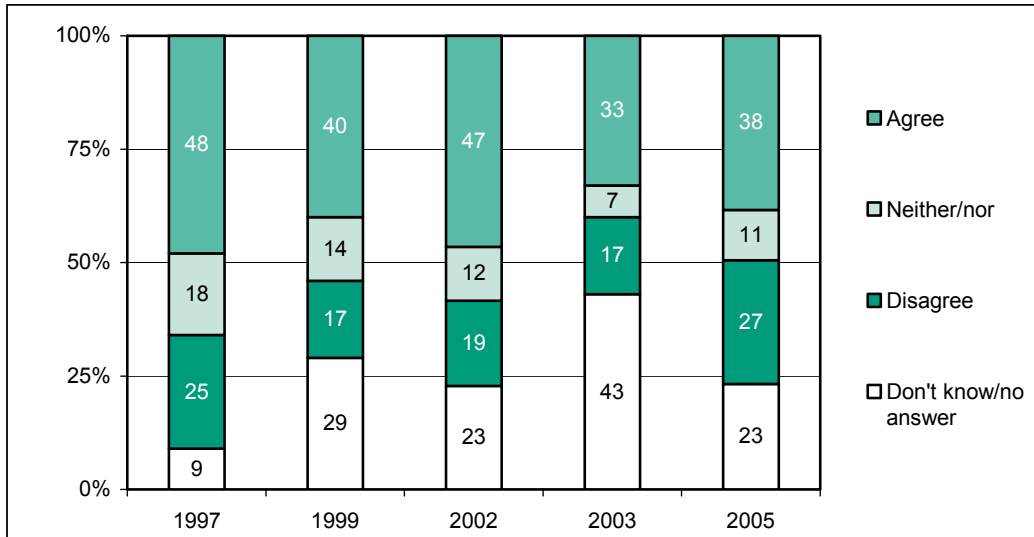


Diagram 45
It is likely, the tax authorities would discover tax evasion in a company like ours, considering size, type of business, etc., percent [12.7]



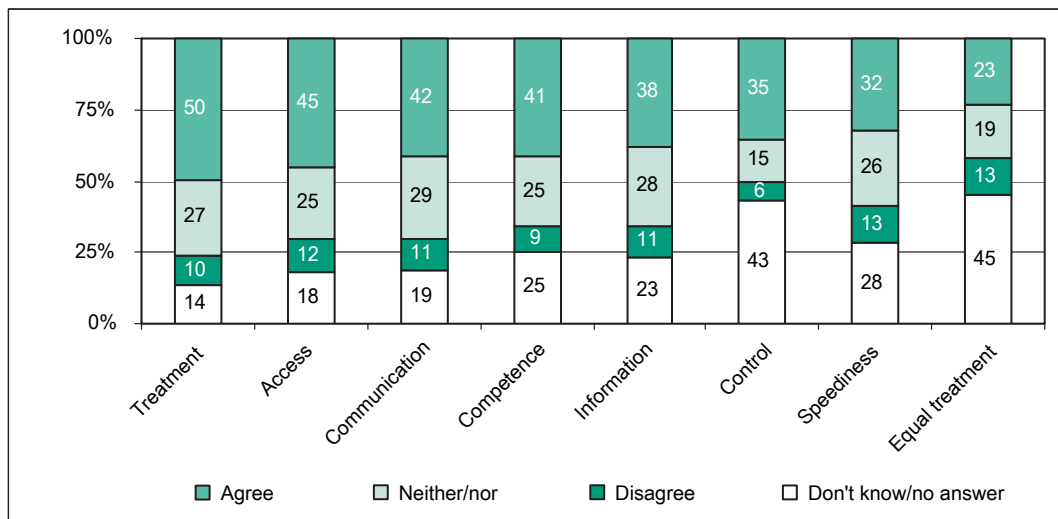
8.4 The service from the Tax Agency

A majority (61 percent) of companies are satisfied with their contacts with the Tax Agency while 7 percent are dissatisfied. [12.10] According to the latest survey, half of the companies have confidences in the Tax Agency and 40 percent consider that the Tax Agency does a good job on the whole. In terms of staff's attitudes toward the taxpayers, 20 percent of the companies think that the Agency's staff is arrogant and suspicious. 36 percent of companies

see the staff as too strictly and bureaucratic. Finally 40 percent think the staff is friendly and willing to help them solving their problems.

