



The Tax System in Sweden

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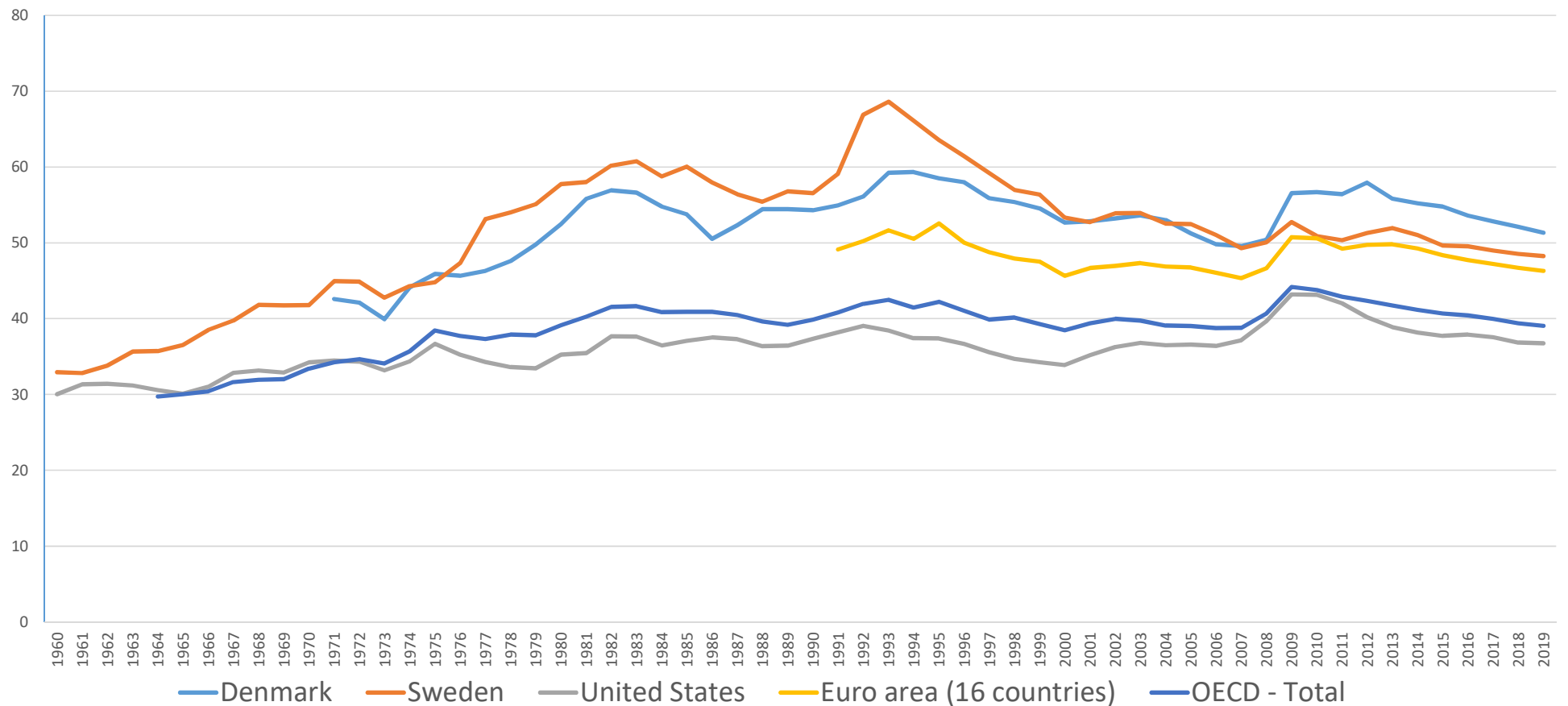
