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Tax policy in Sweden - recent challenges and experiences

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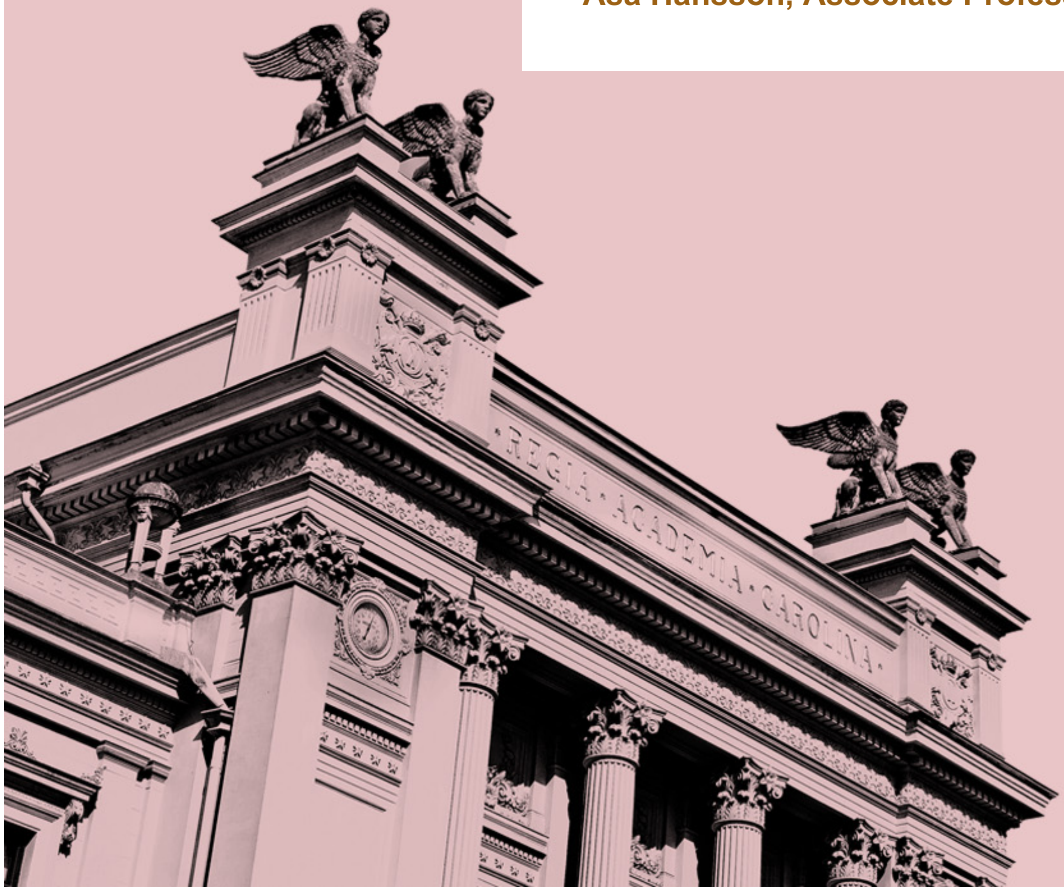