When ranking different aspects of quality (overall areas), companies are most satisfied with the way they are treated by the Tax Agency staff (treatment), followed by accessibility. Areas with less satisfaction among the companies are "equal treatment" and "speediness". Diagram 46 summarizes the different areas of quality. [12.13]

Diagram 46
Comparison between the overall mark for different quality areas 2003, Percent [12.13]



Regarding the quality of services, the differences between the tax regions have decreased during the recent years. The two regions Malmö and Göteborg still provide the best services to their customers, while Stockholm still is the region with the most dissatisfaction among its companies, by comparison with the other regions.

Despite the considerable improvements of the service quality during the recent decade, there are some questions in the survey where companies and general public's dissatisfaction with the Tax Authority has remained unchanged over the years:

- ability to get in touch with the right Agency employee
- ability to get in touch with the Agency by phone
- to get an excuse from the Agency when they made mistakes

- not easy to understand the Agency's letter contents

9 The tax administration

Using a narrow definition, the Swedish tax administration may be described as comprising the Swedish Tax Agency, with its headquarter and its seven tax regions. However, many other agencies and authorities also take part in administering the tax system, for example the enforcement authorities and customs. In this chapter, the tax administration is viewed from this broad perspective.

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

9.1 The political system

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

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

9.2 The tax administration

According to a wide definition of the tax administration, i.e. all administrative functions needed to run the tax system, regardless of their organizational location, it comprises staff from the Tax Agency, 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.

9.2.1 The Swedish Tax Administration and Enforcement Service

On 1 January 2004, the Tax Administration merged eleven authorities into one, the Swedish Tax Agency. By uniting the administration into one tax authority, a number of advantages were met: more flexibility, easier to unify legal practice etc. With this change, the regional structure which previously followed the county borders, were rearranged.

Since 1 January 2006 The Swedish Tax Agency consists of a head quarter, seven tax regions and a large tax payer unit (SFSK). In each of the tax regions there is one or more tax office, to which the general public and

small and medium sized businesses turn in matters on taxes or public registration. The large tax payer unit, situated in Stockholm, Malmö and Gothenburg, serves the largest companies. From 1992 to 2000, the number of employees at the tax authorities fell from almost 11,900 to around 9,000. Most of this staff reduction took place in the area of basic processing, but control activities (mainly field audits) were also affected. However, the number of employees have increased somewhat since 2001. At the beginning of 2005, the Tax Agency's headquarter had 1,280 employees, half of them in the IT department. Measured in staff years, one staff year being equal to 1,600 working hours – the time spent on field audits fell from 1,485 in 1996 to 954 in 2005. [13.2]

Until 1 July 2006, the Enforcement Authority (kronofogdemyndigheterna) had been a part of the Tax Agency. The Enforcement Authority was then separated from the Tax Agency and is now an independent authority. However, in technical matters (IT-issues), administrative supporting and strategic issues, they are still parts of the same organization as before.

The enforcement authorities have not suffered staff reductions quite to the extent as the tax authorities; employees numbered 2,888 in 1994 and 2,422 in 2006. Debt collection is the main task of these authorities, but they also perform other functions, such as bankruptcy supervision. In 2005, the number of staff years in the enforcement authorities totaled 2,228. [13.3]

Taxation accounts for little over 60 percent of total expenditure in the Swedish Tax Agency and Enforcement Service. In 2005, total outlays were SEK 7,7 billion. [13.4]

9.2.2 Customs

Sweden's Customs Department (Tullverket) has about 1,900 employees. The Department was reorganised in 2004, and the subdivision in different regions ceased. It has now a head office in Stockholm, with managing units in Stockholm, Gothenburg, Malmö, Sundsvall and Luleå. Effective trade and frontier protection employed about 1,400 staff years 2005. And total collection was a little over SEK 48 billion, of which VAT accounted for SEK 43 billion. [13.5-6]

9.2.3 Other authorities

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

Road vehicle taxes and congestion taxes are paid to the National Road Administration (Vägverket), which is responsible for the road vehicle register. Many tasks concerning the road vehicle tax are, however, performed by the Tax Agency.

9.2.4 Taxes and the judicial system

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

9.2.5 Appeals against tax decisions

If a taxpayer complains against a decision by the Tax Agency, the Tax Agency is required to review its decision. Since most complaints arise from simple errors or involve taxpayers bringing new facts to the case, most complaints are settled at this stage. However, if the matter is not settled to satisfaction of the taxpayer, he may appeal to the county administrative court (länsrätten) 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.