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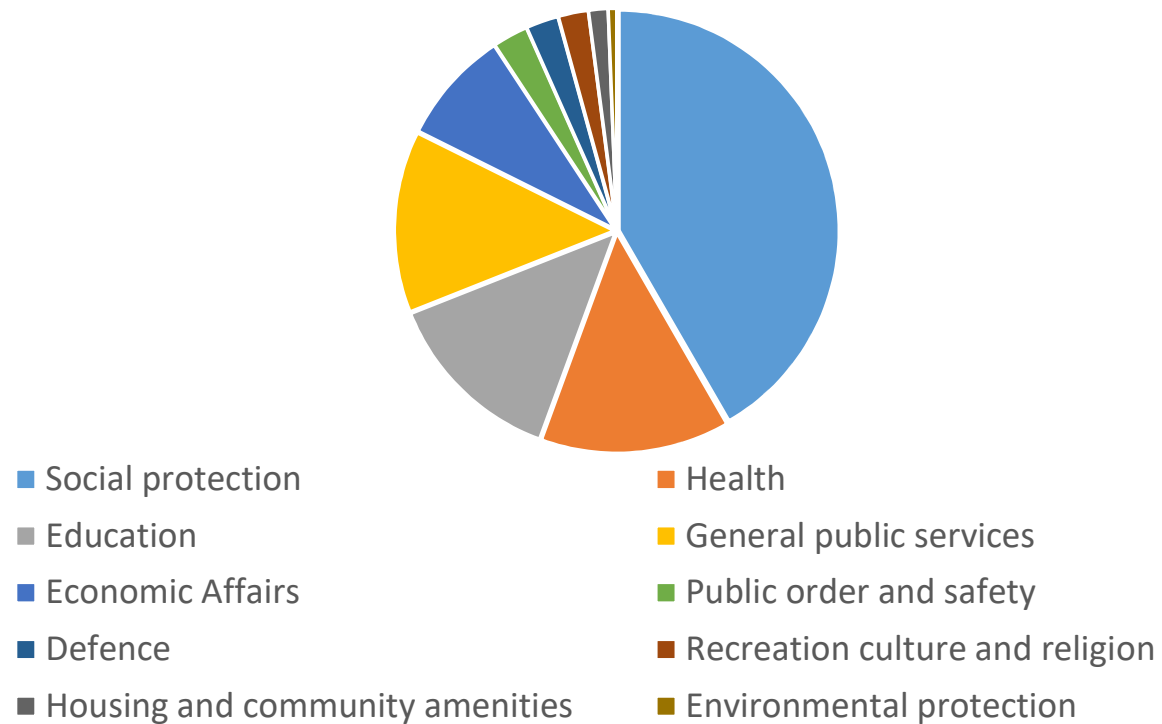
The Swedish Tax System – Outline

