

2013

Taxes in Sweden

An English Summary of Tax Statistical Yearbook of Sweden

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Swedish Tax Agency

Preface

The Swedish Tax Agency has just published the 16th edition of Taxes in Sweden (Skatter i Sverige 2013) in Swedish. The purpose of this tax statistical yearbook is to present an overview of the Swedish tax system as well as up-to-date statistics on relevant aspects of taxation. This yearbook can be used as a source for research and public debates, where tax policy is one of the most important and controversial issues. In addition, the book serves as a guide to the many data sources that are available in this field.

The present publication, *Taxes in Sweden 2013*, is an English summary of Skat-

ter i Sverige 2013 (the Swedish edition). All tables in the Swedish edition have English translations, and references to them are enclosed in square brackets in this English summary.

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

Swedish Tax Agency, December 2013

Ingemar Hansson
Director General

Contents

Introduction	7
Part I: TAXES IN A GLOBAL PERSPECTIVE.....	7
1 Classification of taxes	7
2 General government sector in the national accounts	8
3 Taxes and income distribution.....	9
3.1 Overview	9
3.2 Direct taxes paid by individuals	9
3.3 Redistribution of income	10
3.4 Income distribution.....	10
3.5 Distribution of wealth.....	11
4 Swedish taxes in an international perspective.....	12
4.1 Living standards	12
4.2 The general level of taxation (the tax quota).....	12
4.3 The structure of the tax system	12
4.4 Taxes on labour	13
4.5 Taxes on capital	14
4.6 Taxes on goods and services	14
4.6.1 Value Added Tax (VAT)	14
4.6.2 Excise duties	14
4.6.3 Contributions to the EU budget.....	14
5 Opinions on the tax system, filing tax returns, confidence in the Tax Agency and knowledge of tax evasion	14
5.1 Introduction	14
5.2 The opinion on the tax system	15
5.3 The opinion on filing tax returns	16
5.4 Confidence in the Tax Agency	17
5.5 Knowledge of tax evasion.....	18
Part II: TAX BASES AND TAX REVENUES.....	19
6 Overview	19
6.1 All tax bases and Tax revenue	19
6.2 Tax arrears and collection losses.....	19
7 Taxes on labour.....	21
7.1 Employment and income	21
7.2 Income tax on earned income (employment and business income)	21
7.3 Social security contributions	23
7.4 Tax on life assurance for employed and self-employed persons.....	23
7.5 Tax reduction for household services and house repairs	23
7.6 Assessment and collection.....	24
8 Taxes on capital.....	24
8.1 Overview	24
8.2 Real estate tax and real estate fee	25

8.3	Household financial wealth	25
8.4	Individual capital income tax	26
8.5	Tax on dividends to non-residents	27
8.6	Tax on pension fund earnings	27
8.7	Company income tax	27
8.8	Stamp duty	27
8.9	Wealth tax and inheritance and gift taxes	27
9	Taxes on consumption and input goods	27
9.1	Overview	27
9.2	Value Added Tax (VAT)	28
9.3	Excise and customs duties	28
10	Business taxation	32
10.1	Introduction	32
10.2	The business sector	32
10.3	Some general principles of business taxation	33
10.4	Taxation of limited companies and other legal entities	33
10.5	Taxation of private firms and partnerships (business income of individuals)	35
	Appendix	37

Taxes in Sweden 2013

Introduction

This publication is a summary of the Swedish edition of *Taxes in Sweden 2013* (*Skatter i Sverige 2013*), which is produced by the Analysis Unit (Analysenheten) of the Swedish Tax Agency (Skatteverket). The yearbook contains an overview of the Swedish tax system, as well as up-to-date statistics on tax bases, tax revenue and other relevant aspects of taxation.

Unlike most outlines of the Swedish tax system, which are written from a legal viewpoint, this yearbook has been put together from a tax statistical and tax policy perspective. This means that the description of the tax system is structured by tax bases rather than along the lines of the legal framework. The main focus is on the development of these bases and the tax revenues. Other issues covered are the impact of taxes on income distribution, international comparison of the Swedish tax system, results from the latest opinion surveys.

This summary consists of 2 parts and is essentially structured in the same way as the Swedish edition of *Taxes in Sweden 2013*.

Part I contains some general definitions, an overview of the tax system from a macro-economic perspective, a comparison of the Swedish taxes to taxes in other EU and OECD- countries and finally some results from the latest opinion surveys. Part II which is the core part of this publication is about all tax bases and tax revenues: An overview of all tax bases and tax revenues including tax arrears and collection losses, taxes on labour, taxes on capital, taxes on consumption and input goods and the business taxation.

The yearbook contains relevant annual

data available up to September 2013. Since income tax statistics depend on the outcome of the annual assessment, a complete picture of taxes on labour and capital can only be obtained for the income year 2011, which was assessed in 2012, and earlier. Therefore, 2011 will serve as the normal reference year throughout the book. All monetary values are expressed as Swedish kronor (SEK).

In order to make the Swedish edition of the yearbook accessible to an English-speaking audience, this English summary will provide a gateway to the bilingual tables contained in the Swedish edition of the yearbook. References to the tables are placed within square brackets. For example: a reference to table 7.19 in chapter 7 of the Swedish edition is written as [7.19].

The yearbook is also available on the Swedish Tax Agency's website www.skatteverket.se. Copies of the printed version can be ordered from Skatteverket, Analysenheten, SE-171 94 Solna, Sweden; or via editorship: ali.bahrami@skatteverket.se

Part I: TAXES IN A GLOBAL PERSPECTIVE

1 Classification of taxes

Taxes may be classified in several ways. A common distinction is the one made between direct and indirect taxes. Another basis for classification is represented by the primary factors of production, labour and capital. In table 1, these two criteria for classification have been combined. Individual income taxes on earned income from employment or business (self-employment) are categorised as direct taxes on labour

income, while social security contributions paid by employers are seen as indirect taxes on labour. Individual taxes on capital income and property are of course direct taxes on capital. According to this logic, however, company income tax (i.e. income tax on profits made by legal entities) is regarded as an indirect tax on capital. Taxes on consumption of goods and services (VAT and excise duties) are, on the other hand, seen as indirect taxes on labour.

Table 1
Taxes and charges on labour and capital, on households and companies in 2012, as percentages of GDP [1.1]

	Households	Companies	Total
Taxes on labour			
Income taxes	17.1		17.1
Social security contributions	-2.8	12.2	9.4
VAT and Excise duties		12.9	12.9
Taxes on capital			
Income taxes	0.7	2.7	3.4
Property and wealth taxes	0.5	0.7	1.2
Subtotal	15.5	28.5	44.1

Note: Subtotals are rounded down

2 General government sector in the national accounts

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

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

The total revenue of the general government sector in 2012 was equal to 50.2 percent of GDP and total expenditure was 50.6 percent of GDP. That resulted

in total net borrowing of 14.3 BSEK in the general government sector, which is approximately 0.4 percent of GDP. Since 2004 total net lending has been on surplus. The negative change started during 2008 and can be explained by the financial crises and the subsequent recession which affected almost the whole world. The total net lending has been around zero in 2010 and 2011, and in 2012 it is negative again.

Since 1999 the major share of government expenditure comprises consumption. This share has steadily increased and in 2012 the share is 53.3 percent. Transfer payments have gone in the opposite direction. In 1993 the share of government expenditure for transfers was 54.7 percent and in 2012 the share is 40.0 percent. [2.1]

The severe recession of the early 1990s generated a very large budget deficit. Relative to GDP, taxes fell and expenditure rose. To reduce the deficit, government spending was cut and taxes were increased. The combination of subsequent growth and higher tax rates has increased tax revenue relative to GDP from about 48.3 percent in 1993 to 51.9 percent in 2000. Since 2001 the ratio has fallen and in 2012 the tax revenue relative to GDP is approximately 44 percent [2.3].

A large proportion of general government expenditure, 41 percent in 2011, is on social protection. Expenditure on social protection is divided between central government, the social security sector and local government. Other important areas are health (14 percent), education (14 percent) and general public services (12 percent - including interest payments on the national debt). Primary and secondary education is the responsibility of the municipalities, while most health care is provided by the county councils. The breakdown of expenditure by different functions has been relative stable over the period 2004-2011. [2.5]

¹ In 2000, the Church of Sweden separated from the general government and acquired the same status as other religious denominations. In most communities however, the parishes are still responsible for some public services, such as maintaining cemeteries.

Table 2:
General government sector revenue and expenditure in 2010-2012 (BSEK) [2.1]

	2010		2011		2012	
	BSEK	% of GDP	BSEK	% of GDP	BSEK	% of GDP
Revenue	1 691	50.7	1 739	49.9	1 780	50.2
Taxes and social security contributions	1 518	45.5	1 552	44.6	1 580	44.5
Other revenue	173	5.2	187	5.4	200	5.6
Expenditure	1 692	50.7	1 739	50.0	1 794	50.6
Transfers	693	20.8	701	20.1	718	20.2
Consumption	890	26.7	924	26.6	956	26.9
Investments	109	3.3	114	3.3	120	3.4
Net lending/net borrowing	-0	0.0	-0	0.0	-14	0.4

Table 3:
General government expenditure by function and sector in 2011, BSEK, current prices [2.4]

Function	Sector				
	Total	Central Government	Social Security	Municipal Councils	County Councils
10 Social protection	710	410	223	205	14
9 Education	251	67	0	192	2
7 Health	249	44	0	3	240
1 General public services*	217	278	0	61	9
Total**	1 739	1 021	223	548	283

* For example, interest on national debt.

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

3 Taxes and income distribution

3.1 Overview

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

3.2 Direct taxes paid by individuals

In 2005, an individual with an average income paid 33 percent of this income in direct taxes. In 2007, when the reduction for work income was introduced, the share was 30 percent. Taxes have continued to fall. In 2011, the tax share on an average income was 27 percent. [3.1-4]

Table 4
Direct taxes as a percentage of assessed income for some income groups, 2011 prices
[3.2 and 3.5]

Total assessed income (KSEK)	2006	2007	2008	2009	2010	2011
0 – 50	17.1	12.8	13.5	11.7	11.3	11.0
100 – 150	25.0	24.0	23.5	22.5	21.8	20.3
200 – 250	29.1	26.8	26.0	25.2	24.5	23.2
500 –	39.8	37.3	37.4	35.6	35.2	35.0
All age 18 or older	32.6	30.4	29.4	28.0	27.5	26.9
All 18-64 years	33.0	30.5	29.4	27.8	27.4	27.2
All 65- years	30.7	29.9	29.7	28.7	27.9	26.0

Table 5
Redistribution by taxes and benefits, 2011, (all households 18–64 years) breakdown
into various income groups, KSEK [3.7]

Income groups	Factor income	Benefits	Taxes	Disposable income
1 – 50	17	137	27	127
100 – 150	126	90	41	175
200 – 250	226	56	59	223
300 – 350	325	52	87	290
600 –	996	50	295	751
All	442	70	129	383

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 2013, about 35.5 percent of a wage increase is lost to the individual: 31 percent in increased income tax, 4 percent in reduced benefits and less than 0.5 percent in higher charges [3.6]. These figures are averages. In individual cases, lost benefits and higher charges may have a much stronger impact.

