

2012 Taxes in Sweden

An English Summary of Tax Statistical Yearbook of Sweden



Swedish Tax Agency

Preface

The Swedish Tax Agency has just published the 15th edition of Taxes in Sweden (*Skatter i Sverige 2012*) in Swedish. The purpose of the publication is to present an overview of the Swedish tax system as well as up-to-date statistics on relevant aspects of taxation.

The publication can be used as a basis for researches and public debates, where tax policy is one of the most important and controversial issues. In addition, the book serves as a guide to the many data sources that are available in this field.

This publication, *Taxes in Sweden 2012*, is an English summary of the Swedish edi-

tion of *Skatter i Sverige 2012*. All tables in the Swedish edition have English translations, and references to them are enclosed in square brackets in this English summary.

The complete Swedish edition, together with this English edition, are available on our website www.skatteverket.se.

Swedish Tax Agency, December 2012

Ingemar Hansson
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Taxes in Sweden 2012

Introduction

This publication is a summary of the Swedish edition of *Taxes in Sweden 2012*, 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 consists of 3 parts and is essentially structured in the same way as the Swedish edition of *Taxes in Sweden 2012*. Chapters in Part III have been removed from the Swedish edition this year and are available only in this summary.

Part I contains some general definitions, an overview of the tax system from a macro-economic perspective, a comparison of the Swedish taxes to taxes in other EU and OECD- countries and finally some results from the latest opinion surveys. Part II which is the core part of this publication is about all tax bases and tax revenues: An overview of all tax bases and tax revenues including tax arrears and collection losses, taxes on labour, taxes on capital, taxes on consumption and input goods and the business taxation. Part III finally deals with specific topics and issues concerning taxation and tax policy, i.e. the impact of taxes on income distribution, tax errors and tax evasion, tax fraud and sanctions, a description of the Swedish tax administration and

finally the historical development of taxation in Sweden.

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 2012. 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 2010, which was assessed in 2011, and earlier. Therefore, 2010 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 7.19 in chapter 3 of the Swedish edition is written as [7.19].

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; or via editorship: ali.bahrami@skatteverket.se

Part I: TAXES IN A GLOBAL PERSPECTIVE

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 2011, as percentages of GDP [1.1]

	Households	Companies	Total
Taxes on labour			
Income taxes	16.8		16.8
Social security contributions	2.7	11.1	13.8
VAT and Excise duties		13.1	13.1
Taxes on capital			
Income taxes	0.8	3.2	4.0
Property and wealth taxes	0.5	0.7	1.2
Subtotal	20.8	28.1	48.9

Note: Subtotals are rounded down

2 General government sector in the national accounts

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

- Central government
- The social security funds
- Local government (municipalities, municipal associations and county council)¹

The total revenue of the general government sector in 2011 was equal to 49.8

percent of GDP and total expenditure was 49.6 percent of GDP. That resulted in total net lending of 6 BSEK in the general government sector, which is approximately 0.2 percent of GDP. Since 2004 total net lending has been on surplus. The negative change started during 2008 and can be explained by the financial crises and the subsequent recession which affected almost the whole world. The total net lending is in 2011 on surplus again.

Since 1999 the major share of government expenditure is also including consumption. This share has steadily increased over time and reached 53.3 percent in 2011. Transfer payments have gone in the opposite direction. In 1993 the share of government expenditure for transfers was 54.7 percent whereas it was only 40.2 percent in 2011. [2.1]

The severe recession of the early 1990s generated a very large budget deficit. Relative to GDP, taxes fell and expenditure rose. To reduce the deficit, government spending was cut and taxes were increased. The combination of subsequent growth and higher tax rates has increased tax revenue relative to GDP from about 48.3 percent in 1993 to 51.9 percent in 2000. Since 2001 the ratio has fallen and in 2011 the tax revenue relative to GDP is approximately 44 percent [2.3].

A large proportion of general government expenditure, 42 percent in 2010, is on social protection. Expenditure on social protection is divided between central government, the social security sector and local government. Other important areas are health (14 percent), education (14 percent) and general public services (12 percent - including interest payments on the national debt). Primary and secondary education is the responsibility of the municipalities, while most health care is provided by the county councils. The breakdown of expenditure by different functions has been relative stable over the period 2003-2010 [2.5].

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 2:
General government sector revenue and expenditure in 2009-2011 (BSEK) [2.1]

	2009		2010		2011	
	BSEK	% of GDP	BSEK	% of GDP	BSEK	% of GDP
Revenue	1 622	52.2	1 691	50.7	1 743	49.8
Taxes and social security contributions	1 451	46.7	1 519	45.5	1 557	44.5
Other revenue	171	5.5	172	5.2	186	5.3
Expenditure	1 652	53.2	1 692	50.7	1 737	49.6
Transfers	690	22.2	693	20.8	698	19.9
Consumption	860	27.7	890	26.7	926	26.4
Investments	103	3.3	109	3.3	113	3.2
Net lending/net borrowing	-30	-1.0	-1	0.0	6	0.2

Table 3:
General government expenditure by function and sector in 2010, BSEK, current prices [2.4]

Function	Sector				
	Total	Central Government	Social Security	Municipal Councils	County Councils
10 Social protection	705	414	224	195	12
9 Education	244	66	0	189	2
7 Health	238	43	0	3	229
1 General public services*	196	257	0	50	8
Total**	1 692	1 003	224	518	268

* For example, interest on national debt.

** 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.

3 Taxes and income distribution

3.1 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.

3.2 Direct taxes paid by individuals

In 2005, an individual with an average income paid 33 percent of this income in direct taxes. In 2007, when the reduction for work income was introduced, the share was 30 percent. Taxes have continued to fall. In 2010, the tax share on an average income was 27 percent. [3.1-4]

Table 4
Direct taxes as a percentage of assessed income for some income groups, 2010 prices [3.2 and 3.5]

Total assessed income (KSEK)	2005	2006	2007	2008	2009	2010
0 – 50	17.9	17.3	12.8	13.5	11.8	11.4
100 – 150	25.9	25.1	24.2	23.8	22.7	22.0
200 – 250	29.8	29.2	26.8	25.9	25.2	24.4
500 –	41.0	39.9	37.4	37.6	35.8	35.3
All age 18 or older	32.9	32.6	30.4	29.4	28.0	27.5
All 18-64 years	33.4	33.0	30.5	29.4	27.8	27.4
All 65- years	30.7	30.7	29.9	29.7	28.7	27.9

Table 5
Redistribution by taxes and benefits, 2010, (all households 18–64 years) breakdown into various income groups, KSEK [3.7]

Income groups	Factor income	Benefits	Taxes	Disposable income
1 – 50	16	138	27	127
100 – 150	125	89	40	174
200 – 250	226	59	63	223
300 – 350	323	53	87	288
600 –	988	50	298	740
All	412	74	123	362

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 2012, about 34 percent of a wage increase is lost to the individual: 30 percent in increased income tax, 3 percent in reduced benefits and less than 0.5 percent in higher charges [3.6]. These figures are averages. In individual cases, lost benefits and higher charges may have a much stronger impact.

3.3 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. [3.7]

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 2010 the average single parent received about SEK 23,800 more in benefits than taxes paid. [3.8]

In 2010, the total factor income of all households in Sweden was SEK 1,552 billion, of which 87 percent was employment and entrepreneurial income and 13 percent capital income. Direct taxes and certain other charges totaled SEK 543 billion and transfers to households (benefits etc.) totaled SEK 500 billion. This resulted in a

total disposable income of SEK 1,592 billion. [3.9]

The results show with exception from 2001 and 2008 a continuous increase in the households' disposable income since 1995. The share of the households' gross income that originates from income from work have decreased since 1975 while the share that originates from income from capital and pensions has increased. [3.10]

3.4 Income distribution

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

One (single) adult	1.00 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

Between 1991 and 2010 living standards rose by 43 percent. Measured by the Gini-coefficient, income differences grew after 1991. [3.11] Widening income differences are also reflected by the fact that households with higher income increased their income more than households with proportionately lower income. [3.12]

Table 6
Disposable income per consuming unit for all individuals, mean values for respective decile, KSEK 2010 prices [3.12]

Decile	1991	1999	2007	2009	2010	Change 1991-2010
1	71	63	81	75	76	7%
5	140	139	182	186	188	35%
10	320	375	601	538	562	76%
All	160	165	228	225	228	43%

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.² In 1991, 8 percent of all households reported capital gains on their income tax return; in 2010 the figure was 24 percent. This development has contributed significantly to the widening income differences recorded. [3.13]

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 2010. There are, however, marked differences between age groups. Young men and women between 18 and 29 have had a less increase of their income during the period. [3.14]

Table 7
Disposable income per consuming unit for all individuals, mean values for certain age groups, KSEK, 2010 prices [3.14]

Age	1991	2000	2007	2009	2010	Change 1991-2010
18 – 22	145	138	168	172	169	17%
23 – 29	141	148	176	171	175	24%
50 – 59	190	206	248	256	251	33%
65 – 74	129	138	171	182	185	44%

All different types of households have increased their income since 1991. Co-living households have increased their income the most among the different households. [3.15]

Unemployment is an important factor behind falling disposable income during the mid 1990s. Those in employment have in fact enjoyed rising real wages. Income from work equality between men and women, which worsened during the 1980s, has since then improved somewhat. [3.16]

Table 8
Median annual income of full time employees, age 20–64, KSEK, 2010 prices [3.16]

	1980	1990	2000	2008	2009	2010
Women	203	215	249	284	294	300
Men	233	266	295	336	346	350
All	222	245	273	312	320	325
Women's median income in % of men's	87%	81%	85%	85%	85%	86%

3.5 Distribution of wealth

Wealth is unevenly distributed in Sweden. In 2007 the wealthiest 1 percent of the population possessed 23 percent of the

² 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.

total net wealth and had a median wealth of SEK 8.5 millions. The median value for all inhabitants was SEK 65,000. Women's wealth is smaller than that of men. Of the total net wealth, women possessed 43 per cent.