- Size of the public sector and total tax revenues
- The Swedish Tax System
- The principles behind the Swedish Tax System
- Main concerns today about the tax system

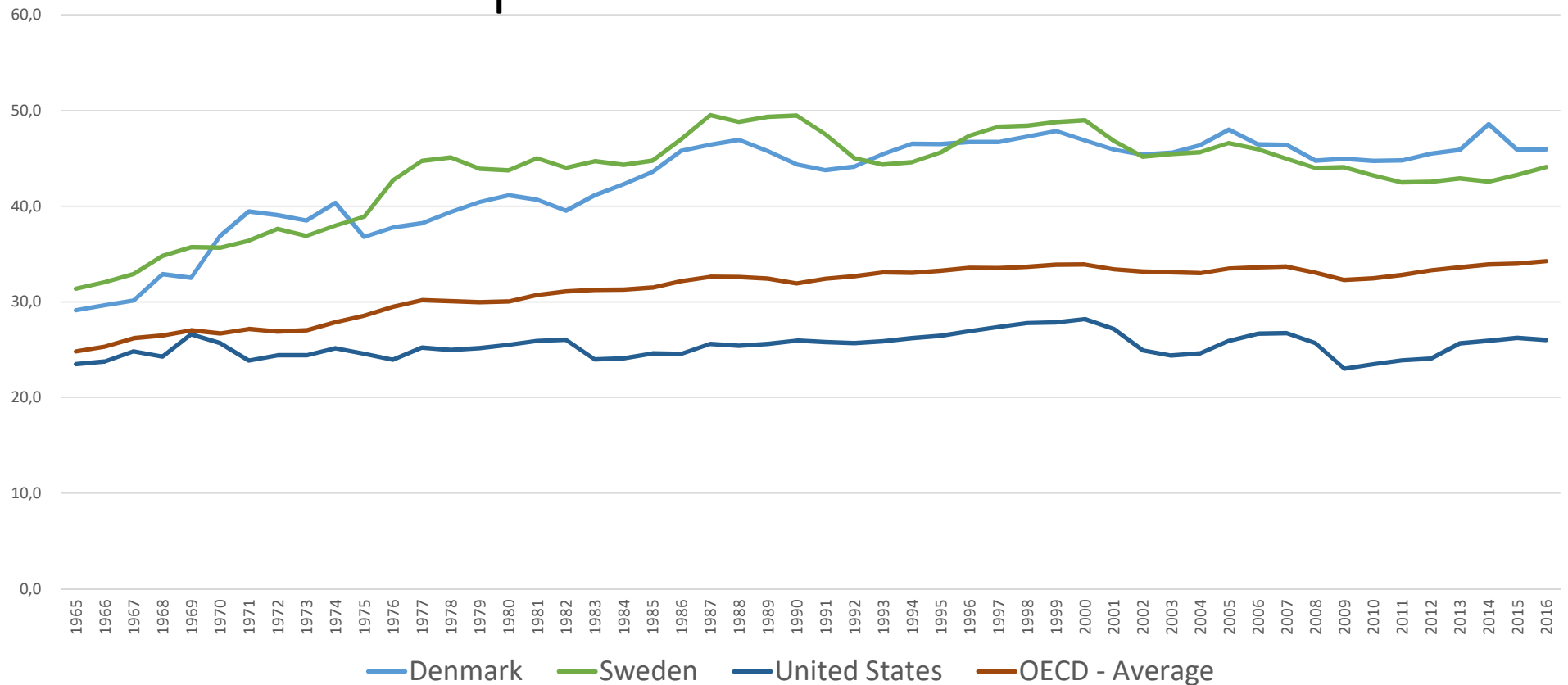
Government expenditures as share of GDP – Sweden and Denmark in top



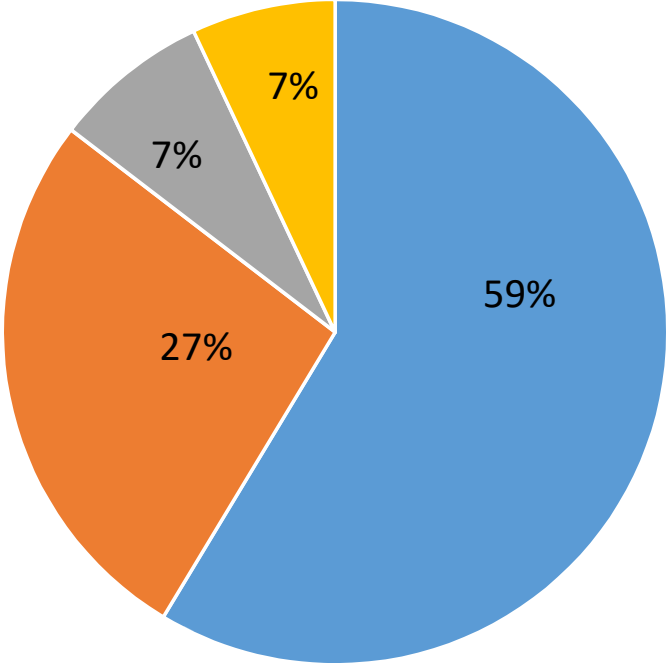
Expenditures on social protection make Sweden stick out