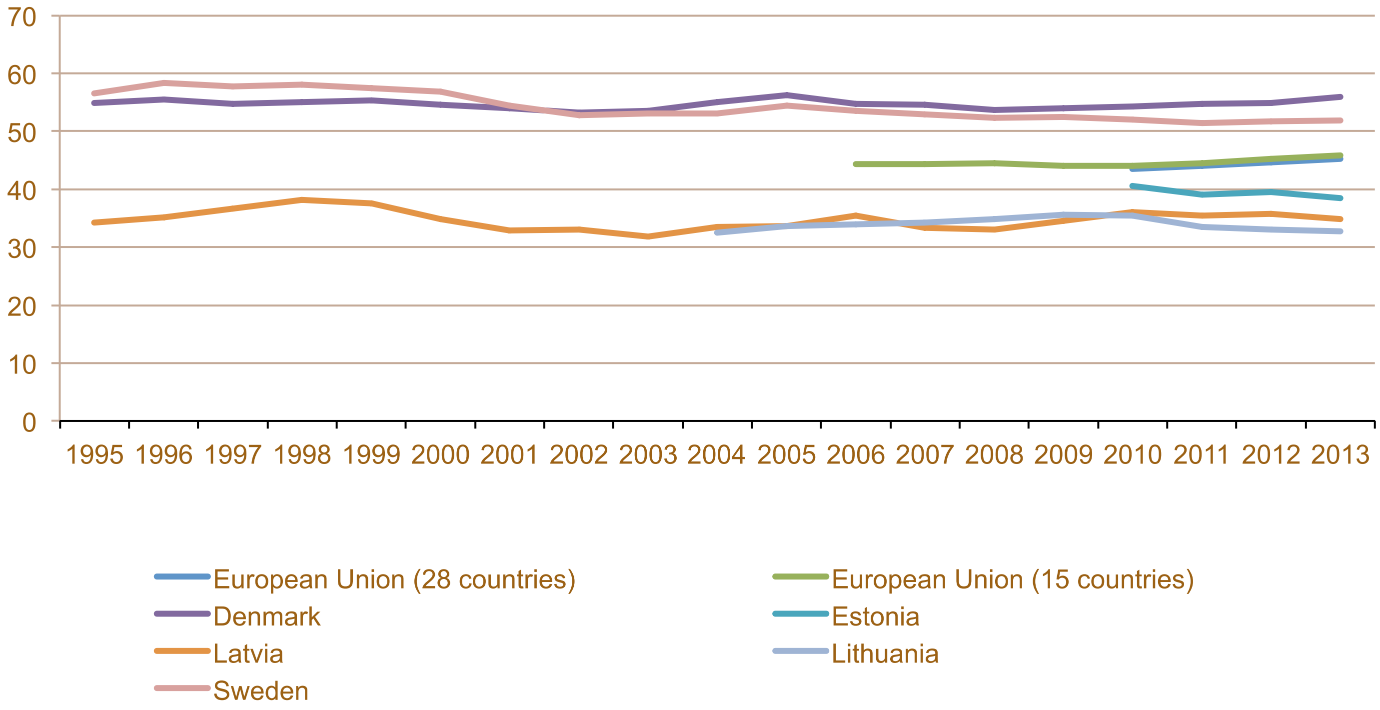
Outline

- Short overview of the Swedish Tax System
- Recent reforms and motivations behind, evolutions
- The Puzzle: How can high tax rates be coupled with successful economic performance?
- Future – a new comprehensive tax reform?

The Swedish Tax System

- A high tax country – "generous" welfare state
- Dual income tax system
  - Very high tax rates on labor income (progressive)
  - Lower (flat) rate on capital income
- A competitive (?) corporate income tax (22%)
- Differentiated VAT (6, 12, 25%)
- Low taxation of property in an international perspective
- No wealth, inheritance or gift tax

