
Taxes in Sweden 2001

An summary of the Tax Statistical Yearbook
of Sweden 2001



Preface

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

This publication, *Taxes in Sweden 2001*, is an English summary of the Tax Statistical Yearbook of Sweden 2001. All tables in the Swedish edition have English translations, and references to these tables are, in the English summary, put in square brackets.

The complete Yearbook, as well as this publication, is available on our web site www.rsv.se.

National Tax Board in January 2002

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Taxes in Sweden 2001

1 Introduction

This publication is a summary of the Tax Statistical Yearbook of Sweden 2001, which is produced by the Evaluation Unit (utvärderingsenheten) of the Swedish National Tax Board (Riksskatteverket). The yearbook contains an overview of the Swedish tax system, as well as up-to-date statistics on tax bases, tax revenue and other relevant aspects of taxation.

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

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

The yearbook contains relevant annual data available up to September 2001. Since income tax statistics depend on the outcome of the 2000 annual assessment, a complete picture of taxes on labour and capital is only obtainable for the income year of 1999, and earlier. Therefore, 1999 will serve as the normal year of reference throughout the book. All monetary values are expressed as Swedish kronor (SEK). At the end of 1999, one Swedish krona bought 0.12 US Dollar, 0.07 Pound Sterling and 0.12 Euro.

To make the Swedish edition of the yearbook accessible to an English-speaking audience, this English summary will serve as a gateway to the bilingual tables contained in the Swedish edition of the yearbook. References to the tables are placed within square brackets. For ex-

ample: a reference to table 3.19 in chapter 3 of the Swedish edition is written as [3.19].

The yearbook is also available on the National Tax Board's website www.rsv.se. Copies of the printed version can be ordered from Riksskatteverket, utvärderingsenheten, S-174 91 Solna, Sweden.

2 Overview

2.1 Classification of taxes

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

Table S1:
Taxes and charges on labour and capital, on households and companies in 1999, as percentages of GDP [1.1]

	Households	Companies	Total
Taxes on labour			
Income taxes	17,2		17,2
Social security contributions	3,0	14,2	17,2
VAT and Excise duties		11,2	11,2
Taxes on capital			
Income taxes	1,3	2,7	4,0
Property and wealth taxes	1,3	1,0	2,3
Subtotal	22,7	29,1	51,8
Taxes not allocated			0,3
Total			52,1

Note: Subtotals are rounded down

Table S2:
General government sector revenue and expenditure in 1998-2000 (SEK billion) [2.1]

	1998		1999		2000	
	SEK billion	% of GDP	SEK billion	% of GDP	SEK billion	% of GDP
Revenue	1144,1	60,0	1182,2	59,3	1244,7	59,8
Taxes and social security contributions	997,9	52,4	1045,5	52,4	1102,8	53,0
Other revenue	146,2	7,7	136,7	6,9	142,0	6,8
Expenditure	1104,8	58,0	1148,2	57,6	1160,0	55,7
Transfers	563,4	29,6	562,3	28,2	561,2	26,9
Consumption investments	509,4	26,7	536,7	26,9	548,2	26,3
	32,0	1,7	49,2	2,5	50,4	2,4
Net savings	39,4	2,1	34,0	1,7	84,7	4,1

2.2 General government sector in the national accounts

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

- central government
- local government (municipalities, county council and the parishes of the Church of Sweden¹) and
- the social security funds

The total revenue of the general government sector in 2000 was equal to 60% of GDP. Total spending was about 58% of GDP, which resulted in total net lending of about 4% of GDP in the general government sector. Since 1998, there has been a budget surplus in the general government sector. The major share of all government expenditure is made up of transfer payments of pensions and social benefits to households, subsidies to companies, membership dues to the EU and other international organizations, development aid and interest on central government debt. [2.1-3]

The severe recession of the early 1990s produced a very large budget deficit. Relative to GDP, taxes fell and expenditure rose. To reduce the deficit, government spending was cut and taxes were increased. The combination of subsequent growth and higher tax rates has increased tax revenue relative to GDP from about 48% in 1993-94 to 54% in 1999. [2.3]

A large proportion of general government spending (46% in 1998) goes to the social security system. Expenditure on social security and welfare is divided among central government, the social security sector and local government. Other important areas are health (11%), education (11%) and unclassified expenditure (8% - interest payments on the national debt included). Primary and secondary education are the responsibility of the municipalities, while most health care is provided by the county councils [2.4]. The breakdown of expenditure by different functions has been relative stable over the 1993-1998 period [2.5].

3 Tax bases and Tax revenue

3.1 Overview

In 1999, total tax revenue was SEK 1,076 billion.² Almost 2/3 of this amount may be regarded as tax on labour (i.e. tax on earned income and social security contributions).

3.2 Taxes on labour

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

Table S3:
General government expenditure by function and sector in 1998, SEK billion, current prices [2.4]

Function	Sector					
	Total Government	Central Security	Social councils	Municipal councils	County church	State
Total ¹⁾	1104,8	646,5	108,5	301,6	126,8	11,5
04 Education	120,7	43,1	0,0	81,5	3,4	0,0
05 Health	121,1	18,4	0,0	10,1	109,1	0,0
06 Social security and welfare	504,7	240,7	125,6	136,4	4,9	0,0
14 Expenditures not classified ²⁾	93,3	157,4	-17,1	9,1	0,6	0,0

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

²⁾ For example, interest on national debt, acquisitions less disposals on non-financial assets

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.

² The difference between this figure, and the calculated tax revenue in the national accounts (table S2, SEK 1,045,5 billion), is due to different methods of periodizing.

Table S4:
Total taxes in 1999

	SEK billion	% of total taxes	% of GDP
Taxes on labour	692	64%	34,7%
Taxes on capital	130	12%	6,5%
Taxes on goods and services	253	24%	12,7%
Total taxes	1 076	100%	53,9%

Table S5:
Taxes on labour 1999 (SEK billion) [3.1]

	1999
Income taxes (a)	341
of which State income tax	30
of which local income tax	315
of which tax reduction on low income	-3
Social security contributions	351
Tax on occupational insurance	1
Tax reduction for housing improvements	-1
Total	692

(a) State and local income taxes excluding:

* individual taxes on capital income and

* company income tax which are treated as taxes on capital (see Chapter 4).

3.2.1 Employment and income

About 47% of the Swedish population of 8.9 million in 2000 were either employed or self-employed, i.e. were part of the economically active population. From the boom year of 1990 to the recession year of 1993, the number of hours worked decreased by 9%. Since then a recovery has occurred. Between 1993 and 2000 the number of hours worked increased by 8%. The increase is due to both higher employment and longer working days.[3.2]

About 70% of all employees were full-time workers in 1999. Most part-timers were women. The median income of male full-time employees in 1999 was SEK 245,000 and of female full-time employees SEK 204,000. [3.4-5]. That year, 9% of all adults (over 18) had assessed earned incomes (non-capital income) exceeding SEK 300,000. They received 23% of the taxable income and paid 29% of the tax. [3.3]

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

Direct taxes on the employment and business income of an individual are made up of State (or central government) income tax and local (government) income tax. Local income tax includes taxes levied by municipalities, county councils and (until 1999) by the parishes of the Church of Sweden. The average combined rate of local income tax in 1999 was 31.48%.³

Below is an example to illustrate the computation of the income tax of an individual for the income year 1999. The example also includes general social security

Table S6:
Example of the computation of tax of an individual (1999 income year), SEK

	Tax base	Tax rate	Tax amount
Net employment income	270 000		
Net business income	0		
General allowances (e.g. private pension premium payments)	-10 000		
Assessed earned income	260 000		
General pension contribution (6.95% of net employment and business income)	-18 800		18 800
Basic allowance	-8 700		
Taxable earned income/ Local income tax (average rate = 31.48%)	232 500	31,48%	73 191
Less income threshold for State income tax	-219 300		
State income tax (20%+SEK 200)	13 200	20%	2 840
Subtotal (individual taxes on labour)			94 831
Taxes on Capital (see Chapter 4)			
State tax on capital income (30%)	30 000	30%	9 000
Real estate tax (1.5% of assessed value of property)	800 000	1,50%	12 000
General wealth tax (1.5% of net wealth exceeding 900,000)	200 000	1,50%	3 000
Total tax			118 831

Table S7:
Aggregate assessed earned income in 1999, SEK billion [3.10]

	1999
Employment income:	
Salaries and benefits	921
Pensions	251
Other taxable remunerations	11
Deductions	
Commuting to work	-10
Other	-5
Net employment income	1 168
Net business income	28
General allowances	
Private pension premiums	-12
Other	-1
TOTAL ASSESSED EARNED INCOME	1 183

contributions and taxes on capital, which will be explained in later sections.

The aggregate assessed income for individuals (employment income and business income, less general allowances) in 1999 was SEK 1,183 billion. This sum was almost entirely made up of remunerations derived from employment and pensions.

To arrive at the taxable income, a deduction is also

³ The tax rate of 31.48% includes the entire parish tax, which includes both a real tax to finance the maintenance of cemeteries and (historic) church buildings, and a membership fee, which is only paid by members.

made for the general social security contribution (6.95% in 1999) [3.32] and a minimum basic allowance, SEK 8,700 [3.17-18].

The taxable earned income is the basis for computing the local income tax and the State income tax. The local income tax is a proportional tax, but the tax rates vary between different municipalities. The local income tax was until 1999 made up of three component taxes, and in 1999 the average rate was 31.48%:

Municipality tax	20.50%
County council tax	9.79%
Parish tax	1.19%
Total	31.48%

From 2000 local income tax only include municipality and county council tax.