Tax revenues as share of GDP – Sweden and Denmark in top



The lion's part of taxation comes from labor and consumption taxes



■ Tax on labor ■ Tax on consumption ■ Tax on corporations ■ Tax on capital individuals

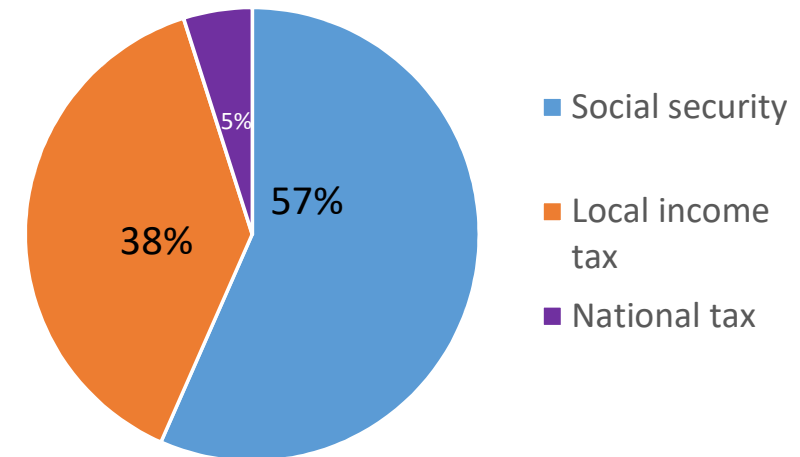
The Swedish Tax System

- Dual tax system

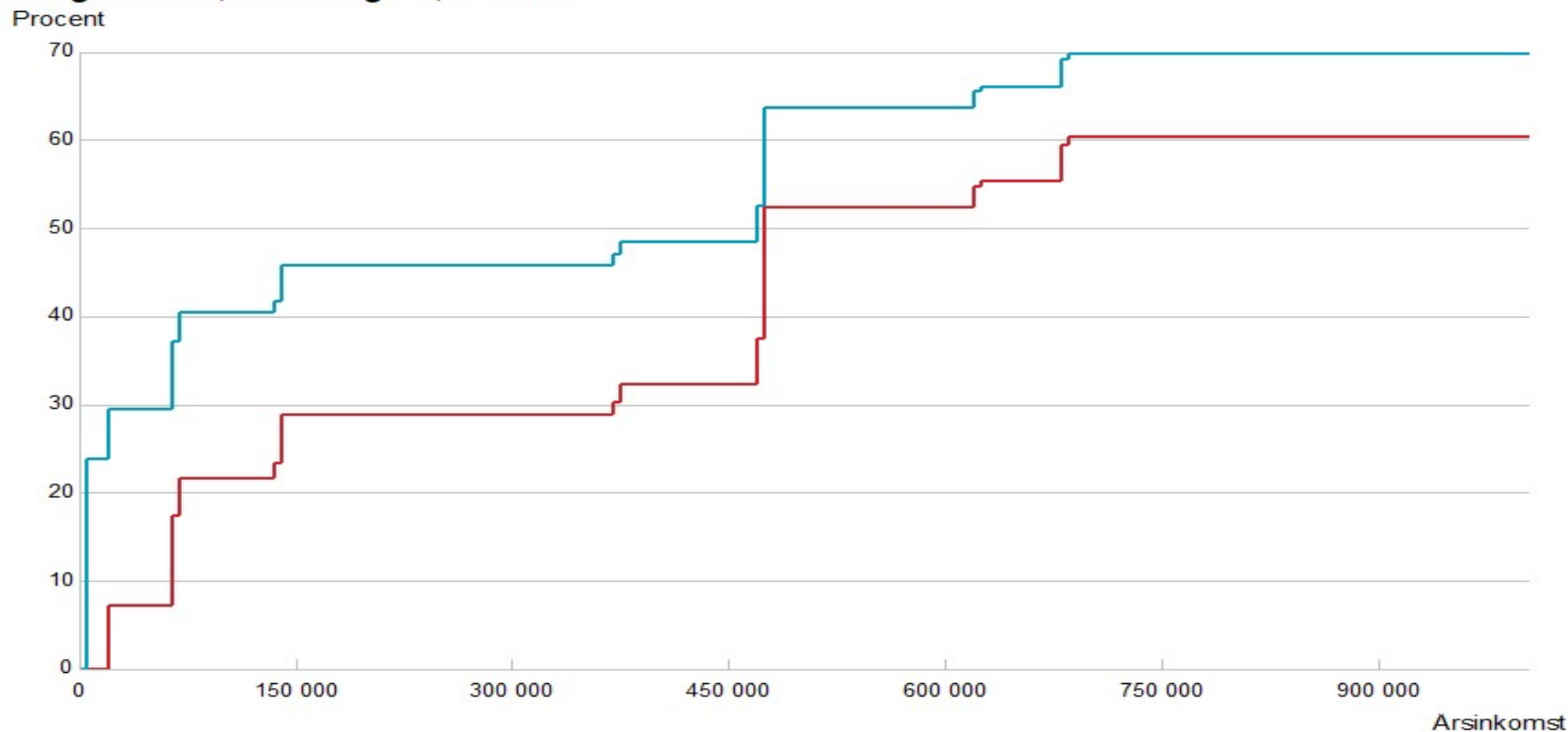
- Tax labor at progressive rates
- Tax capital at lower and flat rates

