

# Taxes in Sweden 2003

A summary of Taxes in Sweden – Tax Statistical Yearbook



# Preface

The Swedish Tax Agency has just published the sixth edition of Taxes in Sweden - Tax Statistical Yearbook (Skatter i Sverige - skattestatistisk årsbok) in Swedish. This presents an overview of the Swedish tax system as well as up-to-date statistics on relevant aspects of taxation.

This publication, *Taxes in Sweden 2003*, is an English summary of Taxes in Sweden - Tax Statistical Yearbook 2003. All tables in the Swedish edition have English translations, and references to them are

enclosed in square brackets in the English summary.

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

Swedish Tax Agency, January 2004

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# Taxes in Sweden 2003

## 1 Introduction

This publication is a summary of the Taxes in Sweden - Tax Statistical Yearbook 2003, which is produced by the Evaluation Unit (Utvärderingsenheten) of the Swedish Tax Agency (Skatteverket). The yearbook contains an overview of the Swedish tax system, as well as up-to-date statistics on tax bases, tax revenue and other relevant aspects of taxation.

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

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

The yearbook contains relevant annual data available up to September 2003. 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 2001, which was assessed in 2002, and earlier. Therefore, 2001 will serve as the normal reference year throughout the book. All

monetary values are expressed as Swedish kronor (SEK).

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

The yearbook is also available on the Swedish Tax Agency's website [www.skatteverket.se](http://www.skatteverket.se). Copies of the printed version can be ordered from Riksskatteverket, Utvärderingsenheten, SE-171 94 Solna, Sweden.

On January 1, 2004, the Swedish National Tax Board transformed into the Swedish Tax Agency. Since this yearbook was written in 2003 and covers the situation up until this year all references in this edition are made to the National Tax Board.

## 2 Overview

### 2.1 Classification of taxes

Taxes may be classified in several ways. A common distinction is the one made between direct and indirect taxes. Another basis for classification is represented by the primary factors of production, labour and capital. In table 1 below, these two criteria for classification have been combined. Individual income taxes on earned income from employment or business (self-employment) are categorised as direct taxes on labour income, while social security contributions paid by employers are seen as indirect taxes on labour. Individual taxes on capital income and property are of course direct taxes on capital. According to this logic, however, company income tax (i.e. income tax on profits made by legal entities) is regarded as an indirect tax on capital. Taxes on consumption of goods and services (VAT and excise duties) are, on the other hand, seen as indirect taxes on labour.

**Table 1**  
**Taxes and charges on labour and capital, on households and companies in 2001, as percentages of GDP [1.1]**

	Households	Companies	Total
<b>Taxes on labour</b>			
Income taxes	17,3		17,3
Social security contributions	1,2	14,5	15,7
VAT and Excise duties		13,1	13,1
<b>Taxes on capital</b>			
Income taxes	0,6	2,3	2,9
Property and wealth taxes	1,0	1,0	2,0
<b>Subtotal</b>	<b>20,2</b>	<b>30,8</b>	<b>51,0</b>
Taxes not allocated			0,3
<b>Total</b>			<b>51,3</b>

**Note:** Subtotals are rounded down

## 2.2 General government sector in the national accounts

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

- Central government
- Local government (municipalities, county council and the parishes of the Church of Sweden<sup>1</sup>) and
- The social security funds

The total revenue of the general government sector in 2002 was equal to 57 per cent of GDP. Total spending was about 56 percent of GDP, which resulted in total net lending of 1,1 percent of GDP in the general government sector. Since 1998, there has been a budget surplus in the general government sector. The major share of government expenditure is made up by consumption 2000-2002, the opposite applied up to 1998. Transfer payments of pensions and social benefits to households, subsidies to companies, membership dues to the EU and other international organizations, development aid and interest on central government debt is almost at the same level. [2.1-3]

**Table 2**  
**General government sector revenue and expenditure in 2000-2002 (SEK billion) [2.1]**

	2000		2001		2002	
	SEK billion	% of GDP	SEK billion	% of GDP	SEK billion	% of GDP
<b>Revenue</b>	<b>1 285,3</b>	<b>58,5</b>	<b>1 343,7</b>	<b>59,3</b>	<b>1 337,2</b>	<b>57,1</b>
Taxes and social security contributions	1 094,6	49,8	1 198,2	52,9	1 194,5	51,0
Other revenue	190,7	8,7	145,5	6,4	142,6	6,1
<b>Expenditure</b>	<b>1 209,6</b>	<b>55,1</b>	<b>1 240,3</b>	<b>54,7</b>	<b>1 312,4</b>	<b>56,1</b>
Transfers	563,2	25,6	558,9	24,7	583,4	24,9
Consumption	589,6	26,8	617,5	27,2	655,6	28,0
investments	56,8	2,6	63,9	2,8	73,4	3,1
<b>Net lending/net borrowing</b>	<b>75,7</b>	<b>3,4</b>	<b>103,4</b>	<b>4,6</b>	<b>24,8</b>	<b>1,1</b>

**Table 3**  
**General government expenditure by function and sector in 2001 SEK billion, current prices [2.4]**

Function	Sector				
	Total	Central Government	Social Security	Municipal councils	County councils
<b>Total<sup>1</sup></b>	<b>1 240,3</b>	<b>720,5</b>	<b>301,6</b>	<b>357,3</b>	<b>174,2</b>
09 Education	182,5	62,3	0,0	127,6	1,9
07 Health	152,5	24,9	0,0	2,0	147,3
10 Social protection	526,8	281,6	301,5	139,3	8,0
01 General public services <sup>2</sup>	162,4	195,3	0,1	32,8	7,3

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

2) For example, interest on national debt

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

The severe recession of the early 1990s produced a very large budget deficit. Relative to GDP, taxes fell and expenditure rose. To reduce the deficit, government spending was cut and taxes were increased. The combination of subsequent growth and higher tax rates has increased tax revenue relative to GDP from about 48,5 percent in 1993-94 to 52,5 percent in 2001-02 [2.3]

A large proportion of general government spending, 43 percent in 2001, goes to social protection. Expenditure on social protection is divided among central government, the social security sector and local government. Other important areas are health (12 percent), education (15 percent) and general public services (13 percent - interest payments on the national debt included). Primary and secondary education is the responsibility of the municipalities, while most health care is provided by the county councils [2.4]. The breakdown of expenditure by different functions has been relative stable over the 1995-2002 period [2.5].

### 3 Tax bases and Tax revenue

#### 3.1 Overview

In 2001, total tax revenue was SEK 1,174 billion.<sup>2</sup> Almost 2/3 of this may be regarded as tax on labour (i.e. tax on earned income and social security contributions).

**Table 4**  
**Total taxes in 2001 [3.1]**

	SEK billion	% of total taxes	% of GDP
Taxes on labour	757	64%	33,4%
Taxes on capital	118	10%	5,2%
Taxes on goods and services	300	26%	13,2%
<b>Total taxes</b>	<b>1 174</b>	<b>100%</b>	<b>51,8%</b>
of which			
- local income tax	359	31%	
- fees for the pension system	153	13%	
- state taxes	661	56%	

#### 3.2 Taxes on labour

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

**Table 5**  
**Taxes on labour 2001 (SEK billion) [4.1]**

	2001
<b>Income taxes (a)</b>	<b>358</b>
of which state income tax	35
of which local income tax	359
of which tax reductions	-36
<b>Social security contributions</b>	<b>398</b>
<b>Tax on occupational insurance</b>	<b>1</b>
<b>Total</b>	<b>757</b>

(a) State and local income taxes excluding:

- individual taxes on capital income and
- company income tax

which are treated as taxes on capital (see Chapter 5).

#### 3.2.1 Employment and income

About 48 percent of the Swedish population of 8.9 million in 2002 were either employed or self-employed, i.e. were part of the economically active population. From the boom of 1990 to the recession of 1993, the number of hours worked decreased by 9 percent. Since then a recovery has occurred. Between 1993 and 2002 the number of hours worked increased by almost 7 percent. The increase is due to higher employment. [4.2]

In 2001, about 71 percent of all employees were full-time workers. Most part-timers were women. The median income of male full-time employees in 2001 was SEK 265,000 and of female full-time employees SEK 221,000. [4.4-5]. In 2001, 5 percent of all adults (over 18) had assessed earned incomes (non-capital income) exceeding SEK 400,000. They received 16 percent of the taxable income and paid 22 percent of the tax. [4.3]

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

Direct taxes on the employment and business income of an individual are made up of State (or central government) income tax and local (government) income tax. Local income tax includes taxes levied by municipalities and county councils. The average combined rate of local income tax in 2001 was 30.53 percent.

Below is an example to illustrate the computation of the income tax burden on an individual for the income year 2001. The example also includes general social security contributions and taxes on capital, which will be explained in later sections.

<sup>2</sup> The difference between this figure and the calculated tax revenue in the national accounts (table 2, SEK 1,198 billion) is due to different methods of allocation to periods.

**Table 6**  
**Example of the computation of tax on an individual (income year 2001), SEK**

	Tax base	Tax rate	Tax amount
Net employment income	300 000		
Net business income	0		
General allowances (e.g. private pension premium payments)	-10 000		
<b>Assessed earned income</b>	<b>290 000</b>		
General pension contribution (7% of net employment and business income)			21 000
- of which 1/2 deductible	-10 500		
- of which 1/2 as a tax reduction			-10 500
Basic allowance	-10 000		
<b>Taxable earned income/ Local income tax (average rate = 30.53%+SEK 200)</b>	<b>269 500</b>	<b>30,53%</b>	<b>82 478</b>
Less income threshold for State income tax	-252 000		
State income tax (20%+SEK 200)	17 500	20%	3 500
<b>Subtotal (individual taxes on labour)</b>			<b>96 478</b>
Taxes on Capital: (see Chapter 5)			
State tax on capital income (30%)	30 000	30%	9 000
Real estate tax (1.0% of assessed value of property)	900 000	1,00%	9 000
General wealth tax (1.5% of net wealth exceeding 1.0 or 1.5 million SEK)*	200 000	1,50%	3 000
<b>Total tax</b>			<b>117 478</b>

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

The aggregate assessed income of individuals (employment income and business income, less general allowances) in 2001 was SEK 1,310 billion. This sum was almost entirely made up of earnings from employment and pensions.

**Table 7**  
**Aggregate assessed earned income in 2001, SEK billion [4.10]**

	2001
<b>Employment income:</b>	
Salaries and benefits	1 026
Pensions	269
Other taxable remunerations	14
Deductions	
Commuting to work	-12
Other	-5
<b>Net employment income</b>	<b>1 292</b>
<b>Net business income</b>	<b>32</b>
<b>General allowances</b>	
Private pension premiums	-13
Other	-1
<b>Total assessed earned income</b>	<b>1 310</b>

To arrive at the taxable income, a deduction is also made for part (1/2) of the general pension contribution (7 percent of earned income in 2001) [4.34] and a minimum basic allowance of SEK 10,000 [4.18-19].

The taxable earned income is the basis for computing local and State income tax. Local income tax is a proportional tax, but the rates vary between municipalities. It is made up of two components, and in 2001 the average rate was 30.53 percent:

Municipality tax	20.51%
County council tax	10.02%
<b>Total</b>	<b>30.53%</b>

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 2003 the lowest tax rate was in the Malmö suburb of Kävlinge (28.90 percent) and the highest in Ragunda in the northern interior of Sweden (33.72 percent). [4.26-28]. The gap would have been even wider had there not been a system of State grants and a system of internal redistribution between municipalities and county councils. [4.29-30]

State income tax applies only to taxable incomes that exceeded SEK 252,000 (2001 figures). This threshold is adjusted annually. According to the principle established in the 1991 tax reform, this adjustment is set at the rate of inflation plus two additional percentage points (to allow for real



incomes to rise without an increase in the marginal tax rate). In practice, however, annual adjustments have been ruled by political considerations. In the years following the 1991 tax reform, State income tax was 20 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 incomes. In 2001 the 25 percent rate applied to taxable income exceeding SEK 390,400. [4.20]

The top marginal tax rate in 2003 is 56.2 percent (at an average local income tax rate of 30.5 percent). This rate applies to taxable incomes above SEK 430,000 (equivalent to assessed incomes above SEK 447,200). At lower levels, the effective marginal tax rates are also influenced by variations in the basic allowance. [4.22]. In 2001, about 18 percent of the population aged 20 or more had incomes above the threshold for State income tax. Of full-time employees aged 20-64, 35 percent had incomes exceeding the threshold. [4.23]. In 2000-2002 there was an extra increase in the threshold for State income tax in order to reduce the number of persons paying it. [4.37].