The lowest local income tax rates are generally found in well-to-do suburbs of the large cities, while the highest rates are found in the rural north or in municipalities hit by industrial decline. In 2001, the lowest rate was found in the Stockholm suburb of Danderyd (27.15%) and the highest rate in Gullspång in the western inland of Sweden (33.17%). [3.24-26]. The gap would have been even wider had there not been a system of State grants and a system of internal redistribution between municipalities and county councils. [3.27-28]

State income tax is only applied to taxable incomes that in 1999 exceeded SEK 219,300. This income threshold is adjusted annually. According to the principle established at the 1991 tax reform, this adjustment is set at the rate of inflation plus two additional percentage points (to allow for real incomes to rise without an increase in the marginal tax rate). In practice, however, these annual adjustments have been ruled by political considerations. In the years following the 1991 tax reform, State income tax was 20%. As a temporary measure to reduce the budget deficit the State income tax rate was raised to 25% in 1995. In 1999, the tax was again lowered to 20%. The 25% rate was, however, retained on taxable incomes exceeding SEK 360,000. [3.19]

The top marginal tax rate in 2001 is 55.5% (at an average local income tax rate of 30.5%). This rate applies to taxable incomes above SEK 390,400 (equal to assessed incomes above SEK 411,100). At lower levels, the effective marginal tax rates are also influenced by variations in the basic allowance and a special tax reduction for low incomes. [3.20]. In 1999, about 20% of the population aged 20 and older had incomes above the threshold for State income tax. Of full-time employees aged 20-64, 37% had incomes exceeding the threshold. [3.21] In 2000-2002 there is an extra increase in the threshold for State income tax in due to reduce the share of persons paying State income tax.

How much an individual may keep of an increase in salary depends not only on the marginal tax rate, but also on the marginal effects of means-tested benefits and income-related charges, for example housing benefits and charges for child day-care. [3.22-23]

Table S8:
Social security contributions in 1999 [3.29-30]

	SEK billion	Tax rate
1. Basic social security contributions paid by		
a. employers or	266	33.06%
b. self-employed	6	31.25%
2. General pension contribution paid by all taxpayers	60	6.95%
3. Special wage tax	19	24.26%
Total	351	

3.2.3 Social security contributions

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

There are three categories of social security contribution. The main part is paid either by employers as a payroll tax at the rate of 33.06% (1999) or by self-employed people themselves at the rate of 31.25%. In addition to this, all taxpayers pay a general pension contribution. In 1999, the rate was 6.95%. 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 an entitlement to State pensions or benefits. In 1999, SEK 351 billion was paid as social security contributions. [3.29-32]

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

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

3.2.5 Tax relief on home repairs, rebuilding etc.

In order to stimulate employment in the building industry, a special tax reduction (or tax credit) was (until the spring of 1999) granted for repairs to and rebuilding of private homes, apartment buildings and holiday homes. The tax reduction was limited to 30% of the labour cost, and, in the case of private homes, to a maximum of SEK 14,000 over a three-year period. The total tax credit in 1999 was SEK 1 081 million. (3.33)

Table S9:
Collection of individual income taxes etc in the assessment year of 2000⁴ [3.8-3.9]

	SEK billion	% of debited tax
Total tax debited on basis of assessment (final tax bill)	466	100%
of which paid by		
– employers, banks etc. by withholding	408	88%
– preliminary tax paid by entrepreneurs	19	4%
Remaining amount to be settled	39	8%
of which		
– tax payers' own additional payments	56	12%
– excess tax refunded to tax payers	-17	-4%

3.2.6 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 file an income tax return. Employers also supply the tax authorities with income statements on remunerations paid to their employees. Financial institutions supply information on their customers' deposits, interest paid or received, dividends etc. During the assessment process, the tax authorities match these statements with information supplied in the tax returns.

Since 1995 most taxpayers have filed simplified income tax returns. In April, they receive a tax return form where all the data supplied by employers and financial institutions have already been entered by the tax authorities. The taxpayers check the figures, and if necessary, correct errors and add information or claims for deductions. They then sign and return the forms to the tax authorities by 2 May. Of the 6.9 million individual taxpayers who filed income returns in 2000, 47% just signed and returned the simplified form, while another 34% changed or added some information in the simplified return. The remaining 19% used a traditional (or special) tax return. (3.6-7)

Taxes are collected on a pay-as-you-earn (PAYE) basis.

Table S10:
Taxes on capital 1999 (SEK million) [4.1]

	Paid by individuals	Paid by companies	Total
Income tax on capital income	25 213		25 213
Income tax on company profits		53 464	53 464
Tax on funds retained for expansion	311		311
Real estate tax	13 253	10 066	23 319
Wealth tax	8 428	162	8 590
Inheritance tax	1 878		1 878
Gift tax	272		272
Tax on dividends to non-residents	1 817		1 817
Tax on pension fund earnings		10 715	10 715
Sub total	51 172	74 407	125 579
Stamp duty			4 496
Total			130 075

Employers withhold and pay the preliminary tax of their employees, while self-employed persons have to pay their preliminary tax themselves. Early in the assessment year, supplementary payments may be made if it is evident that final tax bill will exceed the preliminary tax paid so far. In the opposite case, excess tax will be refunded when the final tax bills are issued after the assessment.

3.3 Taxes on capital

3.3.1 Overview

The tax reform of 1991 separated individual income tax on earned income (employment and business income) from income tax on capital income, to which a flat rate of 30% was applied. Taxes on capital also include income tax on company profits and a number of other taxes on capital income and property. In 1999, total taxes on capital brought in SEK 130 billion, 12% of total tax revenue.

3.3.2 National and household wealth

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

In 1995, households accounted for more than half of the net wealth. The greater part consisted of private homes, including tenant-owned apartments. [4.2-4.3] In recent years, financial investments have increased their share of total household wealth. Between 1995 and 1999, the net financial assets of households rose from about 63% of GDP to 111% of GDP. This development may be explained by a growth in investments in shares and mutual funds and rising share prices. [4.11, 4.21]. Since the beginning of the 1990s households have reduced their debts and shifted parts of their savings from bank accounts to shares and other securities, as well as into private pension schemes.

3.3.3 Individual capital income tax

Capital income is subject to income tax on interest, dividends and capital gains. Deductions are allowed for interest paid and capital losses. If capital income is negati-

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

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

⁴ Most incomes assessed in 2000 were earned in 1999 and most of the preliminary taxes were paid in the form of PAYE during 1999. Supplementary payments are generally made in the spring of the assessment year, i.e. 2000. Most taxpayers receive their final tax bills (or refund) in August of the assessment year, but taxpayers filing special tax returns have to wait until December.

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

	1990	1995	1999
Cash and bank deposits	35.8	31.3	26.3
Bonds	6.7	9.8	7.3
Shares and other equity	17.4	23.4	68.4
Insurance savings	25.1	29.7	45.5
Other accounts receivable	..	17.6	15.7
Total financial assets	85.0*	111.7*	163.1*
Liabilities	63.2	49.0	52.5
Net financial assets	21.8*	62.7*	110.6*

* The figure of 1990 does not include collective insurance (settled in agreements on the labour market) but the figures of 1995 and 1999 do. Collective insurance amounts to 14% of GDP in 1999.

ve, 30% of the loss up to SEK 100,000 and 21% of the loss exceeding this amount is credited against State and local income tax due on earned (employment and business) income. Investments, however, are also subject to real estate tax and wealth tax. The middle-aged and the elderly pay most of the capital taxes. [4.4]

The net revenue yield from the individual income tax on capital varies a great deal from year to year. Declared income in the form of interest, dividends etc. is completely offset by deductions for debt interest (mainly on home mortgage loans). On the other hand, capital gains generally exceed capital losses by a wide margin. In 1999, aggregate net taxable capital income was about SEK 84 billion and net revenue yield was about SEK 25 billion.

In the period 1992-1995, the revenue yield from capital income tax was negative, since deductible debt interest was much greater than income from interest, dividends and net capital gains. However, during the 1990s interest rates have fallen and household debt has been reduced. As a result, the gap between current capital income and debt interest has narrowed. Net capital gains vary greatly from year to year, depending on asset prices and tax planning in anticipation of changes in the tax rules the following year, but gains are mostly larger than losses. In recent years capital gains have grown substantially. [4.12-14]

3.3.4 Company income tax

The State income tax on legal entities ("company income tax") is 28% of the net taxable profit. The same basic ru-

Table S13:
Tax on individual income from capital in 1999 (SEK billion) [4.12]

	Income and losses	Expenditure income and tax	Net
Interest received and paid, dividends and other current capital income	38.7	-53.9	-15.2
Capital gains/losses	102.6	-3.3	99.3
Administration costs		-0.6	-0.6
Net income from capital	141.3	57.8	83.5
Net tax on income from capital			25.2

les for calculating the taxable profit apply to all business enterprises, regardless of size and legal status. These general rules, as well as some rules that apply specifically to private firms, private or public companies, are discussed in further detail in Chapter 6.

In 1999 (according to the 2000 annual assessment), 2/3 of all companies reported a total taxable profit of SEK 201 billion and paid SEK 53 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 98% of all companies reported only 25% of total taxable profits.

3.3.5 Real estate tax

The tax value of property is established via periodic real estate assessments. The tax value of the property is required to correspond to 75% of its market value. Every six years all property in a certain category of real estate is subject to assessment. In the intervening years the tax values are adjusted to reflect price changes in local property markets. However, to avoid sharp increases in the real estate tax, the tax values of private homes and apartment buildings have been frozen at the 1997 level. The freeze was ended in 2001 which caused a substantial increase in the tax values. At the same time, however, the tax rate was lowered. There is a government proposal to change the periodicity of the real estate tax assessments. The yearly adjustment will be abolished. Instead there will be a simplified real estate assessment in the middle of the period between the general assessments that takes place every sixth year.

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

Since the tax value of property is determined by the market value, the real estate tax levied on family homes in different parts of the country varies widely. In 1999, the average tax value of a family home in Stockholm County was SEK 790,000 and in the northern county of Västernorrland SEK 314,000. [4.26]. A particular pro-

Table S14:
Real estate tax in 1999 [4.7]

	Tax base SEK billion	Standard tax rate	Tax revenue SEK million
Private homes (one- or two-family dwellings)	914	1.50%	13 167
Apartment buildings	460	1.30%	5 157
Commercial property	323	1.00%	3 226
Industrial property	354	0.50%	1 786
Total	2 051		23 336

blem is that rising property prices for holiday homes in attractive coastal areas have also caused a great increase in the tax burden for these areas' permanent residents, whose average incomes are considerably lower than those of the holiday-makers. In 2001 a rule was introduced limiting the real estate tax for households with normal incomes to maximum 5% of household income.