3.3 Redistribution of income

Income redistribution depends on the net effect of taxes and benefits. Most households pay taxes and receive benefits, but the well-to-do pay more and receive less and vice versa. [3.7]

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 2011 the average single parent received about SEK 14,000 more in benefits than taxes paid. [3.8]

In 2011, the total factor income of all households in Sweden was SEK 1,680 billion, of which 86 percent was employment and entrepreneurial income and 14 percent capital income. Direct taxes and certain other charges totaled SEK 566 billion and transfers to households (benefits etc.) totaled SEK 495 billion. This resulted in a

total disposable income of SEK 1,696 billion. [3.9]

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

3.4 Income distribution

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

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

Between 1991 and 2011 living standards rose by 40 percent. Measured by the Gini-coefficient, income differences grew after 1991. [3.11] Widening income differences are also reflected by the fact that households with higher income increased their income more than households with proportionately lower income. [3.12]

Table 6
Disposable income per consuming unit for all individuals, mean values for respective decile, KSEK 2011 prices [3.12]

Decile	1991	2000	2008	2009	2010	2011	Change 1991-2011
1	73	69	75	77	78	79	8%
5	143	150	187	191	193	199	39%
10	328	483	544	552	577	594	81%
All	164	187	225	230	234	241	47%

During the 1990s, an increasing number of households have invested in the stock market, especially through mutual funds. As a result, more households report capital gains. The number varies depending on the movements of share prices and transactions made in anticipation of new tax legislation, but the general trend is a steady rise.² In 1991, 8 percent of all households reported capital gains on their income tax return; in 2011 the figure was 26 percent. This development has contributed significantly to the widening income differences recorded. [3.13]

The disposable income of men and women has developed along parallel tracks; percentage changes have been roughly equal. All age groups have had an increase of their disposable income between 1991 and 2011. There are, however, marked differences between age groups. Young men and women between 18 and 29 have had a less increase of their income during the period. [3.14]

Table 7
Disposable income per consuming unit for all individuals, mean values for certain age groups, KSEK, 2011 prices [3.14]

Age	1991	2000	2008	2009	2010	2011	Change 1991-2011
18 – 22	153	148	179	183	187	201	31%
23 – 29	154	161	190	187	191	196	27%
50 – 59	194	211	251	259	258	265	36%
65 – 74	140	152	192	199	204	207	48%

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

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

Table 8
Median annual income of full time employees, age 20–64, KSEK, 2011 prices [3.16]

	1980	1990	2000	2009	2010	2011
Women	208	221	256	302	308	306
Men	239	272	303	355	359	364
All	228	251	281	329	334	334
Women's median income in % of men's	87%	81%	84%	85%	86%	84%

3.5 Distribution of wealth

Wealth is unevenly distributed in Sweden. In 2007 the wealthiest 1 percent of the population possessed 23 percent of the total net wealth and had a median wealth of SEK 8.5 million. The median value for

² Another factor that may explain the rising number of individuals reporting capital gains is the fact that financial institutions, from the income year of 1996, are required to issue control statements to the tax authorities on share transactions.

all inhabitants was SEK 65,000. Women's wealth is smaller than that of men. Of the total net wealth, women possessed 43 per cent.

4 Swedish taxes in an international perspective

4.1 Living standards

The Gross Domestic Product (GDP) per capita is often used as an indicator for international comparisons of living standards. Using current exchange rates, GDP per capita in Sweden in 2011 was USD 57,038, which was above both the Euro area average of USD 39,392 and the OECD average of USD 37,276. [4.1]

Table 9
GDP per capita in 2011, US Dollars [4.1]

	Current exchange rates	Purchasing power parities
Sweden	57 038	41 452
Euro area	39 392	35 340
OECD	37 276	35 190

Exchange rates, however, are determined mainly by supply and demand of different currencies in the international financial markets. Differences in GDP per capita in current exchange rates will therefore reflect not only the value of total production, but also differences in price levels. Conversion on the basis of purchasing power parities (PPP) will therefore provide a more accurate measure of living standards. [4.1]

4.2 The general level of taxation (the tax quota)

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

however, similar benefits are the outcome of negotiations between employers and trade unions and therefore not treated as taxes or included in the tax quota.

Even though the tax quota might exaggerate differences in tax levels, the level of taxation in Sweden is still high by international standards. In 2010 Sweden had a tax quota on 45.5 percent, well above the EU average of 38.4 percent. However, Sweden has reduced its tax quota with more than 3 percentage points between 2005 and 2010. [4.3]

4.3 The structure of the tax system

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

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

- Taxes on income and profits
- Social security contributions and payroll taxes
- Taxes on goods and services
- Taxes on property

An average EU country collects one third of its tax revenues from income taxes, a little less from each of social security contributions and consumer taxes and a few percent from property taxes. Most countries diverge, however, from this general pattern. [4.6]

A comparison of the contribution of different taxes to the tax quota in Sweden and an unweighted EU average shows that Sweden has a higher contribution from taxes on income and profits than average. The social security contributions in Sweden are in line with the EU average. Taxes on personal income are highest in Denmark (24.3 percent of GDP compared to 12.7 percent of GDP in Sweden). Among the EU countries social security contributions are highest in France (16.6 percent of GDP compared to 11.4 percent of GDP in Sweden). VAT and excise duties are highest in Hungary (16.2 percent of GDP, compared to 13.4 percent of GDP in Sweden). [4.5]

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

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

the tax burden is divided between social security contributions and payroll taxes on the one hand, and taxes on income and business profits on the other. Denmark in particular collects a great share of their revenue from income tax, while France places

greater emphasis on social security contributions and payroll taxes. The relative importance of consumer taxes is roughly similar and property taxes are relatively insignificant as a source of revenue. [4.6]

Table 10
The tax quota and the tax mix (2010) [4.3,4.6]

	Tax quota		Tax revenue, share of total tax revenues, percent			
	Total tax	Income and profits	Social security and payroll	Property	Goods and services	Other taxes
Denmark	47.6	61.1	2.6	4.0	31.9	0.0
Sweden	45.5	35.6	32.1	2.4	29.4	0.1
Belgium	43.5	34.3	32.4	6.8	25.6	0.0
Italy	42.9	32.9	31.3	4.8	25.9	4.8
France	42.9	21.9	41.9	8.5	25.0	2.4
Finland	42.5	35.7	29.8	2.7	31.5	0.1
EU 15 average	38.4	32.9	30.5	5.0	30.5	0.7

The public sector is usually divided into central government, local government and the social security funds. In federal countries there is also a state government. In Sweden, more than half of all taxes go to central government (51.4 percent). This ratio varies in the EU-15 between 30.0 percent (Spain) to 82.2 percent (Ireland). Taxes to local government in most EU

countries account for a smaller proportion of all taxes. Sweden is here an exceptions with 35.7 percent of all taxes going to local governments. The impact of social security funds in the EU ranges between 2.1 percent of all taxes (Denmark) and 54.1 percent (France). Sweden, with 12.6 percent, is second lowest after Denmark. [4.10]

Table 11
Tax revenue by recipient, as percent of total tax, 2011 [4.10]

	Federal or Central Government	State Government	Local Government	Social Security funds
Austria	66.3	1.6	3.2	28.6
Belgium	56.4	5.3	5.1	32.3
Denmark	70.7		26.9	2.1
Finland	47.6		23.3	28.8
France	32.6		13.1	54.1
Germany	31.7	21.3	8.1	38.4
Greece	66.8		1.1	32.1
Ireland	82.2		0.0	17.3
Italy	52.6		15.9	31.2
Luxembourg	66.3		4.7	28.9
Netherlands	59.0		3.8	36.3
Portugal	67.7		5.7	26.3
Spain	30.0	23.1	9.5	37.0
Sweden	51.4		35.7	12.6
UK	75.7		4.9	18.9

4.4 Taxes on labour

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

In Sweden, the disposable income has increased in the last years. An average salary for a single (unmarried) worker in 2012 was 75.1 percent of the gross salary (this equals the OECD-average). A person earning a salary 67 percent higher than an average worker had however a disposable income of 64.8 percent of gross salary, which is somewhat higher than the EU 15 average on 63.6 percent but lower than the OECD-average on 69.5 percent. [4.11]

Table 12
Disposable income, by wage levels as a percentage of the average wage for an industrial worker, as percent of gross pay, 2012 [4.11]

Household	Single		Married, 2 children	
Wage person 1	100%	167%	100%	100%
Wage person 2			0%	67%
Sweden	75.1	64.8	82.1	80.4
EU 15	70.5	63.6	82.2	77.3
OECD	74.9	69.5	86.2	80.6

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

4.5 Taxes on capital

Capital is known as a potentially movable tax base which easily could leave the country where the capital taxation is considered as too high. This might put certain limits on the level of taxation rates on capital. On the other side however, there is an ambition to tax income from work and the capital gains equally. This complexity however creates a certain tax policy dilemma in Sweden.

As with taxes on labour it is difficult to compare tax levels between countries. In many countries, interest on bank deposits is not taxed, while in Sweden all interest and dividends are taxed at 30 percent. On the other hand, in Sweden debt interest is deductible, which is generally not the case in countries where bank interest is tax exempt. Currently five OECD countries have a net wealth tax: France, Iceland, Norway, Spain and Switzerland. [4.13]

Corporate tax rates vary widely between the 34 OECD countries. The United States has the highest corporate tax rate (40.0 percent) while Ireland has the lowest (12.5 percent). Sweden place itself in the lower span with a tax rate on 22.0 percent on company profits. [4.14] However, comparisons of corporate tax rates must take into account the extent to which companies are allowed to create untaxed reserves, and whether dividends are subject to double taxation, as is the case in Sweden.

4.6 Taxes on goods and services

4.6.1 Value Added Tax (VAT)

In 2013 the minimum standard VAT rate in the EU is 15 percent. Only Luxembourg

is currently applying the minimum rate. Hungary has the highest standard tax rate at 27 percent. Member countries are also allowed to use two reduced rates as low as 5 percent for certain categories of goods and services such as medicine, books, transportation and hotels. In addition, several super reduced rates as low as zero percent are specified on a country-by-country basis. [4.15]

4.6.2 Excise duties

In Sweden, excise duties on energy account for the largest share of excise duties overall. Sweden's excise duty rates on petrol and gas are at the average European level, with the exception of propellant that is notably higher than the EU average. Since the VAT is levied at a higher rate in Sweden than in other countries (with the exception of Denmark and Hungary), total taxation on energy is among the highest in Europe. [4.16]

Excise duties on alcohol are higher in Sweden than in any other EU country. The Swedish rate of excise duty on ethyl alcohol is EUR 59.17 per litre, followed by EUR 43.40 in Finland. The excise duty on wine is also relatively high (EUR 2.55 per litre). [4.17]

Taxes (VAT and excise duty) make up 77.06 percent of the retail price of tobacco products in Sweden which is lower than the EU average. However, the price of a pack of cigarettes is still higher in Sweden than in most other countries. This is due to high production costs and high wholesale and retail margins. [4.18]

4.6.3 Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 2012, Sweden contributed SEK 31.5 billion to the EU budget and received SEK 9.8 billion in return. [4.19]

5 Opinions on the tax system, filing tax returns, confidence in the Tax Agency and knowledge of tax evasion

5.1 Introduction

Since the mid 1980s, the Tax Agency has surveyed the general public and the business sector about the Swedish tax system, tax evasion and the compliance control

provided by the Tax Agency. The results presented in this section are from 2001-2013, with random samples of 3,000 – 5,000 citizens or businesses in each survey and with response rates around 50 percent. The respondents rated a set of statements on a 5 point scale. The responses, however, have been merged into 3 groups; "agree", "neither/nor" and "disagree".