4 Swedish taxes in an international perspective

4.1 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 2010 was USD 49,275, which was above both the Euro area average of USD 36,621 and the OECD average of USD 34,937. [4.1]

Table 9
GDP per capita in 2010, US Dollars [4.1]

	Current exchange rates	Purchasing power parities
Sweden	49 275	39 346
Euro area	36 621	34 365
OECD	34 937	33 989

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. [4.1]

4.2 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 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 2009 Sweden had a tax quota on 46.7 percent, well above the EU average of 38.4 percent. However, Sweden has reduced its tax quota with 3 percentage points between 2005 and 2010. [4.3]

4.3 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 one third 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. [4.6]

A comparison of the contribution of different taxes to the tax quota in Sweden and an unweighted EU average shows that Sweden has a higher contribution from taxes on income and profits than average. The social security contributions in Sweden are in line with the EU average. Taxes on personal income are highest in Denmark (26.4 percent of GDP compared to 13.5 percent of GDP in Sweden). Among the OECD countries social security contributions are highest in France (16.7 percent of GDP compared to 11.4 percent of GDP in Sweden). VAT and excise duties are highest in Hungary (4.9 percent of GDP, compared to 13.5 percent of GDP in Sweden). [4.5]

The gap between the Swedish and the EU tax quota is mainly due to higher taxes on labour and payroll in Sweden. [4.3]

By comparing the six most heavily taxed EU countries (according to their tax quo-

tas), 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 in particular collect a great share of their rev-

enue from income tax, while Austria 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. [4.6]

Table 10
The tax quota and the tax mix (2009) [4.3,4.6]

	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
Denmark	48.1	61.2	2.6	3.9	32.0	0.0
Sweden	46.7	35.3	33.0	2.4	28.9	0.1
Italy	43.4	32.7	31.7	6.2	24.3	4.8
Belgium	43.2	33.9	33.4	6.6	25.2	0.0
Austria	42.7	28.0	41.7	1.3	28.1	0.6
Finland	42.6	35.9	29.9	2.6	31.4	0.1
EU 15 average	38.4	33.2	30.8	5.1	29.7	0.7

The public sector is usually divided into central government, local government and the social security funds. In federal countries there is also a state government. In Sweden, more than half of all taxes go to central government (51.2 percent). This ratio varies in the EU-15 between 27.4 percent (Spain) to 80.6 percent (Ireland). Taxes to local government in most EU

countries account for a smaller proportion of all taxes. Sweden is here an exceptions with 36.4 percent of all taxes going to local governments. The impact of social security funds in the EU ranges between 2.0 percent of all taxes (Denmark) and 55.3 percent (France). Sweden, with 12.4 percent, is second lowest after Denmark. [4.10]

Table 11
Tax revenue by recipient, as percent of total tax, 2009 [4.10]

	Federal or Central Government	State Government	Local Government	Social Security funds
Austria	66.2	1.6	3.3	28.9
Belgium	56.1	4.7	5.4	33.8
Denmark	72.1		25.9	2.0
Finland	46.2		23.9	29.9
France	31.5		13.2	55.3
Germany	31.5	21.7	7.9	38.9
Greece	64.4		0.7	34.9
Ireland	80.6		3.2	16.2
Italy	53.3		15.0	31.8
Luxembourg	66.1		4.5	29.3
Netherlands	59.9		3.7	36.4
Portugal	67.5		5.6	26.9
Spain	27.4	23.8	9.4	39.4
Sweden	51.2		36.4	12.4
UK	74.8		5.3	19.8

4.4 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 has increased in the last years. An average salary for a single (unmarried) worker in 2011 was 75.2 percent of the gross salary (this equals the OECD-average). A person earning a salary 67 percent higher than an average worker had however a disposable income of 64.6 percent of gross pay, which is somewhat higher than the EU 15 average on 63.7 percent but lower than the OECD-average on 69.7 percent. [4.11]

Table 12
Disposable income, by wage levels as a percentage of the average wage for an industrial worker, as percent of gross pay, 2011 [4.11]

Household	Single		Married, 2 children	
Wage person 1	100%	167%	100%	100%
Wage person 2			0%	67%
Sweden	75.2	64.6	82.4	80.6
EU 15	70.8	63.7	82.8	77.4
OECD	75.2	69.7	86.8	81.0

Looking at marginal income tax rates we can see that they have decreased in Sweden during the last years and are now lower than the OECD average for all income groups studied, with one exception, single persons with high incomes. [4.12]

4.5 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. Three OECD countries have a net wealth tax; France, Norway and Switzerland. [4.13].

Corporate tax rates vary widely between the 34 OECD countries. The United States has the highest corporate tax rate (40.0 percent) while Ireland has the lowest (12.5 percent). Sweden place itself roughly in the middle with a tax rate on 26.3 percent on company profits. [4.14] However, comparisons of corporate tax rates must take into account the extent to which companies are allowed to create untaxed reserves, and whether dividends are subject to double taxation, as is the case in Sweden.

4.6 Taxes on goods and services

4.6.1 Value Added Tax (VAT)

In 2012 the minimum standard VAT rate in the EU is 15 percent. Only Luxembourg is currently applying the minimum rate. Hungary has the highest standard tax rate at 27 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. [4.15]

4.6.2 Excise duties

In Sweden, excise duties on energy account for the largest share of excise duties overall. Sweden's excise duty rates on petrol and gas are at the average European level, with the exception of propellant that is 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 and Hungary), total taxation on energy is among the highest in Europe. [4.16]

Excise duties on alcohol are higher in Sweden than in any other EU country. The Swedish rate of excise duty on ethyl alcohol is EUR 54.74 per litre, followed by 43.40 in Finland. The excise duty on wine is also relatively high (EUR 2.36 per litre). [4.17]

Taxes (VAT and excise duty) make up 80.8 percent of the retail price of tobacco products in Sweden which is in line with the EU average. However, the price of a pack of cigarettes is still higher in Sweden than in most other countries. This is due to high production costs and high wholesale and retail margins. [4.18]

4.6.3 Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 2011, Sweden contributed SEK 30.6 billion to the EU budget and received SEK 12.3 billion in return. [4.19]

5 Opinions on the tax system, tax evasion and the Tax Agency's compliance control

5.1 Introduction

Since the mid 1980s, the Tax Agency has surveyed the general public and the business sector about the Swedish tax system, tax evasion and the compliance control provided by the Tax Agency. The results presented in this section are from 2001-2012 general public surveys, with random samples of 3,000 – 5,000 citizens in each survey and with response rates around

50 percent. The respondents rated a set of positive statements on a 5 point scale. The responses were merged into 4 groups; "agree", "neither/nor", "disagree" and "don't know/can't answer".

5.2 The opinion of the tax system

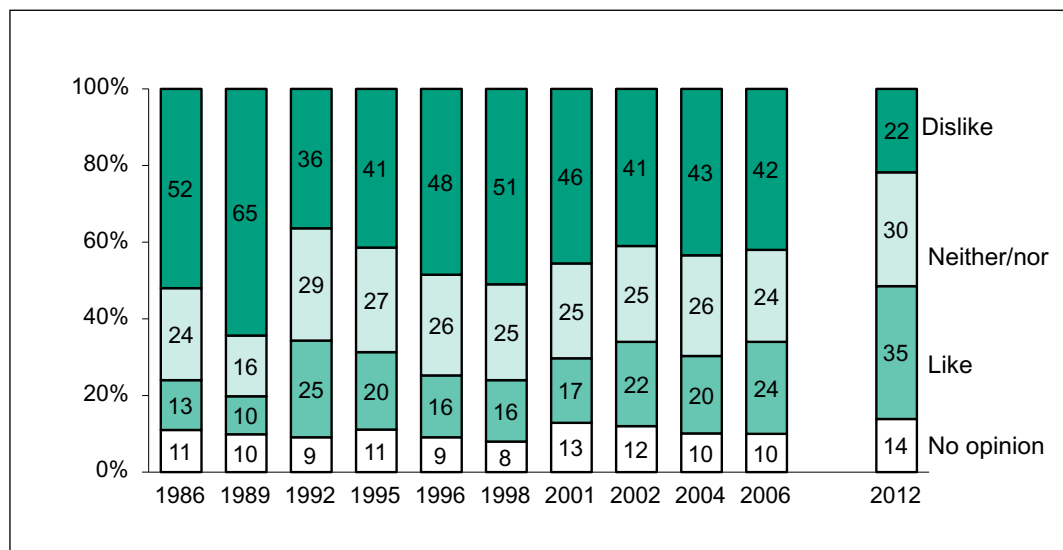
Prior to the tax reform 1990-91 the Swedish citizens were more dissatisfied

with the tax system. After the reform the percentage of citizens expressing dislike of the tax system decreased considerably and then remained stable on a lower level. Between 2006 and 2012, once again the percentage of citizens that were dissatisfied with the tax system decreased significantly.

Diagram 13

What is your general opinion on the tax system, i.e. tax levels and design of tax rules?

The general public 2001 - 2012, percent [5.1]



Source: SKV 2012:1

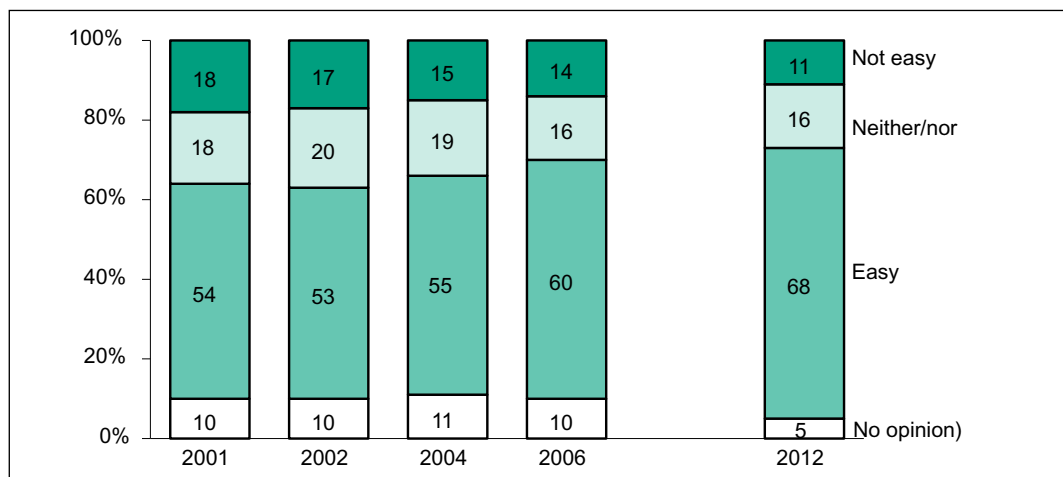
5.3 The opinion of filing tax returns

A clear majority of citizens considered it as easy to fill in their tax returns. According

to the 2012 survey 68 percent agreed and 11 percent disagreed with the statement that it is easy to fill in the tax returns.

