

Summary

Swedish Taxes in International Comparison

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English summary of a book in Swedish with the title “Svenska skatter i internationell jämförelse”.

How has the level of taxation changed in recent decades? How have the tax bases evolved?

The composition of Swedish taxes has been relatively stable over recent decades. Public sector tax revenue primarily comes from taxes on labour paid by both employees and employers, as well as taxes on consumption in the form of value added tax and excise duties. Taxes on capital and corporate profits also provide some revenue. Household income taxes have decreased somewhat as a share of GDP, mainly because of reductions in direct taxes on labour. Lower taxes on labour are also the main reason why the overall level of taxation is somewhat lower today compared to the early 2000s.

The underlying tax bases have been relatively stable over time, but two trends could potentially be a problem, and are therefore worth paying close attention to. First, part of the tax base for the taxation of labour income has probably eroded by transforming labour income that would be subject to a high tax rate into capital income that is subject

to a lower tax rate. The rapid increase in dividends from closely held corporations during recent years suggests that such “income shifting” may have a non-negligible impact on public finances. This underscores the challenges of having considerably higher tax rates for labour income than for capital income. Second, the tax bases for several excise duties have grown at a slower pace than GDP or, in some cases, even declined. In particular, this is the case for tax bases where a reduction in quantities consumed is in line with political goals such as a reduced consumption of energy and fossil fuels, or alcohol and tobacco. The evolution of these tax bases in recent years indicates that it may be hard to achieve a substantial increase in revenue from such excise duties through higher tax rates.

How does the Swedish tax structure differ from other comparable countries? What international trends are apparent?

In general, Swedish taxes are not remarkably different from taxes in other comparable countries. Taxes on labour and on consumption account for the great majority of overall tax revenue. Compared to other countries, however, Sweden has relatively high taxes on labour, both in terms of taxation at lower levels of labour income and in terms of the top marginal tax rate. At the same time, a comparison of the level of taxation in different countries should also bear in mind that tax revenue may be used for welfare services that benefit a country’s citizens. From this perspective, it is not necessarily the case that the relatively high taxes in Sweden are harmful for competitiveness. Sweden stands out among comparable countries by having a sizable labour tax that is paid in by the employer. Payroll taxes of this kind (i.e. not linked to social benefits) are unusual in other countries. Sweden also has relatively low property taxes, although it should be noted that in most comparable countries such taxes make only a modest contribution to the overall tax revenue.



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A few international trends are apparent during the 2000s:

- Convergence in the level of taxation. In many cases, countries with a lower level of taxation have raised taxes, while several countries with higher tax levels have reduced taxes somewhat. Sweden and the other Nordic countries still have relatively high taxes but compared to many other countries in the OECD as well as the EU the gap has diminished.
- Strengthened work incentives. Many countries have reduced taxes on labour, not least at lower income levels, in part to strengthen work incentives. There is still considerable disparity between countries, both in terms of direct taxes on labour and labour tax wedges. Since the late 1990s, Sweden has reduced taxes on labour by about 5 percent of GDP yet Swedish labour taxes are still comparatively high in an international perspective. A number of other Nordic and Western European countries have also lowered overall taxes on labour to a similar extent, including Denmark, Finland, Belgium and the Netherlands.
- Lower corporate tax rates and broader tax bases. Nominal corporate income tax (CIT) rates have been trending downwards in the OECD as well as the EU. Meanwhile, tax revenue from CIT has remained stable. In the Swedish case, this is explained by a parallel broadening of the CIT base. There has also been a trend towards increased international cooperation to reduce harmful tax competition between jurisdictions, thereby preventing base erosion. The Swedish CIT rate, and the overall level of CIT in Sweden, are at similar levels to many comparable countries.

- An increased interest in tax incentives for R&D. More countries now use such incentives, and the expenditure on these incentives has increased, albeit from low levels. Overall, these tax incentives are still modest in size, both in Sweden and in most other countries.
- Higher taxes on immovable property. Sweden is an outlier in having reduced taxes on immovable property (i.e., the housing tax), despite this tax base usually being considered relatively inelastic and, from that perspective, reasonable suitable for taxation.
- Increased revenue from consumption taxes. Many countries have increased their tax revenue from value-added taxes, by raising VAT rates but also by broadening the VAT base.

At a general level, the observed trend may in part reflect an increased awareness that tax bases are sensitive to the level of taxation, and some tax bases are more sensitive than others in this regard. A gradual shift in the composition of taxes towards lower taxation of labour and an increased reliance on consumption taxes may have positive effects on labour supply. However, such a shift could also pose a challenge for redistributive policies. Taxes are also a tool for redistribution. The fact that many countries have opted for progressive taxation of labour income may partly reflect that this is a relatively easy way to alter the distribution of (net) income among the population, compared to for example consumption taxes.

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