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The Government's Preparation and Statement of Tax Expenditure

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The Government's Preparation and Statement of Tax Expenditure

The Swedish National Audit Office (SNAO) has audited the Government's preparation and statement of tax expenditure for the years 1996-2006. The results of the audit are presented in this detailed audit report. Representatives of the Government Offices have had the opportunity to factually scrutinise the report and otherwise state their views on the draft final report.

The report is submitted to the Government in accordance with section 9 of the Act (2002:1022) on auditing of government activities, etc. A copy of the report is also submitted to the Advisory Board of the SNAO.

Auditor General *Eva Lindström* had decision-making authority in respect of this report. Audit leader *Anneli Josefsson* was responsible for the presentation of the report. The Senior Audit Director, *Tomas Nordström*, and audit directors *Katarina Stenmark* and *Frida Widmalm* assisted in producing the final version of the report.

Eva Lindström　　　　Anneli Josefsson

For the information of:
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Summary

The Government can choose to give support or assistance to businesses and households through different types of allowances, grants or subsidies or through concessions (exemptions and special provisions) in the tax system. Such exemptions and special provisions in the tax system are called tax expenditures. Tax expenditures are the estimated cost to the unrealised tax revenue, which means that this cost is less visible than the cost of other forms of support and allowance.

In connection with the Swedish budget reform which took place in the mid-1990s, the Government established that an important requirement to assist a new, more efficient budget process would be for all exemptions and special provisions resulting in a reduction in revenue to be subjected to equally close scrutiny as the general expenditure appropriations. In order for this to be possible, the support given in the form of tax expenditures must be rendered visible.

Accordingly, since 1996 the Government has compiled an inventory of tax expenditures in a statement of tax expenditure appended to the Spring Fiscal Policy Bill. The objective of the statement is both to render visible the indirect support entailed by the tax expenditures and to provide a foundation for prioritising between different types of support.

In the 2006 statement, support in the form of tax expenditures is estimated at approximately 12 per cent of the total tax revenue, or approximately SEK 170 billion. So the tax expenditures amount to significant sums. At the same time, tax expenditures do not compete for scope in the budget in the same way as general expenditure appropriations. Nor are tax expenditures scrutinised and evaluated with the same regularity as general expenditure appropriations.

Since tax expenditures entail lower tax revenues, they have the same effect on the balance of the central government budget as support on the expenditure side of the budget. With the aim of maintaining good budgetary discipline, there is thus reason to set equally strict requirements for the preparation and accounting for new and existing tax expenditures as for the preparation and accounting for expenditure appropriations.

Against this background, SNAO has formulated the following audit questions:

1. Has the Government prepared and accounted for satisfactory documentation prior to decisions on new tax expenditures?
2. Does the Government's statement of tax expenditure provide adequate documentation for on-going scrutiny of the same kind as the scrutiny of the general expenditures/appropriations on the expenditure side of the central government budget?

These audit questions are based on the Government's preparation for the introduction of a new tax expenditure and the Government's on-going accounting for and follow-up of existing tax expenditures. The requirements against which SNAO assessed the audit questions follow from the objective of the Government's statement of tax expenditure and from international recommendations. This means that the supporting documentation must be transparent and comprehensible. New tax expenditures should compete for scope in the budget in the same way as expenditure appropriations, and accounting for existing tax expenditures should function as the basis for public policy priorities, follow-up and control.

Since the audit comprises the Government's statement of tax expenditure for 1996-2006, it is in all essentials the work of the previous Government which SNAO has audited.

The conclusions of SNAO

Deficiencies of fiscal transparency and fitness for purpose in the tax expenditure statement

In SNAO's opinion, the Government's statement of tax expenditure does not fulfil the basic requirement for fiscal transparency in the annual budget process. The statement of tax expenditure is extensive but not easy to take in. The description of individual tax expenditures is technical, the objective of the tax expenditure is seldom stated, and there are no references to sections of law or preparatory works to laws.

The Government has also omitted to carry out a full review of tax legislation in order to identify tax expenditures. Variations in the number of tax expenditures in different years may therefore equally well derive from changed accounting principles as from new tax expenditures being added or removed.

The accounting principles and calculation methods on which the tax expenditure statement is based are theoretically deduced but not adapted to provide a basis for on-going scrutiny between different types of support. As a result, many less relevant tax expenditures are accounted for, but also the cost of many tax expenditures which it is relevant to account for cannot be estimated. SNAO has also observed that the underlying principles for the accounting have changed over the years without this being commented on in any clear way.

The statement of tax expenditure is a report on measures already decided

The statement of tax expenditure is a document which reports on existing support and measures, but which does not result in tax expenditures being followed up in any systematic fashion.

Despite the Government's ambition to incorporate tax expenditures in the accounting for results or performance review in the Budget Bill, there are few tax expenditures which are actually followed up within this framework. Since the statement of tax expenditure has no direct connection with the annual budget process, it does not function either as a decision-making basis for budgeting for future measures.

Insuffient scrutiny prior to decisions on new tax expenditure

It is also the general opinion of SNAO that the Government's preparation and statement of new tax expenditures does not result in a body of documentation which sheds sufficient light on all the relevant consequences prior to a budget decision. The documentation which is prepared and accounted for cannot, therefore, be regarded as satisfactory. Among other things, this is because the annual budget process is primarily designed to handle adjustments on the expenditure side.

The Government rarely puts forward proposals for how the introduction of a new tax expenditure will be financed, which means that tax expenditures are not scrutinised as closely as expenditure appropriations. In some cases the Government has not estimated the cost of tax expenditures in the budget. As proposals which have not been estimated cannot be debated in the Budget Bill but in a separate bill apart from the budget preparation, there is a risk that this will have a negative effect on budget discipline.

New tax expenditures are introduced for many different reasons. It is however unusual to find alternative solutions for achieving the same objective in the decision-making documentation on which new tax expenditure proposals are based. The scope of new tax expenditures is also difficult to predict. SNAO is thus able to observe that tax expenditures resemble the open-ended appropriations which were used previously for the concession systems on the expenditure side of the central government budget.

The recommendations of SNAO

SNAO considers that the Government's statement of tax expenditure has an important function to fulfil. The connection between the annual budget process and the preparation and statement of tax expenditure does however need to be looked over. Against this background, SNAO recommends that:

The Government should initiate an overhaul of the statement of tax expenditure

The Government should initiate an overhaul of the statement of tax expenditure in order to make it more fiscally transparent and fit for purpose.

In order for the statement to be more fiscally transparent, it should contain a statement of the objective of each tax expenditure accounted for as well as references to sections of law or preparatory works to laws. Estimations and assessments should be explained more clearly and references to sources of data should be provided. Any changes in accounting principles, calculation methods or similar must be explained and the reason for the change given.

It is also important that new or relatively new tax expenditures and such tax expenditures which have existed for a long period of time should be reported separately. This is so as to make more clear the development of tax expenditures over time. In order to make the statement more fit for purpose, the underlying accounting principles and calculation methods need to be reviewed and made clearer. The statement should also be updated to ensure that all relevant tax expenditures are included. This means that a new review of the tax legislation needs to be made, similar to the one which formed the basis for the Committee Report ”Concessions and sanctions – an overall account”.[1]

In order for the statement of tax expenditures to form the basis for the work on the annual budget, it should focus in all essentials on tax expenditures which are an alternative to support on the expenditure side of the budget. It would then not be necessary to convert tax expenditures to taxable allowances. Instead, the estimation of the cost of tax expenditures should as far as possible capture the liquid budgetary effects of the tax expenditures.

The Government should scrutinise new tax expenditures against a number of predetermined criteria

Tax expenditures are not fully integrated in the budget process in the same way as general expenditures. This is primarily due to the fact that tax expenditures are not covered by any budgetary restrictions. The measures which

1 Swedish Government Official Reports (SOU) 1995:36.

have been discussed, both national and international[2], to further integrate tax expenditures in the budget preparation process, are to incorporate tax expenditures under the expenditure ceiling, to create a separate ceiling for new tax expenditures, or to draw up a number of criteria against which new tax expenditures should be weighed before they are introduced – in other words a tax expenditure checklist.

To incorporate new tax expenditures under the expenditure ceiling or a separate ”tax expenditure ceiling" requires better documentation for estimating the budgetary effects of tax expenditures. Bearing in mind that the budgetary effects of tax expenditures are the estimated costs to unrealised tax revenue and that not all tax expenditures have an outcome, it is not always possible to produce such documentation. A first and alternative step towards improving the documentation when preparing a new tax expenditure should therefore be to scrutinise each new tax expenditure against a number of predetermined criteria. This is the method advocated in the international recommendations on which SNAO has based its work in this audit. Examples of relevant and possible criteria are:

1. Which problem needs to be addressed?
2. Has the problem any connection with the Government's overall policy priorities?
3. Is it possible to show that a measure/intervention is necessary?
4. What is the most effective way of solving the problem?
   Can a tax expenditure be shown to be more effective than a measure via the expenditure side?
5. What are the budgetary effects of the tax expenditure? What socioeconomic effects can the tax expenditure be assumed to bring about?
6. Is it possible to ensure adequate follow-up of the tax expenditure?

New tax expenditures should be scrutinised against these criteria in connection with the Government's internal preparation of new tax proposals and should be acounted for in the decision-making documentation which the Government submits to the Riksdag (Swedish Parliament).

The Government should consider how tax expenditures should be handled within the fiscal policy framework

Allowing new tax expenditures to be scrutinised against a number of qualitative criteria according to the above can be seen as a first step towards better integration of tax expenditures in the budget preparation process. In order

2 See Boije, R. (2002), Bör skatteavvikelser integreras i budgetprocessen? (Should tax deviations be integrated in the budget process?) and Brixi, H. P. et.al (2004), Tax Expenditures – Shedding Light on Government Spending through the Tax System.

to maintain good budget discipline it is however inmportant that the handling of measures on the expenditure and revenue sides of the budget should be reasonably symmetrical. The Government should therefore consider how tax expenditure should be handled within the fiscal policy framework.

1 Why audit tax expenditure?

1.1 Background

The Government can choose to give support or assistance to businesses and households through direct forms of support or through concessions in the form of exemptions and special provisions in the tax system. Such exemptions and special provisions in the tax system are called tax expenditures.