Diagram 14

It is easy to file tax returns, the general public, percent [5.2]



Source: SKV 2012:1

5.4 Confidence in the Tax Agency and the opinion of the Tax Agency's counteracting tax evasion

The proportion of citizens who state that they have confidence in the Tax Agency has risen from 46 to 55 percent during the period 2006 - 2012.

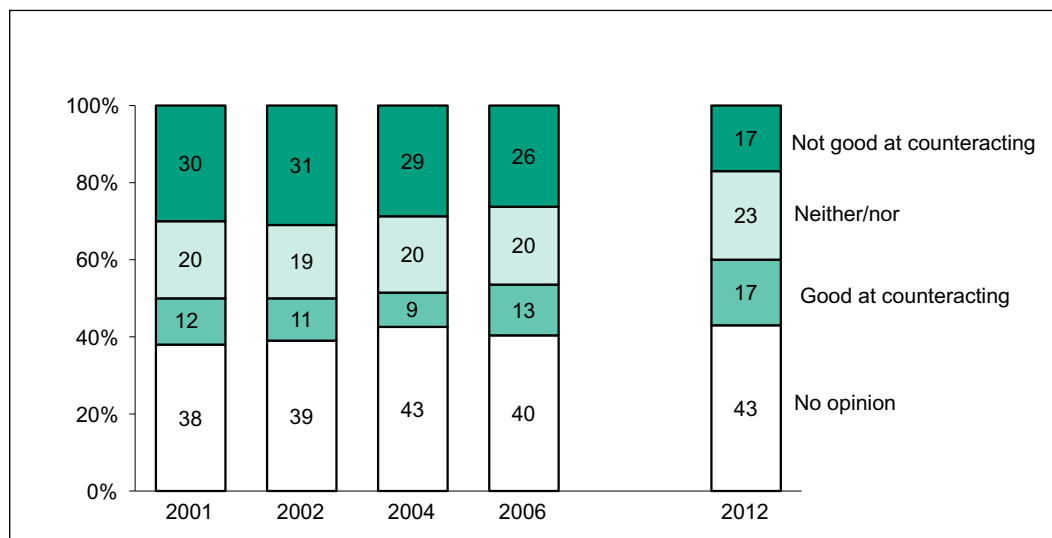
The proportion of citizens who state that the Tax Agency is good at counteracting

tax evasion has also increased during this period. However, it is more difficult for citizens to express their opinion about this question. Almost half of the respondents have no opinion on this statement.

The proportion of citizens that believe that the Tax Agency would discover if they evaded tax has also increased considerably during the same period, from 43 percent in 2006 to 57 percent in 2012.

Diagram 15

The Tax Agency is good at counteracting tax evasion, the general public, percent [5.4]



Källa: SKV 2012:1

5.5 The citizens' own behaviour and their knowledge of tax evasion

According to the survey, 6 percent of all respondents acknowledged that they worked illegal (illicit working) or in another way evaded tax during the last 5 years.

During the period of 2006-2012, the proportion of citizens who know other citizens that evaded tax, worked illegal or engaged people in illicit work during the last 12 months decreased significantly. The proportion of respondents who know other citizens that have evaded tax decreased from 22 to 13 percent and the proportion of respondents who know other citizens that have worked illegal decreased

from 38 to 22 percent. An explanation for this change is probably the deductions for house repair and maintenance ("ROT") and household work ("RUT") that were taken into effect during this period. The result could be an indication of that the tax gap has decreased, on the part of the tax evasion that the citizens are directly aware of.

Those who answered that they had evaded tax differ from the rest mainly by having knowledge of others who have evaded tax, performed illicit work or engaged people in illicit work, in particular those who also have friends that would accept if you performed illicit work yourself.

Table 16
Percentage that stated that they evaded tax in different groups, the general public, 2012 [5.6]

Group	Group characteristics		Percentage of the population	Percentage that stated that they evaded tax
	Knows someone who evaded tax	Friends' opinion if you performed illicit work yourself		
High risk	Knows tax evaders	Acceptance	9%	26%
Medium risk	Knows tax evaders	No acceptance	24%	10%
Others	Does not know tax evaders		67%	2%
Total			100%	6%

Source: SKV 2012:1

Part II: TAX BASES AND TAX REVENUES

6 Overview

6.1 All tax bases and Tax revenue

In 2010, total tax revenue was SEK 1,520 billion. Of this 58 percent may be regarded as tax on labour (i.e. tax on earned income and social security contributions).

Table 17
Total taxes in 2010 [6.1]

	SEK, billion	% of total taxes	% of GDP
Taxes on labour	877	58%	26.3%
Taxes on capital	191	13%	5.7%
Taxes on consumption and input goods	451	30%	13.5%
Total taxes	1 520	100%	45.6%
of which			
- taxes belonging to EU	7	0.5%	
- local income tax	523	34.4%	
- fees for the pension system	183	12.1%	
- state taxes	807	53.1%	

6.2 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 Authority³. The Enforcement Authority will again demand payment 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 2011 were SEK 6 billion, equal to 0.4 percent of total tax revenue. [6.7]

³ In January 2008 the Enforcement Authority was separated from the Tax Agency. The Tax Agency is the parent agency of the enforcement service. The Enforcement Authority, however, collect not only tax arrears, but also bad debts owed to companies and private individuals. The enforcement service's register of debtors is public, which in itself is a strong deterrent, since it will affect a person or company's credit.

Table 18
Tax arrears and collection losses 2002, 2004-2010, SEK billion [6.7]

	2002	2004	2005	2006	2007	2008	2009	2010	2011
Total tax revenue	1 164	1 283	1 357	1 427	1 486	1 495	1 457	1 520	1 546
Accord/debt restructuring					0.03	0.12	0.22	0.22	0.18
Arrears notified to the enforcement authorities	15.5	12.8	13.1	11.0	11.3	14.4	15.2	12.7	13.6
Demands withdrawn or reduced	-4.1	-3.1	-3.7	-2.2	-2.6	-2.7	-2.9	-2.8	-2.6
Net arrears	11.4	9.6	9.3	8.9	8.7	11.7	12.3	9.8	11.0
Payments to the enforcement authorities	-5.0	-4.6	-4.7	-4.3	-4.3	-4.5	-4.9	-4.7	-5.2
Collection losses	6.3	5.0	4.6	4.5	4.4	7.2	7.4	5.2	5.9
Collection losses incl. accord/debt restructuring					4.4	7.4	7.6	5.4	6.0
Collection losses as % of total tax revenue	0.5%	0.4%	0.3%	0.3%	0.3%	0.5%	0.5%	0.4%	0.4%

The current level of collection losses is about the same as in the late 1980s. In the early 1990's 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 2011 the level was about 7 000 businesses with 23 800 workers affected. [6.9]

In 2011 individual taxpayers accounted for about 38 percent of the collection losses, with legal entities making up the remaining 62 percent. Income tax make up the greater part of all tax arrears. The introduction of the single tax account in 1998 – as a result of which all payments are registered on a single account for each taxpayer without differentiation by tax – makes it difficult to calculate how much of the loss is represented by each tax. Such unallocated losses are referred to as deficits on the taxpayers tax account.

By the end of 2011, the balance of unpaid tax arrears was SEK 36.2 billion. A considerable share (56 percent) was at-

tributable to insolvencies. 43 percent of the total debt was subject to active recovery measures. About SEK 0.6 billion, roughly 2 percent of the total amount due, consisted of penalties and accumulated interest. [6.10]

Table 19
Closing balance of tax receivables at the end of 2011, SEK billion [6.10]

	Taxes	Interest and penalties	Total
Bankruptcies, concluded	13.2	0.1	13.3
Bankruptcies, not concluded	6.2	0.1	7.3
Other arrears not subject to active recovery	0.1	0.0	0.1
Arrears subject to active recovery	15.6	0.5	16.0
Total	36.2	0.6	36.8

Time is a crucial factor in debt collection. In 2011, the Enforcement Authority collected tax arrears worth SEK 4.6 billion. Most of this (78 percent) was made up of arrears that arose in the same year with a further 14 percent arising in the previous year. [6.11]

By the end of 2011, there were 495,000 debtors registered with the Enforcement Authority. Most had debts to the public sector, some only to private creditors and

many to both public and private creditors. Among these were 119,000 debtors with tax arrears, of which 48,000 were legal entities. The total number of debtors increased during the 1990s until 1998, but has decreased annually since then until 2009 when the number of debtors increased and the number is unchanged for year 2010 and a small increase in 2011. [6.12]

The bulk of total arrears are owed by a small number of debtors. About 81 percent of the arrears accumulated by private individuals are owed by 10 percent of the debtors, while 75 percent of the arrears run up by legal entities (mostly companies) are owed by 8 percent of the debtors. [6.13-6.14]

7 Taxes on labour

Taxes on labour consist of individual income taxes (to the State and local government) and social security contributions. Social security contributions account for a good half of the taxes on labour.

Table 20
Taxes on labour 2010, (SEK billion [7.1])

	2010
Income taxes*	399
- of which state income tax	42
- of which local income tax	523
- of which tax reductions	-166
Social security contributions	493
Tax on occupational insurance	1
Tax reduction for household services and housing improvements	-14
Shipping support	-2
Total	877

* State and local income taxes excluding:
- individual taxes on capital income and
- company income tax which are treated as taxes on capital (see section 4.5).

7.1 Employment and income

About 48 percent of the Swedish population of 9.4 million in 2011 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. Between 1993 and 2011 the number of hours worked has increased by 15.2 percent. The recovery since 1993 is primarily due to increased population and higher employment. Spread over total population the number of hours worked per head has increased by 6.3 percent between 1993 and 2011. [7.2]

In 2010, about 71 percent of all employees were full-time workers. Most part-timers were women. The median income of male full-time employees in 2010 was SEK 350,600 and of female full-time employees SEK 299,900. [7.4-5]. In 2010, about 6 percent of all adults (over 18) had assessed earned income (non-capital income) exceeding SEK 500,000. They received 19 percent of the taxable income and paid 27 percent of the tax. [7.3]

7.2 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 2010 was 31.56 percent. Since 2007 there is also a general tax reduction linked to income from active work.