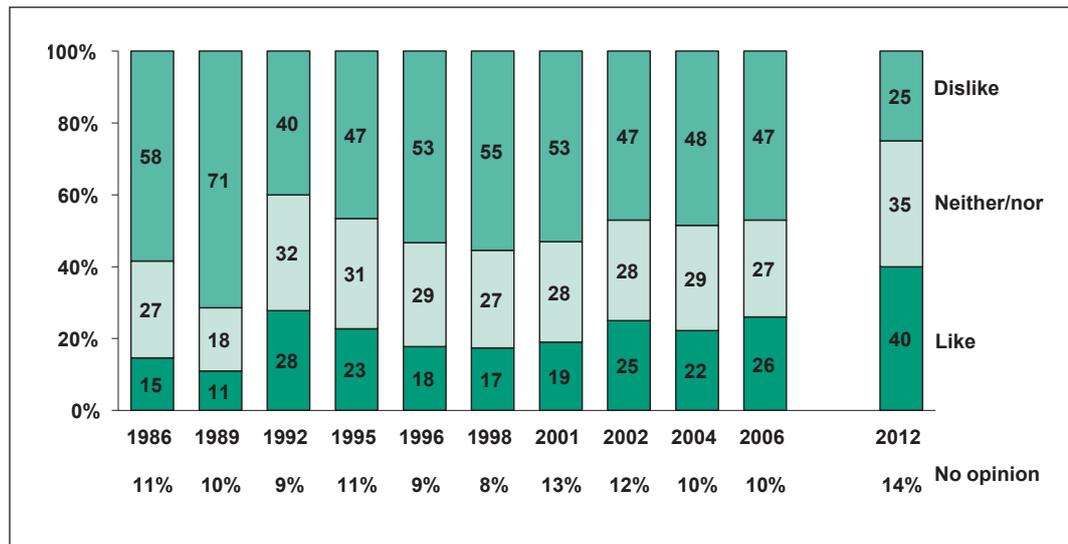
Swedish citizens were more dissatisfied with the tax system. After the reform the percentage of citizens expressing dislike of the tax system decreased considerably and then remained stable on a lower level. Between 2006 and 2012, once again the percentage of citizens that were dissatisfied with the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

5.2 The opinion on the tax system

Prior to the tax reform 1990-91 the

Diagram 13

What is your opinion in general of the tax system, i.e. the size of taxes and the formation of the tax rules? The general public 1986 - 2012, percent [5.1]



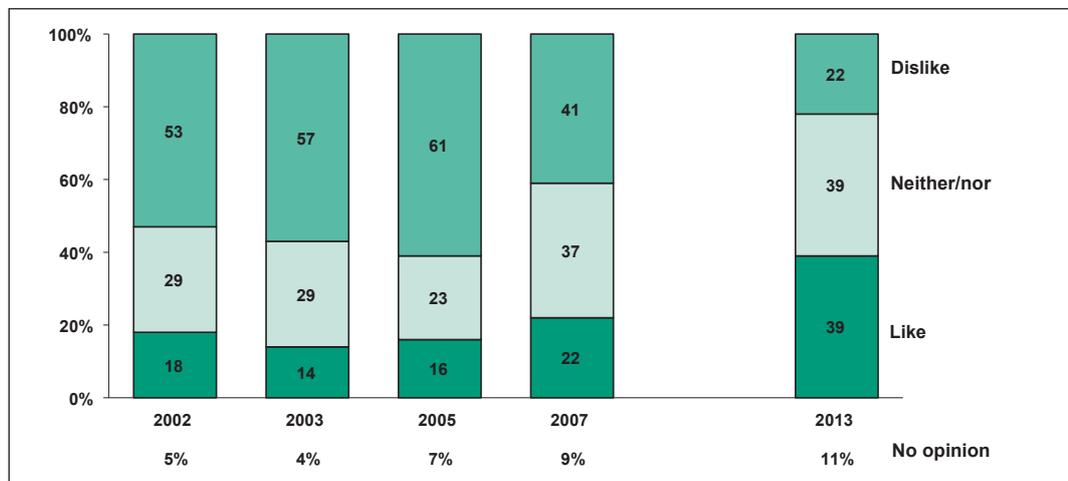
Source: SKV 2012:1

The result is similar for the business sector. The decrease of businesses dissatisfied with

the tax system began between 2005 and 2007 and continued during 2007- 2013.

Diagram 14

What is your opinion in general of the tax system, i.e. the size of taxes and the formation of the tax rules? Businesses 2002-2013, percent [5.2]



Source: SKV 2013:3

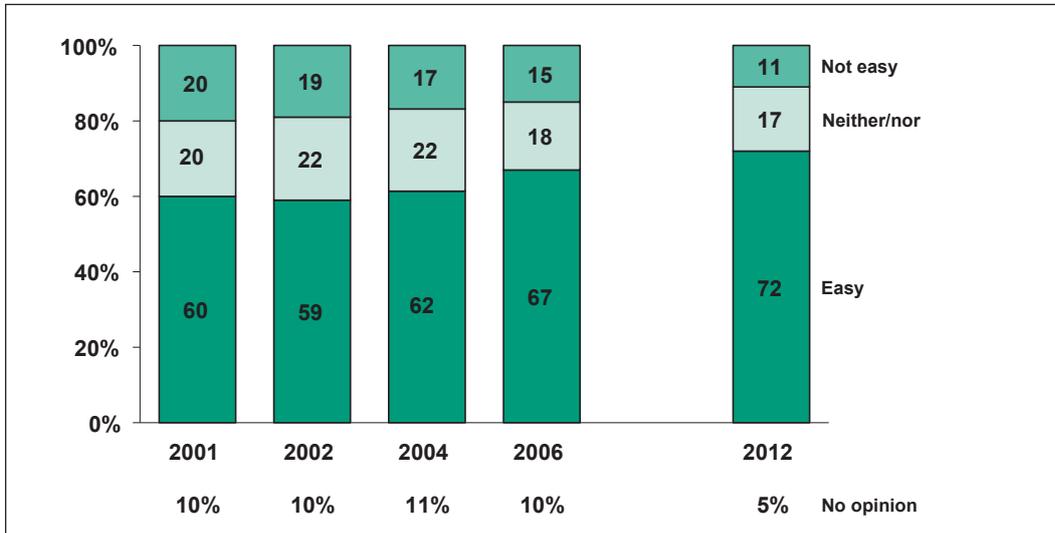
5.3 The opinion on filing tax returns

A clear majority of citizens find it easy to fill in their tax returns. According to the

2012 survey 72 percent agreed and 11 percent disagreed with the statement that it is easy to fill in the tax returns.

Diagram 15

It is easy to file tax returns, the general public, percent [5.3]



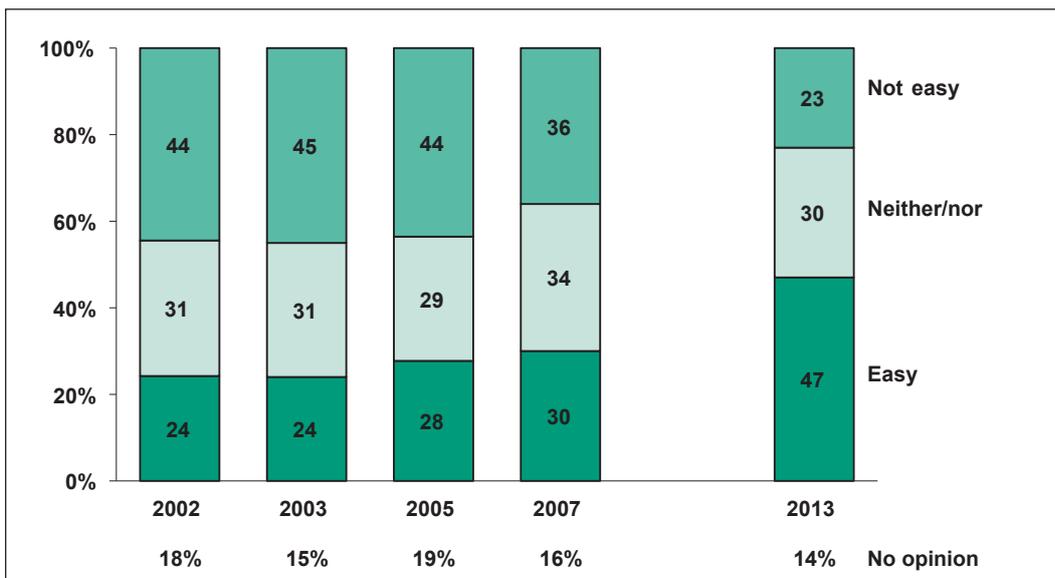
Source: SKV 2012:1

Compared with the general public, a higher proportion of businesses do not find it easy to file their tax returns and provide information on various taxes. However, this group has been almost halved during

the last ten years. In the 2013 survey, 23 percent of the businesses answered that it is not easy to file their tax returns and provide information on various taxes.

Diagram 16

It is easy to file tax returns and provide information on various taxes, businesses, percent [5.4]



Source: SKV 2013:3

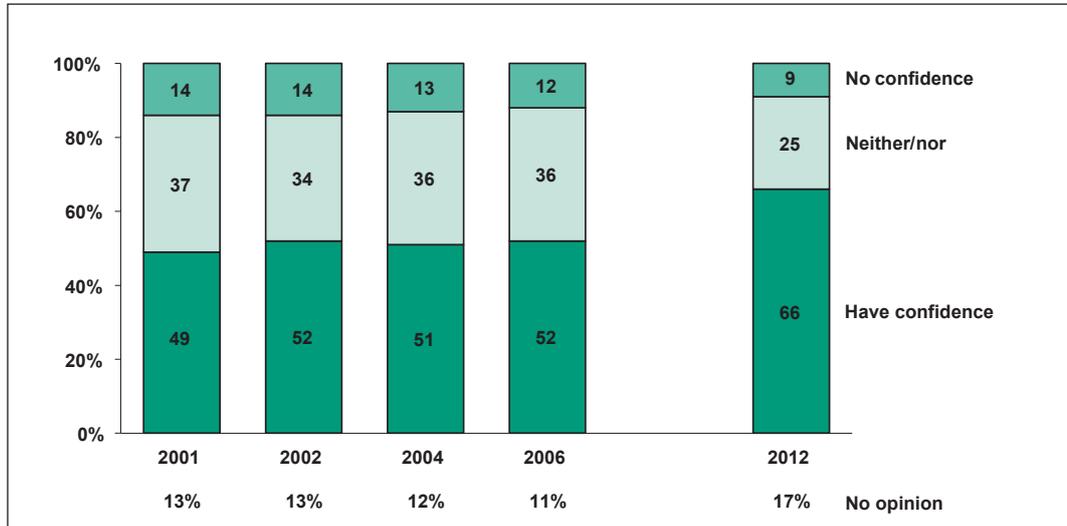
5.4 Confidence in the Tax Agency

The proportion of citizens who state that they have confidence in the Tax Agency in-

creased from 52 to 66 percent during the period 2006 - 2012.

