

The RUT deduction for household services

– consequences of the reform

Summary and recommendations

The aims of the deduction for household work (RUT) include increasing the paid work of the buyers of the services and enabling people with short-term education to enter the labour market. The overall conclusion of the Swedish National Audit Office is that the Riksdag's intentions with regard to the deduction have been met to some extent with regard to the increased paid work performed by the purchasers of the services and the opportunity for certain groups to become more firmly attached to the labour market. The audit also shows that the Government's assessment that the deduction for household work is self-financed has little empirical support.

Background

The RUT deduction was introduced on 1 July 2007 and is given in the form of a tax reduction for household services. The tax reduction amounts to 50 per cent of the cost of labour, with a maximum of SEK 50 000 per year.

The RUT deduction has several aims. For example, undeclared work is to be made declarable, women and men are to increase their time in the labour market and more people with short education are to enter the labour market. The Government Bill to introduce the deduction and its consideration by the Riksdag committee highlighted that the deduction was assumed to lead to an increase in earned income and in employment. However, the Government did not assess the impact of these effects on public finances.

At a later stage, the Government returned to the Riksdag with an assessment of the level of self-financing of the deduction. At that time, the deduction was deemed to be self-financing. This means that the reform does not burden public finances, taking into account how taxes and public spending are affected by the impact on employment and earned income.

Since its introduction, the number of people being allowed the deduction and the total amount of the deduction has increased considerably. In 2017, almost 900 000 people were allowed the deduction for a total of SEK 4.6 billion.

Audit findings

Purchasers of RUT services increased their earned income

The use of the deduction is unevenly distributed across households. High income households purchase RUT services to a higher degree than other households. The tenth of households with the highest disposable income accounted for 40 per cent of the total amount of the tax deduction in 2017. Less than half of the total amount of the tax deduction went to families with children, only a few percent to single parents. Just over a quarter went to households categorised as older than 65.

One of the purposes of the deduction is that paid work is to increase as time is freed up for households purchasing the services. The audit examines this by comparing the earned income of different households claiming the deduction for the first time in 2014–2017 with the earned income of similar households which did not claim the deduction. The comparison indicates that there is an average difference in earned income in one of the groups we studied: households with cohabiting couples aged 26–56. These households (which had been allowed a RUT deduction of at least SEK 5 000 during the year) increased on average their accumulated earned income by 2.5 percentage points more than similar households which had not bought any RUT services. This corresponds to approximately SEK 27 000 for an average household. This increase mainly applies to families with children. We do not find a corresponding increase for single persons or people aged over 56.

The result of the comparison must be interpreted with caution. This is partly because we cannot establish a causal link between the purchase of RUT services and increased earned income.

Foreign-born people who performed RUT services strengthened their economic situation and their labour market attachment

The audit shows that many of those who started working in the household services (RUT) sector in 2011–2017 (new RUT workers) were not registered in Sweden on 31 December of the year before entering the sector. We cannot say exactly how many people are involved, but of the new RUT workers we can identify in the statistics, the percentage is in the range of 22–30 and has grown over time. A majority of them were born in an EU country or in another European country. This indicates that many of the new RUT workers were labour immigrants. This was not the Riksdag's declared intention with the RUT reform, instead it was that the new jobs would lead to an increase in employment among people in the Swedish labour market who had difficulties in finding employment.

For new RUT workers who did not come to Sweden directly to enter the RUT sector, we have looked at the development of earned income and employment rate

up to and including 2017. This has been done by comparison with those who did not start working in the RUT sector, but who had a similar background.

The comparison shows that the employment rate, the average earned income and the average disposable income were higher for the foreign-born individuals who took a RUT job than their comparison group. The difference in earned income was the highest in the years after entry into the RUT sector, but gradually declined. The foreign-born individuals who entered the RUT sector in 2011 on average had an earned income in 2017 that was SEK 16 000 higher than that of the comparison group.

The employment rate of people born in Sweden who took a RUT job was also higher than that of their comparison group. On the other hand, there was no difference in average earned income or average disposable income after some years.

Weak empirical support for the Government's assessment that the RUT deduction is self-financed in the long term

The Swedish NAO has audited three central assumptions underpinning the Government's assessment that the RUT is self-financed in the long term.

Firstly, the audit shows that the Government did not use the Swedish Tax Agency's most recent survey of undeclared work and undeclared purchases as a basis for the assessment of the size of the undeclared sector. The Government used an assessment, which was initially based on Danish data, where the undeclared sector for household services was four times higher than the Swedish Tax Agency's survey showed.

Secondly, the Government assumed that half of the time gained by RUT buyers was used for paid work. The Swedish NAO assesses that households use around a quarter of the time gained for paid work.

Thirdly, the Government assumed an increase in tax revenues and a reduction in public sector expenditure as more people obtain their livelihoods through work rather than benefits. The Swedish NAO's audit shows that for those who started working in the RUT sector in 2011-2017, the earned income of foreign-born people increased, but the public finance effect of this is limited. For people born in Sweden, the public finance effect is deemed to be negligible. The audit also indicates that a large proportion of those who started working in the RUT sector were new labour immigrants. The long-term impact on public finances of this labour immigration is difficult to assess.

Taken together, the Swedish NAO is of the opinion that the empirical support for the long-term self-financing of the RUT deduction is weak.

The accuracy of the RUT deduction is low

When the Riksdag decided to introduce the RUT deduction it highlighted the importance of the deduction for increasing paid work and employment. As a consequence, there has been a presumption that the users of RUT services are to a significant extent persons able and willing to do more paid work, but who have difficulty in making time for both household work and more paid work. The accuracy of this is not particularly good. It turns out that 69 per cent of households purchasing RUT services in 2017 did not have any children living at home. It is above all in households with children living at home where time gained through the purchase of household services can be assumed to lead to increased paid work. This assumption is supported by the findings of the audit.

As far as those who work in the RUT sector are concerned, the idea was that people taking RUT jobs were supposed to be people with a weak position in the Swedish labour market. The audit shows that, on average, those who started working in the RUT sector in 2011-2017 were less attached to the labour market than the general population. However, we note that for Swedish-born RUT workers, the earnings trend in the long term was on average the same as for comparable individuals. Of the new RUT workers, around four in ten were born in Sweden. In addition, up to three out of ten were not registered in Sweden in the year before they entered the RUT sector. We believe that many of them are labour immigrants. Thus, a high proportion of those who have started working in the RUT sector have either not been in the target group of the reform or, as a group, have not been advantaged by income from working in the sector. Therefore, even in this regard, it cannot be said that the accuracy is particularly good.

Recommendations

The Swedish NAO makes the following recommendations to the Government:

- Review the calculation of the long-term self-financing rate of the RUT deduction and the long-term effects on employment. This can be reported in the context of the submission to the Riksdag of any proposed changes to the RUT deduction.
- Take into account potential labour immigration in the formulation of measures aimed at increasing employment. This applies in particular to measures aimed at increasing employment rates among individuals with particularly weak attachment to the labour market.