On 1 January 2004, a public commissioner was appointed by the government, as a self-governed authority within the Swedish Tax Agency. The commissioner is authorized to appeal against all tax decisions made by the Tax Agency and the Custom Agency concerning an individual person or a legal person. The pronounced purpose with this arrangement is to safeguard the fiscal interest.

If the legal situation is unclear, the taxpayer as well as the public commissioner can apply for an advance ruling at the Council for tax rulings. In turn, an advance ruling can be appealed to the Supreme Administrative Court.

9.2.6 Tax fraud

The 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 at the tax authorities and empowered to investigate some forms of tax fraud under supervision of the prosecutor.

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

9.2.7 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 at SEK 4.7 billion and compliance costs at SEK 9.3 billion. [13.7] Administrative costs were roughly equal to 0.5 percent of total tax revenue and compliance costs were equal to 1.0 percent.¹⁶

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. [14.1]

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. [14.2-3]

¹⁶ Malmer, H., Persson, A., Tengblad, Å., Århundredets skattereform. Effekter på skattesystemets driftskostnader, skatteplanering och skattefusk, Fritzes 1994.

10.2 The tax system, 1950-1970

By 1950, total tax revenue was equal to 21 percent of GDP, which was considerably less than in those countries that had taken an active part in the Second World War. [14.4]. In the ensuing years, however, Swedish taxes were to rise much faster than in other countries and in the 1970s reached 50 percent 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 percent 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 percent (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 percent of GDP in 1960 to 8 percent of GDP in 1970.

Direct taxes also rose at a steady pace throughout this period, from 12 percent of GDP in 1950 to 15 percent in 1960 and 20 percent in 1970. [14.5]

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 percent in 1970 to 31 percent 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 recipi-

ents, their pre-tax levels have been raised. Between 1970 and 2000 the level of social security contributions rose from 8 percent of GDP to 15 percent.

Indirect taxes in the form of VAT and excise duties rose relative to GDP from 12 percent in 1970 to 15 percent in 2000. When VAT was introduced in 1969 the rate was equal to 11 percent of the pre-tax price. In 2000 the basic rate was 25 percent 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 percent to about 51 percent (at a local tax rate of about 31 percent). The tax on capital income was separated from the tax on earned income and levied at a flat rate of 30 percent. 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 often used as an indicator for international comparisons of living standards. Using current exchange rates, GDP per capita in Sweden in 2003 was \$33,700 and above the EU average of \$27,500. [15.1]

Table 47
GDP per capita in 2002, US Dollars
[15.1]

	Current exchange rates	Purchasing power parities
Sweden	33 700	28 900
EU-15	27 500	27 300
OECD Total	25 700	26 300

Exchange rates, however, are determined mainly by supply and demand of different currencies in the international financial markets. Differences in GDP per capita in

current exchange rates will therefore reflect not only the value of total production, but also differences in 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 only slightly over the EU average in 2003. [15.1]

11.2 The general level of taxation (the tax quota)

A common measure of the general tax level in a country is the relation between total tax revenues and GDP, often referred to as the tax quota. It can however be misleading to use the tax quota for international comparisons since the tax level is dependent on the technical design of tax and welfare systems in a country. Social benefits are for example taxed in Sweden, while similar benefits are exempted from tax or used as tax allowances or tax credits in many other countries. Social security contributions are included in the tax quota in Sweden since they are regulated by law, collected by the tax authorities and to a large extent (60 percent) not directly linked to benefits. In other countries, however, similar benefits are the outcome of negotiations between employers and trade unions and therefore not treated as taxes or included in the tax quota.

Even though the tax quota might exaggerate differences in tax levels, the level of taxation in Sweden is still high by international standards. In 2003, Sweden was the only country with a tax quota above 50 percent (50.6 percent) well above the EU average of 40.5 percent. [15.3] In 2001, the tax ratio in the OECD area as a whole (unweighted average) broke its historical gradual upward trend, falling from 37.1 to 36.7 percent and continued down to 36.3 percent in 2003. Between 2002 and 2003 tax ratios fell in seventeen OECD member countries and rose in twelve.