Diagram 17

I have confidence in the way the Tax Agency is carrying out its duty, the general public, percent [5.5]



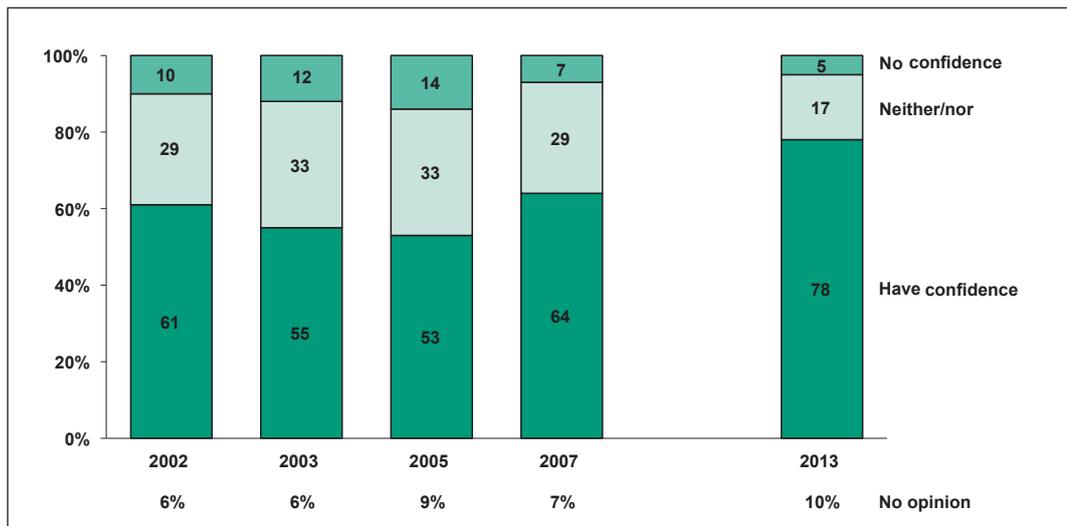
Source: SKV 2012:1

The positive trend is even more distinct in the survey to the business sector. An improvement was already noted between 2005 and 2007, and the confidence in the Tax Agency continued to increase dur-

ing the subsequent period of 2007-2013. In the 2013 survey, only 5 percent of the businesses responded that they do not have confidence in the way the Tax Agency is carrying out its duty.

Diagram 18

I have confidence in the way the Tax Agency is carrying out its duty, businesses, percent [5.6]



Source: SKV 2013:3

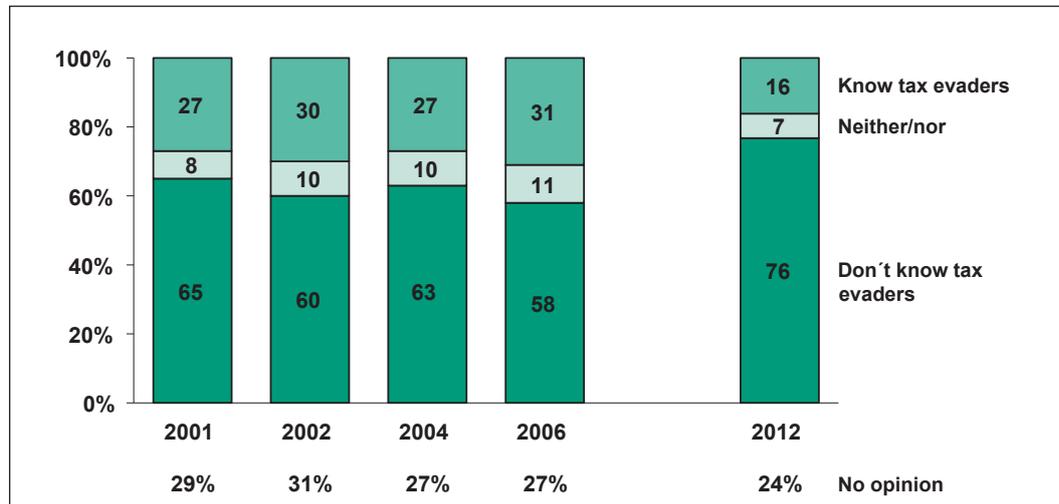
5.5 Knowledge of tax evasion

During the period of 2006-2012, the proportion of respondents who know other citizens that have evaded tax decreased from 31 to 16 percent. An explanation for this change is probably the deductions for house repair and maintenance (“ROT”) and household work (“RUT”) that were taken into effect during this period. This result may indicate that the tax gap has decreased, at least on the part of the tax evasion that the citizens usually are directly aware of.

and household work (“RUT”) that were taken into effect during this period. This result may indicate that the tax gap has decreased, at least on the part of the tax evasion that the citizens usually are directly aware of.

Diagram 19

I personally know people that evade taxes, the general public, percent [5.7]



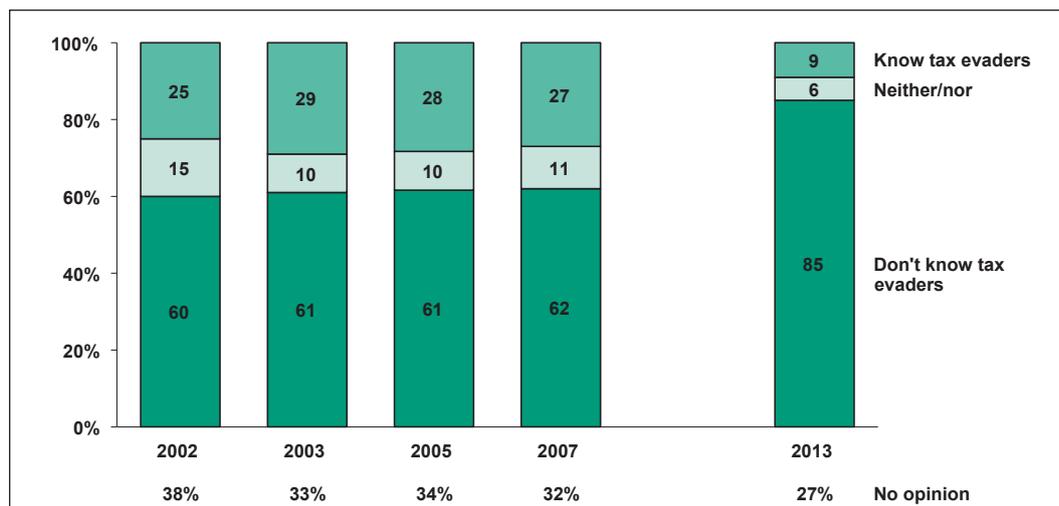
Source: SKV 2012:1

We see a similar trend in the survey to the businesses, which includes a similar

statement: “ I know businesses that evade taxes”.

Diagram 20

I personally know businesses that evade taxes, businesses, percent [5.8]



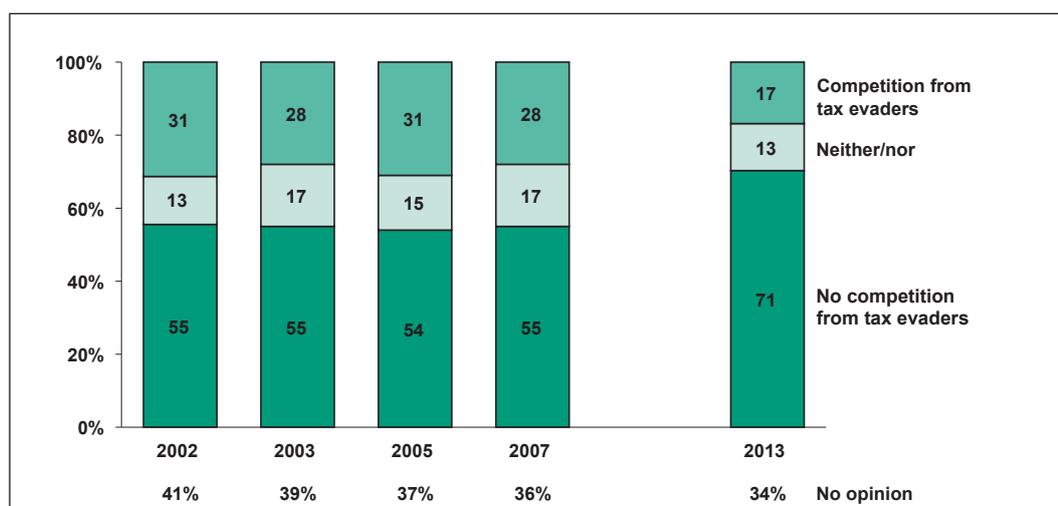
Source: SKV 2013:3

The businesses have also responded to the statement “our company is heavily exposed to competition from other companies within the line of business that evade

tax”. The proportion that states competition from tax evaders has decreased from 28 to 17 percent between 2007 and 2013.

Diagram 21

Our company is heavily exposed to competition from companies within the line of business that evade tax, businesses, percent [5.9]



Source: SKV 2013:3

Part II: TAX BASES AND TAX REVENUES

6 Overview

6.1 All tax bases and Tax revenue

In 2011, total tax revenue was SEK 1,555 billion. Of this 59 percent may be regarded as tax on labour (i.e. tax on earned income and social security contributions).

Table 22
Total taxes in 2011 [6.1]

	SEK, billion	% of total taxes	% of GDP
Taxes on labour	911	59%	26.0%
Taxes on capital	183	12%	5.2%
Taxes on consumption and input goods	461	30%	13.2%
Total taxes	1 555	100%	44.4%
of which			
- taxes belonging to EU	7	0.5%	
- local income tax	538	34.6%	
- fees for the pension system	195	12.6%	
- state taxes	815	52.4%	

6.2 Tax arrears and collection losses

Not all taxes billed to taxpayers are paid on time. If the tax remains unpaid after a re-

minder, the Tax Authority notifies the Enforcement Authority³. The Enforcement Authority will again demand payment and, if the taxpayer still does not pay, the authority will take action to recover the amount due.

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

The Enforcement Authority has several means of collecting arrears at its disposal. One very common measure is to seize a refund due on another form of tax. Another is attachment of earnings. Saleable chattels of a recognised market value or real property may be seized and sold, and so on.

Taxes demanded but not paid within five years are normally written off. These amounts are referred to as collection losses. A standard, but approximate, measure of collection losses is net arrears in one year minus the amount collected by the enforcement service in the same year. By this measure, collection losses in 2012 were SEK 5.6 billion, equal to 0.4 percent of total tax revenue. [6.7]

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

Table 23
Tax arrears and collection losses 2004-2012 (SEK billion) [6.7]

	2004	2005	2006	2007	2008	2009	2010	2011	2012
Total tax revenue	1 283	1 357	1 427	1 486	1 495	1 457	1 520	1 555	1 567
Accord/debt restructuring				0.03	0.12	0.22	0.22	0.18	0.09
Arrears notified to the enforcement authorities	12.8	13.1	11.0	11.3	14.4	15.2	12.7	13.6	13.1
Demands withdrawn or reduced	-3.1	-3.7	-2.2	-2.6	-2.7	-2.9	-2.8	-2.6	-2.7
Net arrears	9.6	9.3	8.9	8.7	11.7	12.3	9.8	11.0	10.3
Payments to the enforcement authorities	-4.6	-4.7	-4.3	-4.3	-4.5	-4.9	-4.7	-5.2	-4.8
Collection losses	5.0	4.6	4.5	4.4	7.2	7.4	5.2	5.9	5.5
Collection losses incl. accord/debt restructuring				4.4	7.4	7.6	5.4	6.0	5.6
Collection losses as % of total tax revenue	0.4%	0.3%	0.3%	0.3%	0.5%	0.5%	0.4%	0.4%	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 percent of total revenue and to 1.2 percent in 1992. Behind this development was a steep rise in the number of insolvencies. Some were deliberate and part of tax fraud schemes, but most occurred as business failures when the economic boom of the 1980s suddenly came to an end. In 1992, more than 20,000 businesses with about 80,000 employees became insolvent. In 2012 the level was about 7,500 businesses with 26,500 workers affected. [6.9]

In 2012 individual taxpayers accounted for about 50 percent of the collection losses, with legal entities making up the remaining 50 percent. The introduction of the single tax account in 1998 – as a result of which all payments are registered on a single account for each taxpayer without differentiation by tax – makes it difficult to calculate how much of the loss is represented by each tax. Such unallocated losses are referred to as deficits on the taxpayers tax account.

