

# *Measuring and evaluating tax expenditures: the experience of Sweden*

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# Outline

1. Background and overview
2. Benchmark tax rates
3. Fiscal consolidation and Evaluation

# Tax expenditures in Sweden

- Yearly report from government to parliament since 1996
  - Produced by the Division for Tax Policy Analysis at the Ministry of Finance
  - Published along with the Spring Fiscal Policy Bill
  - Figures are re-reported in the Government's Budget Bill in the autumn

# Tax expenditures in Sweden

- Two purposes:
  - transparency – report spending on the income side of budget, to serve as basis for decision making
  - describe the degree of uniformity in the tax system and deviations from uniform taxation
- Aim is to include all tax expenditures and tax sanctions (some exceptions)

# The benchmark

- The benchmark tax system: uniform taxation =>also economically efficient tax expenditures are included
- The report also assesses different tax expenditures w.r.t. efficiency.  
Example: CO<sub>2</sub> tax. High general norm combined with lower levels for industry due to risk of carbon leakage.

# Reporting

- Tax expenditures are calculated as revenue forgone
- Method for extracting the outlay equivalence is stated.
- Figures for 4 years are reported  
(t-1, t, t+1 and t+2)

# Classification

- 2 parallel classifications:
  - A. tax expenditures affecting/not affecting the budget balance
  - B. according to purpose
    - support to expenditure area (27 expenditure areas such as labour market, energy etc) or
    - technically motivated
- Example: Low VAT on food. Affecting the budget balance + exp. area 12, financial support to families and children.

# Tax expenditures 2013 - % of tax revenues for each type of tax

	Expenditure area	Technically motivated	In total
<b>Tax expenditures</b>			
1. Taxation of labour	1	0	1
2. Social security contributions and wage taxes	5	0	5
3. Capital tax	49	8	58
4. Taxation of corporate gains	2	2	4
5. VAT	16	2	18
6. Excise duties	28	1	29
7. Tax credits*	1	0	1
8. Subsidize given thru tax account*	0	0	0
<b>Tax sanctions</b>			
9. Social security contributions and wage taxes	0	3	3
10. Capital tax	16	1	17
11. Excise duties	3	0	3
12. In total (% of total tax revenues)	10	0	10
* As a percentage of total tax revenues.			



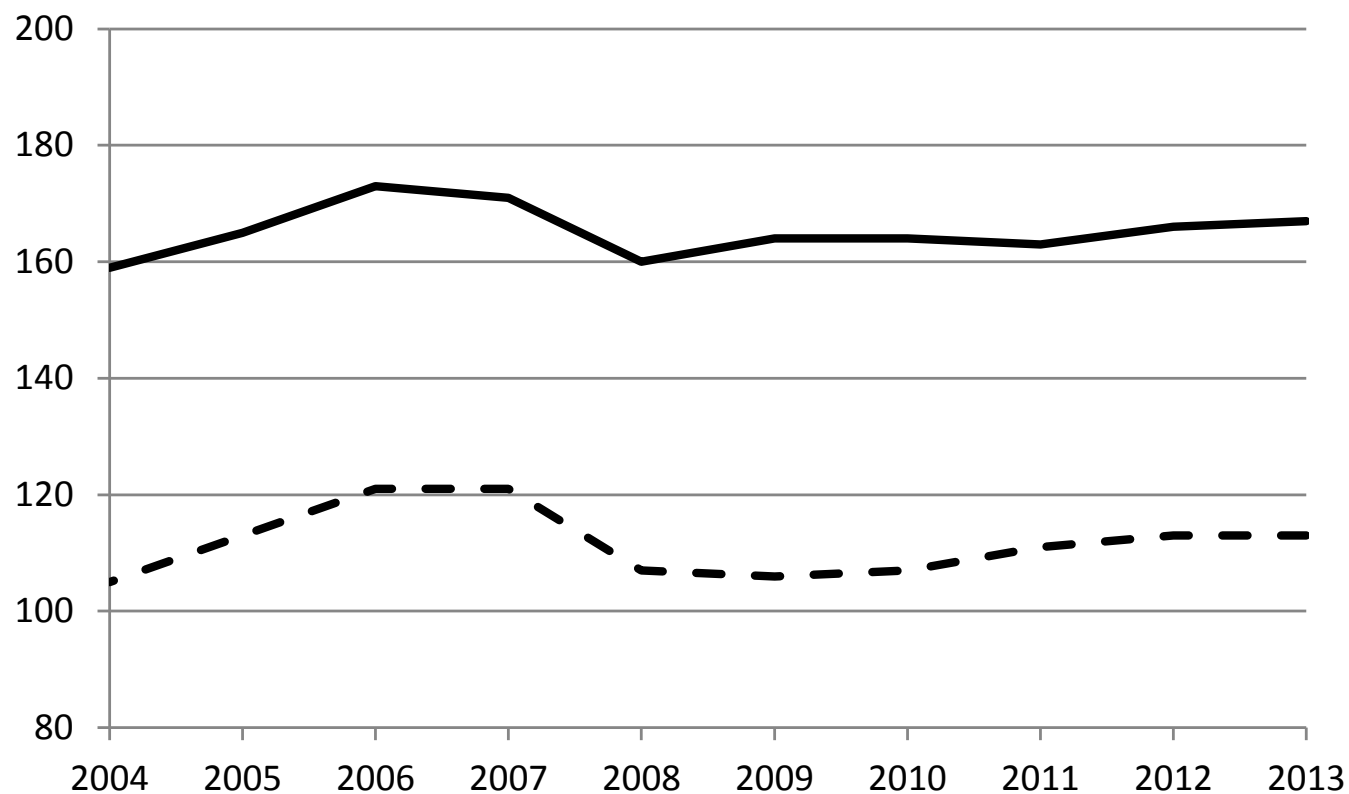
# Main tax expenditures affecting budget balance 2013