Using 1981 as the base year (index=100), prices of family homes rose very fast during the boom years of the late 1980s and reached the level of 217 in 1991. Prices then fell to a level of 175 in 1993, but have since regained that loss, and in 2000 the price index was 262. [4.28]. But property prices must be placed in the context of general price fluctuations. If the property price index is linked to the consumer price index, real property prices actually fell during the first half of the 1980s, rose again in the second half and reached new heights around 1990, when a sharp decline began. In the late 1990s real property prices have gone up and 1999 prices are at the same level as those of the boom years. [4.10 and 4.27]

3.3.6 Net wealth tax

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

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

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

In 1999, 713,000 individuals (433,000 households) between them paid SEK 8.4 billion in wealth tax. 12,000 legal entities paid just SEK 162 million. [4.16, 4.19]

3.3.7 Inheritance and gift taxes

Inheritance tax is levied on property that is received by an individual by inheritance or will. The tax is progressive and close relatives pay less than other beneficiaries. To compute the taxable value of the inheritance, its value is reduced by a basic deduction. The spouse of the decea-

sed is entitled to a basic deduction of SEK 280,000, with children and grandchildren receiving a basic deduction of SEK 70,000. Taxable amounts of less than SEK 300,000 are taxed at 10%, while amounts exceeding SEK 600,000 are taxed at 30%. [4.20]

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

In 1999, the revenue yield from the inheritance tax was SEK 1,878 million and from the gift tax SEK 272 million.

3.3.8 Tax on dividends to non-residents

A final withholding tax of 30% applies to dividends from Swedish companies and mutual funds to non-residents, unless an exemption or a lower tax rate applies under a tax treaty. In 1999, the tax yield was SEK 1,817 million.

3.3.9 Tax on pension fund earnings

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

The tax base is the estimated yield of the fund capital. The yield is calculated by multiplying the fund capital by the official State lending rate. In 2001, the tax rate applied to this yield is 15% in the case of pension capital funds and 27% for other (otherwise tax-privileged) funds. The total revenue yield in 1999 was SEK 10.7 billion.

3.3.10 Stamp duty

Stamp duty is levied at the acquisition of real property and the registration of mortgages. The standard tax rates are 1.5% of the value of the acquired property and 2% of the mortgage. Other tax rates apply in special cases. In 1999, the revenue yield from the stamp duty was SEK 4.5 billion.

3.4 Taxes on goods and services

3.4.1 Overview

Taxes on goods and services include value added tax (VAT), as well as excise and customs duties. In 1999, total revenue from these taxes was SEK 253 billion, representing about 1/4 of all tax revenue. [5.1-2]

3.4.2 Value Added Tax (VAT)

A general sales tax (GST) of 4% was introduced in 1960. Step by step, the tax rate was increased. In 1969, the GST was replaced by value added tax (VAT). The tax rate was originally 10% (of the price including VAT), but it was soon increased to 15%. Today (2001), the standard VAT rate is 25% (of the tax base). A reduced rate of 12% applies to food, hotel accommodation and camping. News-

Table S15:
Taxes on goods and services 1999-2000 (SEK billion)
[5.1]

	1999	2000
Value added tax	171	183
Excise duties	83	84
Total	253	267

papers and cultural and sports events are taxed at 6%. From January 1st 2001 passenger transports are also taxed at 6 %. Before this date the tax rate was 12 %.[5.3]

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

There are 385,000 taxable persons identified for VAT purposes. The vast majority of these taxable persons file monthly VAT returns. An additional 445,000 taxable persons with a maximum annual turnover of SEK 1 million report VAT on annual income tax returns.[5.4]

In 1999, gross payments of VAT totalled SEK 318 billion, of which 88% was collected by the tax authorities. About 40% was refunded and another 6% was input VAT on government spending, which in the government revenue accounts was offset against revenue received. The remaining net revenue was SEK 171 billion.[5.5]

In 2000, a total turnover of SEK 4,951 billion was reported in VAT returns submitted to the tax authorities: of the total, exports accounted for SEK 713 billion (exports are exempt from VAT). The 25% tax rate applied to about 88% of the reported non-export turnover.[5.6] The wholesale and retail trade, together with the hotel and restaurant sector, accounted for about 40% of output tax and 57% of net revenue. Manufacturing, on the other hand, reported 23% of output tax, but because of large export sales this sector was entitled to a net refund of SEK 36 billion.[5.7]

3.4.3 Excise and customs duties

Excise and customs duties have a long history in Sweden. A hundred years ago, customs duties, along with excise duties on aquavit and sugar, were the most important sources of government revenue. Now, excise duties make up a mere 8% of total tax revenue (customs duties are not included since they are collected for the EU budget).

Table S16:
Vat revenue 1999 [5.5]

	1999 SEK billion	% of gross payments
VAT payments received by		
Customs	37	12%
Tax authorities	276	87%
Other	5	2%
Total	318	100%
VAT-refunded by the tax authorities	-128	-40%
Input VAT on government expenditure	-20	-6%
Net VAT revenue	171	54%

Table S17:
Excise and custom duties 1999 [5.8]

	SEK billion
Energy and environmental taxes	52 655
Taxes on road vehicles	6 833
Taxes on alcohol and tobacco	18 116
Customs duties and other import taxes*	3 530
Other excise duties	2 341
Total	83 476

*) Collected for the EU-budget

The excise duty on alcohol is still a significant source of revenue, but about 70% of total excise revenue comes from energy and environmental duties and motor vehicle taxes.

From an administrative point of view, excise duties are cost efficient, since the number of taxpayers is relatively low. About 10,000 businesses are registered as taxpayers, almost half of which pay advertising duty, most with a low turnover. There are only five registered taxpayers for lottery duty and 64 for tobacco duty, of which the largest taxpayer accounts for 99% of the revenue. Goods subject to "harmonized" excise duties (mineral oils, alcohol and tobacco) may be transported between authorized warehouses in the EU without being taxed.[5.9-11]

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 1999 fossil fuels (oil, coal and natural gas) accounted for about 38% of Sweden's energy supply. Nuclear power supplied another 34% and hydroelectric power 11%. [5.15] Because Sweden is a northern country, much energy is needed for heating. About 37% of all energy is consumed in homes and services, another 37% by industry and 26% by transport.[5.16]

When duties on petrol and electricity were first introduced, the revenue was intended for roads and the electrification of rural areas. Today, the chief justification for energy duties is their revenue-generating capacity, but energy conservation and environmental considerations are given greater weight in determining how the tax bur-

Table S18:
Energy and environmental taxes 1999-2000, SEK million
[5.8]

	1999	2000
Energy tax	37 573	38 419
Carbon dioxide tax	12 811	12 245
Sulphur tax	104	75
Nuclear power tax	1 553	1 726
Acidification tax	65	56
Taxes on fertilizers and biocides	399	434
Gravel tax	151	434
Fees on waste		816
Reassessments of abolished taxes		-355
Total	52 655	53 850

Table S19:
Taxes and consumer prices of electricity and petrol
(August 2001) [5.18-19]

	Electricity SEK/Kwh	percent	Petrol SEK/litre	percent
Pre-tax price	0.49	58%	3.11	33%
Energy tax	0.18	22%	3.26	34%
Carbon dioxide tax			1.24	13%
VAT	0.17	20%	1.90	20%
Consumer price	0.84	100%	9.51	100%

den is allocated between different sources of energy. There is, for example, a special carbon dioxide duty on all fossil fuels.[5.17]

In 2000 and 2001 the carbon dioxide duty has been raised, while other energy taxes have been reduced to a lower level. The purpose of this change is to create a more effective instrument for carbon dioxide reductions.

Oil and petrol are classified according to their effects on the environment, and lower duty rates apply to those products that are deemed least harmful.[5.12] Some energy duties are also geographically differentiated. Electricity duties are lower in northern Sweden.[5.14]

In addition to being subject to excise duties, energy is also subject to VAT. VAT is levied on the price of energy including excise duties. Table S19 below shows what proportion of consumer prices are represented by different taxes.

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. January 1 2001 the last part of the sales tax was abolished, that is the sales tax for buses and motorcycles. The scrap fee was introduced in 1975 to finance a premium paid to car owners who turn in their run-down cars to authorized car breakers instead of leaving wrecks along the roadside.

In Year 2001, there were 5.6 million vehicles subject to vehicle tax, including 4.0 million passenger cars, 390,000 lorries and 740,000 trailers. In 2001, the vehicle tax on a petrol-driven passenger car with a kerb weight of 1,200 kg is SEK 1,032. The tax rises according to the weight of the vehicle. Owners of diesel-powered cars pay a higher vehicle tax to make up for a lower tax on diesel fuel.[5.27-29]

Table S20:
Taxes on road vehicles 1999-2000 (SEK million) [5.8]

	1999	2000
Vehicle tax	6 421	6 868
Sales tax	230	258
Scrap fees	183	177
Total	6 833	7 303

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

	Spirits 40 % 70 cl SEK	Wine max 15% 75 cl SEK	Beer 5.2% 50 cl SEK
Pre-tax price	42	37	6.50
Alcohol tax	140	19	3.82
VAT	46	14	2.58
Consumer (retail) price	228	70	12.90

Since 1998, a user charge has been payable on travel with lorries and vehicle combinations weighing 12 tons and more. In the case of lorries and vehicle combinations with not more than three axles and which are subject to the severest demands on exhaust devices, the user charge is SEK 6,395; for vehicles with four axles or more the charge is SEK 10,658. For Swedish vehicles, the charge applies to all roads in Sweden and is paid for one year at a time. For foreign vehicles, the user charge applies to motorways and certain highways that are not motorways. In 1999, about 192,000 licenses were sold to foreign vehicles and revenue totalled around SEK 23 million.