By the end of 2012, the balance of unpaid tax arrears was SEK 37.4 billion.

A considerable share (55 percent) was attributable to insolvencies. 44 percent of the total debt was subject to active recovery measures. About SEK 0.6 billion, roughly 2 percent of the total amount due, consisted of penalties and accumulated interest. [6.10]

Table 24
Closing balance of tax receivables at the end of 2012 (SEK billion) [6.10]

	Taxes	Interest and penalties	Total
Bankruptcies, concluded	14.1	0.1	14.2
Bankruptcies, not concluded	6.8	0.0	6.8
Other arrears not subject to active recovery	0.2	0.1	0.2
Arrears subject to active recovery	16.3	0.5	16.8
Total	37.4	0.7	38.1

Time is a crucial factor in debt collection. In 2012, the Enforcement Authority collected tax arrears worth SEK 4.5 billion. Most of this (78 percent) was made up of arrears that arose in the same year with a further 13 percent arising in the previous year. [6.11]

By the end of 2012, there were 507,000 debtors registered with the Enforcement Authority. Most had debts to the public sector, some only to private creditors and many to both public and private creditors. Among these were 167,000 debtors with tax arrears, of which 48,000 were legal entities. [6.12]

The bulk of total arrears are owed by a small number of debtors. About 83 percent of the arrears accumulated by private individuals are owed by 10 percent of the debtors, while 75 percent of the arrears run up by legal entities (mostly companies) are owed by 8 percent of the debtors. [6.13-6.14]

7 Taxes on labour

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

Table 25
Taxes on labour 2011 (SEK billion) [7.1]

	2011
Income taxes*	409
- of which state income tax	45
- of which local income tax	538
- of which tax reductions	-174
Social security contributions	518
Tax on occupational insurance	1
Tax reduction for household services and housing improvements	-15
Shipping support	-2
Total	911

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

7.1 Employment and income

About 47 percent of the Swedish population of 9.5 million in 2012 were either employed or self-employed, i.e. were part of the economically active population. From the boom of 1990 to the recession of 1993, the number of hours worked decreased by 9 percent. Between 1993 and 2012 the number of hours worked has increased by 15.3 percent. The recovery since 1993 is primarily due to increased population and higher employment. Spread over total population the number of hours worked per head has increased by 5.6 percent between 1993 and 2012. [7.2]

In 2011, about 73 percent of all employees were full-time workers. Most part-timers were women. The median income of male full-time employees in 2011 was SEK 364,400 and of female full-time employees SEK 306,100 [7.4-5]. In 2011, about 7 percent of all adults (over 18) had assessed earned income (non-capital income) exceeding SEK 500,000. They received 20 percent of the taxable income and paid 29 percent of the tax. [7.3]

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

Direct taxes on the employment and business income of an individual are made up of State (or central government) income tax and local (government) income tax. Local income tax includes taxes levied by municipalities and county councils. The average combined rate of local income tax in 2011 was 31.55 percent. Since 2007 there is also a general tax reduction linked to income from active work.

Below is an example to illustrate the computation of the income tax burden on an individual for the income year 2011. The example also includes general social security contributions and taxes on capital, which will be explained in later sections.

Table 26
Example of the computation of tax on an individual with income from active work,
income year 2011, SEK

	Tax base	Tax rate	Tax amount
Net employment income	450 000		
Net business income	0		
General allowances (e.g. private pension premium payments)	-10 000		
Assessed earned income	440 000		
Basic allowance	-12 600		
Taxable earned income/Local income tax (average rate = 31.55%)	427 400	31.55%	134 844
Less income threshold for State income tax	-383 000		
State income tax (20%)	44 400	20.00%	8 880
General pension contribution (7% of net employment and business income; max 29 400)			29 400
Tax reduction for general pension contribution			-29 400
Tax reduction for incomes from active work			-21 249
Subtotal (individual taxes on labour)			122 475
Taxes on Capital (see Chapter 8):			
State tax on capital income (30%)	30 000	30.00%	9 000
Local real estate fee	1 500 000	0.75% max 6 512	6 512
Total tax			137 987

The aggregate assessed income of individuals (employment income and business income, less general allowances) in 2011 was SEK 1,897 billion. This sum was almost entirely made up of earnings from employment and pensions.

Table 27
Aggregate assessed earned income in
2011, SEK billion [7.10]

	2011
Employment income	
Salaries and benefits	1 481
Pensions	358
Other taxable remunerations	39
Deductions	
Commuting to work	-14
Other	-4
Net employment income	1 860
Net business income	49
General allowances	
Private pension premiums	-11
Other	-1
Net general allowances	-12
Total assessed earned income	1 897

To arrive at the taxable income, a deduction is made for a basic allowance that for persons of active ages varies between 12,600 and 33,000 SEK depending on income. [7.18-19]

The taxable earned income is the basis for computing local and State income tax. Local income tax is a proportional tax, but the rates vary between municipalities. It is made up of two components, and in 2011 the average rate was 31.55 percent:

Municipality tax	20.73 percent
County council tax	10.82 percent
Total	31.55 percent

The lowest local income tax rates are generally found in well-to-do suburbs of the large cities, while the highest rates occur in the rural north and in municipalities hit by industrial decline. In 2013 the lowest tax rate was in the Malmö suburb of Vellinge (28.89 percent) in the south and the highest in Hofors a municipality dominated by steel industry in central Sweden (34.52 percent). [7.26-28]. The gap would have been even wider had there not been a system of economic equalisation for municipalities and county councils. [7.29-30]

State income tax applies only to taxable income that exceeded SEK 383,000 (2011 figures). This threshold is adjusted annually. According to the principle established in the 1991 tax reform, this adjustment is set at the rate of inflation plus two additional percentage points (to allow for real income to rise without an increase in the marginal tax rate). In practice, however,

annual adjustments many times have been ruled by political considerations [7.40]. In the years following the 1991 tax reform, State income tax was 20 percent. As a temporary measure to reduce the budget deficit, the rate of State income tax was raised to 25 percent in 1995. In 1999, the rate was again lowered to 20 percent. The 25 percent rate was, however, retained on higher taxable income. In 2011 the 25 percent rate applied to taxable income exceeding SEK 548,300. [7.20]

The top marginal tax rate in 2013 is 56.73 percent (at an average local income tax rate of 31.73 percent). This rate applies to taxable income above SEK 591,600 (equivalent to assessed income above SEK 604,700). At lower levels, the effective marginal tax rates are also influenced by variations in the basic allowance and the tax reduction for income from active work [7.19; 7.22]. In 2011, about 16 percent of the population aged 20 or more had income above the threshold for State income tax. Of full-time employees aged 20-64, 29 percent had income exceeding the threshold. [7.24]

The amount of an increase in salary an individual may keep depends not only on the marginal tax rate, but also on the marginal effects of means-tested benefits and income-related charges, for example housing benefits. [7.25]

7.3 Social security contributions

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

There are three categories of social security contributions. The main part is paid either by employers as a payroll tax at a normal rate of 31.42 percent (2011) or by self-employed people themselves at the rate of 28.97 percent. In order to stimulate labour supply lower rates apply to people under 26 and above 66 years. In addition to this, taxpayers are assigned a general pension contribution. In 2011, the rate was 7 percent. Because some of the social

security contributions are in fact taxes, there is also a special wage tax on those items of remuneration that do not provide entitlement to State pensions or benefits. In summing up the social security contributions to the public sector a reduction is made for the part assignable to the premium pension system. According to the principles of Eurostat this part of the fees is considered to belong to savings of the household sector. In 2011, social security contributions summed up to SEK 518 billion. [7.31-35]

Table 28
Social security contributions in 2011
[7.31-32]

	SEK billion	Normal tax rate
1. Basic social security contributions paid by		
a. employers or	406	31.42%
b. self-employed	11	28.97%
2. General pension contribution paid by all active persons	94	7.00%
3. Special wage tax	36	24.26%
4. Deduction for fees for the premium pension system	-29	
Total	518	

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

Most employees enjoy the benefit of life assurance based on agreements between employers' and employees' organizations. Self-employed persons can buy similar life assurance. For technical reasons, employees are not taxed on these benefits and self-employed persons may deduct the premiums. Instead, the insurance companies involved pay a special tax on the premiums received for this type of assurance. The rate is set to correspond to average local tax and rate of special wage tax. In 2011, the total yield from this tax was SEK 1,063 million.

7.5 Tax reduction for household services and house repairs

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

registered economy. The tax reduction is set at 50 per cent of the labour cost (incl. VAT). The reduction is limited to SEK 50,000 per applicant per year. Maximum reduction thus is reached at labour costs of SEK 100,000 per year. In 2011 the total reduction was SEK 15.0 billion of which household services SEK 1.8 billion and house repairs SEK 13.3 billion. [7.37]

7.6 Assessment and collection

The year after the income year is called the assessment year. In the spring of the assessment year all taxpayers are required to submit an income tax return. Employers also supply the tax agency with income statements on remuneration paid to their employees. Financial institutions supply information on their customers' deposits, interest paid or received, dividends etc. During the assessment process, the tax agency matches these statements with the information supplied in the tax returns.

In April, taxpayers receive a tax return form on which all the data supplied by employers and financial institutions has already been entered by the tax agency. The taxpayer checks the figures and, if necessary, corrects errors and adds information or claims for deductions. He/she then signs the form and returns it to the tax agency by 2 May. Of the 7.5 million individual taxpayers who submitted income returns in 2012 (that is income earned 2011) 61 percent just signed and returned the form, while another 39 percent changed or added some information. [7.6-7]. In 2002 individuals for the first time could send their form to the tax agency by electronic media. In 2013 about 67 percent of them (5.0 million) made use of this opportunity.

Taxes are collected on a pay-as-you-earn (PAYE) basis. Employers withhold and pay their employees' preliminary tax, while the self-employed have to pay their preliminary tax themselves. Early in the assessment year, supplementary payments may be made if it is evident that the final tax bill will exceed the preliminary tax paid so far. Conversely, excess tax will be refunded

when final tax bills are issued after the assessment.