- Labor tax

- Local income tax ranging from 29-35% (32%)
- National income tax of 20% on income above \$4200
- National income tax of 25% on income above \$6000
- Social security contributions, 31.42% levied on employers and all income (even above the rights to benefits)
- Earned income tax credit (2007) given to all taxpayers with income below \$13 500 (reduced after \$5500)



Marginalskatt, arbetstagare, år 2018

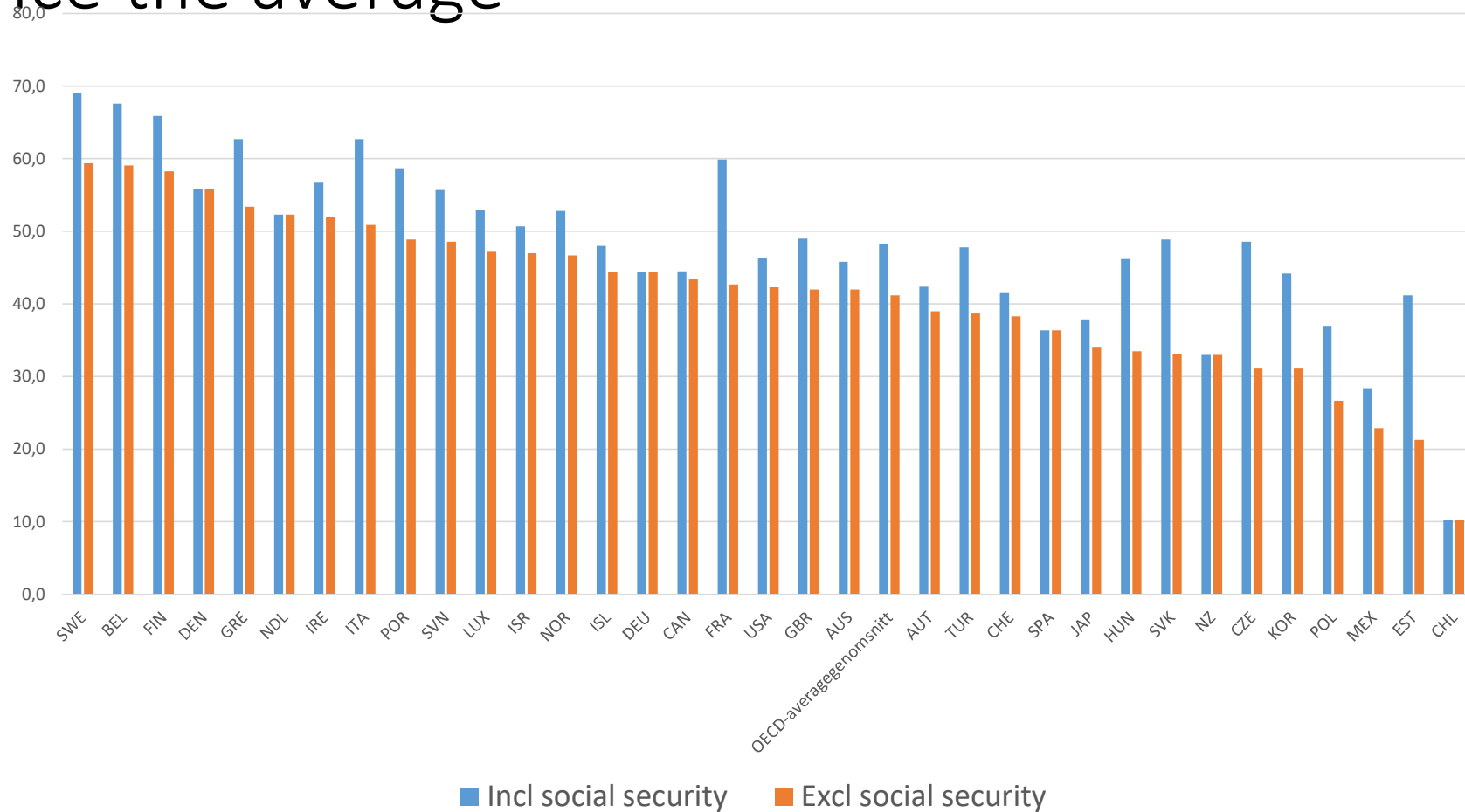


Källa: Finansdepartementet samt beräkningar av Ekonomifakta

Beräkningarna baseras på en genomsnittlig kommunalskattesats på 32,12 procent samt en begravningsavgift på 0,22 procent. Av diagramtekniska skäl har vissa mindre variationer i marginalskatten utjämnats. Dessa små variationer uppkommer bland annat på grund av grundavdragets avtrappning.

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Sweden high in an international perspective - Marginal tax rates for individuals with income twice the average



The Swedish Tax System

- Corporate tax rate currently 22%, proposed to decline to 21.4 (2019) and to 20.6 (2021)
- Capital income tax on individuals
 - 30 % flat income tax on first dollar made in capital gains and dividends (regardless of length of possession)
 - “Box model” introduced in 2012 where fictional returns are taxed at 30%
 - Lower dividend tax on closely held companies
- Property tax reformed in 2008