On the following page is an example to illustrate the computation of the income tax burden on an individual for the income year 2010. The example also includes general social security contributions and taxes on capital, which will be explained in later sections.

Table 21
Example of the computation of tax on an individual with income from active work
(income year 2010), SEK

	Tax base	Tax rate	Tax amount
Net employment income	400 000		
Net business income	0		
General allowances (e.g. private pension premium payments)	-10 000		
Assessed earned income	390 000		
Basic allowance	-12 500		
Taxable earned income/Local income tax (average rate = 31.56%)	377 500	31.56%	119 139
Less income threshold for State income tax	-372 100		
State income tax (20%)	5 400	20.00%	1 080
General pension contribution (7% of net employment and business income)			28 000
Tax reduction for general pension contribution			-28 000
Tax reduction for incomes from active work			-21 051
Subtotal (individual taxes on labour)			99 168
Taxes on Capital (see Chapter 8):			
State tax on capital income (30%)	30 000	30.00%	9 000
Local real estate fee	1 500 000	0.75% max 6 387	6 387
Total tax			114 555

The aggregate assessed income of individuals (employment income and business income, less general allowances) in 2010 was SEK 1,822 billion. This sum was almost entirely made up of earnings from employment and pensions.

Table 22
Aggregate assessed earned income in
2010, SEK billion [7.10]

	2010
Employment income	
Salaries and benefits	1 414
Pensions	352
Other taxable remunerations	38
Deductions	
Commuting to work	-14
Other	-4
Net employment income	1 786
Net business income	48
General allowances	
Private pension premiums	-11
Other	-1
Net general allowances	-12
Total assessed earned income	1 822

To arrive at the taxable income, a deduction is made for a basic allowance that for persons of active ages varies between 12,500 and 32,700 SEK depending on income [7.18-19].

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 2010 the average rate was 31.56 percent:

Municipality tax	20.74 percent
County council tax	10.82 percent
Total	31.56 percent

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 2012 the lowest tax rate was in the Malmö suburb of Vellinge (28.89 percent) in the south and the highest in Hofors a municipality dominated by steel industry in central Sweden (34.32 percent). [7.26-28]. The gap would have been even wider had there not been a system of economic equalisation for municipalities and county councils. [7.29-30]

State income tax applies only to taxable income that exceeded SEK 372,100 (2010 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 many times have been ruled by political considerations [7.40]. 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 2010 the 25 percent rate applied to taxable income exceeding SEK 532,700. [7.20]

The top marginal tax rate in 2012 is 56.60 percent (at an average local income tax rate of 31.60 percent). This rate applies to taxable income above SEK 574,300 (equivalent to assessed income above SEK 587,200). At lower levels, the effective marginal tax rates are also influenced by variations in the basic allowance and the tax reduction for income from active work [7.19; 7.22]. In 2010, about 15 percent of the population aged 20 or more had income above the threshold for State income tax. Of full-time employees aged 20-64, 28 percent had income exceeding the threshold. [7.24].

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. [7.25]

7.3 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 contributions. The main part is paid either by employers as a payroll tax at a normal rate of 31.42 percent (2010) or by self-employed people themselves at the rate of 28.97 percent. In order to stimulate labour supply lower rates apply to people under 26 and above 66 years. In addition to this, taxpayers are assigned a general pension contribution. In 2010, 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 summing up the social security contributions to the public sector a reduction is made for the part assignable to the premium pension system. According to the principles of Eurostat this part of the fees is considered to belong to savings of the household sector. In 2010, social security contributions summed up to SEK 493 billion. [7.31-35]

Table 23
Social security contributions in 2010
[7.31-32]

	SEK billion	Normal tax rate
1. Basic social security contributions paid by		
a. employers or	386	31.42%
b. self-employed	11	28.97%
2. General pension contribution paid by all active persons	89	7.00%
3. Special wage tax	33	24.26%
4. Deduction for fees for the premium pension system	-26	
Total	493	

7.4 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 set to correspond to average local tax and rate of special wage tax. In 2010, the total yield from this tax was SEK 856 million.

7.5 Tax reduction for household services and house repairs

In the summer of 2007 a tax reduction was introduced for the purchase of household services by individuals. In December 2008 the reduction was extended to include purchase of house repairs and maintenance. The object of the reduction is to create

jobs and to transfer jobs from the hidden to the istered economy. The tax reduction is set at 50 per cent of the labour cost (incl. VAT). The reduction is limited to SEK 50,000 per applicant per year. Maximum reduction thus is reached at labour costs of SEK 100,000 per year. In 2010 the total reduction was SEK 13.7 billion of which household services SEK 1.3 billion and house repairs SEK 12.4 billion. [7.37]

7.6 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 7.4 million individual taxpayers who submitted income returns in 2011 (that is income earned 2010) 59 percent just signed and returned the form, while another 41 percent changed or added some information. [7.6-7]. In 2002 individuals for the first time could send their form to the tax agency by electronic media. In 2012 about 65 percent of them (4.8 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 24
Collection of individual income taxes etc in the assessment year 2011⁴ [7.8]

	SEK billion	% of debited tax
Total tax debited on basis of assessment (final tax bill)	557	100%
of which paid by		
- employers, banks etc. by withholding	515	93%
- preliminary tax paid by entrepreneurs	27	5%
- adjustment of state prepayments to companies of tax reduction for household services and repairs	-14	-3%
Remaining amount to be settled	29	5%
of which		
- tax payers' own additional payments	66	12%
- excess tax refunded to tax payers	-37	-7%

8 Taxes on capital

- At the end of 2011 individuals had financial assets with a value of SEK 6,549 billion and liabilities of SEK 3,013 billion, equivalent to a financial net wealth of SEK 373,000 per resident. One or two-dwelling buildings for permanent and seasonal use had an assessed value of SEK 2,603 billion.
- Total taxes on capital on individuals and companies were SEK 191 billion in 2010, or approx. SEK 20,400 per resident
- Taxes on capital were equivalent to 5.7 percent of GDP and constituted 13 percent of total tax revenue.
- Tax on company profits, i.e. company tax, totalled SEK 107 billion in 2010 and thus accounted for slightly more than 50 percent of taxes on capital.

8.1 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. Today's tax on capital consists of tax on current income

⁴ Most income assessed in 2011 were earned in 2010 and most of the preliminary taxes were paid in the form of PAYE during 2010. Supplementary payments are generally made in the spring of the assessment year, i.e. 2011. Most taxpayers receive their final tax bill (or refund) in the summer of the assessment year, but some taxpayers with more complicated income have to wait until December.

from capital, tax on holdings of capital and tax levied when the capital changes owner. The taxes on capital are to some extent paid directly by the households. Other parts of the tax on capital are paid administratively by the companies but in the last resort burden the households. In year 2010, total taxes on capital raised SEK 191 billion, about 13 percent of total tax revenue.

Table 25
Taxes on capital 2010, SEK million [8.1]

	Total
Local real estate fee on one- and two-dwelling buildings and apartments	14 361
State real estate tax (on premises, industries etc.)	11 894
Income tax on capital income for individuals	34 430
Tax on dividends to non-residents	3 064
Tax on funds retained for expansion for self-employed, net	113
Income tax on company profits	106 631
Tax on pension- and capital insurance fund earnings	11 829
Stamp duty	8 968
Total	191 290

The revenue from tax on capital varies a great deal from year to year mainly due to variations in capital gains for households and company profits [8.2].

The middle-aged and the elderly pay most of the direct taxes on capital. [8.17]

8.2 Real estate tax and real estate fee

The Tax Agency carries out real estate assessment according to a rolling schedule with different types of assessment units each year, chiefly one- or two-dwelling buildings, apartment buildings, units for agriculture and forestry and industries and electric power units. The assessed value is to be set at 75 percent of the market value.

As from 2008 government property tax on dwellings was abolished and replaced by a local real estate fee. The charges are index-linked by being tied to changes in the basic amount of income. The charge

for single-family houses in 2010 was SEK 6,387 but not more than 0.75 percent of the tax assessment value. The charge for an apartment in an apartment building was SEK 1,277 although not more than 0.4 percent of the tax assessment value. In 2010, the total yield from real estate tax and real estate fee was SEK 26 billion, of which private homes accounted for SEK 12.2 billion. [8.5]

Table 26
Real estate tax in 2010 [8.5]

	Tax base Standard Revenue		
	SEK billion	tax rate in %	SEK million
Private homes (one- or two-family dwellings) - local fee/state tax	1 633	..	12 214
Apartment buildings - local fee/state tax	731	..	2 886
Commercial property	678	1.0	6 777
Industrial property	316	0.5	1 578
Electricity-producing power plants (hydro/wind)	137	2.2/0.2	2 921
Total	3 354		26 376

New built dwellings have had a reduced fee for ten years. The first five years have been exempted from fee and the next five the fee has been halved. In order to stimulate new construction of housing the period of reduced fee is proposed to be extended to 15 years from 2013. There is also a rule that limits the real estate fee for pensioners to 4 percent of the income.

8.3 Household financial wealth

Financial investments have become a more vital feature of household wealth. Between 1995 and 2000, the net financial assets of households rose from about 59 percent of GDP to 104 percent of GDP. This development can be explained by the growth of investment in shares and mutual funds, insurance savings and rising share prices. Since year 2000 net financial wealth has fluctuated over the years [8.9].

Table 27
Financial assets and liabilities of households as percent of GDP [8.9]

	1995	2000	2005	2010	2011 prel.
Cash and bank deposits	28.8	22.9	30.2	36.4	37.3
Bonds	9.3	4.7	4.4	4.3	3.5
Shares and other equity	22.1	48.7	43.6	41.1	31.1
Insurance savings	36.9	62.7	74.5	80.2	77.5
Other accounts receivable	8.3	15.9	28.7	39.6	38.0
Total financial assets	105.5	154.9	177.8	201.5	187.4
Liabilities	46.4	51.0	69.6	86.5	86.5
Net financial assets	59.1	104.0	108.2	115.0	101.2

The change in mix of household assets makes taxation of capital gains and pension fund earnings a more essential component than before.