The difference between support in the form of allowances, grants or subsidies and support in the form of tax expenditures is that the recipients of tax expenditures pay less tax instead of receiving a cash payment or allowance from the Government. For example, lower value-added tax (VAT) on foodstuffs means a reduction in household expediture on food. As an alternative to lower VAT on food, the Government could instead distribute a "food allowance". Another example is that of child allowance, which could be replaced by a reduction in tax or a tax deduction which would have the same effect on household income as the current child allowance. Irrespective of which form of support the Government chooses (allowances or concessions in the tax system) the objective of the support can be the same.

There is however a difference in how the two forms of support are accounted for in the central government budget. Support in the form of allowances to households and businesses is accounted for as appropriations on the expenditure side of the budget and is distributed over different areas of use, so-called "expenditure areas".[3] The revenue side of the central government budget is, on the other hand, a projection of how large amounts of revenue are expected to flow in during the budget year as a result of the tax provisions which apply. This means that support in the form of tax expenditures is not shown in the accounting for the central government budget. While the tax expenditures do of course reduce the total tax revenue, it is not shown by what amount or for what purpose.

In connection with the Swedish budget reform which took place in the mid-1990s, the Government established that an important requirement to assist a new, more efficient budget process would be for all exemptions and special provisions resulting in a reduction in revenue to be subjected to equally close scrutiny as the general expenditure appropriations. In order for

3 The central government budget is divided into 27 expenditure areas, and each expenditure area corresponds to a specific area of use for the central government budget. See Appendix 1 for an explanation of terms and definitions used in the report.

this to be possible, the support given in the form of tax expenditures must be rendered visible.

Accordingly, since 1996 the Government has compiled an inventory of tax expenditures in a statement of tax expenditures appended to the Spring Fiscal Policy Bill.[4] The objective of the statement is both to render visible the indirect support which tax expenditures entail and to provide a foundation for prioritising between different types of support.

1.2 Reasons for the audit

In the statement of tax expenditure[5] for 2006, the Government estimated that support in the form of tax expenditures amounted to approximately 12 per cent of the total tax revenue for the year 2006, which is approximately SEK 170 billion.[6] In comparison, the Government's combined spending on labour market policy initiatives and on the educational and study support system amounted to about SEK 130 billion in total for the same year.

In a preliminary study to this audit report and in previous SNAO reports[7], we have identified a number of risks and problems relating to tax expenditure and to the accounting for tax expenditure. Taken together, these risks and problems can affect public finances, budget discipline and fiscal transparency[8] in the central government budget.

1.2.1 *Rapid increase in certain tax expenditures*

The tax expenditures amount to a considerable sum, and certain types of tax expenditure have also increased rapidly in the past few years. Since tax expenditures result in lower tax revenue, they have the same impact on the public finances as support on the expenditure side. In other words, the more tax expenditures there are, and larger the amounts, the higher other taxes must be in order to finance a given level of public spending.[9] However, this should not be interpreted as meaning that there can be no good reason for giving support in the form of tax expenditures, but that there is also a cost associated with tax expenditures which is not as visible as with other types of support.

4 The background for the statement can also be derived from a declaration from the Riksdag concerning the need to map government subsidies. See Committee Report FiU 1990/91:30, Riksdag Communication 1990/91:386.
5 Government Bill 2005/06:100, 2006 Spring Fiscal Policy Bill, Appendix 2, p. 6.
6 The estimate includes all tax expenditures which the Government has distributed over the various policy areas. See Chapter 2 for a more detailed description of the tax expenditures in the Government's statement.
7 SNAO 2004:26, Expenditure or income deduction? – The Government's handling of the temporary employment subsidies (SNAO 2004:26) and SNAO's annual reports for 2005 and 2006.
8 Tax expenditures can be viewed as an exemption from the principle of gross accounting laid down in the Budget Act (Act [1996:1059] on the Central Government Budget). The way in which accounting for tax expenditure is done is therefore vital for fiscal transparency in the central government budget. Taking as our point of departure the IMF's Manual on Fiscal Transparency (see Appendix 2), a transparent accounting of tax expenditure can be defined as an open and public accounting for the objective, implementation and effects of tax expenditure.
9 This is because the primary task of the tax system is to finance public spending.

1.2.2 *Weaker scrutiny and follow-up*

There is nevertheless a difference in how the Government handles support on the revenue and expenditure sides respectively of the central government budget. Tax expenditures do not usually compete for scope in the budget in the same way as general expenditures. This is partly because tax expenditures are not covered by the budget's expenditure ceiling.

For this reason, tax expenditures are not scrutinised and evaluated with the same regularity as general expenditures.

Tax expenditures are also special provisions in the tax system. This means that a change in the tax legislation is required in order to introduce, change or remove a tax expenditure. Once a special provision in the tax system has come into force, it applies until it is expressly abolished (unless it is time-limited from the start). There is thus a risk that tax expenditures will exist long after they have played their part and that they will grow automatically at a pace with taxable income.

1.3 Audit questions

The risks and problems we have outlined mean that certain requirements should be set in relation to the documentation produced prior to the decision to introduce a new tax expenditure and to the accounting for existing tax expenditures. Our audit will therefore be directed at analysing both the Government's budgeting as well as its accounting for tax expenditure. The overarching audit questions take their point of departure in the Government's preparations for the introduction of a new tax expenditure (ex ante) and the continuous reporting and follow-up of tax expenditures which have already been decided (ex post). The overarching audit questions are:

1. Has the Government prepared and accounted for satisfactory documentation prior to decisions on new tax expenditures?
2. Does the Government's statement of tax expenditure provide adequate documentation for on-going scrutiny of the same kind as the scrutiny of the general expenditures/appropriations on the expenditure side of the central government budget?

1.4 Assessment criteria

The criteria against which we assess the audit questions are based on the main objective of the statement of tax expenditure, which is to render tax expenditures visible and to provide a basis of documentation for public policy priorities in a similar way as on the expenditure side of the central government budget. The criteria are also based on the international recommendations in the area.

In connection with the reform of the annual budget process, the Government established that an important requirement to assist a new, more efficient budget process would be for all special provisions resulting in a reduction in revenue to be scrutinised as closely as the general expenditure appropriations. Since tax expenditures could also be regarded as a form of net accounting[10] it was important for them to be rendered visible. The Government therefore declared it as its intention to continue to provide an inventory of tax expenditures in the Spring Fiscal Policy Bills.[11] According to the Government's most recent statement from 2006,[12] the objective of the tax expenditure statement is to render visible the indirect support which tax expenditures represent on the revenue side of the central government budget, in order to provide the documentation for prioritising different types of support. A more comprehensive account of the objective of the statement is to be found in the first statement of tax expenditure from1996.[13]

Since tax expenditures are the estimated cost to the unrealised tax revenue, this cost is less visible than the cost of ordinary support and allowances or grants. Therefore, an important starting point is that both the documentation for making decisions on new tax expenditures, and the accounting for and follow-up of existing tax expenditures, should be transparent.

Based on the experience of different countries with regard to budgeting and accounting for tax expenditure, a number of recommendations have been drawn up by the OECD, the IMF and the World Bank with the aim of ensuring transparent budget accounting.[14] These international recommendations mean among other things that accounting for major tax expenditures should always be included in the Government's budget document as a basis for public policy priorities, that the statement of main central government tax expenditures should contain the objective of each tax expenditure, and references to preparatory works to laws and sections of laws, and that the duration and presumed effect of the tax expenditure should be evident. If possible, the cost of major tax expenditures should also be estimated.

Tax expenditures affect the public finances in the same way as support on the expenditure side of the central government budget. With the aim of maintaining good budget discipline, there is thus reason to set equally strict requirements for the preparation and accounting for new and existing tax expenditures as for the preparation and accounting for expenditure appro-

10 Net accounting means that revenue accounted for has been reduced by deductions or items which can be regarded as expenditure.
11 Government Bill 1995/96:220, The Budget Act, p. 44.
12 Government Bill 2005/06:100, 2006 Spring Fiscal Policy Bill, Appendix 2, p. 5.
13 Government Bill 1995/96:150, Spring Fiscal Policy Bill with proposed guidelines for fiscal policy, the expenditure ceiling, and changed appropriations for the 1995/96 budget year, etc., Appendix 4.
14 An account of these international recommendations can be found in Appendix 2.

priations. This has been expressed in the international recommendations as the cost of new tax expenditures competing for scope in the annual budget in the same way as the cost of general expenditures. Before the Government proposes a new tax expenditure, therefore, it should also clearly state the reason for the tax expenditure and account for how well this agrees with the Government's overall policy priorities. Furthermore, the tax expenditure should be compared with alternative measures which could achieve the same aim.

1.5 Implementation of the audit

In order to answer audit question 1 (Has the Government prepared and accounted for satisfactory documentation prior to decisions on new tax expenditures?), we have audited the

Government's preparation and accounting for the documentation which forms the basis for the Riksdag's decisions on new tax expenditure.

In order to answer audit question 2 (Does the Government's statement of tax expenditure provide adequate documentation for on-going scrutiny of the same kind as the scrutiny of the general expenditures/appropriations on the expenditure side of the central government budget?), we have audited the Government's statement of tax expenditure and also the accounting principles and calculation methods on which it is based. We have also audited how the Government follows up tax expenditures, both during current years and within the framework for the scrutiny of the annual budget.

The starting point for the audit is the Government's statements of tax expenditure in the appendices to the Spring Fiscal Policy Bills from 1996 to 2006. Taken together, this comprises approximately 140–175 tax expenditures per year.[15] However, not all the tax expenditures will be dealt with in all parts of the audit.

Most of the tax expenditures in the Government's statement have been in existence for a long time. In audit question 1, we have therefore limited our examination to those tax expenditures which have been added since 1997 and to the tax expenditures where we have identified the occurrence of major changes in legislation.[16] We have used the same sample to scrutinise the follow-up of tax expenditures in audit question 2. In all, this means that we have given greater attention to some 50 tax expenditures in these parts of the audit. An inventory of the tax expenditures involved is provided in Appendix 5.

15 The number of tax expenditures has varied over the years as a result of old tax expenditures being removed and new ones being added. The 2006 statement comprised 175 tax expenditures.

16 The reason for this sample is that a new central government budget process was introduced in 1997. It is of less interest for our part to scrutinise how new tax expenditures were handled in the old budget process.

Other parts of the audit comprise the entire Government statement of tax expenditure. We have not however scrutinised each individual tax expenditure separately but focused on the totality in the statement and on the underlying accounting principles and methods of calculation used.

The audit builds mostly on studies of public documents, such as parliamentary publications, and reports by commissions or committees of inquiry, and on relevant international literature within the area, but also on interviews with civil servants from the Government Offices. We have also reviewed the so-called "budget circulars", which are the Government Offices' internal instructions for the preparation of proposals which affect the central government budget.