11.3 The structure of the tax system

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

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

- Taxes on income 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 tax revenues from income taxes, a little less from each of social security contributions and consumer taxes and a few percent from property taxes. Most countries diverge, however, from this general pattern.

A comparison of the contribution of different taxes to the tax quota in Sweden and an unweighted EU average shows that 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 percent of GDP compared to 18.3 percent in Sweden). Social security contributions are higher than in Sweden (14.7 percent of GDP) in two EU countries: Czech Republic and France (both 16.4 percent). VAT and excise duties combined are slightly higher in Sweden than the EU average (13.3 percent versus 12.2 percent). [15.5]

The gap between the Swedish tax quota of 50.6 percent of GDP and the EU average of 40.5 percent in 2003 is mainly represented by the higher taxes on labour and social security contributions in Sweden. [15.3]

By comparing the six most heavily taxed EU countries (according to their tax quotas), there are significant differences in how the tax burden is divided between social security contributions and payroll taxes on the one hand, and taxes on income and business profits on the other. Denmark and Norway collect a greater share of their revenue from 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. [15.6]

Table 48
The tax quota and the tax mix (2003) [15.3,15.6]

	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	50.6	36.3	29.1	3.1	26.3	0.3
Denmark	48.3	59.9	2.5	3.8	33.0	0.0
Belgium	45.4	39.0	31.8	3.3	24.6	0.1
Finland	44.8	38.7	26.7	2.3	32.0	0.1
France	43.4	23.2	37.7	7.3	25.5	3.6
Norway	43.4	43.3	22.9	2.5	31.2	-
EU average	40.5	33.2	28.8	5.2	30.4	1.0

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 (55.0 percent). This ratio varies in the EU-15 between 30.2 percent (Germany) to 84.9 percent (Ireland). Taxes to local government in most EU countries account for a smaller proportion of all taxes. Swe-

den and Denmark are exceptions; in these countries, over 30 percent of all taxes go to local government. The impact of social security funds in the EU ranges between 2.5 percent of all taxes (Denmark) and 49.4 percent (France). Sweden, with 11.6 percent, is second lowest after Denmark. [15.10]

Table 49
Tax revenue by recipient, as percent of total tax, 2003 [15.10]

	Federal or Central Government	State Government	Local Government	Social Security funds
Sweden	55.0	-	32.7	11.6
Austria	54.6	8.5	9.4	27.3
Belgium	34.0	23.8	5.3	35.7
Denmark	61.5	-	35.7	2.5
Finland	54.3	-	21.1	24.5
France	39.4	-	10.3	49.4
Germany	30.2	21.6	6.8	40.5
Greece	62.5	-	0.9	35.6
Ireland	84.9	-	2.1	12.6
Italy	53.4	-	16.9	29.5
Luxembourg	66.1	-	5.9	27.2
Netherlands	58.8	-	3.9	36.3
Portugal	60.3	-	5.8	33.0
Spain	37.0	-	28.2	34.4
UK	75.5	-	4.8	18.5

11.4 Taxes on labour

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

In Sweden, the disposable income in 2005 of a single (unmarried) worker with an average salary was 69 percent of the gross salary. A person earning a salary 67 percent higher than an average worker had a disposable income of 60.3 percent of gross pay. In most OECD countries, disposable income were higher relative to gross pay. [15.11]

Table 50
Disposable income, by wage levels as a percentage of the average wage for an industrial worker, as percent of gross pay, 2005 [15.11]

Household	Single		Married, 2 children	
	Wage person 1	Wage person 2	Wage person 1	Wage person 2
	100%	167%	100%	100%
			0%	67%
Sweden	69.0	60.3	76.3	74.2
Denmark	59.0	50.5	70.8	64.3
UK	73.5	70.1	80.6	79.1
France	71.0	66.9	82.9	78.1
Germany	58.3	54.1	77.7	66.7

Looking at marginal income tax rates we can see that they are higher than in most other countries for single persons with high income. 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. [15.12]

11.5 Taxes on capital

Capital is a fluid tax base and thereby places a limit on tax rates. At the same time there is an ambition that income from capital and income from work should be taxed at the same level creating a tax policy dilemma.

As with taxes on labour it is difficult to compare tax levels between countries. In many countries, interest on bank deposits is not taxed, while in Sweden all interest and dividends are taxed at 30 percent. On the other hand, in Sweden debt interest is deductible, which is generally not the case in countries where bank interest is tax exempt. In 2004, deductions for debt interest exceeded reported interest income and dividends by almost SEK 22.8 billion. Net revenue yield depends on whether declared capital gains are large enough to make up for this deficit.