8.4 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.

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 2010, aggregate net taxable capital income was about SEK 114 billion and net yield about SEK 34 billion.

Table 28
Tax on individual income from capital in 2010, SEK billion [8.10-11]

	Income	Expenditure and losses	Net income and tax
Interest received and paid, dividends	73.1	73.1	0.0
Capital gains/losses	119.5	5.6	113.9
Administration costs		0.4	-0.4
Net income from capital	192.6	79.2	113.5
Net tax on income from capital			34.4

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 larger than losses. [8.12-8.13]

Postponement of capital gains on dwellings

Only part of the calculated nominal gain on sale of single-family houses and tenant-ownership rights is shown for assessment. The tax is 30 percent of the assessed profit but in percent of the real nominal gain it is lower. The rule that only a part of the

profit is liable to tax is based on the factors that were balanced when the “ceiling rules” (which had been introduced at the time of the tax reform in the beginning of the 1990s) were abolished. Up to and including the year 2000 half of the calculated profit was shown for assessment which means that as a proportion of the nominal profit the tax was 15 percent. In 2001 tax on capital gains from the sale of private dwellings was stiffened and the tax as a proportion of the nominal profit became 20 percent. With the abolition of property tax and the introduction of the local real

estate fee as from 2008, the tax on capital gain was raised from 20 to 22 percent.

A person selling a dwelling and then purchasing another dwelling has some scope for postponing taxation of capital gain on the sale of the original dwelling. Until 2007 the whole gain could be postponed on condition that the price of the new dwelling was the same or higher than the one sold. As from 2008 has been set a limit to postponements and a yearly interest charge has been imposed on outstanding postponements. New postponements have 2008-2009 been maximized to SEK 1.6 million per dwelling and as from 2010 to SEK 1.45 billion. In December 2011 there were 597,000 individuals having postponed profits. The postponed profit on these totalled SEK 250 billion. The yearly interest charge is 0.5 percent of the postponed amount. [8.14-8.15]

8.5 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 2010, the yield was SEK 3.1 billion.

8.6 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 2010, 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 2010 was SEK 11.8 billion.

8.7 Company income tax

The State income tax on legal entities (“company income tax”) in 2010 is 26.3

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.

In 2010 (according to the 2011 annual assessment), companies reported a total taxable profit of SEK 434 billion and paid SEK 107 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 3 percent of all companies showing profit reported 80 percent of total taxable profits.

8.8 Stamp duty

Stamp duty is levied on the acquisition of real property and the registration of mortgages. The standard rates for individuals, non-profit associations and housing co-operatives are 1.5 percent of the value of the acquired property. For legal entities the rate has been 3 percent but the rate is from 2011 raised to 4.25 percent. Other tax rates apply in special cases. In 2010, the yield from stamp duty was SEK 9.0 billion.

8.9 Wealth tax and inheritance and gift taxes

Since 17th December 2004 the inheritance and gift tax in Sweden is abolished. Wealth tax is abolished as from 2007.

9 Taxes on consumption and input goods

9.1 Overview

Taxes on consumption and input goods include value added tax (VAT), as well as excise and customs duties. In 2010, total revenue from these taxes was SEK 451 billion, representing about 30 percent of all tax revenue. [9.1-2]

Table 29
Taxes on consumption and input goods 2009-2010, SEK billion [9.1]

	2009	2010
Value added tax	306	326
Excise duties	121	125
Total	428	451

9.2 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 (2012), the standard VAT rate is 25 percent (of the tax base). A reduced rate of 12 percent applies to food, restaurants, hotel accommodation and camping. Newspapers, books, magazines, cultural and sports events and passenger transports are taxed at 6 percent. [9.3]

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 1 million taxable persons identified for VAT purposes. 490,000 of these are businesses with a maximum turnover of SEK 1 million, which report VAT on annual income tax returns [9.4]. In 2010, gross payments of VAT totaled SEK 528 billion, of which 89 percent was collected by the tax authorities or reported in the income tax return. About 38 percent of the gross payments was refunded. The remaining net revenue was SEK 326 billion.

[9.6] In addition another 30 billion was input VAT on government spending, which in the government revenue accounts was offset against revenue received.

In 2011 a total turnover of SEK 7,965 billion in VAT returns were reported to the tax authorities of which exports and sales to other EC countries accounted for SEK 1,819 billion (turnover that are exempt from VAT). The 25 percent tax rate applied to about 86 percent of the reported non-export turnover [9.7]. The wholesale and retail trade accounted for about 37 percent of output tax and 41 percent of net revenue. Manufacturing, on the other

hand, reported 15 percent of output tax, but because of large export sales this sector was entitled to a net refund of SEK 30 billion. [9.8]

Table 30
VAT revenue 2010 [9.6]

	2010, SEK billion	% of gross payments
VAT payments received by customs	58.6	11%
VAT payments received by tax authorities	462.7	88%
VAT reported in annual income tax returns	7.0	1%
Total	528	100%
VAT-refunded by the tax authorities	202.0	38%
Net VAT revenue	326	62%

9.3 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 spirits and sugar, were the most important sources of government revenues. 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 one registered taxpayer for lottery duty and 58 taxpayers for tobacco duty, of which the largest taxpayer accounts for 98 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. [9.10-12]

Table 31
Excise and custom duties 2009-2011 [9.9]

	2009	2010	2011
Energy and environmental taxes	70 313	73 171	70 409
Taxes on alcohol and tobacco	23 106	23 022	24 292
Taxes on road vehicles	16 376	16 400	15 724
Customs duties and other import taxes*	5 151	5 674	5 660
Lottery and gambling taxes	5 875	6 199	6 466
Tax on advertising, concession fees for TV networks etc	519	564	692
Total	121 340	125 029	123 243

* 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 2010 fossil fuels (oil, coal and natural gas) accounted for about 37 percent of Sweden's energy supply. Nuclear power supplied another 27 percent and hydroelectric power 11 percent. [9.17] Because Sweden is a northern country, much energy is needed for heating. About 40 percent of all energy is consumed in homes and services, 36 percent by industry and 23 percent by domestic transports. [9.19]

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. [9.20]

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 32
Energy and environmental taxes 2009-2011, SEK million [9.13, 9.24]

	2009	2010	2011
General energy tax	40 059	41 152	40 583
Nuclear power tax	3 394	3 997	3 852
Carbon dioxide tax	26 085	27 334	25 368
Sulphur tax	39	48	27
Acidification tax	40	57	59
Taxes on fertilizers and biocides	249	85	87
Gravel tax	189	173	184
Fees on waste	189	289	205
Fees to The Swedish Chemicals Agency'	69	35	45
Total	70 313	73 171	70 409

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 [9.14]. Some energy duties are also geographically differentiated. Electricity duties are lower in northern Sweden [9.16].

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

Table 33
Taxes and consumer prices of electricity and petrol, June 2012 [9.21-22]

	Electricity, SEK/Kwh	Percent	Petrol, SEK/litre	Percent
Pre-tax price	0.51	51%	6.10	42%
Energy tax	0.29	29%	3.14	21%
Carbon dioxide tax	-	-	2.51	17%
VAT	0.20	20%	2.94	20%
Consumer price	1.00	100%	14.69	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 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. [9.35-37]

Table 34
Taxes on road vehicles 2009-2011, SEK million [9.34]

	2009	2010	2011
Vehicle tax	11 682	11 875	11 237
Road user charges	891	778	778
Congestion tax in Stockholm	785	799	802
Tax on premiums on third party liability insurances	3 018	2 948	2 907
Total	16 376	16 400	15 724

The road user charges (toll) 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 most stringent requirements for exhaust devices, the user charge is SEK 6,913; for vehicles with four axles or more the charge is SEK 11,522. 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 2012, there were 6.8 million vehicles subject to vehicle tax, including 4.6 million passenger cars, 582,000 lorries and 1,010,000 trailers. In 2012, the vehicle tax on a petrol-driven passenger car with a kerb weight of 1,650 kg is SEK 2,246.

In 2006 a congestion tax was introduced in Stockholm to help finance a ring road around the city of Stockholm. In 2011 total revenue from congestion tax was SEK 802 million. [9.34]

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 re-

lated 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 21.58 per litre and beers

with an alcohol content exceeding 3.5 percent are taxed at SEK 1.66 for each percent of alcohol per litre. Beers with an alcohol content of maximum 2.8 percent are not taxed. [9.26]

Table 35
Taxes and retail price of alcoholic beverages [6.29-31]

	Spirits 40%, 70 cl		Wine max 15%, 75 cl		Beer 5.2%, 50 cl	
	SEK	Percent	SEK	Percent	SEK	Percent
Pre-tax price	42.81	18%	39.82	57%	7.12	50%
Alcohol tax	140.39	62%	16.19	23%	4.32	30%
VAT	45.80	20%	14.00	20%	2.86	20%
Consumer (retail) price	229.00	100%	70.00	100%	14.30	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. In recent years the consumption has again increased sharply. In 2010 the total sale was 7.3 litres pure alcohol per inhabitant. [9.27] The duty rates on tobacco are defined separately for different tobacco products. Moist snuff, tobacco and chewing tobacco are taxed by weight, while cigars are taxed by the piece. The excise duty on cigarettes is made up of two components. There is a fixed rate of SEK 1.40 per cigarette and a variable rate of 1 percent of the retail price (including VAT, which may be seen as a third tax component). [9.32]

Table 36
Taxes and retail price of cigarettes [9.33]

	SEK	%
Pre-tax price	15.45	28%
Fixed tobacco tax (SEK 1.40 per cigarette)	28.00	51%
Variable tobacco tax (1% of retail price)	0.55	1%
VAT (25% of pre-VAT price)	11.00	20%
Consumer (retail) price	55.00	100%

When Sweden became a member of the European union in 1995, the total revenue yield from alcohol and tobacco declined. In 1995 the revenue was SEK 19.0 billion and in 2005 it was 18.2 billion. However in 2011 the revenue has increased to SEK 24.3 billion. [9.25]

Table 37
Taxes on alcohol and tobacco, SEK million [9.25]

	2009	2010	2011
Tobacco tax	10 604	10 588	11 861
Alcohol tax on spirits	4 436	4 324	4 348
Alcohol tax on wine	4 255	4 411	4 505
Alcohol tax on beer	3 271	3 219	3 186
Tax on intermediate products	194	177	173
Profits on alcohol monopoly retailing	345	302	219
Private import of alcohol and tobacco	1	0	1
Total	23 106	23 022	24 292

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 2011, the value of Sweden's imports totaled SEK 1,100 billion, of which 68 percent came from other EU countries [9.40]. Total revenue from customs duties and other import levies was SEK 5.7 billion. [9.39]

Taxes on lotteries and gambling

The lottery tax 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).