1.6 Delimitations

In this audit we have limited ourselves to scrutinising the Government's preparation and statement of tax expenditure from a budget perspective, in other words we have looked at how tax expenditures are handled in the central government budget and in the budget process. We have thus not examined how the tax system is affected by tax expenditures, the distribution effects the tax expenditures have, or what effect they have on the way the economy functions. The chief reason for these delimitations is that the prime objective of the Government's statement of tax expenditure is to render tax expenditures visible, in order to provide a better basis of documentation for policy priorities in the budget work.

Since the starting point for our audit is the Government's statement of tax expenditure in the Spring Fiscal Policy Bills from 1996 to 2006, as well as such tax expenditures that have been added since 1997, it is in all essentials the work of the previous Government which we have audited.

1.7 Organisation of the audit report

In Chapter 2, we describe and explain the term "tax expenditure" and other key terms of importance for the audit. This chapter also contains a description of the Government's statement of tax expenditure, the objective of the statement, and the underlying accounting principles. We conclude Chapter 2 with a description of the decision-making processes for government expenditure and revenue. In Chapters 3 and 4 we consider the Government's preparation, accounting and follow-up of new and existing tax expenditures and give an account of our observations and assessments in conjuction with the audit questions. Chapter 5 contains our conclusions and recommendations.

The questions we discuss in this report are of a technical nature. Accordingly, in Appendix 1 we include a glossary with terms and definitions which appear in the report. In Appendix 2 we summarise the international recommendations drawn up by the OECD, the IMF and the World Bank which deal with accounting for tax expenditure. Appendix 3 contains a summary of the "tax norms" or benchmark tax used by the Government to identify tax expenditures. In this appendix we also reproduce the tax norm for income tax in its entirety, as set out in the Committee Report "Concessions and sanctions – an overall account"[17]. Appendix 4 contains a detailed description of the decision-making processes for government revenue and expenditure and the financing principles the Government uses in its own internal budget preparations. Finally, in Appendix 5 we provide an inventory of the approximately 50 tax expenditures which we have subjected to more careful review.

17 Swedish Government Official Reports (SOU) 1995:36.

2 Tax expenditure from different perspectives

In this chapter we explain what tax expenditure[18] is and also the meaning of some key terms connected with tax expenditure. Further, we describe the Government's statement of tax expenditure, the objective of the statement and its underlying accounting principles. We conclude with a description of the decision-making processes for government revenue and expenditure.

2.1 What is a tax expenditure?

A tax expenditure is a concession (an exemption or special provision) in the tax system, which is given to certain groups of taxpayers or is paid to recipients for certain types of economic activity. The term "tax expenditure" comes from the fact that its objective could be equally well achieved through support and allowances or grants on the expenditure side of the central government budget (instead of special provisions in the tax system), but also because a tax expenditure has the same effect on the budget as a general expenditure.

In practice, tax expenditure is defined in a two-step process. In the first step, it is decided which piece of tax legislation or tax structure will be regarded as constituting the "tax norm" or benchmark tax in the tax system. In the next step, deviations are identified in relation to this tax norm. It is then these deviations which make up the actual tax expenditures.[19] If we take value-added tax (VAT) as an example and define a tax rate of 25 per cent as the tax norm, all deviations in relation to the tax norm will be defined as tax expenditures, such as the reduced VAT on food, books and passenger transport.

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18 There is no exact or universal definition of the term "tax expenditure". This has not prevented the development of international agreement or practice as regards certain basic criteria for what constitutes a tax expenditure and how a tax expenditure can be estimated. For a more detailed survey, see OECD (2004), Off-budget and Tax Expenditures, Brixi, H. P. et al. (2004), Tax Expenditures – Shedding Light on Government Spending through the Tax System, and Valenduc, C. (2006), Tax Expenditure Reporting and Effectiveness Analysis.

19 A special provision in the Swedish tax system can either be regarded as a tax expenditure or as part of the tax norm. This means that there may be special provisions which are not tax expenditures. Such special provisions have normally arisen for practical and administrative reasons or to enhance the legitimacy of the tax system. For example, the value of voluntary work is exempt from tax in many countries, including Sweden, without it being regarded as a tax expenditure.

Not all tax expenditures necessarily imply an advantage or benefit for those who are liable to the tax. On the contrary, certain tax expenditures involve levying tax at a higher rate instead of providing tax relief in relation to the tax norm. These tax expenditures are called tax sanctions and can be placed on a par with an extra tax or a negative allowance. One example of a tax sanction in the Swedish statement of tax expenditure is the nuclear power tax.

2.2 The tax norm and the objective of the tax expenditure statement

It is not clearly evident which tax norm should be used to identify tax expenditures. The norm need not be based on how an ideal tax system should be, but can be formulated quite pragmatically. For example, the tax norm can consist of the tax provisions for a certain year or build on a tax system with uniform tax rates.

By extension, it is the objective of the tax expenditure statement which governs the choice of tax norm. If the objective is to map tax expenditures from an effectiveness perspective, one would normally apply a tax norm which indicates what an ideal (normative) tax system should look like. If, instead, the objective is to map the effect of tax expenditures on the central government budget, one could use a more pragmatic tax norm, for example the tax provisions in a certain year.

Different choices of tax norm will result in different tax expenditures. The choice of tax norm therefore plays a decisive role with regard to which tax expenditures will be accounted for, but also for the assessment of their size.

2.3 The Swedish statement of tax expenditure

Since the spring of 1996, the Government has accounted for tax expenditure in a statement of tax expenditure provided in an appendix[20] to the Spring Fiscal Policy Bill. The background for the statement is found in a declaration from the Riksdag concerning the need to map government subsidies.[21] The statement builds mainly on the report from the Committee of Inquiry on Government Subsidies.[22] Guided by the estimations in the Spring Fiscal Policy Bill, the Government also accounts in the Budget Bill for tax expenditure broken down into different expenditure areas. Since 2004 this accounting for tax expenditure has also been broken down into different policy areas.

20 The Appendix is entitled "Statement of Tax Expenditure".
21 Committee Report 1990/91:FiU30, Riksdag Communication 1990/91:386.
22 Swedish Government Official Reports (SOU) 1995:36, Förmåner och sanktioner – en samlad redovisning (Concessions and sanctions – an overall account). An important document for the work on this committee report was provided by the official Government Offices publication Ds 1992:6 "Skatteförmåner och andra särregler i inkomst-och mervärdesskatten" (Tax concessions and other special provisions in income tax and value-added tax). Ds 1992:6 contained a first attempt at a Swedish statement of tax expenditure.

2.3.1 *The principle of uniformity – the Swedish tax norm*

The overall tax norm[23] in the Government's statement of tax expenditure is the "principle of uniformity", which was one of the fundamental principles in the 1990 tax reform. According to the principle of uniformity, economic activities of a similar nature should be subject to uniform tax provisions. The tax system should neither favour nor disfavour certain economic activities or taxpayers.[24]

In the tax expenditure statement, and based on the principle of uniformity, the Government has specified a tax norm for each and every category of tax in the case of income tax, indirect tax on assessed income from work, value-added tax and excise duties. The interpretation of the principle of uniformity thus applied by the Government implies that the taxation within the different categories of tax should be uniform and without exemptions.

The basic work of outlining the principle of uniformity for income tax and value-added tax was done in an ESO report[25], "Tax concessions and other special provisions in income tax and value-added tax"[26]. The Committee of Inquiry on Government Subsidies[27] took up where the ESO report left off by drawing up proposals for tax norms for social security contributions and excise duties based on the principle of uniformity.

The Government provides a clear description of the various tax norms in the tax expenditure statement. For a more exhaustive description of the tax norms, the Government refers to the Committee Report "Concessions and sanctions – an overall account" and to the 1997 Spring Fiscal Policy Bill.

2.3.2 *The structure of the Government's statement of tax expenditure*

The Government's statements of tax expenditure in the Spring Fiscal Policy Bills has been organised in approximately the same way since the first statement in 1996. The Government starts by giving a brief description of the tax norm for each category of tax and of the methods of calculation and other overall accounting principles used. Thereafter all the tax expenditures are listed in a table which is sorted chiefly according to tax category (income tax, indirect tax on assessed income from work, value-added tax, excise duty, tax reductions/deductions, tax account credits, tax liability and tax sanctions). The tax expenditures which can be connected with any public policy area also have a designation stating to which expenditure and policy areas they belong.

23 For a more detailed description of the Swedish tax norm, see Appendix 3.
24 For a description of the principle of uniformity, see Rabe, G. and Melbi, I. (2006), Det svenska tax systemet (The Swedish Tax System), p. 40 f, and Lodin, S-O. et.al (2005), Inkomstskatt – en läro-och handbok i skatterätt, (Income Tax – A Textbook and Manual of Tax Law) p. 36 f.
25 An ESO report is a report drawn up by the Expert Group for Fiscal Studies (ESO).
26 Ds 1992:36.
27 Swedish Government Official Reports (SOU) 1995:36, Förmåner och sanktioner – en samlad redovisning (Concessions and sanctions – an overall account).

Statement by category of tax

The statement of tax expenditure is broken down into categories of tax. Within each category there is a further breakdown under a number of different headings.

- Tax expenditure within the sphere of income tax is accounted for according to the division into types of income provided in the tax legislation, that is to say income from services, income from business activities, and investment income. Each type of income is in turn broken down into income and costs.
- Tax expenditure within the sphere of indirect tax on assessed income from work is accounted for by being divided into social security contributions (i.e. employers' social security contributions and social security contributions for the self-employed) and special wage.
- Tax expenditure within the sphere of value-added tax includes exemptions from liability to tax, reduced tax rates, differing accounting periods and deductions for input VAT.
- Tax expenditure within the sphere of excise duties is accounted for divided into energy tax and CO2 tax.
- Tax reductions, exemptions from tax liability and tax sanctions have separate headings in the statement of tax expenditure.

The statement of tax expenditure also contains a special heading with tax expenditure in the form of tax account credits[28]. In most cases, tax account credits have no connection with the tax base or the tax system.[29] Accordingly, they do not represent any deviation from the tax norm and cannot therefore be regarded as a tax expenditure. Instead, they concern expenditure which is financed on the revenue side of the central government budget. Examples include investment support for direct-acting electric heating in dwelling houses, employment subsidies for the long-term sick, and temporary employment subsidies to municipalities and county councils.