The amount of an increase in salary an individual may keep depends not only on the marginal tax rate, but also on the marginal effects of means-tested benefits and income-related charges, for example housing benefits. [4.24-25]

### 3.2.3 Social security contributions

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

There are three categories of social security contribution. The main part is paid either by employers as a payroll tax at the rate of 32.82 percent (2001) or by self-employed people themselves at the rate of 31.01 percent. In addition to this, all taxpayers pay a general pension contribution.

In 2001, 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 2001, SEK 398 billion was paid as social security contributions. [4.31-34]

**Table 8**  
**Social security contributions in 2001**  
**[4.31-32]**

	SEK billion	Tax rate
1. Basic social security contributions paid by		
a. employers or	299	32.82%
b. self-employed	7	31.01%
2. General pension contribution paid by all active persons	66	7.00%
3. Special wage tax	25	24.26%
<b>Total</b>	<b>398</b>	

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

Most employees enjoy the benefit of life assurance based on agreements between employers' and employees' organizations. Self-employed persons can buy similar life assurance. For technical reasons, employees are not taxed on these benefits and self-employed persons may deduct the premiums. Instead, the insurance companies involved pay a special tax on the premiums received for this type of assurance. The rate is 45 percent of 95 percent of the premiums. Special rules apply to government workers and others who receive equivalent benefits (without having life assurance) and to life assurance with foreign insurance companies. In 2001, the total yield from this tax was SEK 1,065 million.

### 3.2.5 Assessment and collection

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

Since 1995 most taxpayers have submitted simplified income tax returns. In April,

they receive a tax return form on which all the data supplied by employers and financial institutions has already been entered by the tax authorities. The taxpayer checks the figures and, if necessary, corrects errors and adds information or claims for deductions. He/she then signs the form and returns it to the tax authorities by 2 May. Of the 7.0 million individual taxpayers who submitted income returns in 2002, 47 percent just signed and returned the simplified form, while another 34 percent changed or added some information in the simplified return. The remaining 19 percent used a traditional (or special) tax return. [4.6-7]

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

**Table 9**  
**Collection of individual income taxes etc in the assessment year 2001<sup>3</sup> [4.8]**

	SEK billion	% of de- bited tax
<b>Total tax debited on basis of assessment (final tax bill)</b>	<b>480</b>	<b>100%</b>
of which paid by		
-employers, banks etc. by withholding	438	91%
-preliminary tax paid by entrepreneurs	21	4%
<b>Remaining amount to be settled</b>	<b>21</b>	<b>4%</b>
of which		
- tax payers own additional payments	46	9%
- excess tax refunded to tax payers	-25	-5%

### 3.3 Taxes on capital

#### 3.3.1 Overview

The tax reform of 1991 separated individual income tax on earned income (employment and business income) from income tax on capital income, to which a flat rate of 30 percent was applied. Taxes on capital also include income tax on company profits and a number of other taxes on capital income and property. In year 2001, total taxes on capital raised SEK 118 billion, 10 percent of total tax revenue.

**Table 10**  
**Taxes on capital 2001 (SEK million) [5.1]**

	Paid by individuals	Paid by companies	Total
Income tax on capital income	12 966		12 966
Income tax on company profits		52 088	52 088
Tax on funds retained for expansion	112		112
Real estate tax	11 813	9 139	20 952
Wealth tax	6 312	181	6 493
Inheritance tax	2 199		2 199
Gift tax	377		377
Tax on dividends to non-residents	2 503		2 503
Tax on pension fund earnings		14 659	14 659
<b>Sub total</b>	<b>36 282</b>	<b>76 067</b>	<b>112 349</b>
Stamp duty			5 367
<b>Total</b>			<b>117 716</b>

#### 3.3.2 National and household wealth

In 1995, the value of total real assets in

Sweden and net financial assets was estimated at SEK 4,721 billion.

<sup>3</sup> Most incomes assessed in 2002 were earned in 2001 and most of the preliminary taxes were paid in the form of PAYE during 2001. Supplementary payments are generally made in the spring of the assessment year, i.e. 2002. Most taxpayers receive their final tax bill (or refund) in August of the assessment year, but taxpayers submitting special tax returns have to wait until December.

**Table 11**  
**National wealth of Sweden in 1995 (SEK billion) [5.2]**

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

In 1995, households accounted for more than half of net wealth. The greater part consisted of private homes, including occupier-owned apartments. [5.2] In recent years, financial investments have increased their share of total household wealth. Between 1995 and 2000, the net financial assets of households rose from about 63 percent of GDP to 111 percent of GDP. This development can be explained by the growth of investment in shares and mutual

funds and rising share prices. Since year 2000 net financial wealth has decreased to 95 percent of GDP and this can mainly be explained by declining stock values [5.11]. Since the beginning of the 1990s, households have reduced their debts and shifted part of their savings from bank accounts to shares and other securities, as well as into private pension schemes. Because of the downward trend at the stock exchange bank savings has increased in recent years.

**Table 12**  
**Financial assets and liabilities of households as % of GDP [5.11]**

	1990	1995	2000	2002
Cash and bank deposits	35.8	31.3	23,6	26,9
Bonds	6.7	9.8	4,9	4,1
Shares and other equity	17.4	23.4	51,1	28,6
Insurance savings	25.1	29.7	51,2	61,1
Other accounts receivable	..	17.6	13,5	14,3
<b>Total financial assets</b>	<b>85.0*</b>	<b>111.7*</b>	<b>163,3</b>	<b>153,3</b>
Liabilities	63.2	49.0	52,4	58,0
<b>Net financial assets</b>	<b>21.8*</b>	<b>62.7*</b>	<b>110,9</b>	<b>95,3</b>

\* The figure for 1990 does not include collective insurance (settled in agreements on the labour market) but the figures for 1995, 2000 and 2002 do. Collective insurance amounted to 22 percent of GDP in 2002.

### 3.3.3 Individual capital income tax

Capital income is subject to income tax on interest, dividends and capital gains. Deductions are allowed for interest paid and capital losses. If capital income is negative, 30 percent of the loss up to SEK 100,000 and 21 percent of the loss exceeding this amount is credited against State and local income tax due on earned (employment and business) income. Investments are, however, also subject to real estate tax and

wealth tax. The middle-aged and the elderly pay most of the capital taxes. [5.4]

The net yield of the individual income tax on capital varies a great deal from year to year. Declared income in the form of interest, dividends etc. 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 2001, aggregate net taxable capital income was about SEK 40 billion and net yield about SEK 13 billion.

**Table 13****Tax on individual income from capital in 2001 (SEK billion) [5.12]**

	Income	Expenditure and losses	Net income and tax
Interest received and paid, dividends and other current capital income	43,0	-61,7	-18,7
Capital gains/losses	70,8	-11,7	59,1
Administration costs		-0,5	
<b>Net income from capital</b>	<b>113,8</b>	<b>-73,9</b>	<b>39,9</b>
Net tax on income from capital			13,0

In the period 1992-1995, the yield from capital income tax was negative, since deductible debt interest was much greater than income from interest, dividends and net capital gains. However, during the 1990s interest rates fell and household debt was reduced. As a result, the gap between current capital income and debt interest has narrowed. Net capital gains vary greatly from year to year, depending on asset prices and tax planning in anticipation of changes in the tax rules the following year, but gains are mostly larger than losses. [5.12-14]

**3.3.4 Company income tax**

The State income tax on legal entities ("company income tax") is 28 percent of the net taxable profit. The same basic rules for calculating the taxable profit apply to all business enterprises, regardless of size and legal status. These general rules, as well as some rules that apply specifically to private firms, private or public companies, are discussed in further detail in Chapter 7.

In 2001 (according to the 2002 annual assessment), 56 percent of all companies reported a total taxable profit of SEK 186 billion and paid SEK 52 billion in taxes. Most of this amount was paid by a small number of large companies. In fact, 1 percent of all companies reported 71 percent of total taxable profits.

**3.3.5 Real estate tax**

The tax value of property is established through periodic real estate assessments. The tax value of the property is required

to correspond to 75 percent of its market value. Every six years all property in a particular category of real estate is subject to assessment. In the intervening years the tax values are adjusted to reflect price changes in local property markets. However, to avoid sharp increases in the real estate tax, the tax values of private homes and apartment buildings have been frozen at the 1997 level. The freeze ended in 2001, which caused a substantial increase in taxable values. However, the tax rate was lowered at the same time. From 2003 the system has changed; the yearly adjustment has been abolished and instead there will be a simplified real estate assessment in the middle of the period between the general assessments that takes place every sixth year.

In 1999 and 2000, the real estate tax on private homes (one- or two-family dwellings including holiday homes) was levied at 1.5 percent of the taxable value, this was reduced to 1.0 percent as from 2001. Apartment buildings were taxed at 1.3 percent in 1999, but the tax rate has been progressively reduced, and as from 2001 it is 0.5 percent. Commercial property is taxed at 1.0 percent of the tax value and industrial property at 0.5 percent. [5.6]. To encourage construction, new dwellings are exempt from tax during the first five years and are taxed at half the standard rate in the following five. In 2001, the total yield from real estate tax was SEK 21 billion, of which private homes accounted for SEK 12 billion. [5.7]

**Table 14****Real estate tax in 2001 [5.7]**

	Tax base SEK billion	Standard tax rate in %	Tax revenue SEK million
Private homes (one- or two-family dwellings)	1 264	1,00	11 762
Apartment buildings	690	0,50	3 346
Commercial property	401	1.00	4 013
Industrial property	367	0.50	1 836
<b>Total</b>	<b>2 723</b>		<b>20 956</b>

Since the taxable value of property is determined by its market value, the real estate tax levied on family homes in different parts of the country varies widely. In year 2002, the average taxable value of a family home in Stockholm County was SEK 1,564,000 and in the northern county of Västernorrland SEK 351,000. A particular problem is that rising property prices for holiday homes in attractive coastal areas have also caused a great increase in the tax burden for those areas' permanent residents, whose average incomes are considerably lower than those of the holiday-makers. In 2001 a rule was introduced limiting the real estate tax for households with normal incomes to maximum of 5 percent of household income.

Using 1981 as the base year (index=100), prices of family homes rose very fast during the boom years of the late 1980s reaching an index of 217 in 1991. Prices then fell to an index of 175 in 1993, but have since recouped that loss, and in 2002 the price index was 302. [5.28]. However, property prices must be set in the context of general price fluctuations. If the property price index is related to the consumer price index, real property prices actually fell during the first half of the 1980s, rose again in the second half and reached new heights around 1990, when a sharp decline began. In the late 1990s real property prices went up and in 1999 prices were at the same level as those of the boom years, since then prices have risen even further. [5.10 and 5.27]

### 3.3.6 Net wealth tax

The tax on net wealth may be regarded as complementary to other taxes on capital to make taxation more progressive. Unlike other direct taxes, the wealth tax is not a purely personal tax. It is levied on the net wealth of the household, each spouse being liable for tax according to his or her share of the net wealth. Certain legal entities (some co-operatives and foundations) are also liable to pay wealth tax. Until year 2000 tax was levied at the rate of 1.5 percent on net worth exceeding SEK 900,000. To neutralize the rise in the taxable value of private homes, the tax threshold was raised in 2001 to SEK 1,500,000 for married couples and 1,000,000 for single taxpayers. In 2002 the threshold rose once more to SEK 2,000,000 for married couples and 1,500,000 for single taxpayers. [5.17]

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

In 2001 473,000 individuals paid SEK 6.0 billion between them in wealth tax. 13,000 legal entities paid a mere SEK 181 million. [5.16,]

### 3.3.7 Inheritance and gift taxes

Inheritance tax is levied on property that is received by an individual by inheritance or will. The tax is progressive and close relatives pay less than other beneficiaries. To compute the taxable value of the inheritance, its value is reduced by a basic deduction. The spouse of the deceased is entitled to a basic deduction of SEK 280,000, with children and grandchildren receiving a basic deduction of SEK 70,000. Taxable amounts less than SEK 300,000 are taxed at 10 percent, while those exceeding SEK 600,000 are taxed at 30 percent. [5.21] There is a proposal from the government that suggests that inheritance tax between spouses should be abolished but no decision has been taken so far.