Duties on alcohol and tobacco

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

The duty rates applied to alcohol are related to the alcohol content of the beverage. In the case of spirits, the duty is SEK 501.41 per litre of pure alcohol. Wines with an alcohol content of 8.5-15% are taxed at SEK 27.20 per litre and beers with an alcohol content exceeding 3.5% are taxed at SEK 1.47 for each percent of alcohol per litre. Beers with an alcohol content of maximum 2.8% are not taxed.[5.20]

Retail sales of alcoholic beverages are carefully regulated in Sweden, and spirits, wine and export beer (with an alcohol content greater than 3.5% by volume) may only be sold at certain State-owned shops (Systembolaget). According to official statistics, domestic sales (at Systembolaget and in restaurants) of spirits have fallen during the 1990s, while beer and wine sales have increased. If these statistics were to reflect total consumption of alcohol, there has been a fall in consumption from 6.4 litres

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

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

of pure alcohol per inhabitant over the age of 14 in 1990, to 6.2 litres in 2000. This conclusion is, however, premature, since the figures do not include legal private imports by tourists and business travellers, nor do they include smuggling and illegal production.

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

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

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

In 2000 the total revenue yield from alcohol and tobacco has again increased to 19.0 billion. [5.8] The main reason for that is an increase in the consumption of taxed tobacco. To some extent increased alcohol consumption also has contributed to the development.

Duties on imports

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

In 1999, the value of Sweden's imports totalled SEK 538 billion, of which 67% came from other EU countries. [5.30] Total revenue from customs duties and other import levies was SEK 3.5 billion. [5.8]

Other excise duties

Other excise duties include duty on advertising, duty on lottery prizes and duty on gambling. The duty on adver-

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

	1999	2000
Tobacco tax	7 396	7 792
Alcohol tax on spirits	4 723	4 888
Alcohol tax on wine	3 313	3 483
Alcohol tax on beer	2 430	2 399
Tax on intermediate products	133	125
Profits from Systembolaget*	122	50
Total	18 116	18 737

* Monopoly state-owned retail stores for sale of alcoholic beverages

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

	1999	2000
Tax on advertising	1 037	1 091
Tax on lottery prizes	1 201	1 199
Tax on gambling	103	96
Total	2 341	2 386

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

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

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

In 1999, total government earnings from betting and lotteries were SEK 3.2 billion. This sum, however, includes profits from the State-owned company Svenska Spel, which organizes national lotteries, football pools etc. These profits are not regarded as duties. In 1999, the total tax revenue yield from these other excise duties was about SEK 2.3 billion. [5.8]

3.5 More about business taxation

3.5.1 Introduction

In previous chapters, tax on business profits has been described either as tax on labour (business income earned by individuals) or as tax on capital (business income earned by legal entities). However, the same basic rules apply to 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 pointed out as well as some provisions for certain types of business.

3.5.2 The business sector

There are several ways to define a business enterprise. According to the widest possible definition, which includes all taxpayers declaring business income or VAT, there were about 815,000 such enterprises in Sweden in 2000 [6.1]. However, 3/4 of these businesses have no employees and most of them were combined with other employment.

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

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

Table S25:
Number of business enterprises 1999-2000 [6.1]

Number of employees	1999	2000	% (2000)
0	588 720	601 522	73,8%
1- 4	144 829	146 498	18,0%
5- 49	57 822	60 537	7,4%
50-499	5 137	5 345	0,7%
500-	830	831	0,1%
Total	797 338	814 733	100,0%

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

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

If the definition of business enterprise is limited to firms registered for VAT and/or registered as employers, the total number (in 1999) falls to about 795,000. Most are run as private firms, but limited companies account for almost 90% of total turnover. [6.3]

3.5.3 Some general principles of business taxation

Taxable business income is computed according to "generally accepted accounting standards". The accounting records therefore form the basis for taxation. The princi-

Table S27:
Number of enterprises and employees in 1999 (a)
[6.2,6.18]

	Number of enterprises	Number of employees
Individuals, private firms	445 729	37 274
Unlimited partnerships	75 724	38 974
Limited companies	218 346	2 072 255
Economic associations	16 691	61 531
Clubs, societies and other unincorporated associations	23 848	75 261
Foundations	3 940	21 996
Other	11 142	27 179
Total	795 420	2 334 470

Source: Statistical yearbook of Sweden 2001, table 371

(a) All individuals and legal entities (except public authorities) registered to VAT or as employers

⁵ 25% from 2002 tax assessment.

⁶ Periodiseringsfond

Table S28:
The tax bill of legal entities according to the 1999 and 2000 tax assessments (SEK billion) [6.5]

	1999	2000	Change, %
State tax on business income (profits)	45,8	53,5	+16.9
Tax on pension fund earnings	11,9	10,7	-10.1
Special wage tax on pensions	11,2	13,7	+22.3
Real estate tax	11,5	10,1	-12.8
Other	0,6	1,5	+155.0
Total	80,9	89,5	+10.4

ples of accrual accounting apply to all businesses regardless of size. In some respects, tax law specifies how assets are to be valued. Annual depreciation of machinery and other equipment is allowed at 30% of the residual value or at 20% of the acquisition value. Buildings are depreciated by 2-5% per year depending on their use. Inventories are valued at 97% of their acquisition value, according to the first-in, first-out (FIFO) principle.

3.5.4 Taxation of limited companies and other legal entities

The total tax bill of legal entities according to the 2000 general tax assessment was about SEK 89 billion. Company profits account for the major share of total tax. About 70% of the tax was paid by limited companies. Together with bank and insurance companies, limited companies paid 87% of total tax [6.6].

About 59% of all limited companies declared profits at the 2000 tax assessment and 31% declared losses. The remaining 10% had no result to declare. Total profits were SEK 260 billion and losses SEK 192 billion. A small number of large companies account for the major share of these profits and losses. [6.8]

Since the tax reform of 1991, only two significant kinds of reserve have been allowed: the tax allocation reserve and excess depreciation. Taxpayers are allowed to allocate up to 20% of net profits⁵ to a tax allocation reserve⁶. After six years the reserve must be dissolved and added to income. Excess depreciation occurs because tax law in many cases allows equipment to be written off in a shorter time than the economic life of the asset.

Other adjustments to the business profit are also allo-

Table S29:
Assessed profits and losses for limited companies 1999
[6.8]

Profit or loss	Profits		Losses	
	Number of companies	Assessed income SEK billion	Number of companies	Assessed loss SEK billion
0- 1 million	138 256	20.9	69 909	10.3
1-100 million	14 183	69.6	9 017	69.7
More than 100 million	171	101.0	306	180.0
Total	152 610	191.6	79 232	260.0

Table S30:
Main profit adjustments at the 2000 tax assessment [6.4]

	SEK billion
Deductions	
Allocations to the tax allocation reserve	38
Excess depreciations	31
Capital contributions by shareholders	23
Other exempt income	264
Group contributions to other companies	177
Losses previous years	228
Income added	
Dissolved tax allocation reserve	13
Group contributions received	160
Non-deductible expenditure	194

wed or required when establishing the taxable income. Such adjustments include deductions for exempt income, mainly inter-corporate dividends and capital contributions by shareholders. Contributions to other companies in the same group may be deducted and group contributions received are added to income. Losses may be carried forward indefinitely. They must be determined in the tax period in which they occur, and deducted from profits when a profit is available. [6.4]

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

3.5.5 Taxation of private firms (business income of individuals)

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

Table S31:
Assessed income for individuals with business, 2000 tax assessment [6.12]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits SEK million	Number of taxpayers	Assessed losses SEK million
0-100,000	234 292	6 460	201 051	4 783
100,000-300,000	78 520	13 045	29 893	4 965
300,000-	6 966	3 158	8 274	5 982
Total	319 778	22 663	239 218	15 730

Table S32:
Assessed income for partners in unlimited partnerships, 2000 tax assessment [6.13]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits SEK million	Number of taxpayers	Assessed losses SEK million
0-100,000	51 152	1 434	37 106	768
100,000-300,000	19 259	3 256	4 527	756
300,000-	1 721	788	1 554	1 231
Total	72 132	5 479	43 187	2 755

According to the 2000 general tax assessment, there were 434,000 persons reporting either profits or losses from businesses in which they were actively involved (private firms and partnerships). Another 240,000 individuals declared profits or losses without taking an active part in the business. [6.10]

In 2000, total assessed profits of private firms were SEK 23 billion and losses SEK 16 billion. [6.11-12]

Total assessed profits for partners in unlimited partnerships were SEK 5 billion and losses SEK 3 billion, according to the 2000 general tax assessment. [6.11 and 6.13]

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

In 1999, about 34,000 businesses made allocations of this kind, totalling SEK 2.6 billion. About 28,000 allocations (SEK 1.4 billion) were reversed. Including the 1999 net allocation of 1.1 billion, accumulated allocations rose to SEK 10.7 billion. [6.15]

Another measure designed to establish greater neutrality between private firms and limited companies is to allow part of the business income (of a private firm) to be treated as capital income. This part of the income will then be subject to a 30% tax rate rather than to the tax rates applied to earned income and to social security contributions. The maximum amount allowed to be taxed as capital income is a certain percentage (the State lending rate plus 5%) of the equity capital according to the balance sheet. In 1999, about 135,000 taxpayers took advantage of this rule and SEK 4.7 billion of business profits were taxed as capital income. [6.16]

If equity capital is negative, this procedure is reversed. Capital income is then reduced by a certain percentage (the State lending rate plus 1%) of the equity and added to business income. In 1999, this rule, which is compulsory, applied in about 47,000 cases and about SEK 500 million was added to business income. [6.16]

4 Taxes and income distribution

4.1 Overview

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

4.2 Direct taxes paid by individuals

In 1989, an individual with an average income paid 36% of this income in direct taxes.⁷ Immediately after the 1991 tax reform, this share dropped to 29%, but in 1999 it had bounced back to 35%. The tax reform made some previously non-taxed employment benefits taxable, imposed new restrictions on travel expense deductions and broadened the base for capital income tax. One effect was that the assessed incomes of high-income earners rose, but at the same time the tax rates applied to these incomes were lowered considerably. Taxes paid by the lowest income groups increased throughout the 1980-1998 period. [7.1-4]

A central aim of the 1991 tax reform, as well as of the reforms that preceded it, was to lower marginal income tax rates. In 1980, the top rate was 85% and in the years before the tax reform it had been lowered to around 73%. The tax reform brought the rate down to slightly more than 50%, but during the 1990s the marginal tax rate has again increased. [7.5]

How much an individual can keep of an increase in income is determined not only by the tax rates applied, but also by means-tested benefits and charges for social services related to income. On average in Year 2001, about 35% of a wage increase is lost to the individual - 29% in increased income tax, 5% in reduced benefits and 1% in higher charges. [7.6] But these figures are averages. In individual cases, lost benefits and higher charges may have a much stronger impact.