Statement based on the tax expenditures' effect on the central government budget

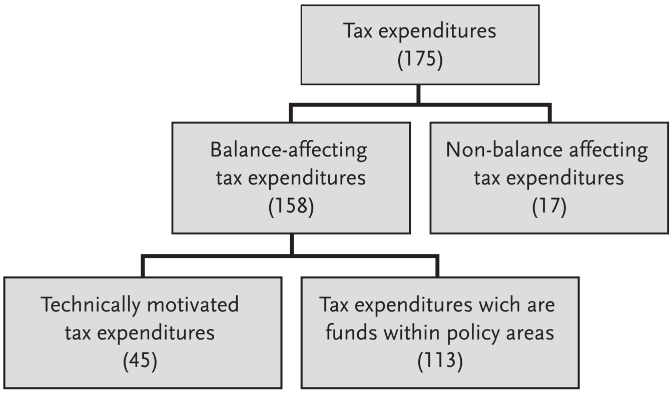
The statement of tax expenditure broken down into categories of tax comprises all the deviations from the theoretical tax norm which the Government has identified. Parallel with the breakdown into categories of tax, the Govern-

28 All physical and legal persons who are liable to pay some form of tax or charge have a tax account with the Swedish Tax Agency. Support in the form of tax account credits means that the recipient of the support has this put into his or her tax account.

29 In Government Bill 2006/07:1, The Budget Bill 2007, the Government proposed that tax account credits should have a separate income group, income group 8000 Expenditures given as tax account credits. Tax account credits will thus no longer be accounted for under income group 1000 Taxes in the central government budget. Committee Report 2006/07:FiU1, Riksdag Communication 2006/07:9.

ment divides the tax expenditures into different groups according to what effect they have on the balance of the central government budget and how well they can be classed in the same category with support on the budget's expenditure side. This means that they are divided into tax expenditures which affect the budget balance and tax expenditures which do not affect the budget balance, as well as technically motivated tax expenditures and tax expenditures which are funds within specific policy areas. Figure 1 below shows a diagram of tax expenditure accounting broken down in this way. The figures in parentheses show the number of tax expenditures within the respective groups in the 2006 Statement.

Figure 1. Diagram of tax expenditure accounting based on the effect of tax expenditures on the central government budget.



Source: 2006 Statement of Tax Expenditure.

Figure 1 shows that most tax expenditures belong to the group of "balance-affecting tax expenditures" which affect the balance of the budget. The tax expenditures which are funds within specific policy areas all have a connection to an expenditure and policy area in the budget. In the tax expenditure statement these are accordingly classed in the same category with support on the budget's expenditure side. The so-called "technically motivated tax expenditures" have no direct connection with any policy area and are not therefore classed in the same category as support on the budget's expenditure side. Instead, the tehcnically motivated tax expenditures have their basis in objectives within the tax system, such as simplicity and legitimacy, administrative objectives or purely distributional objectives. The statement of tax expenditure also contains tax expenditures which do not affect the balance of the budget ("non-balance affecting tax expenditures"). These are made up of wholly or partially tax-exempt public transfer payments, such as child allowance, housing allowance and study grants. That these are included in the statement of tax expenditure is owing to the fact that, according to the tax norm for income tax, all income must be taxed equally. That means that public transfers must also be taxed. As a large portion of the public transfers are tax-exempt, a number of tax expenditures arise more or less automatically.

The term "non-balance affecting tax expenditure" comes from the fact that the balance on the central government budget is not affected if any of these tax expenditures are abolished, provided that the allowance that the beneficiaries receive is unchanged. If, for example, child allowance were to become liable to tax, the Government would need to pay out a bit more in child allowance in order for families with children to receive as much allowance in cash after tax as they received before the child allowance was taxable. At the same time, the Government would get back a portion of the allowance it had paid, in the form of tax. The result would be a zero-sum game where it would have no effect on the balance of the budget whether the child allowance was taxed or not.

2.3.3 *Estimation of tax expenditure*

Tax expenditure involves both a loss of revenue for the Government and concessions for certain taxpayers. Depending on what one wishes to focus on, tax expenditures can thus be measured in different ways. Internationally, there are two methods in particular which are generally used to estimate the cost of tax expenditure:these are the revenue forgone method and the outlay equivalent method.[30]

In the Swedish statement of tax expenditure, the Government uses the terms net estimated and gross estimated tax expenditures. The net estimated tax expenditures are calculated according to the revenue forgone method, while the outlay equivalent method is used to calculate gross estimated tax expenditures. Below, we describe the two methods used to estimate tax expenditure.

The revenue forgone method estimates the loss of revenue which arises because of the tax expenditure. The loss of revenue is estimated by comparing the tax revenue under the current tax legislation (including the relevant tax expenditure) with an estimate of the tax revenue that the Government would have received if the tax expenditure had not existed. The method is static and does not take into account changes in behaviour among taxpayers. Most countries which account for tax expenditure employ the revenue forgone method.

The outlay equivalent method provides an answer as to how large a taxa-

30 There is also a third method for estimating tax expenditure – the revenue gain method. This method measures the additional tax revenue which the Government would be able to take in if the tax expenditures were removed. The difference from the revenue forgone method is that the revenue gain method takes account of changes of behaviour among taxpayers when a tax expenditure is abolished. As a result of the difficulties involved in estimating behavioural changes, this method is not particularly common.

ble allowance the Government must give to the taxpayer in order for his income after tax to remain unchanged if the tax expenditure is abolished. With this method, the loss of revenue which arises as a result of the tax expenditure (and which has been calculated in accordance with the revenue forgone method above) is recalculated to a taxable allowance. If, for example, we assume that a tax expenditure results in a loss of revenue of SEK 100, this is the Government's loss of revenue as a result of the tax expenditure. But it is also the amount by which the taxpayer's income is strengthened after tax as a result of the tax expenditure. If, instead, we convert the tax expenditure into a taxable allowance, it must be recalculated at the current rate of tax in order for the taxpayer to receive just as much money after tax as before the tax expenditure was converted. The purpose of the conversion is to make the tax expenditure comparable with taxable transfers on the expenditure side of the central government budget.

In Table 1, we show the tax expenditures in the Government's statement of tax expenditure estimated according to the two methods above, as well as the proportion of tax revenue for the respective categories of tax.[31]

Table 1. The tax expenditures in the Government's statement of tax expenditure.

	Gross estimated tax expenditure (outlay equivalent method) SEKbn	Net estimated tax expenditure (revenue forgone method) SEKbn	Net estimated tax expenditure as a percentage (%) of tax revenue
Income tax	66	44	7
Indirect tax on assessed income from work	12	9	2
Value-added tax	53	38	14
Excise duty	59	42	38
Tax liability	0	0	-
Tax reductions	7	4	0*
Tax account credits	23	20	1*
Tax sanctions	-32	-23	-2*
Non-taxable allowances	36	-	-
Total**	223	134	9*

Source: Government Bill 2005/06:100, 2006 Spring Fiscal Policy Bill.

** In per cent of the total tax revenue for 2006.*

*** The estimation of tax expenditure to which we refer in section 1.1 above (SEK 170 billion) is based on the outlay equivalent method and only refers to tax expenditures which are funds within specific policy areas (i.e. excluding technically motivated tax expenditures and non-taxable allowances).*

31 In practice, tax expenditure is estimated separately. A summation of tax expenditure thus entails an overestimation of the actual revenue forgone. The figures in the table should therefore be interpreted with caution.

It is evident from the table above that the estimation of tax expenditures differs considerably depending on which method is used. To our knowledge, it is only Sweden and the USA which account for tax expenditure estimated according to both the revenue forgone method and the outlay equivalent method.

2.4 Decision-making processes for government expenditure and revenue

Tax expenditures affect the balance on the central government budget in the same way as general expenditure appropriations. There are however differences in how tax expenditures and other general expenditures are prepared and decided.[32]

Tax expenditures require legislation since they constitute special provisions in the tax legislation. The Riksdag takes decisions on all new legislation. The legislative process normally begins with the Government taking the initiative to introduce new legislation, continues with the Riksdag debating the matter and deciding on it, and ends with the Government executing the decision.

Decisions relating to government expenditure do not require legislation but are prepared as part of the annual budget process. The provisions governing the preparation of the Government's draft budget are laid down in the Instrument of Government and in the Riksdag Act. Since 1997 there have also been budget policy targets in the form of an expenditure ceiling for the Government and a surplus target for public sector finances approved by the Riksdag. The budget policy targets govern the budget work. The internal budget preparations done by the Government Offices are also governed by a number of principles for financing expenditure increases and revenue reductions. These financing principles have no formal status but apply as long as the Government does not decide to depart from them.

The Riksdag makes decisions on government expenditure and revenue in the central government budget. The decision-making system adopted by the Riksdag when considering the Government's draft budget means that it makes decisions on expenditure and approves the estimates of government revenue and also considers proposals for changes in taxation at one and the same time. As a result of the Riksdag's decision-making system, there is a connection between expenditure and revenue decisions despite these being made in different processes.

32 A detailed description of the respective decision-making processes is provided in Appendix 4.

The Riksdag examines expenditure decisions annually in connection with the preparation of the Budget Bill. There is however no formalised systematic follow-up of taxes. Instead, taxes are evaluated individually, often by the Government appointing a committee or charging a government agency to evaluate a specific tax.

3 The Government's preparation and budgeting for new tax expenditures

In this chapter we examine whether the Government prepares new tax expenditures so that they compete against proposed spending items in the budget in the same way as general expenditures. This enables us to answer the question as to whether the Government has prepared and accounted for satisfactory documentation prior to decisions on new tax expenditures.

We concentrate on the approximately 50 tax expenditures in the statement which have been added through major amendments to the tax legislation since 1997. A list of these tax expenditures in provided in Appendix 5.

3.1 Documentation for tax expenditure decisions

3.1.1 Tax expenditures, as opposed to general expenditures, can be introduced without the estimated cost being provided in the budget documentation

It is important that the estimated cost of proposed tax expenditures is provided in the budget documentation. This is evident from the international recommendations drawn up by the OECD, the IMF and the World Bank (see Appendix 2). The Government has also clearly stated that it is an important requirement that all special provisions which result in a reduction in revenue should be scrutinised as closely as expenditure appropriations.[33] A prerequisite for a tax expenditure to be scrutinised as closely as an expenditure appropriation is that the proposed new tax expenditure should contain an estimate of its effects on the budget. With regard to expenditure appropriations, the Government estimates the cost of each and every one of these in the budget, and the Riksdag takes decisions to allot appropriations for specific amounts.