The main function of the gift tax is to prevent evasion of the inheritance tax through gifts to heirs and other future beneficiaries. Each recipient may receive gifts worth up to SEK 10,000 annually from the same donor without having to pay gift tax. On amounts exceeding SEK 10,000, the same tax schedule as for inheritance tax applies. [5.21]

In 2001, the yields from inheritance tax were SEK 2,199 million and from gift tax SEK 377 million.

### 3.3.8 Tax on dividends to non-residents

A final withholding tax of 30 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 2002, the yield was SEK 1,929 million.



### 3.3.9 Tax on pension fund earnings

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

The tax base is the estimated yield of the fund capital. The yield is calculated by multiplying the fund capital by the official State lending rate. In income year 2003, 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 2001 was SEK 14.7 billion.

### 3.3.10 Stamp duty

Stamp duty is levied on the acquisition of real property and the registration of mortgages. The standard rates are 1.5 percent of the value of the acquired property and 2 percent of the mortgage. Other tax rates apply in special cases. In 2001, the yield from stamp duty was SEK 5.4 billion.

## 3.4 Taxes on goods and services

### 3.4.1 Overview

Taxes on goods and services include value added tax (VAT), as well as excise and customs duties. In 2001, total revenue from these taxes was SEK 300 billion, representing about 1/4 of all tax revenue. [6.1-2]

**Table 15**  
**Taxes on goods and services 2000-2001**  
**(SEK billion) [6.1]**

	2000	2001
Value added tax	201	211
Excise duties	85	89
<b>Total</b>	<b>286</b>	<b>300</b>

### 3.4.2 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 (2003), the standard VAT rate is 25 percent (of the tax base). A reduced rate of 12 percent applies to food, hotel accommodation and

camping. Newspapers, books, magazines, cultural and sports events and passenger transports are taxed at 6 percent. [6.3]

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

There are 395,000 taxable persons identified for VAT purposes. The vast majority of these taxable persons file monthly VAT returns. An additional 460,000 taxable persons with a maximum annual turnover of SEK 1 million reports VAT on annual income tax returns. [6.4]

In 2001, gross payments of VAT totaled SEK 377 billion, of which 88 percent was collected by the tax authorities or reported in the income tax return. About 44 percent of the gross payments was refunded. The remaining net revenue was SEK 211 billion.[6.5] Out of these 211 billion 21 billion is VAT on government spending. In government revenue accounts input VAT on government spending is offset against revenue received.

In 2002, a total turnover of SEK 5,288 billion was reported in VAT returns submitted to the tax authorities: of the total, exports accounted for SEK 738 billion (exports are exempt from VAT). The 25 percent tax rate applied to about 87 percent of the reported non-export turnover. [6.6] The wholesale and retail trade, together with the hotel and restaurant sector, accounted for about 38 percent of output tax and 52 percent of net revenue. Manufacturing, on the other hand, reported 21 percent of output tax, but because of large export sales this sector was entitled to a net refund of SEK 33 billion. [6.7]

**Table 16**  
**Vat revenue 2001 [6.5]**

	2001 SEK billion	% of gross payments
VAT payments received by		
Customs	46	12%
Tax authorities	325	86%
VAT reported in annual		
income tax returns	6	2%
<b>Total</b>	<b>377</b>	<b>100%</b>
VAT-refunded by the		
tax authorities	166	44%
<b>Net VAT revenue</b>	<b>211</b>	<b>56%</b>

### 3.4.3 Excise and customs duties

Excise and customs duties have been used for a long time in Sweden. A hundred years

ago, customs duties, along with excise duties on aquavit and sugar, were the most important sources of government revenue. Now, excise duties make up a mere 7 per cent 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 five registered taxpayers for lottery duty and 73 for tobacco duty, of which the largest taxpayer accounts for 99 percent of the revenue. Goods subject to "harmonized" excise duties (mineral oils, alcohol and tobacco) may be transported between authorized warehouses in the EU without being taxed. [6.9-11]

**Table 17**  
**Excise and custom duties 2000-2002 [6.8]**

	2000	2001	2002
Energy and environmental taxes	53 540	56 473	59 750
Taxes on road vehicles	7 379	7 221	7 688
Taxes on alcohol and tobacco	18 737	19 127	19 531
Customs duties and other import taxes*	3 806	3 643	3 476
Other excise duties	2 386	2 193	2 007
<b>Total</b>	<b>85 849</b>	<b>88 656</b>	<b>92 453</b>

\*) Collected for the EU-budget

#### Energy and environmental duties

The oil crises of the 1970s clearly highlighted the great dependence of modern society on its energy supplies. Since then, dependence on fossil fuels has been somewhat reduced, but in 2000 fossil fuels (oil, coal and natural gas) accounted for about 37 percent of Sweden's energy supply. Nuclear power supplied another 34 percent and hydroelectric power 13 percent. [6.15] Because Sweden is a northern country, much energy is needed for heating. About 38 percent of all energy is consumed in homes and services, another 36 percent by industry and 26 percent by transport. [6.16]

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

intended for roads and the electrification of rural areas. Today, the chief justification for energy duties is their revenue-generating capacity, but energy conservation and environmental considerations are given greater weight in determining how the tax burden is allocated between different sources of energy. There is, for example, a special carbon dioxide duty on all fossil fuels. [6.17]

In the years 2000-2003 the carbon dioxide duty has been raised, while other energy taxes have been reduced to a lower level. The purpose of this change is to create a more effective instrument for carbon dioxide reductions.

**Table 18**  
**Energy and environmental taxes 2000-2002, SEK million [6.8]**

	2000	2001	2002
Energy tax	38 419	36 542	37 003
Carbon dioxide tax	12 245	16 457	19 373
Sulphur tax	75	81	131
Nuclear power tax	1 726	1 841	1 796
Acidification tax	56	54	60
Taxes on fertilizers and biocides	434	428	366
Gravel tax	125	126	114
Fees on waste	816	945	907
Reassessments of abolished taxes	-355		
<b>Total</b>	<b>53 540</b>	<b>56 473</b>	<b>59 750</b>

Oil and petrol are classified according to their effects on the environment, and lower duty rates apply to those products that are deemed least harmful. [6.12] Some energy duties are also geographically differentiated. Electricity duties are lower in northern Sweden. [6.14]

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

**Table 19**  
**Taxes and consumer prices of electricity and petrol (August 2003) [6.18-19]**

	Electricity SEK/Kwh	Percent	Petrol SEK/liter	Percent
Pre-tax price	0.66	58%	2.92	31%
Electricity certificate	0.03	2%	-	-
Energy tax	0.23	20%	2.94	31%
Carbon dioxide tax	-	-	1.77	19%
VAT	0.23	20%	1.91	20%
<b>Consumer price</b>	<b>1.14</b>	<b>100%</b>	<b>9.54</b>	<b>100%</b>

### Taxes on motor vehicles

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

**Table 20**  
**Taxes on road vehicles 2000-2002 (SEK million) [6.8]**

	2000	2001	2002
Vehicle tax	6 868	7 017	7 429
Sales tax	258	-23	15
Scrap fees	253	226	243
<b>Total</b>	<b>7 379</b>	<b>7 221</b>	<b>7 688</b>

In year 2003, there were 5.8 million vehicles subject to vehicle tax, including 4.0 million passenger cars, 420,000 lorries and 780,000 trailers. In 2003, the vehicle tax on a petrol-driven passenger car with a kerb weight of 1,200 kg is SEK 1,132. The tax rises according to the weight of the vehicle. Owners of diesel-powered cars pay a higher vehicle tax to make up for a lower tax on diesel fuel. [6.27-29]

Since 1998, a user charge has been payable on travel with lorries and vehicle combinations weighing 12 tons and more. In the case of lorries and vehicle combinations with not more than three axles and which are subject to the severest demands on exhaust devices, the user charge is SEK 6,831; for vehicles with four axles or more the charge is SEK 11,385. For Swedish vehicles, the charge applies to all roads in Sweden and is paid for one year at a time. For foreign vehicles, the user charge applies to motorways and certain highways that are not motorways. In 2002, about 210,000 licenses were sold to foreign vehicles and revenue totaled around SEK 28 million.

### Duties on alcohol and tobacco

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

The duty rates applied to alcohol are related to the alcohol content of the beverage. In the case of spirits, the duty is SEK 501.41 per litre of pure alcohol. Wines with an alcohol content of 8.5-15 percent are taxed at SEK 22.08 per litre and beers with an alcohol content exceeding 3.5 percent are taxed at SEK 1.47 for each percent of alcohol per litre. Beers with an alcohol content of maximum 2.8 percent are not taxed. [6.20]



**Table 21**  
**Taxes and retail price of alcoholic beverages [6.23-25]**

	Spirits 40 %		Wine max 15%		Beer 5.2%	
	70 cl SEK	Percent	75 cl SEK	Percent	50 cl SEK	Percent
Pre-tax price	43.00	19%	39.44	56%	6.5	50%
Alcohol tax	140.00	61%	16.56	24%	3.82	30%
VAT	46.00	20%	14.00	20%	2.58	20%
<b>Consumer (retail) price</b>	<b>229.00</b>	<b>100%</b>	<b>70.00</b>	<b>100%</b>	<b>12.90</b>	<b>100%</b>

Retail sales of alcoholic beverages are carefully regulated in Sweden, and spirits, wine and export beer (with an alcohol content greater than 3.5 percent by volume) may only be sold at certain State-owned shops (Systembolaget). According to official statistics, domestic sales (at Systembolaget and in restaurants) of spirits have fallen during the 1990s, while beer and wine sales have increased. If these statistics were to reflect total consumption of alcohol, there was a fall in consumption in the middle of the 1990s, from 6.4 liters of pure alcohol per inhabitant over the age of 14 in 1990, to 5.8 liters in 1998. From 1998 to 2002 the consumption has increased by 1.1 liters to 6.9 liters per inhabitant. [6.22] These figures do not include legal private imports by tourists and business travelers, nor do they include smuggling and illegal production.

The duty rates on tobacco are defined separately for different tobacco products. The duty on cigarettes is made up of two components. There is a fixed rate of SEK 0.20 per cigarette and a variable rate of 39.2 percent of the retail price (including VAT, which may be seen as a third tax component). [6.21]

**Table 22**  
**Taxes and retail price of cigarettes [6.26]**

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

In 1997, the duty on cigarettes was raised by about 50 percent, which was expected to increase total revenue by a considerable amount. These expectations were not met, and sales dropped. Instead, legal private imports and smuggling increased. When, as a consequence, the duty was lowered in 1998, actual revenue exceeded budget esti-

mates by SEK 300 million. A contributory factor to the improved yield was the fact that customs authorities were given the right to inspect postal packages and road shipments.

Between 1994 and 1998, the total revenue yield from alcohol and tobacco duties declined from SEK 19.0 billion to 18.0 billion. [6.8] The main factors behind this development were lower sales of spirits and lower duty rates on beer, which have been brought down to counteract an increase in cross-border shopping since Sweden's entry into the European Union in 1995.