Table S33:
Direct taxes as a percentage of assessed income for some income groups, 1999 prices [7.2 and 7.5]

Total assessed income	1980	1989	1991	1999
0 -50,000	9%	14%	18%	20%
100,000-150,000	29%	33%	27%	31%
200,000-250,000	36%	36%	29%	35%
500,000-	54%	58%	39%	42%
All age 18 or older	33%	36%	29%	35%
Highest marginal income tax rate (based on the average local income tax rate)	85%	73%	51%	57%

Table S34:
Redistribution by taxes and benefits, 1999, (all households 18-64 years) breakdown into various income groups, KSEK [7.7]

Factor income Income groups	Factor income income	Benefits	Taxes	Disposable
0-50	18	124	32	110
100-150	126	80	61	145
200-250	225	46	89	182
300-350	324	63	128	259
600-	901	41	360	582
All	282	68	117	233

4.3 Redistribution of incomes

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

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 1999, benefits received by the average single parent were about 36% higher than taxes paid. [7.8]

In 1999, the total factor income of all households in Sweden was SEK 960 billion, of which 85% was employment income, 3% entrepreneurial income and 12% capital income. Direct taxes and certain other charges totalled SEK 448 billion and transfers to households (benefits etc.) SEK 418 billion. This resulted in a total disposable income of SEK 930 billion. [7.9]

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

4.4 Income distribution

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

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

During the 1980s, living standards (measured as median disposable income in fixed prices per consumer unit) rose by 14%. As a result of the severe recession in the early 1990s, living standards fell by 8% from 1990 to 1995. Between 1995 and 1999 living standards rose by 9%.

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

Table S35:
Disposable income per consuming unit for all individuals, mean values for respective decile, KSEK 1999 prices [7.12]

Decile	1996	1998	1999	Change 1996–1999
1	44	44	44	0%
5	87	89	93	7%
10	235	224	256	9%
All	105	105	112	7%

Table S36:
Disposable income per consuming unit for all individuals, mean values for certain age groups, KSEK 1999 prices [7.14]

Decile	1996	1998	1999	Change 1996–1999
18–22	79	83	87	10%
23–29	93	95	103	11%
50–59	122	126	130	7%
65–74	95	98	101	6%

Measured by the Gini-coefficient, income differences widened only slowly during the 1980s, but grew more rapidly after 1990. [7.11]

Widening income differences are also reflected by the fact that households with higher incomes increased their incomes more than households with proportionately lower incomes in the late 1990s. [7.12]

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.⁸ In 1991, 7% of all households reported capital gains on their income tax return; in 1999 the figure was 27%. This development has contributed significantly to the widening income differences recorded. [7.13]

The disposable incomes of men and women have developed along parallel tracks; percentage changes have been roughly equal. All age groups have had an increase of their disposable income between 1996 and 1999. There are, however, marked differences between age groups. Pensioners, people older than 64, have had a smaller increase of their incomes than the others. People in the age group 23–29 had the best development of their incomes in 1999. [7.14]

All different types of households have increased their income in the late 1990s. Co-living households have increased their income the most. [7.15]

Table S37:
Median annual income of full time employees, age 20–64, KSEK 1999 prices [7.16]

Decile	1980	1991	1999	Change 1991–1999
Women	173	174	204	17%
Men	198	217	245	13%
All	187	200	227	14%
Women's median income in % of men's	87%	80%	83%	

Unemployment is an important factor behind falling disposable incomes during the mid 1990s. Those in employment have in fact enjoyed rising real wages. After a fall of 2% between 1991 and 1993, the median income from work then rose by 16% in the period up to 1999. Income from work equality between men and women, which worsened during the 1980s, has improved somewhat in the 1990s. [7.16]

5 Tax arrears and collection losses

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

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

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

Debited taxes that are not paid within five years are normally written off. These amounts are referred to as collection losses. A standard, but approximate measure of collection losses is net arrears in one year minus the amount collected by the enforcement service in that same year. According to this measure, collection losses in 2000 were SEK 4.5 billion, which was equal to 0.4% of total tax revenue. [8.1]

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

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

Table S38:
Tax arrears and collection losses 1999-2000
(SEK billion) [8.1]

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

The current level of collection losses is about the same as in the late 1980s. In the early 1990s, they were much higher, however. In 1990, the level of losses rose sharply to 1.0% of total revenue and then to 1.2% in 1992. Behind this development was a steep rise in the number of bankruptcies. Some were deliberate and part of tax fraud schemes, but most occurred as business failures when the bubble economy of the 1980s suddenly burst. In 1992, more than 20,000 business enterprises with about 80,000 employees went bankrupt. The 2000 level was about 7,000 businesses and 17,000 affected workers. [8.1-2]

In 2000 individual taxpayers accounted for about 45% of the collection losses, with legal entities representing the remaining 55%. Income tax - especially back taxes and additional assessments due to audits - and VAT make up the greater part of all tax arrears. The introduction of the single tax account in 1998 - as a result of which all payments are registered on a single account for each taxpayer without differentiation by tax -, makes it difficult to calculate how much of the loss is represented by each tax. Such unallocated losses are referred to as deficits on the taxpayers tax account. [8.4]

By the end of 2000, the balance of unpaid tax arrears was SEK 41 billion. The major share (59%) was attributable to bankruptcies. Only about 20% of the total debt was subject to active recovery measures. About SEK 10 billion, roughly 1/4 of the total amount due, consisted of penalties and accumulated interest. [8.5]

Time is a crucial factor in debt collection. In 2000, the enforcement authorities collected tax arrears worth SEK 5.2 billion. The greatest part of this amount (61%) comprised arrears that arose in that same year, with a further 18% arising in the previous year. [8.6]

Table S39:
Closing balance of tax receivables at the end of 2000
(SEK billion) [8.5]

	Taxes	Interest and penalties	Total
Bankruptcies, concluded	12.0	5.0	17.0
Bankruptcies, not concluded	6.4	1.1	7.6
Other arrears not subject to active recovery	6.1	2.3	8.4
Arrears subject to active recovery	6.9	1.5	8.4
Total	31.5	9.9	41.4

By the end of 2000, there were 567,000 debtors registered with the enforcement authorities. Most had debts to the public sector, some only to private creditors and many to both public and private creditors. Among these were 275,000 debtors with tax arrears, of which 64,000 were legal entities. The total number of debtors during the 1990s has increased until 1998, but has decreased annually since then. The number with tax arrears has fallen since 1996. [8.7]

The bulk of total arrears are owed by a small number of debtors. About 2/3 of the arrears accumulated by private individuals are owed by 6.4% of the debtors, while 65% of the arrears run up by legal entities (mostly companies) are owed by 5% of the debtors. [8.8-9]

6 Tax errors and tax evasion

6.1 Introduction

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

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

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

6.2 Illicit work and the size of the black economy

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

and its final report was published in 1998.¹⁰ According to the findings of the study 11-14% of the adult population (or 650,000-800,000 people) had carried out such work at least once in the past 12 months.¹¹ To most people it was extra work, on average 5 hours a week bringing in SEK 112 per hour and about SEK 25,000 per year. According to the NAO estimates, illicit work accounted for 5% of total work hours and illicit earnings corresponded to around 3% of GDP.

The study also found that the group most active in the black economy were young men. This general conclusion is also supported by taxpayer surveys carried out by the National Tax Board (through a private opinion survey institute).¹² In these studies, however, only 6-7% of respondents agreed with the statement: "I have personally carried out illicit ("black") work during the last year".¹³ [9.1] Surveys carried out by the private opinion institute Observer have reached the same conclusions and that illicit work is most frequent among men and non union workers [9.2]

Other studies have focused on particular types of households or industries. Michael Apel has compared the reported household income of self-employed persons and wage earners and has estimated that the self-employed under-reported their income by 30%.¹⁴ However, no allowance was made for the fact that entrepreneurs are allowed to reduce their tax liability by allocating some

items of income to reserves, or that their patterns of consumption may differ from those of wage earners. Another study found that fishermen generally reported very low incomes.¹⁵ A third inquiry noted the fact that firms in cash trades exposed to tough competition have strong incentives to evade taxes. According to this inquiry, tax evasion is well documented in trades such as taxi driving, hairdressing and restaurants.¹⁶

Income from private firms and partnerships is declared as business income by their owners. Many private firms are operated as a part-time activity. In 2000, about 430,000 individuals declared income from business activities in which they were actively involved. The majority also declared employment income. Only 14% reported net profits exceeding SEK 150,000.

An analysis of incomes of individuals who worked full-time in the business they owned revealed that the average income from private firms in 1994 was about SEK 124,000 for men and SEK 88,000 for women. The corresponding average income for owners of limited companies (close companies) was SEK 247,000 for men and SEK 210,000 for women. The average incomes of employees working full time were SEK 238,000 and SEK 183,000, respectively. [9.4]

Comprehensive surveys of illicit work involving household services have been carried out in Denmark. Assuming that the findings are also applicable to Sweden, the

Table S40:
Number of individuals with assessed business income (or loss) at the assessment year 2000 [9.3]

Business income or loss	Accounted income from business, MSEK	Total number	Of which with employment income of			
			0	-50	50-150	150-
Income of						
150-	13 869	59 563	39 655	14 605	3 488	1 815
50-150	9 348	99 450	57 525	22 280	11 580	8 065
-50	2 288	133 975	48 643	19 320	21 667	44 345
0	0	1964	468	163	373	960
Loss of						
-50	-1 315	82 955	21 852	7 802	12 057	41 244
50-150	-2 706	30 710	9 105	3 099	4 225	14 281
150-	-7 036	18 420	6 169	1 995	2 352	7 904
Total		427 037	183 417	69 214	55 742	118 614
Total surplus	25 505	292 988	145 823	56 205	36 735	54 225
Total deficit	-11 057	132 085	37 126	12 896	18 634	63 429
Fraction of total	100%	43%	16%	13%	28%	
Fraction surplus	69%	80%	81%	66%	46%	
Fraction deficit		31%	20%	19%	33%	53%

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

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

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

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

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

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

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

National Tax Board has estimated total sales of such illicit services in 1995 at SEK 10 billion, of which domestic services such as cleaning accounted for about 3 billion, home repairs 5 billion and car repairs 2 billion.