Of the approximately 50 tax expenditures we have audited, the Government estimated the cost to the budget when most of them were introduced. We have however found examples of the opposite, of the Government not

33 Government Bill 1995/96:220, The Budget Act, p. 44.

having estimated the cost to the budget. This applies chiefly to new tax expenditures in the area of income tax.[34] The Government's explanation for this omission was that the effects on the budget were deemed to be of a marginal nature or that it had not been possible to estimate the cost as the basic statistics had not been available. For example, the tax expenditure Benefit of personal computer, which was introduced in 1998 by the then Government, was deemed to have insignificant budgetary effects when it was introduced. When this benefit was later abolished, the newly elected Government estimated that it would strengthen revenues by approximately SEK 1.5 billion[35], which can hardly be viewed as an insignificant effect on the budget.

In cases where the Government has failed to estimate the cost of a proposed new tax expenditure upon its introduction, we have observed that the proposal is considered in a separate bill without being accounted for in the Budget Bill.[36] Accordingly, the proposal is not considered by the Riksdag in connection with the budget reading.

3.1.2 Tax expenditures have been introduced without any proposals for financing

New tax expenditures which are alternatives to allowances or grants on the expenditure side of the central government budget should, according to the international recommendations, be approved within the framework for the annual budget process and compete against proposed spending items in the budget In the same way as general expenditures. In order for a proposed new tax expenditure to compete in the budget in the same way as general expenditures, it should be accompanied by a proposal as to how it will be financed.

The Budget Act and the budget policy targets, the surplus target and the expenditure ceiling,[37] provide a framework for how proposals which affect the budget should be financed. Taking its point of departure in this framework, the Ministry of Finance has shaped a number of "financing principles"[38] for the Government Offices' internal budget preparations. The way in which the expenditure ceiling is structured means that the financing principles are focused on the expenditure side of the budget.

34 These were the following tax expenditures: Employers' cost of employees' pensions, Deductions for living expenses arising from temporary work, dual residence and commuting, Benefit of personal computer, and Staff welfare.
35 Government Bill 2006/07:1, The Budget Bill for 2007, Vol. 1, Chapter 5, sections 5.2.5 and 5.11.
36 The tax expenditures Deductions on earnings for seafarers, Deductions for increased living costs arising from temporary work, dual residence and commuting, and Staff welfare.
37 See Appendix 1: Terms and definitions.
38 Appendix 4 contains a detailed description of the financing principles.

The chief principle on the expenditure side is that expenditure increases should be financed through other reductions in spending. On the revenue side, on the other hand, these financing principles mean that reductions in revenue can either be financed by reducing spending, raising other taxes or charges (i.e. revenue increases) or by utilising projected budgetary scope over and above the surplus target.

Of the approximately 50 tax expenditures we have audited, the Government has stated that in a third of cases the proposals have been financed through reprioritisations on the revenue side, through reductions in spending or by financing them within the framework of a major reform. All the proposals which have been financed through spending reductions fall within the area of labour market policy and constitute tax account credits.[39]

For the remainder of the new tax expenditures, the Government has given no explicit indication of any form of financing. Among these are a few cases (six in all) which the Government has assumed to be budget-neutral.

As we have previously observed, tax expenditures have the same effect on the balance of the central government budget as expenditure appropriations. Tax expenditures do not however come under the expenditure ceiling. When the Government has proposed new tax expenditures, they have not been accompanied by proposals to adjust the expenditure ceiling. Nor have tax expenditures which the Government proposed should be financed via the expenditure side been accompanied by any proposal to adjust the expenditure ceiling. In the Budget Bill for 2007, the new Government has however said that it intends to abandon the use of tax credits for support which are on a par with general expenditures in order to restore the expenditure ceiling to its intended role. In connection with this, the Government has also elected to move a number of tax credits in the energy policy area over to the expenditure side.[40]

39 The Government states that the tax expenditures Employment subsidies for long-term unemployed, Sheltered public employment (OSA), Employment subsidies for persons on long-term sick leave, Subsidised training deputyships, and the "Plusjobb" scheme (where wages are subsidised to a certain level) have been financed in this way. In the latter three cases, the Government gives no precise data on spending reductions, but merely states in general terms that spending in the expenditure area concerned is decreasing.

40 Government Bill 2006/07:1, The Budget Bill for 2007, Vol 1, section 6.4.6.

3.1.3 *Tax expenditures are not assessed against other measures or overall policy priorities*

The international recommendations in the area of tax expenditures (see Appendix 2) stress that decisions on new tax expenditures should be preceded by a process in which the government concerned decides which objectives it intends to achieve with the envisaged measure, whether the objective fits the government's policy priorities, which budget effects and socioeconomic effects the proposal will have, and whether the tax expenditure instrument is the most effective way of achieving the objective. The Swedish Government has given many reasons for deciding to introduce new tax expenditures, for example to give concessions to certain groups or activities, to simplify tax rules, to increase growth and employment in general, or to create consistency with EU legislation.

In only two cases has the Government shown how the motive for individual tax expenditures fits overall policy priorities. In the documentation for the decisions to reduce VAT on books and to stimulate energy and environmental investment in public premises, the Government mentions that these measures will help to achieve objectives within the respective policy areas.

The Government does not give any reason either why the instrument of tax expenditure is the most effective way of achieving a particular objective, or indicate any considerations as to whether it would be better to provide forms of support via the expenditure side of the budget. In three instances we have however found justifications for using the method of tax account credits as the best way administratively of implementing the measure.

Finally, in the documentation for decisions on new tax expenditures the Government seldom indicates any socioeconomic effects. On the other hand, the administrative consequences for various government agencies, such as the Tax Agency and the National Board of Housing, Building and Planning, are frequently outlined.

3.2 Preparation of new tax expenditures

3.2.1 *Tax expenditures are prepared in the legislative process*

Tax expenditures require legislation since they are special provisions within the tax legislation. The preparation of new tax expenditures often follows the entire chain in the legislative process, from the intitial investigatory work, the proposed bill being submitted for comment by the involved parties, then being referred to the Council of Legislation for consideration, and up to the special bill being laid before the Riksdag for its decision.

We have however observed that the investigatory work which precedes the proposed bills varies.[41] At the same time as there has been an increase in tax account credits, it has become more common for new tax expenditures to be presented directly in the Budget Bill.

It is also worth noting that the majority of the proposed bills have been considered by the Council on Legislation. In instances where this has not occurred, the Government has justified it as being because the proposed bill is "of such a nature that the hearing by the Council on Legislation is of no importance". What differentiates the preparation of tax account credits from the preparation of other tax expenditures is that the tax account credits have never been considered by the Council on Legislation.

3.2.2 *Tax expenditures resemble open-ended appropriations*

Our audit shows that tax expenditures have many features in common with statutory expenditures and the long abolished open-ended appropriations. The open-ended appropriations were used primarily to finance the expenditure for concession systems where the size of the payment and the conditions for payment were regulated by law, but where the number of payments could not be exactly predicted. Tax expenditures are prepared as legislation, and tax laws apply until they are expressly repealed, unless they have been made time-limited from the start. The detailed conditions governing tax expenditures are thus regulated by law, and the scope of the commitment can therefore be difficult to predict. The uncertainty which exists with regard to new tax expenditures when it comes to estimating the cost to the budget is therefore a question of the possibility of making good projections of developments in the underlying factors which govern the concession.

In the case of tax expenditures given as tax account credits, the picture is complicated by the fact that the detailed conditions which govern them are not provided in the law which regulates the tax expenditures but in an ordinance. This means that the conditions for such tax expenditures can be changed through an amendment to an ordinance, which, as opposed to an amendment to a law, does not require the approval of the Riksdag. An example of this technique is the employment subsidies for the long-term sick which were introduced in 2004 and the so-called "plusjobb" scheme (jobs where wages are subsidised to a certain level) which was introduced in 2006.[42]

Furthermore, open-ended appropriations have been overstepped by the Government if necessary in order to achieve the appropriation's objective.

41 The tax expenditures relating to Conveyance of passengers and Reduction of CO_2 2 tax on diesel fuel for working machines used in the agricultural and forestry industries appear to have been added hurriedly without any preceding investigatory work at all.

42 With regard to the "plusjobb" scheme, the Government nevertheless chose to give their assessment of this new type of employment subsidy in the Budget Bill. The Committee on the Labour Market then considered this assessment in their report (Committee Report 2005/06:AU1).

The consequence will be the same for the size of the tax expenditure, since there are no conditions governing the size of the reduction in revenue which the tax expenditure implies. We have however noted that a system has been developed for tax account credits, according to which a limit is provided in the relevant law for the amount by which government revenue can be reduced through tax account credits.[43] In some cases such a limit has instead been written into some of the ordinances which regulate the tax credits, which means that the limit can be changed without the approval of the Riksdag.[44]

The introduction of the expenditure ceiling and tighter provisions in the Budget Act have increased the demands on the Government to follow developments in revenue and expenditure during current budget years. This is also the reason why the open-ended appropriations were done away with. The incentive to follow developments in open-ended appropriations during the current budget year was namely weak, since funds were paid out according to the statutory concessions irrespective of the amounts which had been budgeted for. Tax expenditures are also statutory, and the incentives that were not present for the open-ended appropriations are also not present for tax expenditures. In addition, there is the problem of following up the taxes which were established at the time of the annual income tax assessment.

3.3 Summary of observations

- In most cases, the approximately 50 tax expenditures we have audited were introduced without any proposal being put forward as to how they would be financed. Also, in some instances no estimated cost to the budget of the tax expenditures was provided when they were introduced.
- The documentation for new tax expenditures rarely contains any justification for why it should be the most effective way of achieving the objective in question. There is also frequently no statement of how the objective of a tax expenditure fits with overall policy priorities.
- Tax expenditures are prepared as legislation, and tax laws apply until they are expressly repealed, unless they are time-limited from the start. The conditions which apply in order to be considered for the concession are thus regulated by law, and it is not possible to predict with any high degree of certainty the total scope of the tax expenditures. In these respects, tax expenditures resemble appropriations of the open-ended type, which were previously used for statutory concessions and abolished in connection with the reform of the annual budget process.

43 Committee Report 2005/06:FiU24, p. 9.

44 This applies, for example, to the following tax expenditures: Investment incentives for pre-separation of waste at source, Investment incentives for energy and environmental investment in public premises, and Investment support for conversion from oil-fired heating in dwelling houses.