In 2002 the total revenue yield from alcohol and tobacco has again increased to 19.5 billion. [6.8] The main reason for that is an increase in the consumption of taxed tobacco. To some extent increased alcohol consumption also has contributed to the development.

**Table 23**  
**Taxes on alcohol and tobacco**  
**(SEK million) [6.8]**

	2000	2001	2002
Tobacco tax	7 792	8 043	8 366
Alcohol tax on spirits	4 888	4 861	5 028
Alcohol tax on wine	3 483	3 635	3 300
Alcohol tax on beer	2 399	2 381	2 593
Tax on intermediate products	125	127	163
Profits from Systembolaget*	50	80	80
<b>Total</b>	<b>18 737</b>	<b>19 127</b>	<b>19 531</b>

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

#### **Duties on imports**

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

In 2002, the value of Sweden's imports totaled SEK 629 billion, of which 66 percent came from other EU countries. [6.30] Total revenue from customs duties and other import levies was SEK 3.5 billion. [6.8]

### Other excise duties

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

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

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

In 2002, total government earnings from betting and lotteries were SEK 4.5 billion. [6.31] This sum, however, includes profits from the State-owned company Svenska Spel, which organizes national lotteries, football pools etc. These profits are not regarded as duties. In 2002, the total tax revenue yield from these other excise duties was about SEK 2.0 billion. [6.8]

**Table 24**  
**Other excise duties (SEK million) [6.8]**

	2000	2001	2002
Tax on advertising	1 091	955	823
Tax on lottery prizes	1 199	1 198	1 149
Tax on gambling	96	40	36
<b>Total</b>	<b>2 386</b>	<b>2 193</b>	<b>2 007</b>

## 3.5 More about business taxation

### 3.5.1 Introduction

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

### 3.5.2 The business sector

There are several ways to define a commercial enterprise. According to the widest possible definition, which includes all taxpayers declaring business income or VAT, there were about 842,000 such enterprises in Sweden in 2002 [7.1]. However, 3/4 of these businesses had no employees and most of them were combined with other employment.

**Table 25**  
**Number of business enterprises**  
**2001-2002 [7.1]**

Number of employees	2001	2002	% (2002)
0	613 428	628 033	74.6%
1-4	147 783	145 792	17.3%
5-49	61 612	62 015	7.4%
50-499	5 565	5 672	0.7%
500-	863	846	0.1%
<b>Total</b>	<b>829 251</b>	<b>842 358</b>	<b>100.0%</b>

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

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

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

If the definition of business enterprise is restricted to firms registered for VAT and/or as employers, the total number (in 2001) drops to about 787,000. Most are run as private firms, but limited companies account for almost 90 percent of total turnover. [7.4]

**Table 26**  
**Number of enterprises and employees in 2001 (a) [7.3, 7.20]**

	Number of enterprises	Number of employees
Individuals, private firms	459 869	40 445
Unlimited partnerships	75 298	39 731
Limited companies	234 367	2 255 963
Economic associations	17 812	52 596
Clubs, societies and other unincorporated associations	25 291	73 982
Foundations	4 146	22 368
Other	4 557	28 805
<b>Total</b>	<b>821 340</b>	<b>2 513 890</b>

**Source:** Statistical Yearbook of Sweden 2002, table 423  
(a) All individuals and legal entities (except public bodies) registered for VAT or as employers

### 3.5.3 Some general principles of business taxation

Taxable business income is computed according to "generally accepted accounting standards". The accounting records therefore form the basis of taxation. The principles of accrual accounting apply to all businesses regardless of size. In some respects, tax law specifies how assets are to be valued. Annual depreciation of machinery and other equipment is allowed at 30 percent of the residual value or at 20 percent of the acquisition value. Buildings

are depreciated by 2-5 percent per year depending on their use. Stock is valued at 97 percent of its acquisition value using the first-in, first-out (FIFO) principle.

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

The total tax bill of legal entities according to the 2002 general tax assessment was about SEK 104 billion. Company profits account for the lion's share of total tax. About 63 percent of the tax was paid by limited companies. Together with bank and insurance companies, limited companies paid 87 percent of the tax total [7.6].

**Table 27**  
**The tax bill for legal entities according to the 2001 and 2002 tax assessments (SEK billion) [7.5]**

	2001	2002	Change, %
State tax on business income (profits)	72.5	52.1	-28.1
Tax on pension fund earnings	13.0	14.6	+11.6
Special wage tax on pensions	16.4	19.6	+19.8
Real estate tax	9.9	9.1	-8.1
Other	2.1	2.0	-1.3
<b>Total</b>	<b>113.9</b>	<b>97.4</b>	<b>-14.5</b>

About 56 percent of all limited companies declared profits in the 2002 tax assessment and 34 percent declared losses. The remaining 10 percent had no results to declare. Total profits were SEK 200 billion and losses SEK 399 billion. A small number of large companies account for the bulk of these profits and losses. [7.8]

**Table 28**  
**Assessed profits and losses for limited companies 2001 [7.8]**

Profit or loss	Profits		Losses	
	Number of companies	Assessed income SEK billion	Number of companies	Assessed loss SEK billion
0-1 million	141 733	22.4	81 436	12.6
1-100 million	15 062	73.5	12 382	104.8
More than 100 million	191	104.6	485	281.7
<b>Total</b>	<b>156 986</b>	<b>200.6</b>	<b>94 303</b>	<b>399.1</b>

Since the tax reform of 1991, only two significant kinds of reserve have been allowed: the tax allocation reserve and excess depreciation. Taxpayers are allowed to allocate up to 25 percent of net profits<sup>4</sup> to a tax allocation reserve<sup>5</sup>. After six years

the reserve must be liquidated and added to income. Excess depreciation occurs because tax law in many cases allows equipment to be written off in a shorter time than the economic life of the asset. Other adjustments to business profits are

<sup>4</sup> Before 2002 tax assessment the limit for allocation of profits was 20 percent

<sup>5</sup> Periodiseringsfond.

also allowed or required in establishing taxable income. Such adjustments include deductions for exempt income, mainly inter-corporate dividends and capital contributions by shareholders. Contributions to other companies in the same group

may be deducted and group contributions received are added to income. Losses may be carried forward indefinitely. They must be determined in the tax period in which they occur and deducted from profits when a profit is available. [7.11]

**Table 29**  
**Main profit adjustments at the 2002 tax assessment [7.11]**

	Profits SEK billion	Losses SEK billion
<b>Income after financial income and expenses</b>	<b>319.3</b>	<b>-150.2</b>
<b>Deductions</b>		
Excess depreciations	17.1	7.3
Transfers to the tax allocation reserve	43.0	0.2
Group contributions to other companies	139.7	86.3
Exempt income	163.6	153.6
Deferred revenue on shares	9.2	4.4
Losses brought forward from previous years	12.9	237.6
Other net adjustments	45.9	
<b>Income added</b>		
Liquated excess depreciations	11.2	7.8
Liquidated tax allocation reserve	25.0	9.6
Group contributions received	128.9	95.3
Non-deductible expenditure	146.7	103.6
Liquidated deferred revenue on shares	0.8	3.7
Other net adjustments		20.5
<b>Total adjustments</b>	<b>-118.9</b>	<b>-248.9</b>
<b>Assessed surplus or deficit</b>	<b>200.5</b>	<b>-399.1</b>

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

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

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

actively involved in the business and those who enjoy business income without active participation. The former pay social security contributions as self-employed persons at the rate of 31.01 percent (2001), while the latter pay a special wage tax at 24.26 percent (2001). Persons over 65 always pay the special wage tax.

According to the 2002 general tax assessment, there were 390,000 persons reporting either profits or losses from businesses in which they were actively involved (private firms and partnerships). Another 200,000 individuals declared profits or losses without taking an active part in the business. [7.12]

In 2002, total assessed profits of private firms were SEK 23 billion and losses SEK 16 billion. [7.13-14]

**Table 30**  
**Assessed income for private firms, 2002 tax assessment [7.14]**

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits SEK million	Number of taxpayers	Assessed losses SEK million
0 - 100,000	193 457	5 385	178 176	4 396
100,000 - 300,000	77 669	13 525	29 973	4 986
300,000 -	9 134	4 097	9 029	6 436
<b>Total</b>	<b>280 260</b>	<b>23 007</b>	<b>217 178</b>	<b>15 818</b>

Total assessed profits for partners in unlimited partnerships were SEK 5 billion and

losses SEK 2.5 billion, according to the 2002 general tax assessment. [7.13, 7.15]

**Table 31**  
**Assessed income for partners in unlimited partnerships, 2002 tax assessment [7.15]**

Profit or loss (SEK)	Profits		Losses	
	Number of taxpayers	Assessed profits SEK million	Number of taxpayers	Assessed losses SEK million
0 - 100,000	42 055	1 145	31 531	668
100,000 - 300,000	17 328	3 057	4 088	689
300,000 -	2 150	994	1 534	1 137
<b>Total</b>	<b>61 533</b>	<b>5 196</b>	<b>37 153</b>	<b>2 494</b>

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

In 2001, about 28,000 businesses made allocations of this kind, totalling SEK 2 billion. About 29,000 allocations (SEK 1.6 billion) were liquidated. Including the 2001 net allocation of 0.4 billion, accumulated allocations rose to SEK 12.1 billion. [7.17]

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

percentage (the State lending rate plus 5 percent) of the equity capital as shown on the balance sheet. In 2001, about 132,000 taxpayers took advantage of this rule and SEK 5.3 billion of business profits were taxed as capital income. [7.18]

If equity capital is negative, this procedure is reversed. Capital income is then reduced by a certain percentage (the State lending rate plus 1 percent) of the equity and added to business income. In 2001, this rule, whose application is compulsory, applied in about 51,000 cases and about SEK 700 million was added to business income. [7.18]

## 4 Taxes and income distribution

### 4.1 Overview

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

### 4.2 Direct taxes paid by individuals

In 1989, an individual with an average income paid 36 percent of this income in direct taxes.<sup>6</sup> Immediately after the 1991

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

tax reform, this share dropped to 29 percent, but in 2001 it had bounced back to 34 percent. The tax reform made some previously non-taxed employment benefits taxable imposed new restrictions on travel expense deductions and broadened the base for capital income tax. One effect was

that the assessed incomes of high-income earners rose, but at the same time the tax rates applied to these incomes were lowered considerably. Taxes paid by the lowest income groups increased throughout the 1980-2001 period. [8.1-4]

**Table 32**

**Direct taxes as a percentage of assessed income for some income groups, 2001 prices [8.2 and 8.5]**

Total assessed income	1980	1989	1991	2001
0 - 50,000	9%	17%	21%	19%
100,000 - 150,000	28%	32%	27%	29%
200,000 - 250,000	36%	36%	29%	32%
500,000 -	54%	58%	39%	42%
<b>All age 18 or older</b>	<b>33%</b>	<b>36%</b>	<b>29%</b>	<b>34%</b>
Highest marginal income tax rate (based on the average local income tax rate)	85%	73%	51%	56%

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

How much an individual can keep of an increase in income is determined not only by the tax rates applied, but also by means-tested benefits and charges for social services related to income. On average in year

2003, about 41 percent of a wage increase is lost to the individual - 36 percent in increased income tax, 4 percent in reduced benefits and less than 1 percent in higher charges. [8.6] But these figures are averages. In individual cases, lost benefits and higher charges may have a much stronger impact.