Along with four other countries, Sweden has a net wealth tax, which is applied at 1.5 percent to net household wealth exceeding SEK 1.5 million (3.0 million for married couple) [15.13].

The tax rate applied to company profits is comparatively low in Sweden, 28 percent. [15.14] However, comparisons of this tax rate, must take into account the extent to

which companies are allowed to create un-taxed 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)

In 2006 the minimum standard VAT rate in the EU is 15 percent. Only Cyprus and Luxembourg are currently applying the minimum rate. Sweden, along with Denmark, has the highest standard tax rate at 25 percent. Member countries are also allowed to use two reduced rates as low as 5 percent for certain categories of goods and services such as medicine, books, transportation and hotels. In addition, several super reduced rates as low as zero percent are specified on a country-by-country basis. [15.15]

11.6.2 Excise duties

In Sweden, excise duties on energy account for the largest share of excise duties overall. Sweden's excise duty rates on unleaded petrol are at the average European level whereas excise duties on diesel oil for industry and heating purposes are notably higher than the EU average. Since the VAT is levied at a higher rate in Sweden than in other countries (with the exception of Denmark), total taxation on energy is among the highest in Europe. [15.16]

Excise duties on alcohol are higher in Sweden than in any other EU country. The Swedish rate of excise duty on ethyl alcohol is EURO 53.9 per litre, compared to 39.3 in Ireland, 28.8 in the UK and 28.3 in Finland. The excise duty on wine is also relatively high (EURO 2.4 per litre). [15.17]

Taxes (VAT and excise duty) make up about 69 percent of the retail price of tobacco products in Sweden and is one of the lowest levels in Europe. However, the price of a pack of cigarettes in Sweden is still higher than in most other countries. This is due to high production costs and high wholesale and retail margins. [15.18]

11.7 Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 2005, Sweden contributed SEK 25.6 billion to the EU budget and received SEK 12.6 billion in return. [15.19]

Appendix

This appendix gives a broad picture of the Swedish tax system and how it is run. It also tells how to declare different kinds of income and pay tax on it.

Taxes have been around in Sweden since the Viking era. The present system on income tax dates from the beginning of the 20th century. There are other taxes besides tax on earnings. For example, the Value Added Tax (VAT) on goods and services.

Political decisions and the Swedish Tax Agency

Taxes and tax rates are decided by the politicians in the Riksdag (Swedish parliament) and by the municipalities and county councils. Collection of taxes is the duty of the Tax Agency, which has offices all over the country.

Taxes go to the state, the county councils and the municipalities, and are used to pay society's expenses for things like education, care, defence and public administration. Much of the tax is returned in the form of pensions and benefits of various kinds.

The Swedish Tax Agency

On January 1, 2004, the Swedish National Tax Board and its regional tax authorities transformed into the Swedish Tax Agency. The Tax Agency contains of a headquarter and from 2006 seven tax regions. Each tax region covers one or more counties and has a number of tax offices and departments. Altogether, the Swedish Tax Agency has approximately 10,500 employees.

The Swedish Tax Agency is accountable to the Government (Ministry of Finance) but is an independent authority. The Government cannot influence individual tax cases.

Guidance and checks

The Tax Agency envisages "a society in which everyone wants to do their share". It is known that most people are prepared to pay their taxes as long as everyone or

nearly everyone does so. To make sure that people remain willing to pay tax it is important that taxpayers are given proof that cheating is not worthwhile. To make sure that information sent in to the Tax Agency as far as possible are correct from the start, the Tax Agency provides guidance and performs checks.

The aim of the guidance the Tax Agency provides is to make it easier for everyone to avail themselves of their rights and to fulfil their obligations, e.g. by using information in brochures or on the website.

Checks are intended to deter people from cheating. If people and companies see proof that checks work, more people are willing to pay their taxes. Checking also enables to correct mistakes found in the information sent in.

Companies income tax

Liability to tax

Corporations resident in Sweden are subject to national tax on their worldwide income. Resident corporations are those registered in Sweden or managed and controlled there. A non-resident corporation is subject to national income tax on profits from capital gains on real estate in Sweden and from business operation carried on in Sweden, as defined by law and as modified by tax treaties. Generally, a non-resident corporation will be deemed to carry on business operations in Sweden only if it maintains a permanent establishment in Sweden.