4 The Government's statement of tax expenditure

In this chapter we deal with the Government's statements of tax expenditure in the Spring Fiscal Policy Bills. We examine whether the Government's statements of tax expenditure provide adequate documentation for on-going scrutiny of the same kind as the expenditure appropriations on the expenditure side of the central government budget.

As stated in Chapter 1, we have audited the Government's statements of tax expenditure in their totality. For that part of the audit questions which concerns follow-up and control, we have also made a more careful review of the approximately 50 tax expenditures which have been introduced as a result of major changes to the tax legislation since 1997.

4.1 Basic requirement for fiscal transparency

Since tax expenditures are the estimated cost to the unrealised tax revenue, this cost is less visible than the cost of ordinary support and allowances or grants. In order to increase transparency in the budget accounting and in order to make possible on-going scrutiny of different kinds of support, tax expenditures need to be made visible.

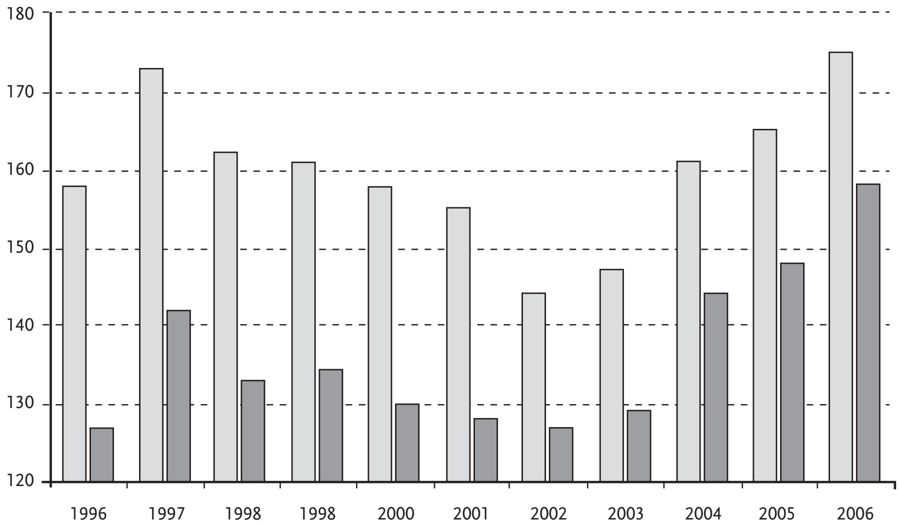
A basic requirement for transparency in budget accounting is, according to international recommendations (see Appendix 2), that all significant tax expenditures should be accounted for in a statement of of the main central government tax expenditures as part of the annual budget documentation. The statement of tax expenditure should indicate the public policy objective of each tax expenditure, as well as its duration and presumed effects. The statement should also contain references to preliminary works to laws and to sections of law. Where possible, major tax expenditures should also be quantified. All cost estimates and assessments should be explained with references to data sources and so on. The estimates should also cover previous, current and future years.

4.1.1 *The tax expenditure statement is difficult to get a general view of*

Since 1996, the Government has provided a statement of tax expenditure in an appendix to the Spring Fiscal Policy Bill. The statement thus constitutes part of the budget documentation. However, it has no formal importance in the sense that the Riksdag makes any special decisions because of it. Nor is it the subject of any special debate by the Riksdag.

The number of tax expenditures accounted for in the Government's statement have varied over time; see diagram 1. The first statement from 1996[45] contained barely 160 tax expenditures while the statement for 2006[46] comprises 175 tax expenditures, including "non-balance affecting tax expenditures".

Diagram 1. The number of tax expenditures accounted for in the Spring Fiscal Policy Bills 1996–2006.



Source: Material adapted by the SNAO from the tax expenditure statements appended to the Spring Fiscal Policy Bills.

The variation in the number of tax expenditures over the years is owing both to the addition of new tax expenditures and the removal of old tax expenditures. The variation is also explained by the fact that some tax expenditures have been combined in the statement of tax expenditure or that a tax expenditure has been separated into a number of smaller tax expenditures.

We have established in our audit that there is no particularly clear agreement between current tax legislation, changes in tax provisions and the statement of tax expenditure. A single tax expenditure can, for example, com-

45 Government Bill 1995/96:150 Spring Fiscal Policy Bill with proposed guidelines for fiscal policy, the expenditure ceiling, and changed appropriations for the budget year 1995/96, etc., Appendix 4.
46 Government Bill 2005/06: 100, 2006 Spring Fiscal Policy Bill, Appendix 2.

prise a number of special provisions in the tax legislation. This is the case as regards the general and regional reduction of employers' social security contributions which are accounted for as a tax expenditure for technical reasons, while other special provisions are accounted for as several tax expenditures. The latter case can be exemplified by deductions for travel expenses to and from work, which are accounted for divided into deductions for costs of employment and deductions for costs in a business activity.

Nor is it always possible to determine whether or not a change of provision in the tax legislation is included in the tax expenditure statement. There has been no actual review of the tax legislation since the ESO report[47] "Tax concessions and other special provisions in income tax and value-added tax" and the Committee Report "Concessions and sanctions – an overall account"[48]. The review in the ESO report only covered income tax and value-added tax.[49]

In the past few years' statements, the Government has begun providing commentaries when new tax expenditures have been added. In some cases these are of minor importance, for example subsidies to the National Museum of Science and Technology and to the Swedish Film Institute, or equalisation of income for small business owners, both of which were introduced in the 2006 statement. Major tax expenditures also occur in the statements. Some major new tax expenditures which have appeared in recent years, without amendments to the legislation, comprise capital gains on commercial and industrial estates (which occurred in the 2006 statement and are estimated as having a net value of fully SEK 1 billion) as well as social security contributions on non-concession based payment for work (which were added in the 2005 statement, and which in the most recent statement are estimated to have a net value of about SEK 12 billion).

4.1.2 *Underlying accounting principles are difficult to follow*

The tax norm used by the Government to identify tax expenditures in the tax expenditure statement is based on the principle of uniformity.[50] Even if the principle of uniformity is an established one in tax contexts, it is not self-evident how it should be interpreted in practice.

In order to get a good description of how the Government has actually interpreted and applied the principle of uniformity in the tax expenditure statement, we need to go back to the work done in the Committee Report

47 Ds 1992:6.
48 Swedish Government Official Reports (SOU) 1995:36, Concessions and sanctions – an overall account.
49 In the 2006 tax expenditure statement it is also made expressly clear that the statement is not complete. See Government Bill 2005/06:100, Spring Fiscal Policy Bill, Appendix 2, p. 6.
50 See Chapter 2 for a description of how tax expenditures are identified.

”Concessions and sanctions – an overall account” and in the ESO Report ”Tax concessions and other special provisions in income tax and value-added tax.”[51]

The description of the tax norm provided in the tax expenditure statement is quite brief, and the Government refers rather to the description of the tax norm (that is to say the description of how the principle of uniformity is interpreted and defined) which is given in the Committee Report ”Concessions and sanctions – an overall account”. However, is not evident from this reference whether the Government has interpreted the principle of uniformity differently from the commissioner of the Committee Report ”Concessions and sanctions – an overall account”. This difference in interpretation Swedish Government Official Reports (SOU) 1995:36 Concessions and sanctions – an overall account. of the principle of uniformity means an increase in tax expenditures within the category of investment income of about SEK 10 billion.[52]

During 2003 the Government made a great effort to distribute all tax expenditures consisting of funds within different policy areas among the different policy areas. The purpose of this was to enable a truer comparison to be made of support provided through the central government budget within different areas, on both the expenditure and revenue sides. The tax expenditures which according to the Government were unconnected with any specific area of policy were carried to the group of technically motivated tax expenditures. According to the Government, technically motivated tax expenditures are not directly comparable with support on the budget's expenditure side.

The division of tax expenditures into policy areas and technically motivated tax expenditures respectively is important for the way in which different tax expenditures should be treated in the budget process, according to the Government. At the same time, the Government has omitted to state how and on the basis of which principles it has distributed the tax expenditures among the expenditure and policy areas and the technically motivated tax expenditures respectively.

4.1.3 *The aim and objective of individual tax expenditures is seldom stated*

The statement of tax expenditure in the Spring Fiscal Policy Bill has been organised in approximately the same way since the first statement was published in 1996.[53] The statement starts by describing its objectives and

51 See Appendix 3 for an account of how parts of the tax norm are defined in the report

52 According to the interpretation of the principle of uniformity found in Committee Report (1995:36) Concessions and sanctions - an overall account, capital gains are to be taxed only when they are realised. However, the Government's interpretation of the principle of uniformity means that capital gains are to be taxed on a current basis.

53 For a more detailed description of the statement of tax expenditure, see Chapter 2.

the underlying accounting principles and theoretical methods of calculation which have been employed. This is followed by a table listing all the tax expenditures. After the table a brief description is provided of every single tax expenditure broken down by category of tax.

The descriptions of the individual tax expenditures are often technical. The aim and objective of the tax expenditure is seldom stated. There are also no references to sections of law or to preparatory works. This is a deterioration compared with how the tax expenditures were presented in the very first Swedish statement of tax expenditure in the ESO Report "Tax concessions and other special provisions in income tax and value-added tax".[54]

In the 2006 statement, for example, tax expenditure D4, Change in value of own home and right of tenant-ownership[55], states as follows:

According to the norm, changes in value shall be taxed (or, alternatively, tax shall be refunded) when the changes arise and not, as is the case, when they are realised. Moreover, the possibility of further deferment is provided, under certain conditions, also when the capital gain has been realised. These possibilities for deferment give rise to a tax credit. The interest on this tax credit constitutes a tax expenditure in respect of tax on interest on capital.

No indication is given as to which section of the law the possibility for further deferment is based on.

Another example is tax expenditure K3, Sheltered public employment (OSA)[56], which is explained as follows:

- The target group for the support is unemployed persons with certain functional disabilities
- resulting in reduced capacity for work. The support was converted in 2003 from an allowance to a tax account credit. The conditions are otherwise unchanged.

Here, although a target group for the tax expenditure has been stated, there is no explanation as to why the allowance has been converted to a tax expenditure.

4.1.4 *Not all major tax expenditures are quantified*

According to the international recommendations (see Appendix 2), all major tax expenditures should (if possible) be quantified. Even if there are big problems associated with quantifying a tax expenditure, an approximate

54 In the ESO report (Ds 1992:6) there is a reference to sections of law and in certain cases also to the preparatory works to the law in the descriptions of the individual tax expenditures.
55 Government Bill 2005/06:100, 2006 Spring Fiscal Policy Bill, Appendix 2, p. 26.
56 Government Bill 2005/06:100, 2006 Spring Fiscal Policy Bill, Appendix 2, p. 34.

assessment and an explanation of how the costs have been estimated (data sources, calculation methods) can be of great value in assisting fiscal transparency in the statement of tax expenditure.