#### 4.3 Redistribution of incomes

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

**Table 33**

**Redistribution by taxes and benefits, 2001, (all households 18-64 years) breakdown into various income groups, KSEK [8.7]**

Factor income Income groups	Factor income	Benefits	Taxes	Disposable income
1 - 50	17	135	32	121
100 - 150	126	97	59	164
200 - 250	225	51	81	195
300 - 350	325	70	119	276
600 -	940	42	354	628
<b>All</b>	<b>312</b>	<b>73</b>	<b>119</b>	<b>265</b>

Pensioners and single parents are net receivers (i.e. benefits are greater than taxes). In 2000, benefits received by the average single parent were about 59 percent higher than taxes paid. [8.8]

In 2001, the total factor income of all households in Sweden was SEK 1070 billion, of which 86 percent was employment income, 3 percent entrepreneurial income

and 6 percent capital income. Direct taxes and certain other charges totaled SEK 458 billion and transfers to households (benefits etc.) SEK 438 billion. This resulted in a total disposable income of SEK 1050 billion. [8.9]

The results show a continuous increase in the households' disposable income since 1985, besides a small decrease the last year.



This decrease depends on the huge capital gains in the year of 2000. The share of the households' gross income that originates from income from work have decreased since 1975 while the share those origins from income from capital and pensions has increased. [8.10]

#### 4.4 Income distribution

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

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

During the 1980s, living standards (measured as median disposable income in fixed prices per consumer unit) rose by 14 percent. As a result of the severe recession in the early 1990s, living standards fell by 5 percent from 1990 to 1995. Between 1995 and 2001 living standards rose by 16 percent. Measured by the Gini-coefficient, income differences widened only slowly during the 1980s, but grew more rapidly after 1990. [8.11]

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

**Table 34**  
Disposable income per consuming unit for all individuals, mean values for respective decile, KSEK 2001 prices [8.12]

Decile	1991	1996	1998	2001	Change 1991-2001
1	50	46	46	51	3%
5	96	90	92	104	9%
10	225	224	232	290	29%
All	111	108	109	126	13%

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.<sup>7</sup> In 1991, 7 percent of all households reported capital gains on their income tax return; in 2001 the figure was 19 percent. This development has contributed significantly to the widening income differences recorded. Notable is that 29 percent of all households reported capital gain in 2000. [8.13]

The disposable incomes of men and women have developed along parallel tracks; percentage changes have been roughly equal. Most age groups have had an increase of their disposable income between 1991 and 2001. There are, however, marked differences between age groups. Young people between 18 and 22 have been having a decrease of their income during the period. [8.14]

**Table 35**  
Disposable income per consuming unit for all individuals, mean values for certain age groups, KSEK 2001 prices [8.14]

Age	1991	1996	1998	2001	Change 1991-2001
18 - 22	100	82	86	98	-2%
23 - 29	110	96	98	117	7%
50 - 59	134	126	131	147	10%
65 - 74	96	116	125	137	11%

All different types of households have increased their income since 1991 besides persons in the age of 18-29 who lives alone without children. Co-living households have increased their income the most among the different households. [8.15]

Unemployment is an important factor behind falling disposable incomes during the mid 1990s. Those in employment have in fact enjoyed rising real wages. After a fall of 6 percent between 1991 and 1993, the median income from work then rose by 20 percent in the period up to 2001. Income from work equality between men and women, which worsened during the 1980s, has since then improved somewhat. [8.16]

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

<sup>8</sup> The enforcement service is a sister service of the tax administration; the National Tax Board is the parent agency of both services. The enforcement authorities, however, collect not only tax arrears, but also bad debts owed to companies and private individuals. The enforcement service's register of debtors is public, which in itself is a strong deterrent, since it will affect a person or company's credit.

**Table 36**  
**Median annual income of full time employees, age 20-64, KSEK 2001 prices [8.16]**

	1980	1991	2001	Change 1991-2001
Women	179	180	221	23%
Men	205	224	265	18%
All	195	207	244	18%
Women's median income in % of men's	81%	80%	83%	

## 5 Tax arrears and collection losses

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

Many arrears occur because taxpayers do not file tax returns at all. In such cases, the tax authority issues a discretionary assessment. If the resulting tax bill is not paid,

the enforcement authority is notified and issues a new demand for payment. In this situation the taxpayer often files a return that results in a lower assessment, which will reduce or cancel the arrears. Arrears may also be lowered or eliminated because of successful complaints or appeals against decisions by the tax authority.

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

Taxes demanded but not paid within five years are normally written off. These amounts are referred to as collection losses. A standard, but approximate, measure of collection losses is net arrears in one year minus the amount collected by the enforcement service in the same year. By this measure, collection losses in 2002 were SEK 6,3 billion, equal to 0.5 percent of total tax revenue. [9.1]

**Table 37**  
**Tax arrears and collection losses 1999-2001 (SEK billion) [9.1]**

	2000	2001	2002
Total tax revenue	1 090	1 136	1 201
Arrears notified to the enforcement authorities	14.1	13,2	15,5
Demands withdrawn or reduced	-4.4	-3,5	-4,1
Net arrears	9.7	9,7	11,4
Payments to the enforcement authorities	-5.1	-4,8	-5,1
Collection losses	4.5	4,9	6,3
Collection losses as % of total tax revenue	0.4%	0,4%	0,5%

The current level of collection losses is about the same as in the late 1980s, in the early 1990s, they were much higher. In 1990, the level of losses rose sharply to 1.0 percent of total revenue and then 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 2002 the level was about 8,300 businesses with 27,000 workers affected. [9.1 and 9.3]

In 2002 individual taxpayers accounted for about 40 percent of the collection losses, with legal entities making up the remaining 60 percent. Income tax - especi-

ally back taxes and additional assessments resulting from audits - and VAT make up the greater part of all tax arrears. The introduction of the single tax account in 1998 - as a result of which all payments are registered on a single account for each taxpayer without differentiation by tax - makes it difficult to calculate how much of the loss is represented by each tax. Such unallocated losses are referred to as deficits on the taxpayers tax account. [9.4]

By the end of 2002, the balance of unpaid tax arrears was SEK 38 billion. The major share (54 percent) was attributable to insolvencies. Only 24 percent of the total debt was subject to active recovery measures. About SEK 5 billion, roughly 15 percent of the total amount due, consisted of penalties and accumulated interest. [9.5]



**Table 38**  
**Closing balance of tax receivables at**  
**the end of 2001 (SEK billion) [9.5]**

	Taxes	Interest and penalties	Total
Bankruptcies, concluded	10,4	1,9	12,3
Bankruptcies, not concluded	7,5	0,6	8,1
Other arrears not subject to active recovery	6,4	1,7	8,1
Arrears subject to active recovery	7,9	1,1	9,0
<b>Total</b>	<b>32,1</b>	<b>5,4</b>	<b>37,5</b>

Time is a crucial factor in debt collection. In 2002, the enforcement authorities collected tax arrears worth SEK 5,1 billion. Most of this (69 percent) was made up of arrears that arose in the same year with a further 18 percent arising in the previous year. [9.6]

By the end of 2002, there were 541,000 debtors registered with the enforcement authorities. Most had debts to the public sector, some only to private creditors and many to both public and private creditors. Among these were 243,000 debtors with tax arrears, of which 57,000 were legal entities. The total number of debtors increased during the 1990s until 1998, but has decreased annually since then. The number with tax arrears has fallen since 1996. [9.7]

The bulk of total arrears are owed by a small number of debtors. About 70 percent of the arrears accumulated by private individuals are owed by 7.5 percent of the debtors, while 68 percent of the arrears run up by legal entities (mostly companies) are owed by 7 percent of the debtors. [9.8-9]

## 6 Tax errors and tax evasion

### 6.1 Introduction

There is a gap between the amount of tax that should be paid according to the law (theoretical tax) and the amount that is actually debited. This discrepancy is referred to as the assessment error. Part of the assessment error is caused by mistakes on the part of taxpayers or tax authorities. But since unintentional errors tend to cancel each other out, most of the discrepancy

is caused by deliberate attempts to escape taxes. If this is done by stretching interpretation of the law too far (the courts have the final say) without concealing relevant facts, it does not constitute tax fraud. But if it is done by the concealment of income, or by claiming deductions on the basis of false information, it is tax fraud.

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

Measuring the extent of tax evasion is, for obvious reasons, very difficult. The methods available may be divided into direct and indirect methods. Direct methods are based on surveys or interviews with randomly selected taxpayers. Indirect methods use available statistics, and match information on income and assets reported to the tax authorities against information on consumption and savings drawn from other sources. [10.1]

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

Several studies have been carried out to estimate the size of the black economy, i.e. legal economic activities that are not reported to the tax authorities. In 1997, the Government commissioned the National Audit Office (NAO) to study the extent of illicit work in Sweden. The study used a combination of direct and indirect methods and its final report was published in 1998.<sup>9</sup> According to the findings of the study 11-14 percent of the adult population (or 650,000-800,000 people) had carried out such work at least once in the past 12 months.<sup>10</sup> To most people it was extra work, on average 5 hours a week bringing in SEK 112 per hour and about SEK 25,000

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

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

per year. According to the NAO estimates, illicit work accounted for 5 percent of total work hours and illicit earnings corresponded to around 3 percent of GDP.

The study also found that the group most active in the black economy was young men. This general conclusion is also supported by taxpayer surveys carried out by the National Tax Board (through a private opinion survey institute). In these studies, however, only 6-7 percent of respondents agreed with the statement: "I have personally carried out illicit ("black") work during the last year".<sup>11</sup> [10.2] Surveys carried out by the private opinion institute Observer have reached the same conclusions and that illicit work is most frequent among men and non union workers [10.3]

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

Income from private firms and partnerships is declared as business income by their owners. Many private firms are operated as a part-time activity. In 2002, about 440,000 individuals declared income from business activities in which they were actively involved. The majority also declared employment income. Only

17 percent reported net profits exceeding the salary for a low-income employee, SEK 150,000 [10.4]

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

### 6.3 Estimates of the black

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

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

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

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

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

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

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

<sup>16</sup> Rikskontrollverket (Swedish National Audit Office), *Illicit work in Sweden* RRV 1998:61, p. 21.

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

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

These estimates, however, include items that have increased significantly in recent years without any satisfactory explanation: a residual item in financial savings and inexplicably high operating surpluses in the corporate sector. To regard growth in these items solely as a consequence of illicit work would probably be mistaken. In his 1995 study, Tengblad therefore also used the alternative GDP income method, which takes into account information about operating surpluses in limited companies.<sup>19</sup> According to this method and assuming that the black sector was 3.3 percent of GDP in 1995 Tengblad estimated the size of the black sector in 1995 at 3.2 percent. Arriving at different results using different methods, Tengblad concluded that the likely level of illicit work is somewhere between 3.0 and 4.5 percent of GDP. [10.10]

The national accounts are regularly reviewed. According to reviewed national accounts the black sector amounted to 5 percent in years 1988-2000.

A very different, but popular, approach is to estimate the hidden economy using the "currency demand method". This is based on the assumption that the black economy operates largely in cash transactions to leave no traces. The amount of excess cash in the economy may therefore be used as measure of the black economy. According to estimates by the Austrian economist Friedrich Schneider, the size of the shadow economy in Sweden (as well as in Norway and Denmark) in 2001/2002 is equal to 18-19 percent of the official GDP.<sup>20</sup> However, these estimates are very difficult to reconcile with the other estimates referred to above (based on direct and indirect methods). It is also difficult to understand why, according to Schneider, the share of the black economy in all of the Scandinavian countries should be almost double that of Austria. [10.5] However the Riksbank, Sweden's central bank, in a study in 2001<sup>21</sup> was unable to explain 65 percent of the total value of coins and banknotes through normal cash transactions. [10.6]

#### 6.4 Tax fraud involving financial assets

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

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

#### 6.5 Excise duty fraud

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

#### 6.6 Illicit production and smuggling of alcohol

In 1996/97, it is estimated that about 13 percent of total alcohol and 1/3 of all spirits consumed in Sweden reached consumers through illegal channels, either by smuggling or as illicitly distilled spirits.<sup>22</sup>

<sup>19</sup> Riksrevisionsverket (Swedish National Audit Office), *Illicit work in Sweden RRV 1998:61*, p 21.