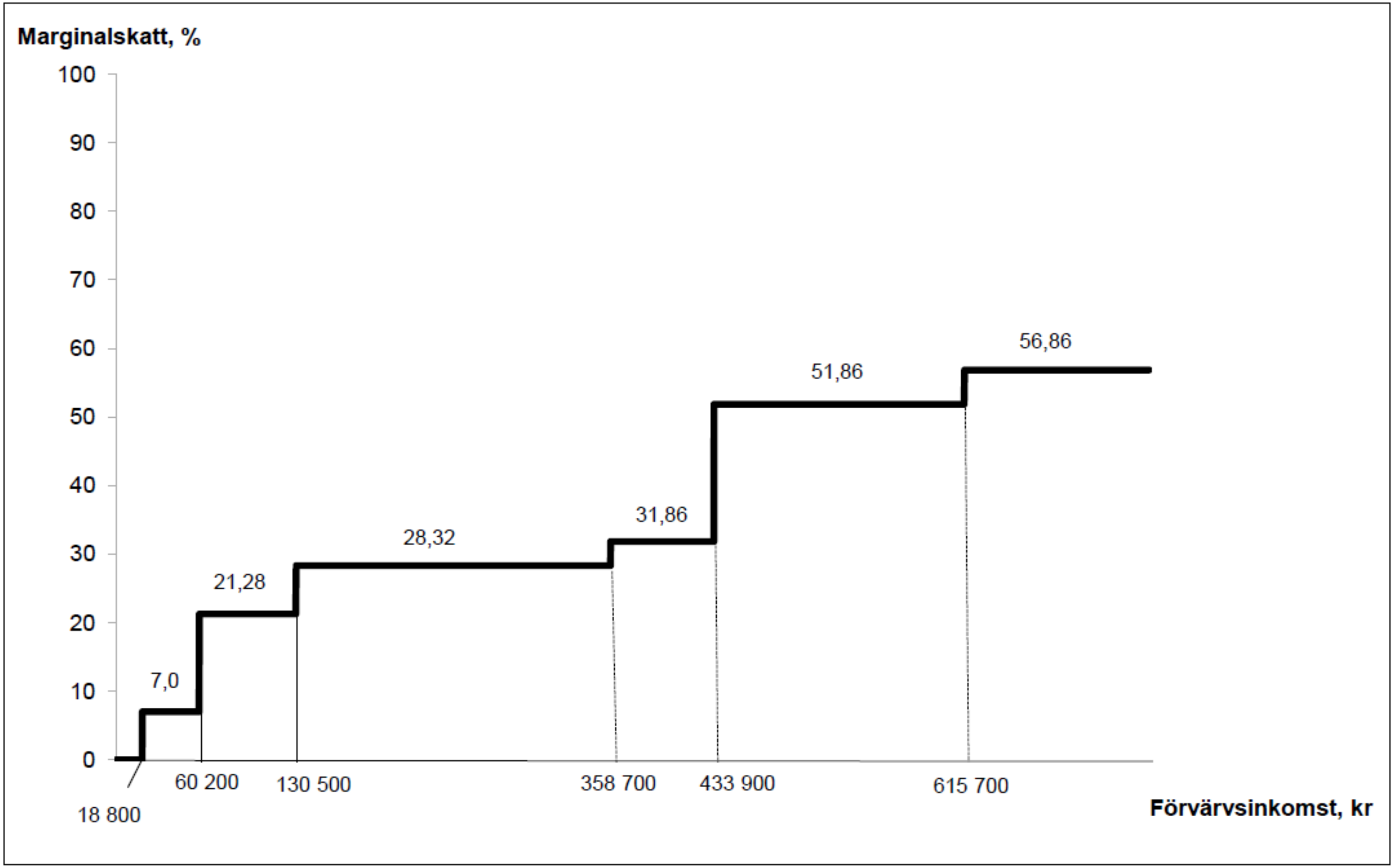
Tax revenues as share of GDP



The structure of the Swedish tax system

	Tax Revenues in SEK (miljarder)	Share of total tax burden (%)
Taxes on labor	**992.23**	**59.7**
(of which is central gov't)	45.46	2.74
Taxes on capital	**185.34**	**11.15**
on personal level	34.40	2.07
on corporate level	97.26	5.85
property tax	39.29	2.36
Tax on comsumption	**473.39**	**28.5**
Other taxes	**10.7**	**0.65**
Total	**1667.7**	**100**

Marginal tax rates on labor income, 2014



Recent reforms

- The reform of the century 1990/91
  - Neutral (30%), simple
- Since then more than 600 changes have been made to the tax system
- Some changes have been motivated by efficiency reasons (optimal taxation) others by pressure from lobbying groups
- Today, many voices for a new broad tax reform

Some Tax Changes	Year
Extra tier on labor income, top rate up from 50 to 55	1995
Differentiated VAT is introduced	1992
Gift and inheritance tax/wealth tax are abolished	2005/2007
The property tax is replaced by a local property fee (low)	2008
Reductions for domestic and home repair work (RUT/ROT)	2007/2008
EITC is introduced	2007-
A special tax on experts is introduced	2001
Differentiated social security fees are introduced e.g., on young and elderly	2007/2009
Lowered corporate income tax	2009/2013
Changes in how small businesses are taxes	continuously
Investment savings' accounts are introduced	2012
Interest deduction limitations on corporate debt within a firm group	2009/2013
Reductions in social security fees for individuals far from the labor market (long-term unemployed and sick-written as well as newly arrived immigrants)	2007/2010

Top marginal tax rate

- Many studies showing that the abolishment of the top marginal tax rate on earned income (the top 5 %) would be self-financing
- High marginal tax rates have a negative impact on hours worked, educational choice, means of compensation, entrepreneurship etc
- Limited redistributional effect
- However, politically this is not an issue discussed

Selected social security reductions – aim boost employment

- Small firms 1997
- Geographically remote areas 2002
- Young and elderly 2007

- Evaluations of these reductions show that they have not been successful. Resulted in higher wages and small effects on employment
- Experiences from other countries (Finland, Norway, Netherlands) also suggest it is an ineffective way to increase employment.

General reductions of social security

- Reduce rates above benefits received
- Traditionally, tax rate cuts have been perceived to have small or no employment effects as the reduction results in higher wages rather then lower labor costs
- More recent research question this result as
  - risk or unemployment effect are higher today
  - labor supply more elastic than previously thought
  - model ignored demand side (entrepreneurship)

The paradox

- Do a lot of other things ”right”!
  - Open economy
  - Flexible exchange rate
  - Good infrastructure/educated labor force (low wages)
  - ”Smart” tax system; many benefits linked to working
  - Homogeneous population
  - Corruption low, view of government positive
  - Awareness of tax burden not so widespread

Future – challenges?

- Many voices asking for a new comprehensive and broad tax reform
  - With piecewise reforms it is hard to accomplish a desirable distributional profile and do politically unpopular tax changes
  - With a comprehensive tax reform losers can be compensated and undesirable changes can tax place
- Very high marginal tax rates on labor income – 60 % if new government's proposal is accepted (reduce EITC)
  - Research indicating costless to abolish
  - Politically very hard to abolish

Future – challenges?

- Starting businesses (entrepreneurship)
  - Several government commissions on how to stimulate entrepreneurship
- Small country in the periphery – need a competitive tax rate on corporate income
- Will the new corporate income tax proposal be adopted? Abolish interest deductions, rate at 16.5%
- Mobility increasing? – Progressive taxation getting more costly
- At the same time demand for government services increases
  - Demography
  - Wagner's law

Future – challenges?

- Uniform VAT
- Property tax based on assessment value
  - local?
  - progressive?
- Increased transparence – make social security contributions visible?
- Increased link between social security contribution and benefits
- Inheritance and gift tax?

Tax structure and economic performance

- Ranking of taxes when it comes to efficiency losses and economic growth

Property tax

Consumption tax

Personal income tax

Corporate income tax

Sweden use property and consumption taxes to a lesser
extend than many other countries

How to achieve progressivity?

- Income distribution less even today than in the 1990s
  – Reason?
- Harder to tax income progressively
- The distribution can be affected on the expenditure side
- Optimal income tax result: tax goods and services that are inelastic in demand but income-elastic
  – Progressive property tax?

THANK YOU!