Tax rates

Limited companies in Sweden pay national income tax (statlig inkomstskatt) at the rate of 28 percent on the net income (the tax base). An individual who operates a business as a sole trader (self-employed) pays municipal income tax, national income tax and social security on the net income from the operation.

Tax base

Taxable income is based on the profits reflected in the annual income statement with adjustments as provided by law. Normal business expenses incurred to obtain and maintain the corporation's income can be deducted from gross income when determining taxable income.

Companies are entitled to a provision of 25 percent of the tax base to a tax allocation reserve (periodiseringsfond) each year. The fund must be reversed after six years and the reversal is then included in the base for the seventh year's provision. This gives an effective tax rate of approx. 21 percent the first six years and then varies depending on the difference between reversed provision and the provision charged for the year.

Swedish tax law contains provisions for the shifting of profits openly between affiliated resident companies (koncernbidrag), under some conditions.

A net operation loss is carried forward to the following year and is accumulated or diminished depending on the following year's result. There is no time limit for losses carried forward.

Filing of tax return

The basis of assessment for corporations is income for the most recent accounting period ending on or before 31 December. The tax return must be filed by 31 March the following year.

Individuals income tax

The computation of taxable income is made separately for each of three categories of income; income of employment, business and capital. The business income is computed separately for each source and the net results are aggregated to arrive at total taxable business income. The net employment and business income are aggregated and the result, after deductions for private insurance premiums, maintenance payments and the basic allowance, is the taxpayers earned income for national and municipal income tax purposes. Taxable capital income is established after deduction of interest payments and deductible capital losses.

All types of employment income and income from capital form one source of income, respectively. All losses incurred in those categories can be set off against

income from the same category in the current year (however some limitations apply). Any surplus must be carried forward indefinitely. If the category of capital income is negative it may, with limitations be taken as a credit against the national and municipal income tax as well as the national real estate tax. Any amount that can not be offset during the current year cannot be carried forward.

Tax on income of employment

Income from employment is the sum of all earnings deriving from a persons own work, which includes:

- **Cash payments:** wages, sickness benefit and pension
- **Fringe benefits:** company car and food vouchers

The tax in income from employment comprises municipal tax and state tax. Most people only pay municipal tax. The amount varies (approx. 29-35 percent tax) depending on the municipality of residence. State tax is paid by people with an income of approx. SEK 230,000 or more (20-25 percent tax). In addition, everyone pays a general pension contribution (7 percent).

Deductions are only allowed for expenses that are directly associated with the work. Deductions are never allowed for personal living expenses. The most common deductions are for travel to and from work.

Tax on income of self-employment

The taxable income of self-employment contains of the net income from the business after deduction of business expenses. A net loss of self-employment can not be deducted from other sources of income for the individual. Instead it is carried forward to the following year. On a net profit of self-employment the individual pays individual contributions. The net profit after deduction for individual contribution is then added to the income of employment to form the total income for municipal and national income tax.

Tax on capital income

Capital income includes:

- Interest and dividends
- Profits from the sale of shares, houses and tenant-ownership rights.

The capital income must be declared on the self assessment form. The tax on net capital income is 30 percent.

Filing an income tax return

The employer is required to deduct tax on all wages. The deducted tax is paid to the Tax Agency every month. At the same time, they pay employer contributions for each employee.

Everyone receiving an income is required to file a tax return the year after the income year (the assessment year). The income year is the year in which the income (e.g. wages or pensions) is paid out and the employer – or whoever pays out the pension – makes a tax deduction for it.

Everyone required to declare income will receive a tax return form (inkomstdeklaration). Many particulars in the form have already been filled in by the Tax Agency based on the income statements (kontrolluppgifter) from employers, banks, other financial institutions etc.

Together with the tax return form the tax is preliminary calculated. It will be based on the information the Tax Agency has entered in the self-assessment.

While filing the tax return one has to check that all income statements are included in the specification and that the amounts are correct. If any of the information which has been filled in is incorrect or incomplete, one must make changes in the tax return. There may, for example, be an error in the information which the Tax Agency has received, or some information may be missing. For example, income from self-employment must always be added.

The tax return must be filed by 2 May.