 - Yearly national tax, 0.75% of assessment value but maximum of \$850 (a year), a very regressive tax
 - Capital gains taxed at 22% (no matter how long the property has been in possession)
- No wealth (abolished 2007) or gift and inheritance tax (abolished 2005)

Major tax expenditures – deviations from the norm

- Earned Income Tax Credit (9% of total tax revenues from labor, or 5.5% of total tax revenues)
- Lower VAT rates (47% of total tax revenues from consumption, or 2.3% of total tax revenues)
- Property tax (38% of total tax revenues from capital, or 2% of total tax revenues)
- Deductions for household services and renovations conducted on the market (0.7% of total tax revenues)

The principles behind the tax system

- 1990/91 a major tax reform where the entire tax system was reformed
- Neutrality and uniformity were the principles behind the tax system
- Broaden tax bases and lowering tax rates (top marginal tax rate on labor income was reduced from 87% to 50%)
- Dual income tax system was introduced (capital taxed at 30% flat rate)
- Uniform VAT rate

- Already a year after the reform was introduced deviations from uniformity were made (in VAT)

The tax debate today

- Need for a new big tax reform looking over the entire tax system
- Sweden is a high tax country which requires the tax system to be well designed
- Neutrality and uniformity still good principles
- Broad tax bases and low rates (avoid exemptions and tax expenditures)