Many tax expenditures are not quantified at all. It is even the case that fewer than half of all income-tax related tax expenditures which are accounted for have actually been quantified. These include, for example, deductions for pension premiums, which according to the Tax Agency amount to fully SEK 12 billion per year[57], employers' cost of employees' pensions, staff share options, and more. The Government omits to say in the statement why it has not been possible to quantify these tax expenditures.

The Government accounts for the tax expenditures which have been estimated both net (i.e. according to the revenue forgone method) and gross (i.e. according to the outlay equivalent method) for the previous, current and coming year. In the statement the Government is careful to indicate the problems which exist in providing a total cost for the tax expenditures, but otherwise does not mention that there are any elements of uncertainty in the estimations. The table showing the individual tax expenditures does, however, give the impression of a good standard of accuracy (close to SEK 5 million).

It is nevertheless our finding that individual tax expenditures contain quite large elements of uncertainty owing to the imperfect quality of the supporting data, the problem of tax expenditure projections for years to come, and the extra step involving an adjustment of tax expenditures from net to gross. Added to this is the fact that individual tax expenditures are difficult to follow up since there is not always an outcome.

No information is provided furthermore as to how the estimations have been made. The Government differentiates between definitive tax reliefs and tax expenditures involving the deferment of tax, which is on a par with an interest-free tax credit. Interest-free tax credits are usually only found in income taxation.[58] While the present value of these tax expenditures is computed, the Government provides no informaton about the assumptions, in the form of discount rates and so on, on which the present value computations are based. The method used for estimating these tax expenditures in the form of interest-free tax credits also means that several of these tax expenditures cannot be quantified. This is the case, for example, as regards the deductions for pension premiums mentioned above.

57 Swedish Tax Agency (2006), Taxes in Sweden 2006, p. 66.
58 An example of tax-free tax credits is the pension savings deduction, capital gains in the investment income category, and different income equalisation deductions in company taxation.

4.2 The statement of tax expenditure as a basis for priorities

The chief objective of the Government's statement of tax expenditure is to render visible the indirect support which tax expenditures entail on the revenue side of the central government budget, in order to provide a basis of documentation to enable priorities to be made between different kinds of support. In this audit we have examined how the statement of tax expenditure functions as documentation of this kind.

4.2.1 The benefit of estimating tax expenditure gross can be questioned

The statement of tax expenditure is undergoing constant development, as well as the accounting principles on which it is based.

The early statements of tax expenditure were focused on creating comparability between tax expenditures and taxable and non-taxable support respectively on the expenditure side of the budget. In the first statement from 1996[59], it was stated, for example, that the objective of the

Government's statement of tax expenditure was primarily to provide an overall account of the tax concessions which are directly comparable with allowances or grants on the budget's expenditure side. The statement should also provide documentation to enable a comparison to be made of taxable and non-taxable transfers respectively on the budget's expenditure side. The ambition was in other words to provide a better foundation for the budget work by making the different forms of support comparable.

The method chosen by the Government for creating this comparability implies that all tax expenditures and non-taxable transfers must be estimated gross, that is to say they must be converted to taxable allowance.

Converting tax expenditures and non-taxable transfers to taxable allowances risks causing more confusion than clarification. The converted amounts are moreover not used for making any comparisons or facilitating priorities between different types of support. The question is, therefore, what function is fulfilled by converting the tax expenditures and the non-taxable transfers. The Government itself also points out that non-taxable transfers cannot really be regarded as tax expenditures since the tax exemption for these should virtually be regarded as administrative.[60] Thus, there does not appear to be any real reason for including non-taxable transfers in the statement of tax expenditure.

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59 Government Bill 1995/96:150, Spring Fiscal Policy Bill with proposed guidelines for fiscal policy, the expenditure ceiling, changed appropriations for the 1995/96 budget year, etc, section 3.3.1 and Appendix 4.

60 See, inter alia, Government Bill 2005/06:100, 2006 Spring Fiscal Policy Bill, Appendix 2, p. 9.

In recent years' statements, the Government has focused on including tax expenditures in the accounting for results delivered in the Budget Bill. By including these tax expenditures in this accounting for results, the indirect support which the tax expenditure implies is made visible, and the Government also gets the documentation needed to enable comparisons to be made between support on the revenue and expenditure sides of the budget. Thus, by converting them to taxable allowances, the Government appears to have abandoned its ambition for the statement of tax expenditure to make different forms of support comparable. At the same time the statement still contains this conversion of both tax expenditures and non-taxable transfers.

4.2.2 Strict interpretation of the principle of uniformity

In Chapter 2 we found that differing choices of tax norm will result in different tax expenditures. There is thus a clear connection between the tax norm used to identify tax expenditures and the objective of the accounting for these tax expenditures. The choice and specification of the tax norm used in the accounting should therefore be governed by the objective for the accounting.

In the 1997 statement of tax expenditure[61], the Government states that a norm which builds on the principle of uniform taxation facilitates an analysis of the tax system from a budget perspective. This is as opposed to a norm which builds on a tax system which minimises the distortions and efficiency losses to which the taxes give rise.

However, the application of the principle of uniformity employed by the Government in the statement of tax expenditure does result in many technically motivated tax expenditures being accounted for. In the most recent statement from 2006[62], approximately one fourth of all tax expenditures accounted for were technically motivated.

According to the Government, technically motivated tax expenditures frequently have their origin in administrative objectives within the tax system, such as simplicity, legitimacy and so on. It is not therefore possible to directly compare these with support on the budget's expenditure side. In the light of the fact that the objective of the Government's statement of tax expenditure is in the first instance to render tax expenditures visible in order to provide documentation for deciding priorities between different types of support the Government's application of the principle of uniformity appears very strict.

The interpretation of the uniformity principle chosen by the Government also appears strict compared with the interpretations applied in other

61 Government Bill 1996/97:150, 1997 Spring Fiscal Policy Bill, Appendix 4, p. 4.
62 Government Bill 2005/06:100, 2006 Spring Fiscal Policy Bill", Appendix 2.

countries. In Australia and the Netherlands, for example, the statement of tax expenditure is mainly focused on tax expenditures as an alternative to support on the expenditure side of the central government budget. This means that special provisions in the tax legislation which are there for purely administrative reasons or for the legitimacy of the tax system are not regarded as tax expenditures. Instead, these special provisions form part of the tax norm or benchmark tax system.[63]

4.3 Follow-up and review of tax expenditures

In Sweden, the implementation of the central government budget is followed up and reviewed using a number of methods. These consist mainly of financial review and performance review. In the performance review, the Government is required to account for the objectives it was aiming for and the results which have been achieved in the various areas of operations. This is done in the appendices to the Budget Bill covering the various areas of expenditure.

4.3.1 Tax expenditures are not performance-assessed

As of 2004, the tax expenditures which can be regarded as funds within specific policy areas are required to be included in the performance review which is delivered in the Budget Bill. How this is to be done is set out in special instructions provided in the budget circulars.

The accounting for tax expenditure in the performance review is provided in the appendices to the Budget Bill covering the different areas of expenditure. The tax expenditures are accounted for net in a table under each expenditure and policy area and with an accompanying text taken from the statement of tax expenditure in the Appendix to the Spring Fiscal Policy Bill. The substance of this text is that the support provided by society to businesses and households is chiefly accounted for on the expenditure side of the central government budget and that tax expenditures may occur in addition to this.

We have observed that the tax expenditures are greater than the sum total of general expenditures on three[64] of the 15 areas of expenditure which account for tax expenditures in the Budget Bill for 2006[65]. The formulation in the budget circular does not therefore agree with how the actual distribution of support on the budget's expenditure side and tax expenditures appears.

The statement of tax expenditure is moreover unconnected to the rest of

63 See Brixi, H. P. et al. (2004), Tax Expenditures – Shedding Light on Government Spending through the Tax System.
64 These are the following expenditure areas: 14 Working life, 21 Energy, and 24 Trade and industry
65 Government Bill 2005/06:1, Budget Bill for 2006.

the measures which are accounted for and performance-assessed under the respective policy areas (i.e. the ordinary assessment of results) in the Budget Bill.

Tax expenditures are namely accounted for in a separate section from the section on objectives, measures and performance assessment. The accounting for tax expenditure thus has no direct connection with the objectives which exist for the various policy areas.

In only a few cases are tax expenditures actually followed up within the framework for the ordinary performance assessment in the Budget Bill. In some instances tax expenditures[66] have subsequently been followed up under another expenditure and policy area than the one under which they have been accounted for in the tax expenditure statement. The distribution of tax expenditures over the expenditure and policy areas found in the tax expenditure statement thus appear to be determined outside the performance review in the budget process.

There is also no other systematic follow-up of tax expenditures beyond the performance review. However, some tax expenditures are assessed in connection with a general review of tax provisions or as a consequence of a special governmental task.

4.3.2 The statement of tax expenditure is a report on measures already decided

In Chapter 3 we examined how new tax expenditures are prepared and accounted for. We were thus able to note that the connection between, on the one hand, the preparation of new tax expenditures and, on the other, the accounting for existing tax expenditures, is weak. For example, there have been occurrences of tax expenditures being quantified when introduced but not in the statement of tax expenditure and vice versa.

Despite the fact that there are elements of projection in the Government's statement of tax expenditure, since the cost of the tax expenditures is estimated for both the current and the coming year, the statement is to be regarded primarily as a report on measures which have already been decided.

However, the Government does on occasion use the tax expenditure statement to identify financing proposals for other measures. In these instances it has been a matter of abolishing tax expenditures in order to use the freed-up budgetary scope for something else.

66 The tax expenditure in question is an exemption from energy tax on electricity for participants in programmes designed to promote greater energy efficiency in industry.

4.4 Summary of observations

- The statement of tax expenditure is extensive but difficult to get a general view of. There is no particularly clear agreement between the tax legislation, changes in tax provisions, and the statement of tax expenditure. A single tax expenditure can comprise a number of special provisions in the tax legislation or vice versa. The description of individual tax expenditures also lacks references to sections of law and preparatory works to laws. It is therefore not always possible to determine whether or not a change of provision in the tax legislation is included in the statement of tax expenditure. Tax expenditures have also been found to be combined in the statement or separated into a number of minor tax expenditures.