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

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

Three studies, each with the aim of estimating the size of the black economy using the disposable income method, were carried out in Sweden in the 1980s and 1990s. The first study was by Ingemar Hansson¹⁸ in 1984 and the second by Åke Tengblad in 1993.¹⁹ The third study was also by Tengblad. Reviewing earlier calculations, he found that the size of the black sector of the Swedish economy in 1995 was 4.6% compared to 3.3% in 1985.

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

A very different, but popular, approach is to estimate the hidden economy using the "currency demand method". This is based on the assumption that the black economy operates largely in cash transactions to leave no traces. The amount of excess cash in the economy may therefore be used as measure of the black economy. According to estimates by the Austrian economist Friedrich

Schneider, the size of the shadow economy in Sweden (as well as in Norway and Denmark) in 1994 is equal to 18-20% of the official GDP.²¹ However, these estimates are very difficult to reconcile with the other estimates referred to above (based on direct and indirect methods). It is also difficult to understand why, according to Schneider, the share of the black economy in all of the Scandinavian countries should be double that of Austria. [9.5]

6.4 Tax fraud involving financial assets

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

This estimate refers to capital income from domestic financial institutions. The dismantling of currency regulation in the late 1980s did, however, open up foreign financial markets to household savings and investments, and there are many indications that households are also taking advantage of these new opportunities. One such indication is that the residue of household savings unaccounted for in the national accounts has increased heavily during the 1990s. Assuming that taxable financial assets worth SEK 250 billion with an annual yield of 5% are not reported to the Swedish tax authorities, this would represent an annual tax loss of about SEK 7,5 billion (tax on capital income and net wealth tax).

6.5 Excise duty fraud

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

6.6 Illicit production and smuggling of alcohol

In 1996/97, it is estimated that about 13% of total alcohol and 1/3 of all spirits consumed in Sweden reached consumers through illegal channels, either by smuggling or as illicitly distilled spirits.²² [9.6-7] This represents a tax loss of SEK 2-3 billion.

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

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

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

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

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

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

6.7 Cigarette tax fraud

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

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

6.8 The Internet and electronic commerce

Transaction costs are much lower for electronic trade (e-trade) than for traditional border trade. This increases the possibility - of tax evasion. Not only do different tax rates create incentives for tax evasion, but so do different pre-tax prices. It is difficult to maintain effective control in cases where foreign e-trading firms are selling products to Swedish consumers. However, business-to-consumer e-trade still accounts for a relatively small share of total consumption. The tax loss on consumer-oriented e-trade is estimated at a maximum of SEK 500 million.

6.9 Illegal trade in oil and petrol

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

6.10 Estimates of tax error based on tax audits

Most of the estimates cited above are from studies conducted outside the tax administration. Through auditing activities, primarily field audits, the tax authorities have considerable first-hand knowledge of tax fraud and other tax errors.²⁶ Tax audits, however, are targeted at high-risk taxpayers for maximum deterrence, and the

outcome of these audits can therefore not be aggregated into an estimate of the total tax error.

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

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

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

6.11 How large is the total tax error?

On the basis of all available information on tax fraud and other errors made by taxpayers, the National Tax Board in 1998 made an attempt to estimate the total tax error, defined as the gap between the theoretical tax revenue and the total tax bill.²⁷ This estimate applies to 1992 and is based on the facts and indicators reported above. Obviously, these calculations are surrounded by a great deal of uncertainty and the purpose of this exercise is not to produce a figure for the tax error which may be used to monitor progress year by year, but to indicate its order of magnitude. The result of the estimate is shown in the table S41.

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

6.12 The structure and causes of tax fraud

Studies of the black economy in Sweden, Denmark and the Netherlands indicate that most illicit work is carried

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

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

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

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

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

Table S41:
An estimate of the total tax error 1997 and 2000²⁸ [9.10]

	National Tax Board 1997	Updated calculation 2000
	SEK billion	
Estimated tax due on undeclared income and assets		
(1) Tax on undeclared income (Income tax, social security contributions and VAT)	60,4	56,0
(2) Tax on financial investments abroad	7,5	
	60,4	63,5
Estimated tax due on other errors detected by audits		
(3) Estimates based on random audits of wage earners, private firms and small companies	20,8	25,3
(4) Coordinated audits of the biggest groups of companies	20,0	16,0
(5) Less correction of tax fault, double calculation	-20,4	-20,7
	20,4	20,7
Estimated excise duties due on unreported imports and sales		
(6) Alcohol, tobacco, oil	3,0	3,4
(7) Loss of VAT through e-commerce	..	0,5
(8) Plain fraud, e.g claiming VAT repayments
	3,0	3,9
Total	83,8	88,1
<i>The total tax error as a percentage of GDP, (1 800 BSEK in 1997 and 2 083 BSEK in 2000)</i>	4,7%	4,2%
<i>The total tax error as a percentage of taxes in the public sector (950 BSEK in 1997 och 1 100 in 2000)</i>	8,8%	8,0%

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

Some trades and industries are more affected by tax evasion than others. In a survey commissioned by the National Tax Board, business respondents were asked whether they agreed or disagreed with the statement "our firm is to a large extent exposed to competition from firms that evade taxes". Only about 16% of all respondents agreed, but in the construction industry 37% did so, and among hairdressers the figure was 64%.³⁰ [9.11]

In other surveys, 10% of the general public confirmed the statement "I have at least once during the last year hired someone to carry out illicit work on my behalf".³¹ Those with higher incomes were, however, more likely to do so. About 1/4 of those with monthly salaries above SEK 30,000 agreed with this statement. Men, self-employed and home owners were also more likely to hire workers in the black market than women and people living in flats. [9.12] Only a minority agreed with a statement to the effect that those who hired workers in the black market should also be punished, not just the workers.³² [9.13-14]

The behavior of ordinary taxpayers was reported in a RSV study in 2001.³³ The subject was a deduction of

"other expenses" from income from employment. The deduction needs not to be specified. The study showed that there was something wrong in four cases of five and that the assessment error in this specific deduction exceeded 50%. The tax offices however did not exercise the possibility of tax surcharges, see chapter 10. Among 34 000 reductions made by the tax authorities only 79 cases of tax surcharges were found. The deductions made by the taxpayers the following year were however much more correct.

In its study of illicit work in Sweden, the National Audit Office also examined its causes [9.15], and made a distinction between structural (or external) and individual (or internal) causes. Among the structural factors, the NAO stressed the level of social control in the community and the combined marginal effects of taxes, means-tested social benefits and income-related service charges. Apart from the obvious financial motive, important factors related to the individual are the perceived risk of detection and alienation from the ruling elites (financial scandals involving politicians and top business people have had a very negative effect on tax morals). When the National Tax Board asked respondents to point out which of a set of alternatives they believed was the main reason for the existing level of tax evasion, most (51%) chose "Too high taxes". "Low moral standards" was the second choice (29%), while 12% indicated "insufficient tax control" and only 6% agreed that "tax laws are too complicated". [9.16-17]

A large majority of the Swedish population regards the size of tax evasion to be a serious problem to the society. [9.18]

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

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

³⁰ RSV Rapport 1998:1

³¹ RSV Rapport 1999:1

³² Ibid.

³³ RSV Rapport 2001:1

7 Tax control and tax fraud

7.1 Introduction

In order to detect tax fraud, the tax authorities perform various forms of compliance control. The existence of compliance control also creates a deterrent effect. This depends on how the taxpayers judge the risk of detection and the following consequences. The deterrent effect is considered substantial. [10.5-10.6] Many cases of tax fraud are discovered during tax field audits. The number of tax field audits have been reduced from more than 18,000 per year in the late 1980s to about 6,000 in 1999. This fall in the number of audits is partly due to the fact that they increasingly target larger companies and more difficult cases. Another trend is that a larger share of all audits are integrated, i.e. they cover several taxes such as company income tax, VAT, PAYE and social security contributions. However, the reduction in numbers has also been caused by budget cuts and a high staff turnover [10.3]

7.2 Administrative sanctions

Two kinds of sanctions may be applied to tax fraud. There are the sanctions of the criminal justice system (fines, prison sentences etc.) decided by the courts, and there are administrative sanctions (tax surcharges and delay charges), which are decided by the tax authorities. The sanctions of the criminal justice system are directed against deliberate attempts to avoid tax (tax fraud etc.), while the administrative sanctions are directed against errors 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 surcharge applied to income tax is equal to 40% of the evaded tax. In many circumstances, however, the surcharge will be reduced or dropped.

In 2000 290,000 decisions were made concerning tax surcharges, of which 83,000 referred to income tax and 95,000 VAT. The number of decisions has increased during the 1990s. [10.10]

Table S42:
Tax surcharges imposed in 2000 [10.10-12]

	Number of decisions	Total SEK million	Average SEK
Income tax			
During annual assessment	43 350
After annual assessment			
– additional tax surcharge	20 027
After annual assessment			
– reduced tax surcharge	19 425
Subtotal	82 202	936	11 304
VAT	95 182	272	2 859
Social security contributions			
paid by employers	59 600	88	1 470
Preliminary tax (PAYE)	50 356	52	1 028
Excise duties	1 710	21	10 633
Total	289 650	1 369	4 720

Substantial amounts are imposed as tax surcharges; in 2000 this totaled SEK 1.3 billion, of which SEK 0,9 billion referred to income tax. [10.11-12].