Table 29
Collection of individual income taxes etc in the assessment year 2012⁴ [7.8]

	SEK billion	% of debited tax
Total tax debited on basis of assessment (final tax bill)	559	100%
of which paid by		
- employers, banks etc. by withholding	535	96%
- preliminary tax paid by entrepreneurs	24	4%
- adjustment of state prepayments to companies of tax reduction for household services and repairs	-16	-3%
Remaining amount to be settled	16	3%
of which		
- tax payers' own additional payments	61	11%
- excess tax refunded to tax payers	-45	-8%

8 Taxes on capital

- At the end of 2012 individuals had financial assets with a value of SEK 7,410 billion and liabilities of SEK 3,137 billion, equivalent to a financial net wealth of SEK 447,000 per resident. One or two-dwelling buildings for permanent and seasonal use had an assessed value of SEK 2,950 billion.
- Total taxes on capital on individuals and companies were SEK 183 billion in 2011, or approx. SEK 19,400 per resident
- Taxes on capital were equivalent to 5.1 percent of GDP and constituted 12 percent of total tax revenue.
- Tax on company profits, i.e. company tax, totalled SEK 103 billion in 2011 and thus accounted for slightly more than 50 percent of taxes on capital.

8.1 Overview

The tax reform of 1991 separated individual income tax on earned income (employment and business income) from income tax on capital income, to which a flat rate of 30 percent was applied. Today's tax on capital consists of tax on current income

⁴ Most income assessed in 2012 were earned in 2011 and most of the preliminary taxes were paid in the form of PAYE during 2011. Supplementary payments are generally made in the spring of the assessment year, i.e. 2012. Most taxpayers receive their final tax bill (or refund) in the summer of the assessment year, but some taxpayers with more complicated income have to wait until December.

from capital, tax on holdings of capital and tax levied when the capital changes owner. The taxes on capital are to some extent paid directly by the households. Other parts of the tax on capital are paid administratively by the companies but in the last resort burden the households. In year 2011, total taxes on capital raised SEK 183 billion, about 12 percent of total tax revenue.

Table 30
Taxes on capital 2011, SEK million [8.1]

	Total
Local real estate fee on one- and two-dwelling buildings and apartments	14 689
State real estate tax (on premises, industries etc.)	12 711
Income tax on capital income for individuals	28 648
Tax on dividends to non-residents	4 580
Tax on funds retained for expansion for self-employed, net	128
Income tax on company profits	102 773
Tax on pension- and capital insurance fund earnings	11 856
Stamp duty	7 989
Total	183 373

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

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

8.2 Real estate tax and real estate fee

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

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

the basic amount of income. The charge for single-family houses in 2011 was SEK 6,512 but not more than 0.75 percent of the tax assessment value. The charge for an apartment in an apartment building was SEK 1,302 although not more than 0.4 percent of the tax assessment value. In 2011, the total yield from real estate tax and real estate fee was SEK 28 billion, of which private homes accounted for SEK 12.5 billion. [8.5]

Table 31
Real estate tax in 2011 [8.5]

	Tax base		Standard Revenue
	SEK billion	tax rate in %	SEK million
Private homes (one- or two-family dwellings) - local fee/state tax	1 675	..	12 513
Apartment buildings - local fee/state tax	742	..	2 928
Commercial property	679	1.0	6 784
Industrial property	319	0.5	1 590
Electricity-producing power plants (hydro/wind)	141	2.2/0.2	3 713
Total	3 556		27 528

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

8.3 Household financial wealth

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

Table 32
Financial assets and liabilities of households as percent of GDP [8.9]

	1995	2000	2005	2010	2012 prel.
Cash and bank deposits	28.8	22.9	30.2	36.4	39.3
Bonds	9.3	4.7	4.4	4.3	3.3
Shares and other equity	22.1	48.7	43.6	41.1	34.4
Insurance savings	36.9	62.7	74.5	80.2	87.5
Other accounts receivable	8.3	15.9	28.7	39.6	43.6
Total financial assets	105.5	154.9	177.8	201.5	208.0
Liabilities	46.4	51.0	69.6	86.5	88.1
Net financial assets	59.1	104.0	108.2	115.0	120.0

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

8.4 Individual capital income tax

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

income tax due on earned (employment and business) income.

The net yield of the individual income tax on capital varies a great deal from year to year. Declared income in the form of interest, dividends etc. are completely offset by deductions for debt interest (mainly on home mortgage loans). On the other hand, capital gains generally exceed capital losses by a wide margin. In 2011, aggregate net taxable capital income was about SEK 93 billion and net yield about SEK 29 billion.

Table 33
Tax on individual income from capital in 2011, SEK billion [8.10-11]

	Income	Expenditure and losses	Net income and tax
Interest received and paid, dividends	89.0	102.7	-13.7
Capital gains/losses	114.6	7.7	106.9
Administration costs		0.5	-0.5
Net income from capital	203.6	110.8	92.8
Net tax on income from capital			28.6

Net capital gains vary greatly from year to year, depending on asset prices and tax planning in anticipation of changes in the tax rules the following year, but gains are larger than losses. [8.12-8.13]

Postponement of capital gains on dwellings

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

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

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

A person selling a dwelling and then purchasing another dwelling has some scope for postponing taxation of capital gain on the sale of the original dwelling. Until 2007 the whole gain could be postponed on condition that the price of the new dwelling was the same or higher than the one sold. As from 2008 has been set a limit to postponements and a yearly interest charge has been imposed on outstanding postponements. New postponements have 2008-2009 been maximized to SEK 1.6 million per dwelling and as from 2010 to SEK 1.45 billion. In December 2012 there were 607,000 individuals having postponed profits. The postponed profit on these totalled SEK 257 billion. [8.14-8.15]

8.5 Tax on dividends to non-residents

A final withholding tax of 30 percent applies to dividends paid by Swedish companies and mutual funds to non-residents, unless an exemption or a lower tax rate applies under a tax treaty. In 2011, the yield was SEK 3.8 billion.

8.6 Tax on pension fund earnings

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

The tax base is the estimated yield of the fund capital. The yield is calculated by multiplying the fund capital by the official State lending rate. In income year 2011, the tax rate applied to this yield was 15 percent in the case of pension capital funds and 27 percent for other (otherwise tax-privileged) funds. The total yield in 2011 was SEK 11.9 billion.

8.7 Company income tax

The State income tax on legal entities (“company income tax”) was in 2009 reduced from 28 to 26.3 percent and in 2011 further reduced to 22 percent. The tax is

levied on the net taxable profit and the same basic rules for calculating the taxable profit apply to all business enterprises, regardless of size and legal status.

In 2011 (according to the 2012 annual assessment), companies reported a total taxable profit of SEK 406 billion and paid SEK 103 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 2 percent of all companies showing profit reported 80 percent of total taxable profits.

8.8 Stamp duty

Stamp duty is levied on the acquisition of real property and the registration of mortgages. The standard rates for individuals, non-profit associations and housing co-operatives are 1.5 percent of the value of the acquired property. For legal entities the rate has been 3 percent but the rate is from 2011 raised to 4.25 percent. Other tax rates apply in special cases. In 2011, the yield from stamp duty was SEK 8.0 billion.

8.9 Wealth tax and inheritance and gift taxes

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

9 Taxes on consumption and input goods

9.1 Overview

Taxes on consumption and input goods include value added tax (VAT), as well as excise and customs duties. In 2011, total revenue from these taxes was SEK 461 billion, representing about 30 percent of all tax revenue. [9.1-2]

Table 34
Taxes on consumption and input goods 2010-2011, SEK billion [9.1]

	2010	2011
Value added tax	326	338
Excise duties	125	123
Total	451	461

9.2 Value Added Tax (VAT)

A general sales tax (GST) of 4 percent was introduced in 1960. Step by step, the tax rate was increased. In 1969, the GST was replaced by value added tax (VAT). The tax rate was originally 10 percent (of the price including VAT), but it was soon increased to 15 percent. Today (2012), the standard VAT rate is 25 percent (of the tax base). A reduced rate of 12 percent applies to food, restaurants, hotel accommodation and camping. Newspapers, books, magazines, cultural and sports events and passenger transports are taxed at 6 percent. [9.3]

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

There are 1 million taxable persons identified for VAT purposes. 500,000 of these are businesses with a maximum turnover of SEK 1 million, which report VAT annually [9.4]. In 2011, gross payments of VAT totaled SEK 558 billion, of which 89 percent was collected by the tax authorities. About 39 percent of the gross payments was refunded. The remaining net revenue was SEK 338 billion. [9.6]

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

In 2012 a total turnover of SEK 7,973 billion in VAT returns were reported to the tax authorities of which exports and sales to other EC countries accounted for SEK 1,801 billion (turnover that are exempt from VAT). The 25 percent tax rate applied to about 84 percent of the reported non-export turnover [9.7]. The wholesale and retail trade accounted for about 36 percent of output tax and 40 percent of net revenue. Manufacturing, on the other hand, reported 17 percent of output tax,

but because of large export sales this sector was entitled to a net refund of SEK 28 billion. [9.8]

Table 35
VAT revenue 2011 [9.6]

	2011, SEK billion	% of gross payments
VAT payments received by customs	60.0	11%
VAT payments received by tax authorities	490.6	88%
VAT reported in annual income tax returns	7.3	1%
Total	557.9	100%
VAT-refunded by the tax authorities	220.0	39%
Net VAT revenue	338.0	61%

9.3 Excise and customs duties

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

From an administrative point of view, excise duties are cost efficient, since the number of taxpayers is relatively low. About 10,000 businesses are registered as taxpayers, almost half of which pay advertising duty, most with a low turnover. There are only one registered taxpayer for lottery duty and 58 taxpayers for tobacco duty, of which the largest taxpayer accounts for 90 percent of the revenue. Goods subject to "harmonized" excise duties (mineral oils, alcohol and tobacco) may be transported between authorized warehouses in the EU without being taxed. [9.10-12]

Table 36
Excise and custom duties 2010-2012 [9.9]

	2010	2011	2012
Energy and environmental taxes	73 171	70 409	69 880
Taxes on alcohol and tobacco	23 022	23 632	24 294
Taxes on road vehicles	16 400	15 724	15 603
Customs duties and other import taxes*	5 674	5 660	5 255
Lottery and gambling taxes	6 170	6 442	6 494
Tax on advertising, concession fees for TV networks etc	564	692	500
Total	125 000	122 559	122 026

* Collected for the EU-budget

Energy and environmental duties

The oil crises of the 1970s clearly highlighted the great dependence of modern society on its energy supplies. Since then, dependence on fossil fuels has been somewhat reduced, but in 2010 fossil fuels (oil, coal and natural gas) accounted for about 38 percent of Sweden's energy supply. Nuclear power supplied another 27 percent and hydroelectric power 11 percent. [9.17] Because Sweden is a northern country, much energy is needed for heating. About 37 percent of all energy is consumed in homes and services, 35 percent by industry and 27 percent by domestic transports. [9.19]

When duties on petrol and electricity

were first introduced, the revenue was intended for roads and the electrification of rural areas. Today, the chief justification for energy duties is their revenue-generating capacity, but energy conservation and environmental considerations are given greater weight in determining how the tax burden is allocated between different sources of energy. There is, for example, a special carbon dioxide duty on all fossil fuels. [9.20]

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

Table 37
Energy and environmental taxes 2010-2012, SEK million [9.13, 9.24]

	2010	2011	2012
General energy tax	41 152	40 583	40 118
Nuclear power tax	3 997	3 852	3 939
Carbon dioxide tax	27 334	25 368	25 244
Sulphur tax	48	27	29
Acidification tax	57	59	51
Taxes on fertilizers and biocides	85	87	93
Gravel tax	173	184	165
Fees on waste	289	205	198
Fees to The Swedish Chemicals Agency'	35	45	44
Total	73 171	70 409	69 880

Oil and petrol are classified according to their effects on the environment, and lower duty rates apply to those products that are deemed least harmful [9.14]. Some energy duties are also geographically differentiated. Electricity duties are lower in northern Sweden. [9.16]

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

Table 38
Taxes and consumer prices of electricity and petrol, 2013 [9.21-22]

	Electricity, SEK/Kwh	Percent	Petrol, SEK/litre	Percent
Pre-tax price	0.507	51%	6.12	42%
Energy tax	0.293	29%	3.13	21%
Carbon dioxide tax	-	-	2.50	17%
VAT	0.20	20%	2.94	20%
Consumer price	1.00	100%	14.69	100%

Taxes on motor vehicles

In addition to taxes on fuel, there are also taxes on cars and other motor vehicles. The vehicle tax was introduced in 1922 to pay for road maintenance. A special sales tax was added in the 1950s to slow the rapid expansion of motoring. It was abolished for passenger cars in 1996 and for lorries in 1998. In 2001 the last part of the sales tax was abolished, that is the sales tax for buses and motorcycles. In 1998 Sweden joined the European system with road user charges for lorries.