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.

Government owned gambling companies are exempted from lottery tax. Instead the profits are accounted as a tax in the state budget. In 2011 the profits from government owned gambling companies was SEK 5.0 billion.

Table 38
Lottery tax, tax on gambling and profits from government owned gambling companies, SEK million [9.41]

	2009	2010	2011
Lottery tax	1 351	1 389	1 417
Tax on gambling	19	18	17
Delivered profits from AB Svenska Spel	4 477	4 766	5 007
Lottery fees	28	25	25
Total	5 875	6 199	6 466

Tax on advertising, concession fees for TV networks etc.

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.

From 2006 a number of fees for various broadcasting medias are also included

as taxes in the state budget. For example concession fees on TV and radio networks, and fees to the Swedish broadcast commission. These fees are all collected by other authorities than the tax authority.

Table 39
Tax on advertising and concession fees for TV networks, SEK million [9.42]

	2009	2010	2011
Tax on advertising	292	335	390
Concession fees for TV and radio networks etc.	227	229	302
Total	519	564	692

10 Business taxation

10.1 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.

10.2 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 1,121,000 such enterprises in Sweden in 2011 [10.1]. However, 3/4 of these businesses had no employees and most of them were combined with other employment.

Table 40
Number of business enterprises 2010-2011 [10.1]

Number of employees	2010	2011	%(2011)
0	717 697	841 559	75.1 %
1-4	183 420	196 493	17.5 %
5-49	73 208	75 391	6.7 %
50-499	6 147	6 369	0.6 %
500-	877	890	0.1 %
Total	981 349	1 120 702	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.

Table 41
Number of enterprises and employees in 2010* [10.2, 10.20]

	Number of enterprises	Number of employees
Individuals, private firms	557 347	61 257
Unlimited partnerships	60 095	46 640
Limited companies	295 311	2 496 764
Economic associations	24 596	57 597
Clubs, societies and other unincorporated associations	24 600	98 638
Foundations	5 163	24 073
Other	13 483	30 752
Total	980 595	2 815 721

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

Source: SCB, Statistics Sweden

Even if the definition of business enterprise is restricted to firms registered for VAT and/or as employers, the total number (in

2010) are about 981,000. Most of them are run as private firms, but limited companies account for almost 90 percent of total turnover. [10.3]

10.3 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.

10.4 Taxation of limited companies and other legal entities

The total tax bill of legal entities according to the 2011 general tax assessment was about SEK 160 billion. Company profits account for the lion's share of total tax. About 76 percent of the tax was paid by limited companies. Together with bank and insurance companies, limited companies paid 90 percent of the tax total. [10.5]

Table 42
The tax bill for legal entities according to the 2010 and 2011 tax assessments, SEK billion [10.4]

	2010	2011	Change, %
State tax on business income (profits)	86.5	106.6	+23.2
Tax on pension fund earnings	11.8	11.3	-4.7
Special wage tax on pensions	26.3	26.8	+1.8
Real estate tax	13.4	14.4	+7.7
Other	1.8	1.9	+4.5
Total	139.8	161.0	+15.1

About 48 percent of all limited companies declared profits in the 2011 tax assessment and 38 percent declared losses. The remaining 14 percent had no results to declare. Total profits were SEK 431 billion and losses SEK 421 billion. A small number of large companies account for the bulk of these profits and losses. [10.7]

Table 43
Assessed profits and losses for limited companies, 2011 tax assessment [10.7]

Profit or loss	Profits		Losses	
	Number of companies	Assessed income, SEK billion	Number of companies	Assessed loss, SEK billion
0-1 million	163 103	34.2	125 062	22.2
1-100 million	27 395	133.5	21 920	256.1
More than 100 million	332	263.3	600	243.1
Total	190 830	430.9	147 582	421.4

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 profits⁵ to a tax allocation reserve⁶. After six years the reserve must be liquidated and added to income. Since 2007 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.

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. [10.10]

Table 44
Main profit adjustments, 2011 tax assessment [10.10]

	Profits, SEK billion	Losses, SEK billion
Income after financial income and expenses	706.9	147.0
Deductions		
Excess depreciations	29.1	10.8
Transfers to the tax allocation reserve	53.4	0.1
Group contributions to other companies	179.4	86.2
Exempt income	327.2	304.2
Deferred revenue on shares	0.0	0.0
Losses brought forward from previous years	28.3	490.0
Other net adjustments	126.5	0.0
Income added		
Liquidated excess depreciations	14.3	6.0
Liquidated tax allocation reserve	32.9	5.3
Group contributions received	109.3	88.5
Non-deductible expenditure	251.7	149.7
Liquidated deferred revenue on shares	0.0	0.0
Other net adjustments	-	-
Total adjustments	-335.4	-556.8
Assessed surplus or deficit	371.5	-409.8

⁵ Prior to the 2002 tax assessment the limit for allocation of profits was 20 percent

⁶ Periodiseringsfond

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. A profit of SEK 100 is first subject to company income tax at a rate of 26.3 percent. The dividend of SEK 73.7 (100-26.3) is then subject to individual income tax on capital income at a rate of 30 percent. Total tax may thus be computed as $SEK\ 100 \times 26.3\% + SEK\ 73.7 \times 30\% = SEK\ 48.41$.

10.5 Taxation of private firms and partnerships (business income of individuals)

For individuals who report business income, a distinction is made between those who are 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 28.97 percent (2012), while the latter pay a special wage tax at 24.26 percent (2012). Persons born 1938-1944 who are actively involved in the business only pay social security contributions at 10.21 percent and those born before 1938 don't pay any social security contributions at all.

According to the 2011 tax assessment, there were 590,000 persons reporting either profits or losses from businesses in which they were actively involved (private firms and partnerships). Another 160,000 individuals declared profits or losses without taking an active part in the business. [10.11]

In 2011, total assessed profits of private firms were SEK 41 billion and losses SEK 36 billion. [10.12-13]

Table 45
Assessed income for private firms, 2011 tax assessment [10.13]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits, SEK	Number of taxpayers	Assessed losses, SEK
0 - 100,000	217 304	6 432	206 994	5 804
100,000 - 300,000	103 454	18 879	54 331	9 435
300,000 -	36 756	16 097	27 978	20 432
Total	357 514	41 408	289 303	35 671

Total assessed profits for partners in unlimited partnerships were SEK 7 billion

and losses SEK 4 billion, according to the 2011 tax assessment. [10.12, 10.14]

Table 46
Assessed income for partners in unlimited partnerships, 2011 tax assessment [10.14]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits, SEK	Number of taxpayers	Assessed losses, SEK
0 - 100,000	39 040	1 068	34 485	809
100,000 - 300,000	17 339	3 159	6 183	1 068
300,000 -	5 912	2 680	3 302	2 352
Total	62 291	6 907	43 970	4 229

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. 26.3 percent. When the allocation is liquidated some years later, it is added to the assessed business income of that year and the special 26.3 percent tax is refunded.

According to the 2011 tax assessment about 20,000 businesses made allocations of this kind, totalling SEK 2.3 billion. About 25,000 allocations (SEK 1.8 billion) were liquidated. Including the 2011 net allocation, accumulated allocations are SEK 17.7 billion. [10.16]

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 2011 tax assessment about 110,000 taxpayers took advantage of this rule and SEK 6.6 billion of business profits were taxed as capital income. [10.17]

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 2011, this rule, whose application is compulsory, applied in about 43,000 cases and about SEK 700 million was added to business income. [10.17]

Part III: OTHER TAX - RELATED TOPICS⁷

11 Tax errors and tax evasion

11.1 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 the 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.

11.2 Undeclared income from work

Definitions and attitudes

The Swedish Tax Agency has during 2005-2006 made an extensive study on undeclared income of work (“illicit work”).⁸ 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 illicit work in Sweden today, the reasons for it and finally to get a basis for ideas of what can be done to counteract illicit working.

Definition of black income from work:

- Payment for work carried out,
- that should be subjected to taxation 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 illicit work. A majority who has bought illicit work is happy for having done a good business and only one of four would have a bad conscience. Many of those who have bought black regard illicit work as necessary to keep Sweden going.

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

⁷ The following chapters have been removed from the Swedish edition of *Taxes in Sweden (Skatter i Sverige) this year (2012)*. The chapters, however, are available in this English summary of *Taxes in Sweden*.

⁸ *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*

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. 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 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 illicit work carried out and of the purchase of untaxed services. In respect of goods, a separate investigation was carried out concerning the purchase of untaxed goods. Interview surveys of this type only reveal a smaller part of the total illicit 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 illicit work that was revealed by the surveys is estimated to be SEK 15 billion, of which SEK 10 billion is illicit work carried out for households, and SEK 5 billion for companies. Seen as a whole, the amount of illicit 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 illicit work is the equivalent of 66,000 complete fulltime jobs, of which 25,000 is for companies. In respect of working for households, illicit 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.

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 illicit 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.