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

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

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

[10.6-7] This represents a tax loss of SEK 2-3 billion. However nowadays Swedish citizens are permitted to bring much larger quantities of spirits to Sweden if bought in EU. So the volume private smuggling and illicitly distilled spirits is judged to have fallen by on third.

### 6.7 Cigarette tax fraud

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

### 6.8 Illegal trade in oil and petrol

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

### 6.9 The Internet and electronic commerce

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

tion. The tax loss on consumer-oriented e-trade is estimated at a maximum of SEK 500 million.

It is also possible to participate in illegal gambling thus avoiding Swedish tax. The tax loss on illegal betting on web sites abroad is estimated to SEK 240 millions and the tax loss on illegal slot machines to some SEK 150 millions.

### 6.10 VAT-fraud

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

### 6.11 Estimates of tax error based on tax audits

Most of the estimates cited above are from studies conducted outside the tax administration. Through auditing activities, primarily field audits, the tax authorities have considerable first-hand knowledge of tax fraud and other tax errors.<sup>25</sup> Tax audits, however, are targeted at high-risk taxpayers for maximum deterrence, and the outcome of these audits can therefore not be aggregated into an estimate of the total tax error.

Some audits, however, are directed against taxpayers selected at random. These audits are carried out in order to gauge general compliance among all groups of taxpayers. [10.8]

### 6.12 How large is the total tax error?

On the basis of all available information on tax fraud and other errors made by taxpayers, the National Tax Board in 1998 made an attempt to estimate the total tax error, defined as the gap between the theoretical tax revenue and the total tax bill.<sup>26</sup> This estimate applies to 1992 and is based on the facts and indicators reported above. Obviously, these calculations are surrounded by a great deal of uncertainty and the purpose of this exercise is not to produce a figure for the tax error which may be used to monitor progress year by year, but to indicate its order of magnitude. The result of the estimate is shown in the table 41.

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

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

<sup>25</sup> It is important to bear in mind that a considerable share of errors detected by audits cannot be classified as fraud. Some are mistakes, while others have to do with interpretation of tax law.

<sup>26</sup> Skattefel och skattefusk, En utvärdering av skattekontrollen 1992-1997, RSV Rapport 1998:3.

**Table 39**  
**An estimate of the total tax error 1997 and 2000<sup>27</sup> [10.11]**

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

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

In 2002 the National Tax Board published a study with an estimate of 20-35 SEK billions of tax errors due to cross border transactions. [10.12]

In total the tax gap in Sweden in 2000 is estimated to 100 SEK billions.

### 6.13 The structure and causes of tax fraud

Studies of the black economy in Sweden, Denmark and the Netherlands indicate that most illicit work is carried out as jobs on the side of regular employment. Young men, skilled workers and professionals are relatively well represented in the black job market, while the unemployed are somewhat underrepresented. There is no general disapproval among the population of occasional and small-scale illicit work, or of exchange of services among acquaintances of different trades and professions.

On the other hand, there is no public acceptance of illicit operations carried out on a large scale and in a systematic and organized fashion.<sup>28</sup>

Some trades and industries are more affected by tax evasion than others. In a survey commissioned by the National Tax Board, business respondents were asked whether they agreed or disagreed with the statement "our firm is to a large extent exposed to competition from firms that evade taxes". About 20 percent of all respondents agreed, but in the construction industry 41 percent did so, in the hotel- and restaurant sector 56 percent and in the transport sector 44 percent.[10.14]

In other surveys, 8 percent of the general public confirmed the statement "I have at least once during the last year hired someone to carry out illicit work on my behalf". Those with higher incomes were, however, more likely to do so. About 1/4 of persons with a monthly salary above SEK 30.000 agreed with the statement. Men, self-employed and homeowners were also more likely to hire workers in the black market than women and people living in flats. [10.15] Only a minority agreed with

<sup>27</sup> This estimate does not include all taxes or all taxpayers - only the most important.

<sup>28</sup> Riksrevisionsverket (The Swedish National Audit Office), *Illicit work in Sweden*.



a statement to the effect that those who hired workers in the black market should also be punished, not just the workers. [10.17]

The behavior of ordinary taxpayers was reported in a RSV study in 2001.<sup>29</sup> The subject was a deduction of "other expenses" from income from employment. The deduction needs not to be specified. The study showed that there was something wrong in four cases of five and that the assessment error in this specific deduction exceeded 50 percent. The tax offices however did not exercise the possibility of tax surcharges, see chapter 11. Among 34 000 reductions made by the tax authorities only 79 cases of tax surcharges were found. The deductions made by the taxpayers the following year were however much more correct due to the tax control.

In its study of illicit work in Sweden, the National Audit Office also examined its causes [10.18], and made a distinction between structural (or external) and individual (or internal) causes. Among the structural factors, the NAO stressed the level of social control in the community and the combined marginal effects of taxes, means-tested social benefits and income-related service charges. Apart from the obvious financial motive, important factors related to the individual are the perceived risk of detection and alienation from the ruling elites (financial scandals involving politicians and top business people have had a very negative effect on tax morals). When the National Tax Board asked respondents to point out which of a set of alternatives they believed was the main reason for the existing level of tax evasion, 60 percent chose "Too high taxes" and 59 percent indicated that the reason for tax fraud was that persons in high positions do not follow the norms in the society. [10.18-19]

A large majority of the Swedish population regards the size of tax evasion to be a serious problem to the society. [10.21] Different dimensions of the damage to society from tax evasion and tax fraud are shown in table [10.20].

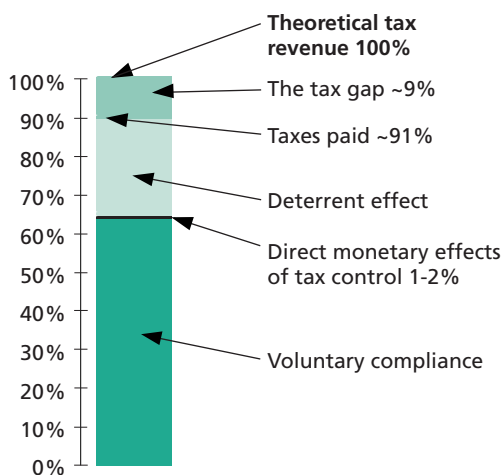
## 7 Tax control and tax fraud

### 7.1 Introduction

In order to detect tax fraud, the tax authorities perform various forms of compliance

control. [11.1-5] The tax control brings in some money to the state but more important is that the compliance control creates a deterrent effect [Diagram 40]. This effect is more important than the direct monetary effect of tax control.

**Diagram 40**  
**Monetary and preventive effect of compliance control. [11.6]**



The size of the deterrent (preventive) effect depends on how the taxpayers judge the risk of detection and the following consequences. The deterrent effect varies among taxpayers but is considered substantial. [11.7-8] Many cases of tax fraud are discovered during tax field audits. The number of tax field audits has been reduced from more than 18,000 per year in the late 1980s to about 6,000 in 1999. This fall in the number of audits is partly due to the fact that they increasingly target larger companies and more difficult cases. Another trend is that a larger share of all audits are integrated, i.e. they cover several taxes such as company income tax, VAT, PAYE and social security contributions. However, the reduction in numbers has also been caused by budget cuts and a high staff turnover [11.3]

### 7.2 Administrative sanctions

Two kinds of sanctions may be applied to tax fraud. There are the sanctions of the criminal justice system (fines, prison sentences etc.) decided by the courts, and there are administrative sanctions (tax surcharges and delay charges), which are decided by the tax authorities. The sanctions of the

<sup>29</sup> RSV Rapport 2001:1 Om gratislotter och preventiv effekt.

criminal justice system are directed against deliberate attempts to avoid tax (tax fraud etc.), while the administrative sanctions are directed against errors more or less regardless of reason.

The administrative sanctions consist of tax surcharges and delay charges. Tax surcharges are imposed if the taxpayer has supplied incorrect information or failed to file an income tax return, in which case a discretionary assessment is issued. The surcharge applied to income tax is equal

to 40 percent of the evaded tax but only 20 percent for other taxes. In many circumstances, however, the surcharge will be reduced or dropped.

In 2001, 259,000 decisions were made concerning tax surcharges, of which 77,000 referred to income tax and 82,000 VAT. Substantial amounts are imposed as tax surcharges; in 2001 this totaled SEK 2.1 billion, of which SEK 1.7 billion referred to income tax. [Table 41]

**Table 41**  
**Tax surcharges imposed in 2002 [11.10-13]**

	Number of decisions	Total SEK million	Average SEK
<b>Income tax</b>			
During annual assessment	43 148	..	..
After annual assessment - additional tax surcharge	12 201	..	..
After annual assessment - reduced tax surcharge	17 508	..	..
<b>Subtotal</b>	<b>72 857</b>	<b>1 231</b>	<b>16 898</b>
Preliminary tax (PAYE)	42 460	67	1 581
Social security contributions paid by employers	56 597	143	2 521
VAT	84 141	312	3 706
Excise duties	1 759	16	9 096
<b>Total</b>	<b>257 814</b>	<b>1 769</b>	<b>6 861</b>

In addition to surcharges, there are delay charges, which are imposed if tax returns are not filed on time. An individual who files his income tax return too late is normally charged SEK 500 and a legal entity SEK 1,000. These charges will be doubled in 2004. In 2002, there were 83,000 decisions concerning delay charges on income tax returns and another 155,000 concerning monthly VAT and PAYE returns. [11.17] The total amount of delay charges for all returns was SEK 260 million. [11.18]

### 7.3 Sanctions of the criminal justice system

Since 1996, the Tax Fraud Act has defined all criminal tax offences. In 2002, 1687 persons were suspected of tax crime by the public prosecutors, an upward trend during recent years. The total number of sentences has however fallen if we compare with figures in the beginning of the 1980s. [11.23]

In 2002, 396 persons were fined, sent to prison, put on probation or given suspended sentences for offences against the Tax Fraud Act. [11.23] If we to this figure add persons found guilty of tax offence as a secondary offence, the total number of sen-

tences in 2002 rises to 1,030. [11.24]. The number of unconditional prison sentences in 2002 was 128.

**Table 42**  
**Number of persons sentenced by a court for offences against the Tax Fraud Act as principal offence or who have assented to summary fines imposed by a prosecutor [11.23]**

Principal sanction	1983	1993	1999	2000	2001	2002
Prison	317	100	119	102	120	128
Probation	8	7	3	5	4	8
Suspended sentence	391	61	83	99	144	129
Fine	416	121	28	26	27	44
Order of summary punishment	4	8	29	139	65	87
Other sanction	12	2	3	1	0	0
<b>Total</b>	<b>1 148</b>	<b>299</b>	<b>265</b>	<b>372</b>	<b>360</b>	<b>396</b>

The capacity of the police to handle tax crimes has been questioned. With start in 1988 tax fraud units within the tax authorities can handle tax crime investigations. As can be seen in the tables [11.23-24] the good result of this reform is reflected in the figures for 1999-2002. The tax fraud units will in year 2004 be staffed with 200 employees. For more details of the tax fraud units see [11.22]

Another sanction available to the courts is to ban a person from running a business enterprise. This sanction can be applied for a period of 3-10 years if a person has seriously neglected his duties as an entrepreneur, for example by refusing to pay taxes. The number of bans in force tends to be increasing and reached 476 in 2002. [11.26]

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

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

### 8.1 Introduction

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

The surveys have a number of aims:

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

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

The 2002 surveys addressed the general public. The response rate in the national

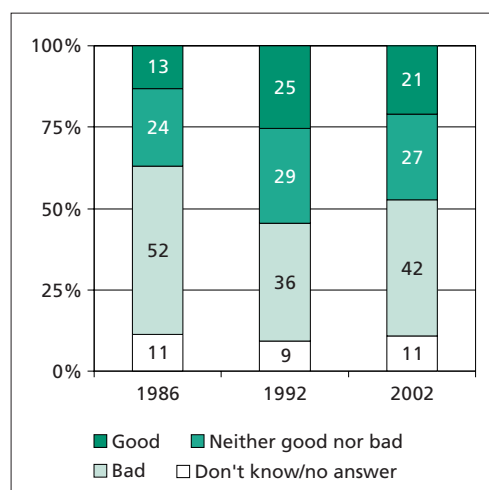
survey was 62 percent, and in the regional survey 64 percent.<sup>30</sup>

### 8.2 Attitudes to the tax system and the tax authority

Before the tax reform of 1990/91 more taxpayers than today expressed a negative view on the tax system. Opinions have changed since and are more positive today. In the 2002 survey, 21 percent of the general public likes the tax system, while 42 percent dislikes it [12.1]. 48 percent of the general public have confidence in the Tax authorities, which is 10 percent higher than those who have confidence in authorities in general.