The tax rises according to the weight of the vehicle. From 2006 the taxation of new cars are based on the emission of carbon dioxide instead of the weight. Owners of diesel-powered cars generally pay a higher vehicle tax to make up for a lower tax on diesel fuel. [9.35-37]

The road user charges (toll) are paid by lorries and vehicle combinations weighing 12 tons and more. In the case of lorries and vehicle combinations with not more than three axles and which are subject to the most stringent requirements for exhaust devices, the user charge is SEK 6,354; for vehicles with four axles or more the charge is SEK 10,591. 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.

Table 39
Taxes on road vehicles 2010-2012, SEK million [9.34]

	2010	2011	2012
Vehicle tax	11 875	11 237	11 191
Road user charges	778	778	771
Congestion tax in Stockholm	799	802	812
Tax on premiums on third party liability insurances	2 948	2 907	2 828
Total	16 400	15 724	15 603

In 2006 a congestion tax was introduced in Stockholm to help finance a ring road around the city of Stockholm. In 2012 total revenue from congestion tax was SEK 812 million. [9.34]

In 2012, there were 6.8 million vehicles subject to vehicle tax, including 4.6 million passenger cars, 582,000 lorries and 1,010,000 trailers. In 2013, the vehicle tax on a petrol-driven passenger car with a kerb weight of 1,650 kg is SEK 2,306.

Duties on alcohol and tobacco

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

The duty rates applied to alcohol are re-

lated to the alcohol content of the beverage. In the case of spirits, the duty is SEK 501,41 per litre of pure alcohol. Wines with an alcohol content of 8.5-15 percent are taxed at SEK 21,58 per litre and beers

with an alcohol content exceeding 3.5 percent are taxed at SEK 1,66 for each percent of alcohol per litre. Beers with an alcohol content of maximum 2.8 percent are not taxed. [9.26]

Table 40
Taxes and retail price of alcoholic beverages 2013 [9.29-31]

	Spirits 40%, 70 cl		Wine max 15%, 75 cl		Beer 5.2%, 50 cl	
	SEK	Percent	SEK	Percent	SEK	Percent
Pre-tax price	42.81	18%	39.82	57%	7.60	51%
Alcohol tax	140.39	62%	16.19	23%	4.32	29%
VAT	45.80	20%	14.00	20%	2.98	20%
Consumer (retail) price	229.00	100%	70.00	100%	14.90	100%

Retail sales of alcoholic beverages are carefully regulated in Sweden. Spirits, wine and export beer (with an alcohol content greater than 3.5 percent by volume) may only be sold at special State-owned shops (Systembolaget). According to official statistics, domestic sales (at Systembolaget and in restaurants) of spirits fell during the 1990s, while beer and wine sales increased. These figures do not include legal private imports by tourists and business travellers, nor smuggling and illegal production.

Looking at official statistics consumption of alcohol fell in the middle of the 1990s. Between 1998 and 2003 the consumption increased, and reached nearly 7 litres pure alcohol per inhabitant. In 2004 the upward trend was broken due to several factors.

The Swedish limitations in bringing alcoholic beverages from other EU countries were abolished allowing for unrestricted private import. In addition taxes on spirits in the neighbouring countries Denmark and Finland were lowered. In recent years the consumption has again increased sharply. In 2010 the total sale was 7.3 litres pure alcohol per inhabitant. [9.27] The duty rates on tobacco are defined separately for different tobacco products. Moist snuff, tobacco and chewing tobacco are taxed by weight, while cigars are taxed by the piece. The excise duty on cigarettes is made up of two components. There is a fixed rate of SEK 1,41 per cigarette and a variable rate of 1 percent of the retail price (including VAT, which may be seen as a third tax component). [9.32]

Table 41
Taxes and retail price of cigarettes 2013 [9.33]

	SEK	%
Pre-tax price	15.25	28%
Fixed tobacco tax (SEK 0.20 per cigarette)	28.20	51%
Variable tobacco tax (39.2% of retail price)	0.55	1%
VAT (25% of pre-VAT price)	11.00	20%
Consumer (retail) price	55.00	100%

When Sweden became a member of the European union in 1995, the total revenue yield from alcohol and tobacco declined. In 1995 the revenue was SEK 19.0 billion and in 2005 it was 18.2 billion. However in 2012 the revenue has increased to SEK 24.3 billion. [9.25]

Table 42
Taxes on alcohol and tobacco, SEK million [9.25]

	2010	2011	2012
Tobacco tax	10 588	11 261	11 799
Alcohol tax on spirits	4 324	4 348	4 326
Alcohol tax on wine	4 411	4 505	4 593
Alcohol tax on beer	3 219	3 186	3 237
Tax on intermediate products	177	173	175
Profits on alcohol monopoly retailing	302	159	162
Private import of alcohol and tobacco	0	1	3
Total	23 022	23 632	24 294

Duties on imports

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

In 2011, the value of Sweden's imports totaled SEK 1,070 billion, of which about 67 percent came from other EU countries [9.40]. Total revenue from customs duties and other import levies was SEK 5,3 billion. [9.39]

Taxes on lotteries and gambling

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

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

Government owned gambling companies are exempted from lottery tax. Instead the profits are accounted as a tax in the state budget. In 2012 the profits from government owned gambling companies was SEK 5,1 billion.

Table 43
Lottery tax, tax on gambling and profits from government owned gambling companies, SEK million [9.41]

	2010	2011	2012
Lottery tax	1 360	1 394	1 319
Tax on gambling	18	17	16
Delivered profits from AB Svenska Spel	4 766	5 006	5 138
Lottery fees	25	25	21
Total	6 170	6 442	6 494

Tax on advertising, concession fees for TV networks etc.

The duty on advertising was introduced in the 1970s to finance increased newspaper subsidies. Advertisements in daily newspapers are taxed at the rate of 3 percent and in other printed media at 8 percent. Advertisements on radio, television and the Internet are not subject to the duty. In 1999, the duty on advertising handouts was abolished for administrative reasons.

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

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

Table 44
Tax on advertising and concession fees for TV networks, SEK million [9.42]

	2010	2011	2012
Tax on advertising	335	390	290
Concession fees for TV and radio networks etc.	229	302	210
Total	564	692	500

10 Business taxation

10.1 Introduction

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

10.2 The business sector

There are several ways to define a commercial enterprise. According to the widest possible definition, which includes all taxpayers declaring business income or VAT, there were about 1,137,000 such enterprises in Sweden in 2012 [10.1]. However, 3/4 of these businesses had no employees and most of them were combined with other employment.

Table 45
Number of business enterprises 2011-2012 [10.1]

Number of employees	2011	2012	%(2012)
0	841 559	845 016	74.3
1-4	196 493	207 193	18.2
5-49	75 391	77 377	6.8
50-499	6 369	6 546	0.6
500-	890	896	0.1
Total	1 120 702	1 137 028	100.0 %

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

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

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

Table 46
Number of enterprises and employees in 2011* [10.2, 10.22]

	Number of enterprises	Number of employees
Individuals, private firms	635 084	63 535
Unlimited partnerships	64 808	45 414
Limited companies	335 863	2 581 153
Economic associations	24 193	47 762
Clubs, societies and other unincorporated associations	39 748	97 895
Foundations	4 504	23 836
Other	15 742	31 103
Total	1 119 942	2 890 698

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

Source: SCB, Statistics Sweden

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

2011) is about 1,120,000. Most of them are run as private firms, but limited companies account for almost 90 percent of total turnover. [10.3]

10.3 Some general principles of business taxation

Taxable business income is computed according to "generally accepted accounting standards". The accounting records therefore form the basis of taxation. The principles of accrual accounting apply to all businesses regardless of size. In some respects, tax law specifies how assets are to be valued. Annual depreciation of machinery and other equipment is allowed at 30 percent of the residual value or at 20 percent of the acquisition value. Buildings are depreciated by 2-5 percent per year depending on their use. Stock is valued at 97 percent of its acquisition value using the first-in, first-out (FIFO) principle.

10.4 Taxation of limited companies and other legal entities

The total tax bill of legal entities according to the 2012 general tax assessment was about SEK 160 billion. Company profits account for the lion's share of total tax. About 74 percent of the tax was paid by limited companies. Together with bank and insurance companies, limited companies paid 89 percent of the tax total. [10.5]

Table 47
The tax bill for legal entities according to the 2010 and 2011 tax assessments, SEK billion [10.4]

	2011	2012	Change, %
State tax on business income (profits)	106.6	102.8	-3.6
Tax on pension fund earnings	11.3	11.2	-0.5
Special wage tax on pensions	26.8	30.5	+13.7
Real estate tax	14.4	15.3	+6.1
Other	1.9	2.0	+5.5
Total	161.0	161.8	+0.5

About 50 percent of all limited companies declared profits in the 2012 tax assessment and 37 percent declared losses. The remaining 13 percent had no results to declare. Total profits were SEK 431 billion and losses SEK 433 billion. A small number of large companies account for the bulk of these profits and losses. [10.7]

Table 48
Assessed profits and losses for limited companies, 2012 tax assessment [10.7]

Profit or loss	Profits		Losses	
	Number of companies	Assessed income, SEK billion	Number of companies	Assessed loss, SEK billion
0-1 million	175 100	34.2	128 935	22.7
1-100 million	28 931	133.5	22 598	157.4
More than 100 million	320	263.3	588	253.0
Total	204 351	430.9	152 121	433.1

Since the tax reform of 1991, only two significant kinds of reserve have been allowed: the tax allocation reserve and excess depreciation. Taxpayers are allowed to allocate up to 25 percent of net profits⁵ to a tax allocation reserve⁶. After six years the reserve must be liquidated and added to income. Since 2007 general tax assessment interests are accounted on the allocated profits in the tax allocation reserve. Excess depreciation occurs because tax law in many cases allows equipment to be written off in a shorter time than the economic life of the asset.