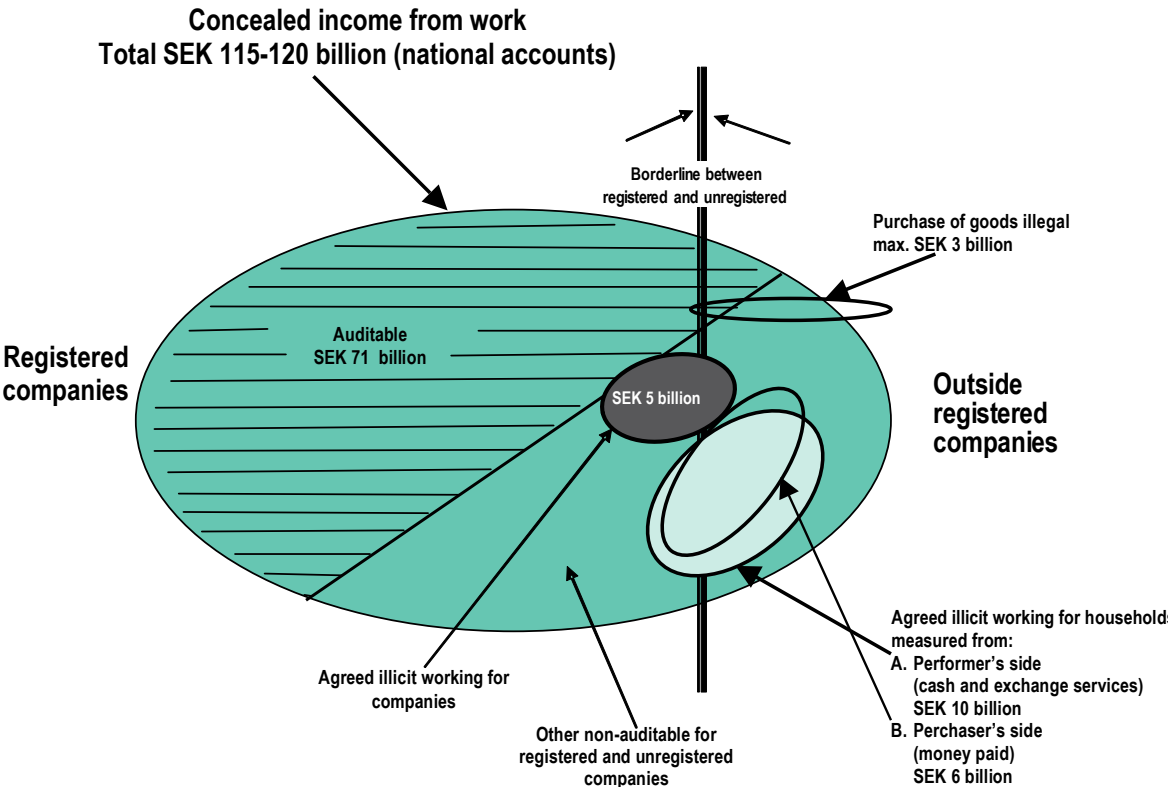
Every fifth household has bought black services in recent years, and paid in cash. On average a household has paid SEK 7,000, but for half the households the purchase sum amounts to less than SEK 3,000.

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 individuals. 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, 38 Diagram.

Diagram 47
A map showing revealed and un-revealed concealed income from work by different investigation methods



The development of illicit work

In 1997 the then Swedish National Audit Office carried out a comprehensive study of illicit work etc. in Sweden. In that study there was a similar survey among households. In comparison with that survey, working black is more widespread; 13 percent in 2005, compared with 11 percent in 1997. If one looks at the volume of illicit work as the number of worked hours, this is adjudged to have increased, since there are more people working illegal. Illicit 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 illicit work.

All illicit 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 illicit 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 transactions⁹. 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.

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.

11.3 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 its first attempt to estimate the total tax error, defined as the gap between the theoretical tax revenue and the total tax bill. It was the Swedish Government that wanted to know and the result was presented in a report of the Swedish Tax Agency.¹⁰

In 2002 the Swedish Tax Agency published a study with an estimate of SEK 20-35 billion of tax errors due to cross border transactions. It was an official report¹¹.

In the autumn of 2007 the Swedish Tax Agency on its own initiative presented a map of the tax gap with more details shown in Diagram 40.¹²

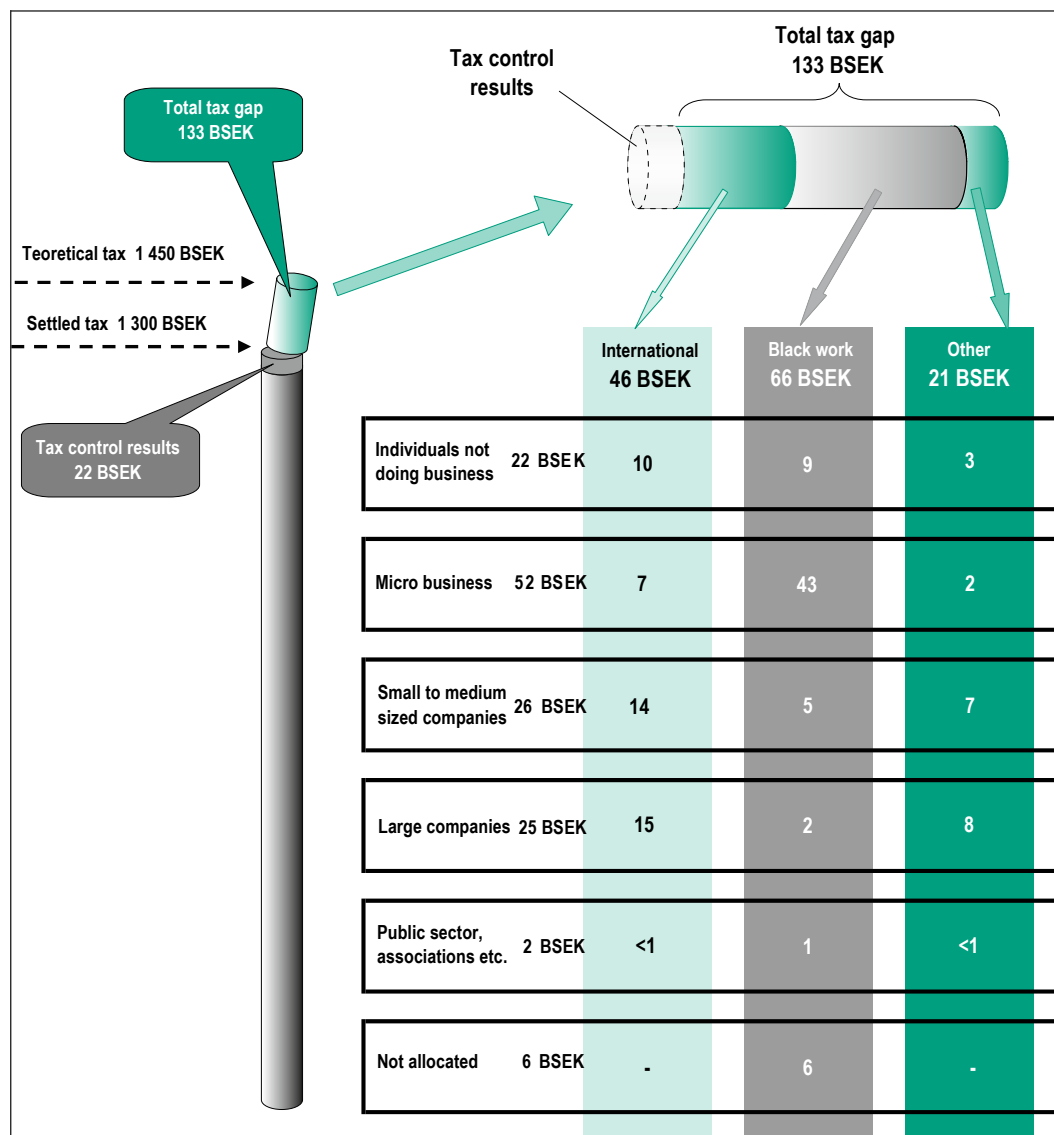
⁹ Guibourg, G. and Segendorf, B. *The Use of Cash and the Size of the Shadow Economy in Sweden*. Sveriges Riksbank Working Paper No. 204, 2007. (Web site: www.riksbanken.se)

¹⁰ Skattefel och skattefusk, En utvärdering av skattekontrollen 1992-1997, RSV Rapport 1998:3.

¹¹ Skattebasutredningen SOU 2002:47

¹² Tax Gap Map for Sweden, Swedish Tax Agency, Report 2008:1B.

Diagram 48
A map over the tax gap



The tax gap was calculated at 133 billion Swedish Crowns, (BSEK). That amount corresponds to five percent of GDP and ten per cent of total settled tax. Of this tax gap 66 BSEK is on black work and 46 per cent is due to international transactions. Three quarters of the tax gap assign to the business sector. The micro-businesses with income from work less than one million SEK – are up to 38 per cent of the tax gap. The tax gap for the micro businesses in relation to their settled tax liability amounts to 62 per cent. The distribution of the tax gap on different taxes show that VAT accounts for 35 BSEK whereas the tax gap in relation to settled tax is 65 per cent for tax on capital income.

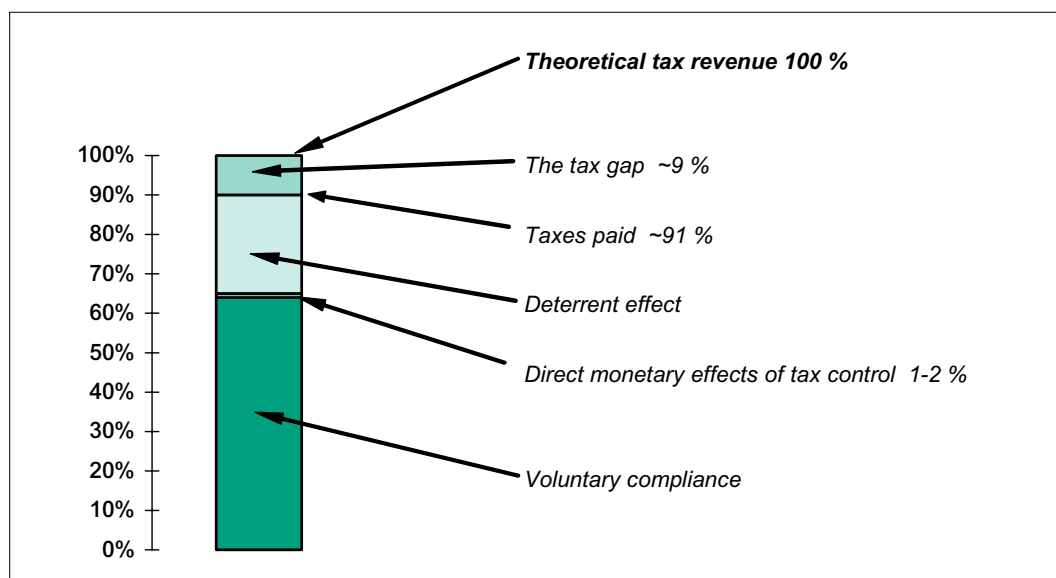
12 Tax control and tax fraud

12.1 Introduction

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

In order to detect tax fraud, the tax authorities perform various forms of compliance control. The net value of tax liability due to compliance control in 2010 is SEK 17,300 million. The tax control thus brings in some money to the state but more important is that the compliance control creates a deterrent effect (Diagram 41). This effect is more important than the direct monetary effect of tax control.