Billion SEK and % of GDP

Tax expenditure	Revenue forgone, 2013	% of GDP	Exp. area
Reduced VAT foodstuffl (25 -> 12 %)	24,73	0,7	12
Reduced SSC for employed under 26 (31,42% ->15,49 %)	17,28	0,5	14
Tax credit for renovation and retrofit	13,66	0,4	14
Reduced energy tax for electricity used in industries	12,90	0,4	24
No capital gains tax for imputed rent, owned houses*	11,17	0,3	18
Reduced capital gains tax pension savings	9,04	0,2	11
Reduced VAT restaurants and catering (25 -> 12 %)	8,49	0,2	24
Reduced energy tax, diesel in veichels	7,83	0,2	22
Reduced VAT, personal transport (25 -> 6 %)	7,07	0,2	22
Reduced capital gains tax, real estates for personal use	6,68	0,2	18

# Development of tax expenditures 2004-2012

Reported tax expenditures (black line) and caculated tax expenditures (dotted line)



## More about the benchmark

- Uniform taxation within each type of tax area (income taxation, indirect taxation of labour income, VAT and excise duties)
- Benchmark differs between tax areas

# Income taxation

- $\text{Income} = \Delta \text{Wealth} + \text{Consumption}$  (Haig-Simon)
- Different taxation of labour income, capital income, self employment income and income from businesses is consistent with the benchmark
- Progressivity is consistent with the benchmark
- Tax credits can be consistent with benchmark if they are general
- Capital gains should be taxed on accrual
- Public transfers should be taxed
- The implicit return to owners of home should be included in the taxable income

# Indirect taxation of labour income

- All remunerations for carried out work should be subject to SSC or wage tax
  - SSC on all remunerations which give eligibility in the social security system
  - Wage tax on all other remunerations

# VAT

- **Benchmark: 25 %**
- **Exemptions not considered as tax expenditures:**
  - VAT exemption for rental income from property
  - VAT exemption for financial sector
  - VAT exemption for subsidized goods and services (i.e. public sector)
  - VAT exemption for exercising public authority

# Excise duties

- Only excise duties with large tax bases are reported (“large” =if tax revenues according to norm exceed 1% of total tax revenues)
- And only if a benchmark is possible to define

# Recap: The different benchmarks

Type of tax	Tax according to benchmark
Income taxation	
- Labour income	No single benchmark
- Self employment income	No single benchmark
- Capital income	30 %
SSC and wage taxes	
- Employer SSC	31,42 %
- Self employed SSC	28,97 %
- Wage tax	24,26 %
VAT	25 %
Excise duties	
- Energy tax, electricity	29,3 öre/kWh
- Energy tax, fuel oil	8,2 öre/kWh
- Energy tax, gasoline (miljöklass 1)	34,6 öre/kWh
- Carbon dioxide tax	108 öre/kg CO <sub>2</sub>



# Tax expenditures and fiscal consolidation

- **Report on tax expenditures not to be used as a dictionary for consolidation**
  - Large share of technically motivated tax expenditures
  - Tax expenditures might be economically efficient
  - Reported size of revenue foregone can differ from budget effect of abolishing the expenditure

# Evaluation of tax expenditures

- No systematic evaluation of tax expenditures in general
- Example: Prior to the Swedish VAT reduction for restaurant and catering services in 2012 the Government commissioned several governmental authorities to follow up and evaluate the reform
- Other evaluations: Reduced SSC
- Analysis section in report