In addition to surcharges, there are delay charges, which are imposed if tax returns are not filed on time. An individual who files his income tax return too late is normally charged SEK 500 and a legal entity SEK 1,000. In 2000, there were 100,000 decisions concerning income tax returns and another 170,000 concerning monthly VAT and PAYE return making an increase in grand total from previous year with no less than 260%. The reason for this large increase is that new rules were fully applied and that the task within the tax authorities of exercising delay charges was prioritized. [10.15] The total amount of delay charges for late income tax returns was SEK 130 million. [10.16]

7.3 Sanctions of the criminal justice system

Since 1996, the Tax Fraud Act has defined all criminal tax offences. In 2000, the tax authorities reported 1,762 suspected tax offences to the public prosecutors, an upward turn since last year. The total number has however fallen if we compare with figures in the beginning of the 1980s. In 1983, about 3,300 suspected offences against the Tax Fraud Act were reported. [10.17] The frequency also varies between the tax regions. [10.18]

As the number of reported cases has dropped, so has the number of persons sentenced for tax offence. In 1983, 1,148 persons were fined, sent to prison, put on probation or given suspended sentences for offences against the Tax Fraud Act. In 2000, the corresponding figure was 372. The number of prison sentences has fallen from 317 in 1983 to 102 in 2000. [10.20] If we to this figure add persons found guilty of tax offence as a secondary offence, the total number of sentences in 2000 rises to 957. [10.21]

The capacity of the police to handle tax crimes has been questioned. With start in 1988 tax fraud units within the tax authorities can handle tax crime investigations. As can be seen in the tables [10.20-21] the good result of this reform is reflected in the figures for 1998-2000. According to plans the tax fraud units will in year 2004 be staffed with 200 persons. For more details of the tax fraud units see [10.19]

Table S43:
Number of persons sentenced by a court for offences against the Tax Fraud Act as principal offence or who have assented to summary fines imposed by a prosecutor [10.20]

Principal sanction	1983	1993	1999	2000
Prison	317	100	119	102
Probation	8	7	3	5
Suspended sentence	391	61	83	99
Fine	416	121	28	26
Order of summary punishment	4	8	29	139
Other sanction	12	2	3	1
Total	1 148	299	265	372

The figures in Table S43 do not include offences against the Tax Collection Act. Very few people were sent to prison for such crimes. Most were fined or given suspended sentences. [10.22] Another sanction available to the courts is to ban a person from running a business enterprise. This sanction can be applied for a period of 3-10 years if a person has seriously neglected his duties as an entrepreneur, for example by refusing to pay taxes. The number of bans in force is tending to increase and reached 399 in 2000. [10.23]

8 Opinions on the tax system and the tax authorities

8.1 Introduction

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

The surveys have a number of aims:

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

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

The 2001 surveys addressed the general public. The response rate in the national survey was 63% and in the regional survey 62%.³⁴

Table S44:
What is your general opinion on the tax system, i.e. tax levels and tax rules?, percent [11.1]

	General public			Business sector	
	1986	1992	2001	1997	1999
Very/quite good (5+4)	13	25	17	20	15
Neither good nor bad (3)	24	29	27	31	23
Quite/very bad (2+1)	52	36	44	47	58
Don't know/no answer	11	9	12	2	4
Mean value	2,3	2,8	2,6	2,6	2,3

Table S45:
Attitudes to the tax system and tax returns, the general public 2001, percent [11.2]

The general public	We have a simple tax system, percent	It is easy to file tax returns, percent
Agree (5+4)	20	57
Neither/nor (3)	28	17
Don't agree (2+1)	36	17
Don't know/no answer	15	8
Mean value	2,7	3,7

8.2 Attitudes to the tax system

Near half of the general public say they dislike the tax system in 2001, which is a slight improvement from the survey in 1998. There have been considerable shifts in attitudes concerning the tax system: a low ebb was reached in 1989, but in connection with the 1991 tax reform, opinion became much more positive. Since then, attitudes have turned a bit more sour again. A major share (ca. 80%) of the general public do not find the tax system simple, but more than 50% find it is easy to file tax returns [11.2].

8.3 The compliance issue

Promoting voluntary compliance is a strategic objective of the Swedish tax administration. It is assumed that most people are willing to comply as long as compliance is perceived as the general norm and is effectively enforced. In this survey, 93 percent of the general public stated that they are prepared to pay the taxes as long as everyone or almost everyone else does. And the tolerance for tax evasion is low; only 7% of the general public consider it OK if other people evade tax when given the opportunity. A majority (60%) agrees that the magnitude of tax evasion is a serious problem for society. [11.7]

8.4 The service from the tax authorities

A majority (60%) of the general public are satisfied with their contacts with tax authorities; 11% are not satisfied. [11.8] In ranking different aspects of quality, people are most satisfied with the way they are received by the tax authority staff; this is followed by: expert knowledge, accessibility, how easy it is to communicate with the tax authorities and lastly swiftness in handling cases and compliance control.

In general, the elderly, people with a low standard of education and low-income earners tend to have a more favourable impression of the tax authorities than persons in private employment, high-income earners and those with frequent contacts with the tax authorities.

The table below presents a number of especially important questions to summarize views of the tax authorities in different areas of quality [11.8-11.12]

³⁴ The national survey: RSV Rapport 2001:4, The regional survey: RSV Rapport 2001:3.

Table S46:
Attitudes to a number of important service issues, the general public 2001, percent [11.9]

Statement	Agree	Neither/nor	Don't agree	Don't know/ no answer	Mean value
It is easy to get in touch with the right person	33	19	21	27	3,2
The staff is interested and tries to be initiated into my cases	43	19	12	26	3,6
When the Tax Authority has done something wrong, the error is quickly corrected	17	12	16	55	3,0
The staff is competent	43	17	9	31	3,7
The Tax Authority gives good explanations in answer to my questions	36	22	14	28	3,5

Finally, 51% of the general public have confidence in the tax authorities while 10% state that they do not. This is an improvement since 1998, when 42% had confidence in the tax authorities and 12% stated that they did not.

9 The tax administration

9.1 Introduction

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

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

9.2 The political system

Within the government, tax policy and tax legislation are the responsibilities of the Minister of Finance. Tax bills are prepared by the tax department within the Ministry of Finance. These bills are often based on reports by go-

vernment committees. All tax legislation is decided by Parliament (Riksdagen). Tax bills are referred to the parliamentary tax committee (skatteutskottet) before being put to the vote.

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

9.3 The tax administration

9.3.1 A wide definition

According to the wide definition of the tax administration (i.e. all administrative functions needed to run the tax system, regardless of their organisational location), it employs 10,800 people at the National Tax Board, the regional tax authorities, the regional enforcement authorities (collection of tax arrears), Customs (VAT, customs and excise duties on imports from countries outside the European Union), district courts (inheritance tax and stamp duty) and the National Road Administration

Table S47:
Number of employees in the Swedish Tax Administration, Enforcement Service and an estimated number of officials at other agencies performing tax administrative duties, 1 January 2001 [12.1]

	Tax administration	Population registration	Election, collection of private debts etc.	Total
Tax administration and enforcement service				
National Tax Board*	907	70	200	1 177
Regional tax authorities*	8 122	905		9 027
Regional enforcement authorities*	750		1 791	2 541
Sub-total	9 779	975	1 991	12 745
Other agencies				
Customs	950			
District courts	70			
National Road Administration and other	20			
Total	10 819			

* The apportionment of staff in The Regional Enforcement Authorities between collection of tax arrears and other tasks (collection of private claims etc.) is based inter alia on estimates in the National Tax Board annual report 1998, the last year in which working hours was accounted for in this way.

(road vehicle tax) and certain other agencies. In Table S47 below, the estimated number of staff manning these functions are found within the thick blue frame. [12.1]

9.3.2 The Swedish Tax Administration and Enforcement Service

In organisational terms, the narrowly defined Swedish Tax Administration (the blue area in Table S46 above) is part of "the Tax Administration and the Enforcement Service" (skatteförvaltningen och exekutionsväsendet) with about 13,000 employees. [12.2]

The National Tax Board (Riksskatteverket - RSV) is the parent agency of the regional tax authorities and the regional enforcement authorities. At the beginning of 2001, the Board had 1,177 employees, about 2/3 in the IT department. The Board's mission is to lead, coordinate and support the regional authorities working with taxation, debt collection, population registration and general elections.

On 1 January, 1999, the former 21 county tax authorities were merged into 10 regional tax authorities (skattemyndigheter). [12.6] Each region has several local tax offices, which handle all the tax affairs of individuals and small companies. Larger companies are served by special regional tax offices. Since 1994, the number of employees at the tax authorities has fallen by about 2,000 to 9,000. Most of this staff reduction has taken place in the area of basic processing, but in recent years control activities (desk and field audits) have also been affected. Measured in staff years - 1 staff year being equal to 1,600 working hours - the time spent on field audits fell from 1,485 in 1996 to 975 in 2000. [12.3]

The regional enforcement authorities (kronofogdemyndigheter) were formed in 1997. Their regions are the same as the tax regions, but regional headquarters are often situated in other cities. [12.6] The enforcement authorities have not suffered staff reductions on the same scale as the tax authorities; employees numbered 2,900 in 1994 and 2,700 in 1995. Debt collection is the main task of these authorities, but they also perform other functions, such as bankruptcy supervision. In 2000, the number of staff years in the enforcement authorities totalled 2,421. [12.4]

Taxation accounts for about 80% of total expenditure in the Swedish Tax Administration and Enforcement Service. In 2000, total outlays were SEK 6.7 billion. [12.5]

9.3.3 Customs

Sweden's Customs Department (Tullverket) has about 2,300 employees. The Department has a head office in Stockholm and six regions. Effective trade and frontier protection employs about 1,700 staff years. In 1999, total collection was about SEK 51 billion, of which VAT accounted for SEK 47 billion. [12.7-8]