Diagram 49
Monetary and preventive effect of compliance control.



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.

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 4,400 in 2010. This fall in the number of audits is partly due to the fact that they increasingly target larger companies and more difficult cases. Another trend is that a larger share of all audits is integrated, i.e. they cover several taxes such as company income tax, VAT, PAYE and payroll tax. However, the reduction in numbers has also been caused by budget cuts and a high staff turnover.

12.2 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 2011 138,000 decisions were made concerning tax surcharges, of which 32,000 referred to income tax and 206,000 to VAT and others. Substantial amounts are imposed as tax surcharges; in 2011 this totaled SEK 1.7 billion (Table 50).

Table 50
Tax surcharges and delay charges imposed in 2011

Sanctions	Number	Amount thousand
Tax surcharges all	138 013	1 703 218
Of which:		
Income tax return	32 240	1 287 124
Others	105 773	416 094
Delay charges	290 584	331 981
Of which:		
Income tax return	68 838	180 932
Others (VAT)	221 746	151 049
Total	428 597	2 035 199

In addition to surcharges, there are delay charges, which are imposed if tax returns are not filed on time. At present the delay charge is SEK 1,000 for individuals and 5,000 for legal entities. If a tax return is more than three months late, addi-

tional charges are imposed. In 2011, there were 69 000 decisions concerning delay charges on income tax returns and another 222 000 concerning monthly VAT. The total amount of delay charges for all returns was SEK 180 million.

Table 51
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

Principal sanction	1983	1993	2003	2006	2008	2009	2010	2011
Prison	317	100	161	212	191	133	90	85
Probation	8	7	10	8	10	6	7	4
Suspended sentence	391	61	149	212	226	187	174	180
Fine	416	121	57	43	43	35	35	28
Order of summary punishment	4	8	92	111	111	76	65	64
Other sanction	12	2	1	3	4	4	34	19
Total	1 148	299	470	589	585	441	405	380

12.3 Justice system sanctions on tax offences

The reports on crimes to prosecutors from The Swedish Tax Agency involved 2 400 persons in 2011. Since 1996, the Tax Fraud Act has defined all criminal tax offences. In 2010, 2,394 persons were suspected of tax crime by the public prosecutors, an upward trend during recent years.

In 2011, 380 persons were fined, sent to prison, put on probation or given suspended sentences etc. for offences against the Tax Fraud Act (Table 51). The total number of sentences has fallen if we compare with figures in the beginning of the 1980s.

The average length of prison sentences

was 16.7 months in 2010.

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 1999-2009.

Tax Fraud often goes hand in hand with crimes against creditors and this type of crimes can also be handled by the Tax Fraud Units.

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, although the figures for 2010 deviates from this trend.

Women are not so often sentenced against tax fraud. 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.

13 The Swedish tax administration

Using a narrow definition, the Swedish tax administration may be described as comprising the Swedish Tax Agency, with its headquarter and its eight tax regions. However, many other agencies and authorities also take part in administering the tax system, for example the Enforcement Authority 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.

13.1 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.

13.2 The tax collecting system

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 Enforcement Authority (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.

13.3 The Swedish Tax Administration and the Enforcement Authority

On 1 January 2004, the Tax Administration merged the ten regional authorities and the headquarter 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 office, seven tax regions and a large tax payer unit (SFR). 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, Gothenburg and Ludvika serves the largest companies.

The Tax Agency is responsible for:

- General taxation
- Property tax

- National registration (Folkbokföring)
- Registration of estate inventories (since October 2011)
- Marriage registration/register and cases under laws of inheritance (since October 2011)
- Division of Property (since October 2011)
- Inheritance Law (since October 2011)

At the beginning of 2011, the Tax Agency's headquarter had (including IT and the Business Support) 1,958 and the tax regions 8,309 employees.

Until 1 July 2006, the Enforcement Authority (kronofogdemyndigheten) 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.

Debt collection is the main task of the Authority, but it also perform other functions, such as bankruptcy supervision. In 2011, the number of staff years in the enforcement authorities totaled 2,057.

In 2011, total budget expenditure for the Tax Agency were SEK 7.6 billion. Taxation (i.e. excluding population registration, crime combating and estate inventory registration) accounts for almost 70 percent of total expenditure.

13.4 Customs

Sweden's Customs Department (Tullverket) employed 2 200 staff years in 2011. 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. Total collection was SEK 67 billion in 2011, of which VAT accounted for almost SEK 60 billion.

13.5 Other authorities

The Swedish mapping, cadastral and land registration authority (Lantmäteriet) and the district courts are involved with tax administration in the area stamp duty (titles to real property and mortgages).

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

13.6 Taxes and the judicial system

Apart from the administration of stamp duties, the function performed by the judicial system with respect to taxes is the handling of tax disputes before the administrative courts (county administrative courts, administrative courts and the Supreme Administrative Court) and the enforcement of the Tax Fraud Act (police, prosecutors, district courts. Courts of Appeal, Supreme Court).

13.7 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.

13.8 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).

13.9 The cost of tax administration

A report evaluating the 1991 tax reform estimated the compliance and administrative costs of the tax system. In 1992, administrative costs were estimated at SEK 4.7 billion and compliance costs at SEK 9.3 billion. Administrative costs were roughly equal to 0.5 percent of total tax revenue and compliance costs were equal to 1.0 percent.¹³

14 A century of taxes

14.1 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.

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 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. 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.

14.3 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

¹³ Malmer, H., Persson, A., Tengblad, Å., Århundradets skatterreform. Effekter på skattesystemets driftskostnader, skatteplanering och skattefusk, Fritzes 1994.

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 recipients, 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 12.8 percent in 2000 and to 13.5 in 2010. When VAT was introduced in 1969 the rate was equal to 11 percent of the pre-tax price. Since 2000 the basic rate has been 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, taxpay-

ers 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.

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 collected 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, e.g. the Value Added Tax (VAT) on consumption and input goods.

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.

The collected taxes are divided between the state, the county councils and the municipalities. They are then used to pay all public expenses for things, e.g. education, care, defence and public administration. Much of the tax returns to the citizens in the form of pensions and benefits of various kinds.

The Swedish Tax Agency

On January 1, 2004, the Swedish Tax Administration merged the ten regional authorities and the headquarters into one, the Swedish Tax Agency. Meanwhile, the Tax Agency contains of headquarters and, as 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 had approximately 10 300 employees year 2011.

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. In order to ensure that the information submitted to the Tax Agency is, as far as possible, correct from the start, the Tax Agency provides guidance and performs checks.

The aim of the guidance, which is provided in brochures and on the website, is to make people aware of their rights and to enabling them to fulfil their obligations.

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 the correction of mistakes found in the information submitted.

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

For the tax assessment year 2013 is the national income tax lowered from 26.3 to 22 percent for: limited companies, foundations, economic associations, non-profit associations and life assurance companies. Thus during the period 2010-2013, the income tax rate has been lowered from 28 to 22 percent for the companies mentioned above.

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 (sole proprietorships and trading companies 30 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 2 May 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 on income from employment comprises municipal tax and state tax. Most people only pay municipal tax. The amount varies (approx. 29-34 percent tax) depending on the municipality of residence. The average combined rate of local income tax in 2012 was 31.60 percent.

State tax is paid by people with an income of above SEK 426,300. For income year 2012 there are two thresholds where the individuals are obliged to pay the state income tax. The lower threshold is 426 300 SEK. On earnings above this limit, the individuals have to pay a 20 percent state income tax. The upper threshold is 604 700 SEK. On earnings above this limit the individuals have to pay an additional 5 percent state income tax (värnskatt). This means that for the income year 2012 you may have an income of 414 000 SEK and 587 100 SEK (the breakpoints) – due to the basic allowance- without paying state income tax and increased state income 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 those 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 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. Today (2012), the standard VAT rate is 25 percent (of the tax base). A reduced rate of 12 percent applies to food, hotel accommodation, restaurants and camping. Newspapers, books, magazines, cultural and sports events and passenger transports are taxed at 6 percent. 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 exceed 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. 32 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. 29 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

Wealth tax is abolished as from 2007. The general duty of the banks to supply statements concerning assets and liabilities is abolished with effect from the income year 2008. The duty to supply statements ought only to relate to information required for taxes other than wealth tax. The duty to supply statements remained up to and including the income year 2007.

A short description of the history of the wealth tax follows below.

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

- 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 was from 2007 0.75 percent (1.5 percent for real estates) of total capital over SEK 1,500,000 for singles or SEK 3,000,000 for married or cohabitants. Before 2007 the tax rate was 1.5 percent for all kinds of capital. The wealth tax was included in the income self-assessment for individuals.

Real estate tax

As from 1 January 2008 government property tax on dwellings was abolished and replaced by a municipal property charge. The new charge for single-family houses in 2008 is SEK 6 000, but not more than 0.75

percent of the tax assessment value. The maximum charge for an apartment in an apartment building is SEK 1 210, although not more than 0.3 percent of the tax assessment value. The charges are index-linked by being linked to changes in the income base amount.

In conjunction with the abolishment of the property tax, the Budget for the autumn of 2007 suggested that the capital tax on the gain from selling a property has to increase from 20 percent to 22 percent. In addition it is also suggested that the postponed amount is billed an interest of 0.5 percent annually. For capital gains from the sale of commercial or rental properties the taxable amount was set to 90 percent of the actual gain. The proposal was to take effect from the fiscal year 2008.

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.

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

Population registration is one of the responsibilities of the Tax Agency.

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.

In 2011 the Tax Agency has been commissioned by the government to supple-

ment the national register of rental. Every flat in an apartment building is meanwhile assigned with a special flat number. People living in these flats have to be registered on these flat numbers rather than, as before, only on the properties.

The aim of population registration

Population registration is very important. The fact that one is registered, and where one is registered, affects many of one's 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 birth 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 are 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 four digit 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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