Other adjustments to business profits are also allowed or required in establishing taxable income. Such adjustments include deductions for exempt income, mainly inter-corporate dividends and capital contributions by shareholders. Contributions to other companies in the same group may be deducted and group contributions received are added to income. Losses may be carried forward indefinitely. They must be determined in the tax period in which they occur and deducted from profits when a profit is available. [10.10]

Table 49
Main profit adjustments, 2012 tax assessment [10.10]

	Profits, SEK billion	Losses, SEK billion
Income after financial income and expenses	644.5	47.8
Deductions		
Excess depreciations	23.9	8.6
Transfers to the tax allocation reserve	51.9	0.0
Group contributions to other companies	148.9	56.2
Exempt income	306.3	184.1
Deferred revenue on shares	0.0	0.0
Losses brought forward from previous years	15.9	479.0
Other net adjustments	113.5	0.0
Income added		
Liquidated excess depreciations	20.2	13.9
Liquidated tax allocation reserve	31.0	3.5
Group contributions received	74.4	49.3
Non-deductible expenditure	238.0	142.2
Liquidated deferred revenue on shares	0.0	0.0
Other net adjustments	-	-
Total adjustments	-296.8	-461.8
Assessed surplus or deficit	347.4	-413.9

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

⁶ Periodiseringsfond

Companies are not allowed deductions for dividends to shareholders, and dividends received by shareholders are taxed as capital income. Dividends are thus taxed twice. From the point of view of a resident shareholder, the effective tax rate on adjusted company profits is, therefore, 45.4 percent. A profit of SEK 100 is first subject to company income tax at a rate of 22 percent. The dividend of SEK 78 (100-22) is then subject to individual income tax on capital income at a rate of 30 percent. Total tax may thus be computed as SEK 100 x 22% + SEK 78 x 30% = SEK 45.4.

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

For individuals who report business income, a distinction is made between those

who are actively involved in the business and those who enjoy business income without active participation. The former pay social security contributions as self-employed persons at the rate of 28.97 percent (2012), while the latter pay a special wage tax at 24.26 percent (2012). Persons younger than 26 years or older than 65 years pay lower social security contributions.

According to the 2012 tax assessment, there were 590,000 persons reporting either profits or losses from businesses in which they were actively involved (private firms and partnerships). Another 160,000 individuals declared profits or losses without taking an active part in the business. [10.12]

In 2012, total assessed profits of private firms were SEK 43 billion and losses SEK 44 billion. [10.13-14]

Table 50
Assessed income for private firms, 2012 tax assessment [10.14]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits, SEK	Number of taxpayers	Assessed losses, SEK
0 - 100,000	219 755	6 483	203 848	5 786
100,000 - 300,000	104 891	19 203	55 962	9 751
300,000 -	39 495	17 382	30 332	28 126
Total	364 141	43 068	290 142	43 662

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

and losses SEK 4 billion, according to the 2012 tax assessment. [10.13, 10.15]

Table 51
Assessed income for partners in unlimited partnerships, 2012 tax assessment [10.15]

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits, SEK	Number of taxpayers	Assessed losses, SEK
0 - 100,000	37 531	998	33 442	782
100,000 - 300,000	16 455	3 012	6 121	1 056
300,000 -	6 163	2 813	3 370	2 472
Total	60 149	6 823	42 933	4 309

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. 22 percent. When the allocation is liquidated some years later, it is added to the assessed business income of that year and the special 22 percent tax is refunded.

According to the 2012 tax assessment about 20,000 businesses made allocations of this kind, totalling SEK 2.3 billion. About 23,000 allocations (SEK 1.8 billion) were liquidated. Including the 2012 net allocation, accumulated allocations are SEK 18.2 billion. [10.17]

Another measure designed to establish greater neutrality between private firms and limited companies is to allow part of the business income of a private firm to be treated as capital income. This part of income will then be subject to a 30 percent tax rate rather than to the rates applied to earned income and to social security contributions. The maximum amount allowed to be taxed as capital income is a certain

percentage (the State lending rate plus 5.5 percent) of the equity capital as shown on the balance sheet. In the 2012 tax assessment about 110,000 taxpayers took advantage of this rule and SEK 6.6 billion of business profits were taxed as capital income. [10.18]

If equity capital is negative, this procedure is reversed. Capital income is then reduced by a certain percentage (the State lending rate plus 1 percent) of the equity and added to business income. In 2012, this rule, whose application is compulsory, applied in about 41,000 cases and about SEK 700 million was added to business income. [10.18]

Appendix

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

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

Political decisions and the Swedish Tax Agency

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

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

The Swedish Tax Agency

On January 1, 2004, the Swedish Tax Administration merged the ten regional authorities and the headquarters into one, the Swedish Tax Agency. Meanwhile, the Tax Agency consists of headquarters and, as from 2006, seven tax regions. Each tax region covers one or more counties and has a number of tax offices and departments. Altogether, the Swedish Tax Agency had approximately 10,460 employees year 2012, consisting of 66 percent women and 34 percent men.

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

Guidance and checks

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

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

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

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

Companies income tax

Liability to tax

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

Tax rates

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

An individual who operates a business as a sole trader (self-employed) pays municipal income tax, national income tax and social security on the net income from the operation.

Tax base

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

Companies are entitled to a provision of 25 percent (sole proprietorships and trading companies 30 percent) of the tax base to a tax allocation reserve (periodiseringsfond) each year. The fund must be reversed after six years and the reversal is then included in the base for the seventh year's provision. This gives an effective tax rate of approx. 21 percent the first six years and then varies depending on the difference between reversed provision and the provision charged for the year.

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

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

Filing of tax return

According to the Swedish Procedure Act (SFL), taking effect on 1 January 2012, the legal entities (corporations) in Sweden obtain several different occasions to submit the tax declarations. So far, May 2 had been the deadline for all corporations to file the tax returns.

Depending on what month their financial year is ending, corporations (legal entities) have four different deadlines to submit the tax return:

Financial year ending during January to April: Tax Return by November 1

Financial year ending during May to June: Tax return by December 15

Financial year ending during July to August: Tax return March 1, the following year

Financial year ending during September to December: Tax return by July 1, the following year

Individuals income tax

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

All types of employment income and income from capital form one source of income, respectively. All losses incurred in those categories can be set off against income from the same category in the current year (however some limitations apply). Any surplus must be carried forward indefinitely. If the category of capital income is negative it may, with limitations be taken as a credit against the national and municipal income tax as well as the national real estate tax. Any amount that cannot be offset during the current year cannot be carried forward.

Tax on income of employment

Income from employment is the sum of all earnings deriving from a person's own work which includes:

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

The tax on income from employment is comprised of municipal tax (council tax) and state tax. The majority of people only pay municipal tax. The amount varies depending on the municipality of residence (29-34 percent tax rate). The average combined rate of local income tax in 2013 was 31.70 percent.

State tax is paid by citizens with an income of above SEK 426,300. For income year 2013 there are two thresholds where the individuals are obliged to pay the state income tax. The lower threshold is 426,300 SEK. On earnings above this limit, the in-

dividuals have to pay a 20 percent state income tax. The upper threshold is 604,700 SEK. On earnings above this limit the individuals have to pay an additional 5 percent state income tax (värnskaft).

In addition, everyone pays a general pension contribution (7 percent). Deductions are only allowed for expenses that are directly associated with the work. Deductions are never allowed for personal living expenses. The most common deductions are those for travel to and from work.

Tax on income of self-employment

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

Tax on capital income

Capital income includes:

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

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

Filing an income tax return

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

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

Everyone required to declare income will receive a tax return form (inkomstdeklara-

tion). Many particulars in the form have already been filled in by the Tax Agency based on the income statements (kontrolluppgifter) from employers, banks, other financial institutions etc.

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

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

The tax return must be filed by 2 May (only individuals). Between 15 August and 15 September, the Tax Agency issues a final tax statement (slutskattebesked) and a statement of account (kontoutdrag) to most of those who submitted tax returns. The final tax amount has been calculated and compared to the advance tax amounts. Excess taxes are reimbursed, and any shortfall will be subject to collection at the latest 90 days after receiving the final tax calculation. For corporations see the previous section “filing the tax return”.

Other taxes and tax reporting

Value added tax (VAT)

Unless exempted in law, VAT (mervärdeskaft) is levied on all delivery of goods, performances of services and importation of goods and services from non-European Community countries. Today (2013), the standard VAT rate is 25 percent (of the tax base). A reduced rate of 12 percent applies to food, hotel accommodation, restaurants and camping. Newspapers, books, magazines, cultural and sports events and passenger transports are taxed at 6 percent. The tax paid on purchases can be offset against the VAT collected on sales, which is payable to the government.

Every month, most companies record the amount of VAT they have paid and the amount they have received in a special tax

report (skattedeklaration). The tax report must be filed by the 12th of the second month following the end of the relevant month. If the sale exceed SEK 40 million the tax report must be filed by the 26th of the month following the end of the relevant month. For smaller companies the tax report is filed in the income return on an annual basis.

Employer contributions and tax deductions

All employers must pay social security contributions in the form of employer contributions (approx. 32 percent) and make tax deductions for the money they pay to employees. Every month employer contributions and tax deductions are recorded in the tax report.

A self-employed individual pays his/her own social security contributions in the form of individual contributions (approx. 29 percent).

Excise duties

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

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

Wealth tax

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

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

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

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

Wealth tax was from 2007 0.75 percent (1.5 percent for real estates) of total capital over SEK 1,500,000 for singles or SEK 3,000,000 for married or cohabitants. Before 2007 the tax rate was 1.5 percent for

all kinds of capital. The wealth tax was included in the income self-assessment for individuals.

Real estate tax

As from 1 January 2008 government property tax on dwellings was abolished and replaced by a municipal property charge. The new charge for single-family houses in 2008 is SEK 6,000, but not more than 0.75 percent of the tax assessment value. The maximum charge for an apartment in an apartment building is SEK 1,210, although not more than 0.3 percent of the tax assessment value. The charges are index-linked by being linked to changes in the income base amount.

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

Inheritance and gift tax

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

Declare income and taxes on the Internet or by phone

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

Everyone has a tax account

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

Population registration

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

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

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Information in the registers

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

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

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

List of Terms

A

assessment year 24

B

business taxation 32

C

capital income 39
collection losses 19
company income tax 27
county council tax 22
customs duties 28

D

direct taxes 7
discretionary assessment 19
disposable income 13
duties on alcohol 30
duties on imports 32
duties on tobacco 30

E

employment 21
energy duties 29
Enforcement Authority 19
environmental duties 29
EU budget 14
excise duties 14, 28, 40

G

general tax level 12
government spending 8
gross domestic product (GDP) 12

H

household wealth 25

I

income taxes 21
income tax return 24
income year 24
indirect taxes 8

L

liability to tax 37
living standards 12

M

marginal income tax 14
municipality tax 22

N

National Accounts 8
net wealth tax 27

O

opinions on the Tax Agency 5, 14

P

population registration 41
postponement 26
purchasing power parities (PPP) 12

S

social security contributions 21
stamp duty 27

T

tax arrears 19
taxation of limited companies 33
taxation of private firms 35
tax base 38
taxes on gambling 32
taxes on lotteries 32
taxes on motor vehicles 30
tax on advertising 32
tax on capital 8, 14
tax on company profits 24
tax on consumption 8
tax on dividends 27
tax on labour 8, 13
tax quota 12
tax rates 37
tax report
tax return 38, 39

V

value added tax (VAT) 14, 39
wealth tax 27, 40



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