9.3.4 Other authorities

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

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

9.3.5 Taxes and the judicial system

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

9.3.6 Appeals against tax decisions

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

9.3.7 Tax 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 the supervision of the prosecutor.

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

9.3.8 The cost of tax administration

A report evaluating the 1991 tax reform estimated the compliance and administrative costs of the tax system. In 1992, administrative costs were estimated at SEK 4.7 billion and compliance costs at SEK 9.3 billion. [12.9] Administrative costs were roughly equal to 0.5% of total tax revenue and compliance costs were equal to 1.0%.³⁵

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

10 A century of taxes

10.1 Development of the tax system 1900-1950

When the 19th century drew to a close, it was still possible to trace the structure of the Swedish tax system to its medieval roots. The ancient land tax was, however, being phased out and the central government relied mainly on customs and excise duties for its revenue. Income and property taxes were the most important sources of revenue for local government. [13.1]

The introduction of a progressive state income tax in 1902 heralded a new era. Although customs and excise duties continued to be very important, the income tax gradually increased during the first half of the 20th century to become the most important source of revenue. [13.2-3]

10.2 The tax system, 1950-1970

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

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

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

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

Direct taxes also rose at a steady pace throughout this period, from 12% of GDP in 1950 to 15% in 1960 and to 20% in 1970. [13.5]

10.3 Some tax policy trends since 1970

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

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

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

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

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

10.4 Collection of taxes

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

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

10.5 Organisation

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

The enforcement service was brought under the umbrella of the National Tax Board in two stages. In 1973, its central coordinating body was made a department of the Board and, in 1988, 24 county enforcement authori-

ties were created and given the same status as the county tax authorities. In 1997, the number of enforcement authorities was reduced to 10 regional authorities. In 1999, a similar regional structure was created for the tax authorities.

10.6 Rationalization

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

The way the tax administration has developed is also reflected in staff numbers. In the late 1960s, the agencies and the regional and local authorities that were later to form the tax administration and enforcement service had about 11,400 employees. Many new officers were recruited in the 1970s and early 1980s, and by 1983 the total had risen to 14,500. After taking over responsibility for population registration from the church in 1991, the number of employees reached a maximum of 15,600. The 1990s, however, have been characterised by rationalizations and budget cuts and in 2000 staff numbers have fallen to below 13,000. [13.6]

11 Swedish taxes in an international perspective

11.1 Living standards

The Gross Domestic Product (GDP) per capita is commonly used as the main indicator for international comparisons of living standards. Using current exchange rates, GDP per capita in Sweden in 1999 (\$23,000) was above the EU average of \$22,600 and equal to that of Italy. [14.1]

Exchange rates, however, are determined mainly by supply and demand for different currencies in the international financial markets. Differences in GDP per capita according to current exchange rates will therefore reflect not only the value of total production, but also the varying price levels. Conversion on the basis of purchasing power parities (PPP) will therefore provide a more

accurate measure of living standards. Using PPP, GDP per capita in Sweden was slightly over the EU average in 2000 and on the same level as in Italy [14.2]

11.2 The general level of taxation (the tax quota)

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

Even though the tax quota may exaggerate the difference between the tax level in Sweden and some other countries, there is no denying that the tax level in Sweden is high by international standards. In 1998, the tax quota of Sweden (52%) was the only one above 50% (the next was Denmark at 49.8%) and it was well above the EU average of 41.3% and the OECD average of 37%. [14.3]

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

11.3 The structure of the tax system

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

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

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

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

Comparing the seven most highly-taxed EU countries (according to the tax quotas), there are significant differences in how the tax burden is allocated between social security contributions and payroll taxes on the one hand,

Table S48:
GDP per capita in 1999, US Dollars [14.1]

	Current exchange rates	Purchasing power parities
Germany	25 729	23 819
Sweden	27 256	23 017
Britain	24 244	22 876
EU-15	22 564	22 437
OECD-Total	22 449	22 588

Source: OECD (2001)

Table S49:
The tax quota and the tax mix (1998) [14.3,14.5]

	Tax quota		Tax mix, percent of total revenue			
	Total tax	Taxes on revenue in incomes and relation to profits GDP, percent	Social security and payroll taxes	Property tax	Tax on goods and services	Other taxes
Sweden	52,0	40,7	33,5	3,7	21,6	0,1
Denmark	49,8	58,9	3,9	3,6	33,2	0,0
Finland	46,2	41,3	25,2	2,4	30,7	0,1
Belgium	45,9	39,2	31,5	3,2	24,9	0,0
France	45,2	23,3	38,5	7,3	26,6	4,0
Austria	44,4	29,2	40,3	1,3	27,9	1,0
Italy	42,7	32,6	29,5	4,8	27,4	5,3
EU average	41,3	34,8	25,6	5,4	30,2	0,9

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

Comparing the contribution of different taxes to the tax quota in Sweden against unweighted EU averages (1998) (based on revised GDP definitions for 14 countries), shows both taxes on income and profits and social security contributions to be higher in Sweden than in most other European countries. Regarding tax on personal income alone, the tax is the highest in Denmark (25.7% of GDP against 18.2% in Sweden). Social security contributions in Sweden (14.9% of GDP) are at the same level or higher in a few EU countries: France (16.4%), Netherlands (16.4%), Austria (15.1%) and Germany (14.9%). VAT and excise duties combined are slightly lower in Sweden than the EU average (11.2% against 12.3%). [14.6]

Table S50:
Tax revenue per recipient, as percent of total tax, 1998 [14.10]

	Federal or Central government	State government	Local government	Social security funds
Sweden	58,1	-	30,8	11,1
Austria	52,7	9,3	10,2	27,8
Belgium	36,7	23,3	4,9	35,1
Denmark	64,9	-	32,0	3,1
Finland	52,6	-	22,2	25,2
France	43,6	-	10,6	45,8
Germany	29,4	22,0	8,0	40,6
Greece	68,8	-	1,2	30,0
Ireland	6,8	-	2,0	11,2
Italy	58,8	-	11,7	29,5
Luxembourg	68,1	-	6,3	25,6
Netherlands	56,5	-	3,0	40,5
Portugal	67,0	-	6,1	26,9
Spain	48,0	-	17,0	35,0
UK	78,2	-	3,9	17,9

The gap between the Swedish tax quota (in 1998) of 52% of GDP and the EU average of 41.3% is almost entirely represented by higher taxes on labour in Sweden. [14.3]

The public sector (general government sector) is commonly divided into central government, local government and the social security funds. In Sweden, more than half of all taxes go to central government (58%). This ratio varies in EU between 29% in Finland to almost 87% in Ireland. Taxes to local government in most EU countries account for a smaller proportion of all taxes. Sweden and Denmark are exceptions; in these countries, more than 30% goes to local government. The impact of social security funds in the EU ranges between 3% of all taxes in Denmark and 46% in France. Sweden, with 11%, is well below EU average at 22% (23% for OECD countries). [14.10]

11.4 Taxes on labour

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

In Sweden, the disposable income in 1998 of a single (unmarried) worker with average pay was 66% of gross

Table S51:
Disposable income as a percentage of gross pay, wage levels as percentage of the average production worker, 1998 [14.11]

Household	Single		Married, 2 children	
	Wage person 1	Wage person 2	100%	100%
Sweden	65,9	59,7	74	71,7
Denmark	55,8	48,4	69,3	61,1
UK	75,6	73,4	83,8	82,2
France	72,3	69	82	80,2
Germany	58,1	52,5	79,3	66,7

pay. In most OECD countries, disposable incomes were higher relative to gross pay, but in some countries disposable incomes were lower. A person earning a salary 67% higher than the wage of an average worker had a disposable income of 60% of gross pay. Married couples with children had disposable incomes slightly above 70% of gross pay. [14.11]

At average income levels, marginal income tax rates in Sweden are not notably higher than in other European OECD countries, but for single persons with high incomes, marginal tax rates in Sweden are higher than in most other countries. [14.12]

11.5 Taxes on capital

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

Again, comparisons are difficult. In many countries, interest on bank deposits is not taxed, while in Sweden all interest and dividends are taxed at 30%. On the other hand, in Sweden debt interest is deductible, which is generally not the case in countries where bank interest is exempt from tax. In 1999, deductions for debt interest exceeded reported interest income and dividends by SEK 25 billion. Net revenue yield depends on whether declared capital gains are large enough to make up for this deficit.

Along with a few other countries, Sweden has a wealth tax, which is applied at 1.5% to net household wealth exceeding SEK 1 Million. In the other countries, either tax rates are lower or the tax threshold is higher. [14.13]

The tax rate applied to company profits is comparatively low in Sweden, at 28%. [14.14] Comparisons of this tax rate, however, must also take account of the extent to which companies are allowed to create untaxed reserves, and whether dividends are subject to double taxation, which is the case in Sweden.

11.6 Taxes on goods and services

11.6.1 Value Added Tax (VAT)

The minimum standard VAT rate in EU countries in Year 2000 is 15%, and the weighted average is 17.5%. Sweden, along with Denmark, has the highest standard tax rate, 25%. Lower tax rates are applied to foodstuffs, transport etc. Other countries apply lower rates on water, pharmaceuticals, books etc. [14.15]

11.6.2 Excise duties

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

Duties on alcohol are higher in Sweden than in all other EU countries. The Swedish rate of duty on ethyl alcohol is EURO 59 per litre, compared to 37 in Denmark, 33 in Britain and 13 in Germany. Duty on wine is also higher than in other countries (EURO 3.19 per litre), but is still comparable to the rates of duty in Ireland (2.73) and Britain (2.38). [14.17]

Taxes (VAT and excise duty on tobacco) make up about 70% of the retail price of tobacco in Sweden. This percentage is among the lowest in Europe, but the price of a pack of cigarettes in Sweden is still higher than in most other countries, because of high production costs and high wholesale and retail margins. [14.18]

11.7 Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 2000, Sweden contributed SEK 22 billion to the EU budget and received SEK 9 billion in return. [14.19]

Some National Tax Board publications in English

General

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

Direct taxes

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

Indirect taxes

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

Tax collection

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

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