**Table 43**

**What is your general opinion on the tax system, i.e. tax levels and the design of tax rules? general public 1986, 1992 and 2002, percent [12.1]**



### 8.3 The compliance issue

Promoting voluntary compliance is a strategic objective of the Swedish tax administration. It is assumed that most taxpayers are willing to comply as long as compliance is perceived as the general norm and is effectively enforced. In this survey, 74 percent agreed with the statement "I am prepared to pay my tax as long as everyone, or almost everyone else does", only 7 percent disagreed [12.8]. On the other hand, only 11 percent believes that everyone, or almost everyone, actually pay their taxes. But the tolerance for tax evasion is low: only 7 percent thinks it is OK for people to evade tax if they have the opportunity to.

<sup>30</sup> The regional survey: RSV Rapport 2003:1, The national survey: RSV Rapport 2003:2.



**Table 44**  
Tolerance with other peoples tax evasion and willingness to pay ones taxes in 2002 , percent [12.8]

	I'm willing to pay my taxes as long as everyone, or almost everyone, does	For my part it is OK that other people evade tax if they have the opportunity to
Agree	74	7
Neither/nor	10	7
Disagree	7	74
Don't know/no answer	8	12
Mean value	4,3	1,6

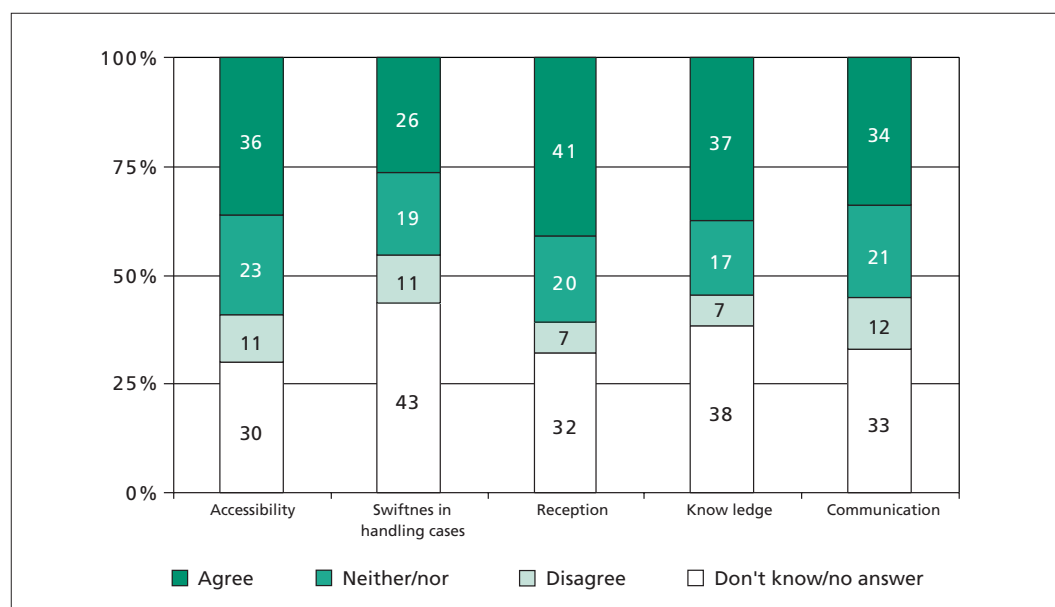
#### 8.4 The service from the tax authorities

A majority (59 percent) of the general public is satisfied with their contacts with

tax authorities while 7 percent are dissatisfied. [12.10] When ranking different aspects of quality the general public is most satisfied with the way they are received by the tax authority staff; this is followed by expert knowledge, accessibility, how easy it is to communicate with the tax authorities and lastly swiftness in handling cases and compliance control.

In general, the elderly, people with a low standard of education and low-income earners tend to have a more favourable impression of the tax authorities than persons in private employment, high-income earners and those with frequent contacts with the tax authorities. The table below summarizes the different areas of quality [12.11]

**Table 45**  
Attitudes to a number of important service issues, the general public 2002, percent [12.11]



## 9 The tax administration

### 9.1 Introduction

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

Neither the political system nor the police or judicial systems are parts of the tax administration, even if this wide defini-

tion is applied. But in order to present a full picture, their roles in the tax system are also discussed in this chapter.

### 9.2 The political system

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

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

### 9.3 The tax administration

According to a wide definition of the tax administration, i.e. all administrative functions needed to run the tax system, regardless of their organizational location, it comprises staff from the National Tax Board, the regional tax authorities, the regional enforcement authorities (collection of tax arrears), Customs (VAT, customs and excise duties on imports from countries outside the European Union), district courts (stamp duty) and the National Road Administration (road vehicle tax) and certain other agencies.

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

In organizational terms, the narrowly defined Swedish Tax Administration is part of "the Tax Administration and the Enforcement Service" (skatteförvaltningen och exekutionsväsendet) with a little over 13,000 employees. [13.1]

The National Tax Board (Riksskatteverket - RSV) is the parent agency of the regional tax authorities and the regional enforcement authorities. At the beginning of 2003, the Board had 1,174 employees, half of them in the IT department. The Board's mission is to lead, coordinate and support the regional authorities working with taxation, debt collection, population registration and general elections.

On 1 January 1999, the former 21 county tax authorities were merged into 10 regional tax authorities (skattemyndigheter). [13.5] Each region has several local tax offices, which handle all the tax affairs of individuals and small companies. Larger

companies are served by special regional tax offices. From 1992 to 2000, the number of employees at the tax authorities fell by about 2,900 to 9,000. Most of this staff reduction took place in the area of basic processing, but control activities (desk and field audits) were also affected. Since 2001 the number of employees have increased somewhat. Measured in staff years - 1 staff year being equal to 1,600 working hours - the time spent on field audits fell from 1,485 in 1996 to 967 in 2002. [13.2]

The Government has in a bill proposed the forming of a new tax administration by merging the National Tax Board and the ten regional tax authorities.<sup>31</sup> The name of this new body will be *The Swedish Tax Agency* (Skatteverket). According to the petition, by uniting the administration into one tax authority, a number of advantages will be met: more flexibility, easier to unify legal practice etc. The enforcement authorities will remain intact, with the National Tax Board as parent agency. The forming of the new administration will be executed in stages beginning January 1, 2004.

The regional enforcement authorities (kronofogdemyndigheter) were formed in 1997. Their regions are the same as the tax regions, but regional headquarters are often situated in other cities. [13.5] The enforcement authorities have not suffered staff reductions quite to the extent as the tax authorities, employees numbered 2,900 in 1994 and 2,500 in 2002. Debt collection is the main task of these authorities, but they also perform other functions, such as bankruptcy supervision. In 2002, the number of staff years in the enforcement authorities totaled 2,325. [13.3]

Taxation accounts for about 70 percent of total expenditure in the Swedish Tax Administration and Enforcement Service. In 2001, total outlays were little over SEK 7 billion. [13.4]

#### 9.3.2 Customs

Sweden's Customs Department (Tullverket) has about 2,600 employees (september 2003). The Department has a head office in Stockholm and six regions. Effective trade and frontier protection employs about 1,800 staff years. [13.6] In 1999, total collection was almost SEK 48 billion, of which VAT accounted for SEK 44 billion. [13.7]

<sup>31</sup> The Bill's name is Prop. 2002/03:99, *Det nya Skatteverket* [The new Swedish Tax Agency]

### 9.3.3 Other authorities

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

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

### 9.3.4 Taxes and the judicial system

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

### 9.3.5 Appeals against tax decisions

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

### 9.3.6 Tax fraud

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

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

is granted, to the Supreme Court (Högsta domstolen).

### 9.3.7 The cost of tax administration

A report evaluating the 1991 tax reform estimated the compliance and administrative costs of the tax system. In 1992, administrative costs were estimated at SEK 4.7 billion and compliance costs at SEK 9.3 billion. [13.8] Administrative costs were roughly equal to 0.5 percent of total tax revenue and compliance costs were equal to 1.0 percent.<sup>32</sup>

## 10 A century of taxes

### 10.1 Development of the tax system 1900-1950

When the 19th century drew to a close, it was still possible to trace the structure of the Swedish tax system back to its medieval roots. The ancient land tax was, however, being phased out and central government relied mainly on customs and excise duties for its revenue. For local government, income and property taxes were the most important sources of revenue. [14.1]

The introduction of a progressive state income tax in 1902 heralded a new era. Although customs and excise duties continued to be very important, during the first half of the 20th century income tax gradually increased to become the most important source of revenue. [14.2-3]

### 10.2 The tax system, 1950-1970

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

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

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

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

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

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

### 10.3 Some tax policy trends since 1970

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

A strong trend in the late 20th century is a shift from direct to indirect taxation. Although average local income tax rates have risen from 21 percent in 1970 to 31 percent in 2000, most tax increases have been caused by higher indirect taxes, especially social security contributions. This is a consequence not only of more generous benefits, but also of making benefits taxable. To maintain the real value to recipients, their pre-tax levels have been raised. Between 1970 and 2000 the level of social security contributions rose from 8 percent of GDP to 15 percent.

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

In the 1970s, the problem of narrow tax bases and high tax rates received more attention. When inflation soared, taxpayers adapted their behaviour in ways that made both the tax system and the economy as a whole less efficient. A first step to correct this was taken through a political compromise in 1981, which lowered marginal tax rates and reduced the value of debt interest deductions. A more radical reform came in 1991. The top marginal tax rate was then lowered from about 73 percent to about

51 percent (at a local tax rate of about 31 percent). The tax on capital income was separated from the tax on earned income and levied at a flat rate of 30 percent. Lower income tax rates were financed by a general broadening of the tax base and by higher rates of indirect taxes.

## 11 Swedish taxes in an international perspective

### 11.1 Living standards

The Gross Domestic Product (GDP) per capita is commonly used as the main indicator for international comparisons of living standards. Using current exchange rates, GDP per capita in Sweden in 2001 (\$24 700) was above the EU average of \$20 900. [15.1]

**Table 46**  
**GDP per capita in 2001, US Dollars [15.1]**

	Current exchange rates	Purchasing power parities
Sweden	24 700	26 000
EU-15	20 900	25 600
OECD Total	22 100	24 500

Exchange rates, however, are determined mainly by supply and demand of different currencies in the international financial markets. Differences in GDP per capita in current exchange rates will therefore reflect not only the value of total production, but also differences in price levels. Conversion on the basis of purchasing power parities (PPP) will therefore provide a more accurate measure of living standards. Using PPP, GDP per capita in Sweden was only slightly over the EU average in 2001. [15.1]

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

A common measure of the general tax level in a country is the relation between total tax revenue and GDP, often referred to as the tax quota. It can 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 taxed in Sweden, while similar benefits are exempted from tax or used as tax allowances or tax credits in many other countries. Social security contributions are

included in the tax quota in Sweden since they are regulated by law, collected by the tax authorities and to a large extent (60 percent) not directly linked to benefits. In other countries, however, similar benefits are the outcome of negotiations between employers and trade unions and therefore not treated as taxes or included in the tax quota.