Arguments for uniformity

- Easier to administer and less susceptible to fraud
- An optimal tax system with different tax rates depending on the mobility of the tax base requires frequent changes in the tax rates in response to changes in tastes and technology
- Differentiated taxation invite special interest groups to lobby for lower taxes favoring them
- Conclusion: Uniform taxation except in areas with obvious need to internalize externalities

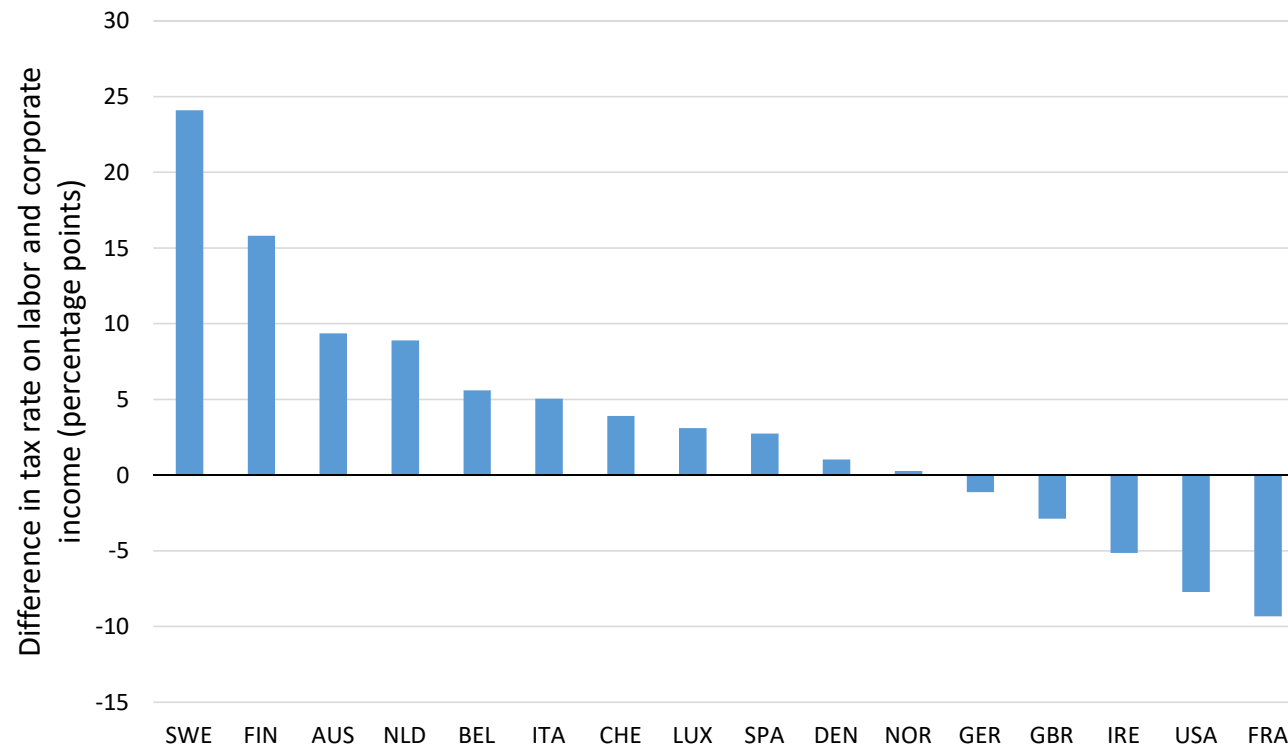
Main concerns

- Big difference in how labor and capital is taxed
 - Labor is taxed among the highest in the world
 - Capital is taxed at relatively low rates (especially on wealth and property)
- Increasing inequality is a major concern
 - Between those working and those not working
 - Between those that own and those that do not own
- Mitigate tax avoidance and tax evasion

Problems with high marginal tax rates on labor

- Incentives to take effort low, work an extra hour, get promoted, go back to school etc
- Do-it-yourself
- Black market
- Tax planning, try to shift labor income into capital income
- Many studies find the top marginal tax rate in Sweden to be on the wrong side of the Laffer curve

