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## Summary

Date: 2023-05-15

Reference number: 3.1.1-2022-0212

RiR 2023:10

# Amended income tax rules in 2011– 2023

– reporting to the Riksdag was inadequate

## Summary

The Swedish National Audit Office (Swedish NAO) has audited the most significant changes in income tax rules for earned income implemented in 2011–2023. Overall, the amended tax rules have led to a decrease in income tax by almost SEK 100 billion. According to our calculations, this has led to a more even income distribution and is deemed to lead to higher employment and more hours worked in the long term. This means that the tax reduction is partly self-financing. However, the degree of self-financing is low.

Our overall conclusion is that the Government has provided an incomplete and partly embellished picture of how proposed amendments to income taxation create conditions for a high employment rate, more hours worked and fairly distributed wealth. We are basing this on the shortcomings in the Government's reported impact analyses on the effects of the proposed taxes. These shortcomings have meant that the Riksdag has not had a sufficiently sound basis for its decisions on amended tax rules.

## **Tax reductions of SEK 100 billion lead to higher employment and more event income distribution**

We assess that the tax amendments in 2011–2022 will lead to a higher rate of employment and more hours worked in the long term, corresponding to 30,000

full-time equivalents. This is mainly due to the increases in the earned income tax credit introduced in 2014, 2019 and 2022.

The audit shows that taken together, the tax amendments have led to a decrease in tax revenue by almost SEK 100 billion per year. However, in the long term, the higher rate of employment means that tax revenue will decrease slightly less. The tax amendments have also led to a more even income distribution. However, people with the very lowest incomes have not received the benefits of the tax reductions to the same extent as people with higher incomes.

### **Economic incentives to work have been reinforced by amended tax rules and weakened by higher benefits**

For a long time, wage increases have strengthened the economic incentive to work, compared to not working. The audit shows that the amended tax rules in 2011–2022 have strengthened this effect. The reduction has been greater for the tax on earned income than for the tax on benefits received when not working, with the exception of the tax on sickness compensation and activity compensation. Despite this, the economic incentive to work has not changed dramatically. This is because amended rules in several compensation systems, such as raised compensation in the unemployment insurance and a raised ceiling in the sickness insurance, has counteracted the effect of the wage increases and amended tax rules.

### **The raised basic deduction has made it less profitable to continue working after 65 years**

The tax for people over the age of 65 years has been reduced gradually through increasingly higher basic deduction for older people. The tax reduction has amounted to SEK 40 billion since 2011. The audit shows that the tax reduction has made it less profitable to work another year after 65 years than to retire, especially for middle- and high-income earners. This may have had a negative impact on employment. However, this effect was partially cancelled by the fact that the age limit for the higher basic deduction has been raised from 65 to 66 years. It is not known how much these amendments are affecting the employment rate and the number of hours worked. The audit shows that the Government lacks relevant models for analysing labour supply among older people.

### **Shortcomings in the Government's impact analyses**

The audit shows that there are shortcomings in the Government's impact analyses of the expected effects of the tax proposals on employment, the number of hours worked and income distribution. Proposals that involve higher marginal tax rates

for high-income earners have not been sufficiently analysed; nor have the proposals for reinforcements in the raised basic deduction.

## **Recommendations**

The Swedish NAO makes the following recommendations to the Government:

- Improve the impact analyses in government bills with tax proposals in the following way:
  - Report the effects on employment and the number of hours worked regardless of which direction the effects point.
  - Present qualitative impact assessments in cases where quantitative calculations are not possible.
  - Standardise reporting concerning the distribution effects of the tax proposals by showing the impact on economic standards in different income groups for the whole population.
- Develop a model for calculating the impact on labour supply among older people.