Even though the tax quota might exaggerate differences in tax levels, the level of taxation in Sweden is still high by international standards. In 2000, Sweden was the only country with a tax quota above 50 percent (54,2 percent) well above the EU average of 41,6 percent and the OECD average of 37,4 percent. [15.3]

### 11.3 The structure of the tax system

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

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

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

An average EU country collects 1/3 of its 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.

By comparing the seven 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. The Scandinavian countries - notably Denmark - collect a greater share of their

revenue from income tax, while France in particular places greater emphasis on social security contributions and payroll taxes. The relative importance of consumer taxes is roughly similar and property taxes are relatively insignificant as a source of revenue. [15.5]

A comparison of the contribution of different taxes to the tax quota in Sweden and an unweighted EU average (based on revised GDP definitions for 14 countries) shows that taxes on income and profits and social security contributions are higher in Sweden than in most other European countries. Taxes on personal income are highest in Denmark (28.7 percent of GDP compared to 23.4 percent in Sweden). Social security contributions are higher than in Sweden (15.2 percent of GDP) in two EU countries: France (16.4 percent) and Netherlands (16.1 percent). VAT and excise duties combined are slightly lower in Sweden than the EU average (11.2 percent versus 12.3 percent). [15.6]

The gap between the Swedish tax quota of 54,2 percent of GDP and the EU average of 41,6 percent in 2000 is mainly represented by the higher taxes on labour in Sweden. [15.3]

The public sector is usually divided into central government, local government and the social security funds. In Sweden, more than half of all taxes go to central government (58.4 percent). This ratio varies in the EU between 30.7 percent (Germany) to 86 percent (Ireland). Taxes to local government in most EU countries account for a smaller proportion of all taxes. Sweden and Denmark are exceptions; in these countries, approximately 30 percent of all taxes go to local government. The impact of social security funds in the EU ranges between 4.6 percent of all taxes (Denmark) and 46.7 percent (France). Sweden, with 11.1 percent, is second lowest to Denmark. [15.10]

**Table 47**  
**The tax quota and the tax mix (2000) [15.3,15.5]**

	Tax quota Total tax	Tax revenue, share of total tax revenues, percent				
		Income and profits	Social security and payroll	Property	Goods and services	Other taxes
Sweden	54,2	43,2	32,4	3,4	20,7	0,1
Denmark	8,8	58,9	5,0	3,3	32,5	0,0
Finland	46,9	42,6	25,6	2,5	29,1	0,1
Belgium	45,6	39,2	30,9	3,3	25,4	0,0
France	45,3	25,0	38,4	6,8	25,8	3,7
Austria	43,7	28,4	40,4	1,3	28,4	1,2
Italy	42,0	33,2	28,5	4,3	28,4	5,3
EU average	41,6	34,3	29,2	4,4	31,3	0,9

**Table 48**  
**Tax revenue by recipient, as percent of total tax, 2000 [15.10]**

	Federal or Central government	State government	Local government	Social security funds
Sweden	58,4	-	29,5	11,1
Austria	52,6	9,3	10,0	27,7
Belgium	37,1	22,5	4,6	35,4
Denmark	62,2	-	32,8	4,6
Finland	55,2	-	21,1	23,5
France	42,3	-	9,6	46,7
Germany	30,7	22,4	7,4	39,0
Greece	69,9	-	1,0	28,6
Ireland	86,0	-	1,8	11,5
Italy	59,8	-	11,4	28,5
Luxembourg	68,0	-	5,8	24,8
Netherlands	56,6	-	3,3	38,9
Portugal	66,0	-	6,7	26,8
Spain	47,9	-	16,8	34,8
UK	77,8	-	4,0	16,4

#### 11.4 Taxes on labour

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

In Sweden, the disposable income in 2001 of a single (unmarried) worker with an average salary was 70 percent of the gross salary. A person earning a salary 67 percent higher than an average worker had a disposable income of 64 percent of gross pay. In most OECD countries, disposable incomes were higher relative to gross pay. [15.11]

**Table 49**  
**Disposable income, by wage levels as a percentage of the average wage for an industrial worker, as percent of gross pay, 2001 [15.11]**

Household Wage person 1 Wage person 2	Single		Married, 2 children	
	100%	167%	100%	100%
			0%	67%
Sweden	69,6	63,8	79,0	76,2
Denmark	56,9	49,0	69,5	62,0
UK	76,9	73,9	89,2	84,2
France	73,5	69,7	85,8	81,5
Germany	58,8	52,2	89,2	68,7

Looking at marginal income tax rates we can see that they are higher than in most other countries for single persons with high incomes. For married couples with children at average income levels, marginal income tax rates in Sweden are not



notably higher than in many other OECD countries. [15.12]

### 11.5 Taxes on capital

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

As with taxes on labour it is difficult to compare tax levels between countries. In many countries, interest on bank deposits is not taxed, while in Sweden all interest and dividends are taxed at 30 percent. On the other hand, in Sweden debt interest is deductible, which is generally not the case in countries where bank interest is tax exempt. In 2001, deductions for debt interest exceeded reported interest income and dividends by almost SEK 19 billion. Net revenue yield depends on whether declared capital gains are large enough to make up for this deficit.

Along with a few other countries, Sweden has a NET wealth tax, which is applied at 1.5 percent to net household wealth exceeding SEK 1.5 million (2.0 million for married couple).

The tax rate applied to company profits is comparatively low in Sweden, at 28 percent. [15.13] However, comparisons of this tax rate, must also 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.

## 11.6 Taxes on goods and services

### 11.6.1 Value Added Tax (VAT)

The minimum standard VAT rate in EU countries in 2003 is 15 percent. Sweden, along with Denmark, has the highest standard tax rate at 25 percent. Lower tax rates apply to food, transport etc. Many other countries apply lower rates to water, pharmaceuticals, books etc. [15.14]

### 11.6.2 Excise duties

In Sweden, duties on energy (fuel, electricity etc) account for the majority of all revenue from excise duties. Sweden's excise duty rates on petrol and diesel oil are at the average European level, but VAT is levied at a higher rate than in other countries (with the exception of Denmark). [15.15]

Duties on alcohol are higher in Sweden than in any other EU country. The Swedish rate of duty on ethyl alcohol is EURO 55 per litre, compared to 37 in Denmark, 31 in Britain and 13 in Germany. Duty on wine is also relatively high (EURO 2.4 per litre). [15.16]

Taxes (VAT and excise duty on tobacco) make up about 70 percent of the retail price of tobacco in Sweden. This percentage is among the lowest in Europe, but the price of a pack of cigarettes in Sweden is still higher than in most other countries. This is due to high production costs and high wholesale and retail margins. [15.17]

### 11.7 Contributions to the EU budget

Sweden is a net contributor to the EU budget. In 2002, Sweden contributed SEK 20.6 billion to the EU budget and received SEK 9.3 billion in return. [15.18]

# Appendix

## Income self assessment and taxes in Sweden

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

### How things work

Taxes have been around in Sweden since the Viking era. Our present system of income tax dates from the beginning of the 20th century. We have other taxes besides tax on earnings. For example, we pay various taxes when we shop, including Value Added Tax (VAT).

### When you start work

When you start work, your employer deducts tax before you get your wage. Your wage slip shows how much your tax is. Employers pay this amount of tax to the tax authority every month. At the same time, they pay employer contributions for each employee. If your income varies from month to month, e.g. because of summer jobs, you can have your tax reduced (known as 'adjustment'). Your local tax office can give you further information about this. When you have worked for 12 months, you will get an income statement from your employer at the beginning of the following year. The employer sends the same information to the tax authority. The statement shows your wage for the entire year and the amount of tax you have paid. In addition, you will be sent income statements from banks etc., showing the amount of interest you have received on your capital and how much tax the bank has deducted from this interest. Interest on capital is taxable. You will also be informed of how much interest you have paid.

In April the tax authority sends you a self assessment (tax return) form. Much of the information on this form is already filled in, and you must check it.

The tax authority then goes through your self assessment and checks it against the information that has come in from your

employer and from banks, etc. Much of this work is done by computer. If the tax authority is unsure about something in your self assessment, you will usually get a letter containing questions that you must answer.

After the summer the tax authority will notify you of the result of the check. You will also be told if you have paid too little tax or will be getting money back.

### Political decisions govern taxes

Our 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 authority, which has offices all over the country. You should contact your tax office if you have any questions about taxes and self assessment.

Taxes go to the state, the county councils and the municipalities, and are used to pay society's expenses for things like education, care, defence and public administration. Much of the tax is returned in the form of pensions and benefits of various kinds. On the back page, you can find out more about how the taxpayer's money is used in Sweden.

## The Swedish National Tax Board and the tax authorities

The National Tax Board is the supreme administrative body for Sweden's tax authorities. The tax authorities are divided into ten areas (regions). Each area covers one or more counties and has a number of tax offices and departments. Altogether, the Swedish National Tax Board and the tax authorities have approximately 10,500 employees.

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

If you need information or forms and brochures, you should ask at your local tax office. They will also help you fill in forms.



## Guidance and checks

The tax administration envisages ‘a society in which everyone wants to do their share’. We know that most people are prepared to pay their taxes as long as everyone or nearly everyone does so. If we want to make sure that people remain willing to pay tax it is important that taxpayers are given proof that cheating is not worthwhile. For this reason, we try to make sure that the information sent in to the tax authority is, as far as possible, correct from the start. To this end, the tax authority provides guidance and performs checks.

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

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

## Population registration

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

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

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

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

consisting of the date of birth (yy/mm/dd) followed by a fourfigure number for each individual.

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

In some cases, the information is of a kind that you yourself must provide. For example, you have to report a move within one week, and the names of newborn babies have to be reported within three months of birth.

## Filing an income tax return

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

### At the beginning of April the tax authority will send you:

- **A tax return form**

Everyone required to declare income will receive a tax return form, ‘Inkomstdeklaration’. Many particulars on the form have already been filled in by the Tax Authority (Skattemyndigheten).

- **An income specification**

This is a list itemising the income statements (kontrolluppgifter) sent to both you and the Tax Authority.

- **A preliminary tax calculation**

You will also get a preliminary calculation of your tax. It will be based on the information the tax authority has entered in your self-assessment.

- **Payment slips**

You will also get two tax paying-in forms that you can use if you need to pay in more tax.

### Declare your income on the Internet or by phone

Some taxpayers can file their tax returns on the Internet. Visit [www.rsv.se](http://www.rsv.se) to find out who can use this service and how to proceed it.

If you don’t need to make any changes, you can approve your income tax return by telephone (020-567 100).

## Income year

### January-December

All the income you have received during this year must be declared in the following year's income tax return.

## Assessment year (the year after the income year)

### January

In January, you will be sent income statements for your earnings the previous year. Your employer sends the income statement both to you and to the Tax Authority. You will be sent your tax return form in April.

### May

By 5 May at the latest you must send in your income tax return to the Tax Authority.

### August-September

By mid-September at the latest, final tax assessments (slutskattebesked) and account statements (kontoutdrag) are sent out to most people who have sent in an income tax return. Those who have paid too much tax will now get their money back.

### December

By mid-December at the latest, final tax assessments and account statements are sent out to those who did not get them before. Those who have paid too much will now get their money back.

## How to fill out the form:

### • Check!

Check that all income statements are included in the specification and that the amounts are correct. Most of the information in the specification is also filled in on your tax return form.

### • Change!

Is any of the information which has been filled in incorrect or incomplete? There may, for example, be an error in the information which the tax authority has received, or some information may be missing. You must then make changes in the income tax return.

### • Add!

In the white boxes you must add information the Tax Authority has not been told about, e.g. deductions for travel to and from work.

### • Sign it and send it in!

## More to pay or money back?

Between 15 August and 15 September, the Tax Authority issues a final tax statement (slutskattebesked) and a statement of account (kontoutdrag) to most of those who submitted tax returns.

If you have paid too much tax you will now get money back. If you have paid too little you must pay in the money within 90 days.

## Everyone has a tax account

The tax account provided by the Tax Authority shows your preliminary tax figure based on income statements, your own tax payments, your final tax figure and other details.

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