Between 15 August and 15 September, the Tax Agency issues a final tax statement (slutskattebesked) and a statement of account (kontoutdrag) to most of those who submitted tax returns. The final tax amount has been calculated and compared to the advance tax amounts. Excess taxes are reimbursed, and any shortfall will be subject to collection at the latest 90 days after receiving the final tax calculation.

Other taxes and tax reporting

Value added tax (VAT)

Unless exempted in law, VAT (mervärdesskatt) is levied on all delivery of goods, performances of services and importation of goods and services from non-European Community countries. The standard rate

is 25 percent, a reduced rate of 12 percent applies to foodstuffs and hotels, and 6 percent on newspapers and transportation of persons. The tax paid on purchases can be offset against the VAT collected on sales, which is payable to the government.

Every month, most companies record the amount of VAT they have paid and the amount they have received in a special tax report (skattedeclaration). The tax report must be filed by the 12th of the second month following the end of the relevant month. If the sale exceeds SEK 40 million the tax report must be filed by the 26th of the month following the end of the relevant month. For smaller companies the tax report is filed in the income return on an annual basis.

Employer contributions and tax deductions

All employers must pay social security contributions in the form of employer contributions (approx. 33 percent) and make tax deductions for the money they pay to employees. Every month, employer contributions and tax deductions are recorded in the tax report.

A self-employed person pays his/her own social security contributions in the form of individual contributions (approx. 31 percent).

Excise duties

Excise duties (punktskatter) are charged on some goods, for example on:

- Fuel (petrol, oil, coal and bottled gas)
- Energy
- Alcohol
- Tobacco

Wealth tax

A person is subject to wealth tax (förmögenhetsskatt) if he/she is:

- single with a total capital over SEK 1,500,000 or
- married or cohabiting, with a total capital over SEK 3,000,000.

Wealth tax is from 2007 0.75 percent (1.5 percent for real estates) of everything over SEK 1,500,000 or SEK 3,000,000 respectively. Before 2007 the tax rate was 1.5 percent for all kinds of capital.

The wealth tax is included in the income self-assessment for individuals.

Real estate tax

Owners of real estate are subject to real estate tax. Depending on the purpose of the use the real estate tax rate may vary between 0.5-1 percent of the assessment value. The tax rate on real estate for private use is one percent of the assessment value. The amount to be charged is pre-printed on the self-assessment tax return form.

Every property is supposed to have a tax assessment value equivalent to about 75 percent of the market value. The tax assessment value is decided according to a real estate tax assessment. The tax assessment value is used to calculate real estate tax and wealth tax.

Inheritance and gift tax

The inheritance and gift taxes that has been imposed by the state on property acquired by inheritance or gift were abolished in December 2004.

Declare income and taxes on the Internet or by phone

Many taxpayers can file their tax returns on the Internet. The kinds of tax returns that are available for electronic filing are expanding for each year. Visit www.skatteverket.se to find out who can use these services and how to proceed it.

The self-assessment for individuals can be approved by telephone (020-567 100) for those who don't have to make any changes.

Everyone has a tax account

Everyone, both individuals and companies, has a tax account. The tax account provided by the Tax Agency for individuals shows the preliminary tax figure based on income statements, own tax payments, the final tax figure and other details. For companies the tax account shows all different taxes that are filed, paid or deducted.

Population registration

Everyone who lives in Sweden is registered in the population register (folkbokföring). The register contains details on all who live in Sweden and where they live. Population registration is one of the tasks of the Tax Agency.

The aim of population registration

Population registration is very important. The fact that one is registered, and where one is registered, affects many of ones rights and obligations, including the right to child allowance and health insurance. Population registration also allows a person to prove his/her identity and family circumstances, etc., by means of a population registration certificate (personbevis) and other extracts from the records.

An important task of the population registration service is to ensure that society has up-to-date information of the population. Information is passed on to other official bodies from the Tax Agency's population registers.

Information in the registers

Every tax office has a record of everyone living within its area. Details such as name, address, date of birth, family circumstances and place of residence is registered for each individual. Everyone registered in Sweden is given a national identity number (personnummer) consisting of the date of birth (yy/mm/dd) followed by a fourfigure number for each individual.

The information in the national registers largely comes from the authorities. Hospitals, for example, tell the Tax Agency when a child is born, and registers report marriages.

In some cases, the information is of a kind that must be provided from the individual. For example, a move has to be reported within one week, and the names of newborn babies have to be reported within three months of birth.

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