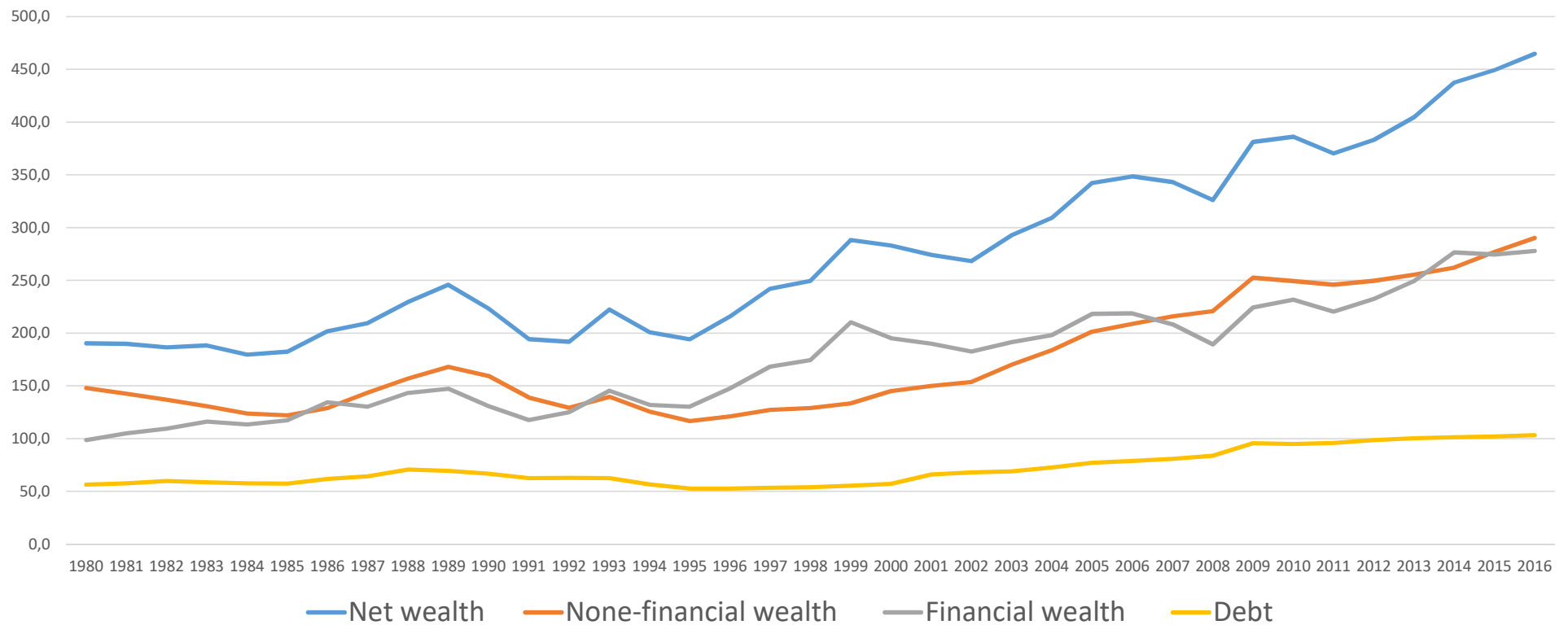
Biggest difference between taxation of labor and capital



Sweden a high tax country – but wealth and capital is taxed at relatively low rates



Wealth as percentage of national income



Tax administration

- 3rd part reporting to a very large extent
- Slogan: “Easy to do right” Easy to do tax return, easy to understand the tax rules, easy to comply, friendly and service-minded tax authorities
- Work on tax avoidance and tax evasion

Tax proposals that would be welcomed

- Lower marginal tax rates on labor income
- Shift some of the tax burden from labor to capital (e.g., increase tax on property)
- Uniform VAT
- Reduce tax expenditures and move back towards uniformity

Thank you for listening!





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