- The statement of tax expenditure is theoretically correct but not particularly useable as documentation for enabling priorities to be made or for scrutiny to be performed on a current basis. This is due to the fact that many tax expenditures are not quantified and that the methods to estimate the cost of tax expenditures do not fulfil any real function. The statement also contains many tax expenditures which cannot be viewed as alternatives to support on the expenditure side of the budget.

- Tax expenditures are not followed up in any systematic way. Despite the Government's ambitions to incorporate tax expenditures in the performance review provided in the appendices to the Budget Bill, there are few tax expenditures which are really followed up within the framework of the performance review.

5 Conclusions

SNAO's objective with this audit has been to examine whether the Government's preparation and statement of new tax expenditure provides a satisfactory basis of documentation for budget decisions and whether the accounting for and follow-up of existing tax expenditures provides adequate documentation to permit follow-up and priorities to be made between different types of support. The requirements made by SNAO with regard to the Government's preparation, accounting and follow-up of tax expenditures follow from the objective of the statement of tax expenditure and from the international recommendations drawn up by the OECD, the IMF and the World Bank.

5.1 Deficiencies of fiscal transparency and fitness for purpose in the tax expenditure statement

In SNAO's opinion, the Government's statement of tax expenditure does not fulfil the basic requirements for transparent budget accounting. Furthermore, it does not provide adequate documentation to enable on-going scrutiny of existing tax expenditures of the same kind as the scrutiny of expenditure appropriations. SNAO does however believe that a statement of tax expenditure has an important function to fulfil by rendering tax expenditures visible.

5.1.1 The statement is extensive but difficult to get a general view of

SNAO finds that the Government's statement of tax expenditure is ambitious and extensive but that it is not particularly easy to get a general view of.

The presentation of individual tax expenditures presupposes a good knowledge of Swedish tax laws. The aim and objective of individual tax expenditures is not always evident, and there are no references to sections of law or preparatory works to laws. It is therefore difficult to read from the statement when there has been a change in the tax legislation.

In order to understand the accounting principles and calculation methods on which the tax expenditure statement is based, one must go back to the documentation provided in the report of the Committee of Inquiry on

Government Subsidies[67] and in the ESO report "Tax concessions and other special provisions in income tax and value-added tax"[68]. While the Government does indeed refer to the Committee's report in the tax expenditure statement, it does not state whether it has employed a different interpretation of the tax norm (the principle of uniformity) on which to base the identification of different tax expenditures.

Nor has the Government had a full review made of the tax legislation with the aim of identifying relevant tax expenditures. The variation in the number of tax expenditures between different years could therefore equally well derive from changed accounting principles as new tax expenditures being added or removed.

5.1.2 *The statement is theoretically correct but provides no documentation for budget priorities*

In SNAO's opinion, the statement of tax expenditure fails to provide a basis of documentation for on-going scrutiny of the same kind as the scrutiny of general expenditures on the expenditure side of the central government budget. The statement focuses more on a theoretically correct accounting for tax expenditure than on the kind of documentation needed to make priorities in the budget work.

An example of this is the accounting for non-taxable transfers and the conversion of tax expenditures to taxable allowances (i.e. from net to gross amounts)[69]. That the tax expenditures are estimated and accounted for both net and gross risks causing more confusion than providing clarification.[70] Since, moreover, the gross estimated amounts are not used in the preparation of the budget, SNAO questions the practical benefit of converting these tax expenditures.

Another example is that, as a result of the interpretation of the principle of uniformity applied by the Government, the largest group of tax expenditures which are accounted for are of a technical nature. The Government states in the statement of tax expenditure that the technically motivated tax expenditures are not directly comparable with support on the budget's expenditure

67 Swedish Government Official Reports (SOU) 1995:36, Concessions and sanctions – an overall account.
68 Ds 1992:6.
69 The conversion from net to gross amounts means that the individual tax expenditures are estimated using both the revenue forgone method and the outlay equivalent method. See Chapter 2.
70 The only country apart from Sweden which accounts for tax expenditure in terms of outlay equivalents is the USA. From a review made by the IMF of the US statement of tax expenditure, it appears that the statement in terms of outlay equivalents and the revenue forgone method has created some confusion. "Except for some specialized economists, most observers have trouble understanding the counterfactuals assumed for each spending program and why for certain tax expenditures the outlay equivalent and revenue forgone estimates are the same and for others they are not." See Brixi, H. P. et al. (2004) Tax Expenditures – Shedding Light on Government Spending through the Tax System, p. 164.

side. SNAO considers therefore that an accounting for these tax expenditures is of less interest as documentation for policy priorities and follow-up of different types of support.

Finally, the method used by the Government to estimate tax expenditures in the form of interest-free tax credits means that a number of significant tax expenditures cannot be estimated. These are inter alia the deductions for pension premiums, where information as to how large these deductions are is obtainable from the Tax Agency. In order to estimate in a theoretically correct manner the tax expenditure entailed by the deduction, information is required concerning the future tax which will be payable on the pension premiums when the pensions are paid out. If the objective of the tax expenditure statement is to render tax expenditures visible in order to provide better documentation for the budget work, in SNAO's opinion an estimate of the liquid budgetary effects of the current pension deductions is of more interest than a complete present value computation of the interest-free tax credits to which the pension deductions give rise.

5.1.3 The statement of tax expenditure is a report on measures already decided

The statement of tax expenditure is a report on existing support and measures. Despite this, individual tax expenditures are not followed up in any systematic way. This follows from the fact that tax expenditures are handled primarily within the legislative process and that the legislative process contains no formalised follow-up of the different proposals.

The Government's ambition to incorporate tax expenditures in the performance review delivered in the Budget Bill has moreover not changed the follow-up of tax expenditures. There are few tax expenditures which are really followed up within the framework of the Budget Bill's performance review. This is because the tax expenditures which have been distributed among the various expenditure and policy areas have not been dealt with in the budget work in the same way as measures on the expenditure side.

5.2 Insufficient scrutiny prior to decisions on new tax expenditures

Despite the Government's ambitions to render tax expenditures visible so that all special provisions leading to reductions in revenue can be scrutinised as closely as the expenditure appropriations, it is SNAO's opinion that the statement of tax expenditure does not function as adequate documentation for the budget work.

The statement of tax expenditure has no formal status or direct connection with the central government budget process. Thus, the statement provides no documentation for budgetary scrutiny of new tax expenditures.

Moreover, the documentation prepared and accounted for by the Government prior to decisions on new tax expenditures does not contain information on all the relevant consequences which is needed prior to a budget decision. In SNAO's opinion, therefore, the Government's preparation and statement of new tax expenditure does not function as adequate documentation for budgetary scrutiny.

5.2.1 *All too frequently no reason is given for why a tax expenditure is the best alternative*

Tax expenditures are an alternative to support and allowances or grants on the expenditure side of the central government budget and have been introduced for many different reasons and objectives. There may be a desire to give concessions to certain groups, or to boost growth and employment in general, or there may be reasons relating to fiscal policy.

Since the scope of new tax expenditures is difficult to predict and tax expenditures also remain in existence until they are expressly abolished (unless they are time-limited from the start), it is important that each new tax expenditure should be scrutinised against alternative courses of action when it is introduced.

SNAO has observed that the documentation which is prepared and accounted for when new tax expenditures are introduced seldom contains any justification for why a tax expenditure should be the most effective way of achieving the objective in question. The advantages and disadvantages of applying this particular tax instrument in preference to any other instrument is not discussed. Markedly often there is also no explanation provided as to how the objective of the tax expenditure fits with overall policy priorities.

5.2.2 *No development of checks on the budgetary effects of tax expenditures*

SNAO has observed that in several respects tax expenditures resemble the open-ended appropriations which were previously used for statutory expenditures, but which were abolished in connection with the reform of the budget process. As was the case with the open-ended appropriations, the detailed conditions for tax expenditures are regulated by law, and the scope of the concession entailed in the tax expenditure is therefore difficult to predict. This means that even in those cases where a new tax expenditure has been budget-quantified and financed, it is not always possible to prognosticate and check with absolute certainty.

In the case of tax expenditures in the form of tax account credits, the Riksdag has developed a system which entails writing into the law on which the tax credit is based a limit for the tax expenditures' total charge to the budget. This means that the Riksdag has a similar control mechanism as for the appropriations on the expenditure side. In order to raise the limit or to move sums between different budget years, the Government is obliged to return to the Riksdag with a proposed bill for that purpose. It should be emphasised that this technique is not as easy to apply for other tax expenditures than those given in the form of tax account credits. For many tax expenditures, there is in fact no budget outcome against which the limit can be assessed.[71]

In the most recent Budget Bill, the Government announced that the use of tax account credits would be reduced in order to strengthen the credibility of the expenditure ceiling.[72] SNAO considers it of the utmost importance that this ambition is actually maintained and realised.

5.2.3 *Tax expenditures have been introduced without any indication of proposed financing*

In SNAO's opinion, the Government's preparation of new tax expenditures does not contain the equivalent scrutiny as for the expenditure appropriations. This is because the budget process has been designed in the first instance to handle policy priorities on the expenditure side. The expenditure side of the budget is bounded by restrictions in the form of expenditure limits and the expenditure ceiling, but there are no corresponding binding restrictions on the revenue side. The internal budgeting and financing principles which the Government employs are thus not as stiff for proposals on the revenue side as for proposals on the expenditure side. As a result, in many cases proposals for financing new tax expenditures have not been made when the tax expenditures have been introduced, which among other things has consequences for budget discipline.

SNAO has also observed that in some instances there have been no budget estimates for proposed tax expenditures upon their introduction, despite the fact that it has subsequently been possible to establish that these tax expenditures have had relatively significant budgetary effects. Since proposals for which there are no budget estimates are not considered in unison with the Budget Bill but in a separate bill, this means that there is yet a further risk of a negative impact on budget discipline.

71 This applies, for example, to the majority of tax expenditures in the area of value-added tax, such as the reduced VAT on books, passenger transport and foodstuffs.
72 Government Bill 2006/07:1, Budget Bill for 2007, vol. 1, section 6.4.6, p. 189.

6 Recommendations

SNAO considers that the Government's statement of tax expenditure has an important function to fulfil. The connection between the budget process and the preparation and accounting for tax expenditure does however need to be looked over. Against this background, SNAO recommends that:

The Government should initiate an overhaul of the tax expenditure statement

The Government should initiate an overhaul of the tax expenditure statement in order to make it more fiscally transparent and fit for purpose.

In order for the statement to be more fiscally transparent, it should contain a statement of the objective of each tax expenditure accounted for, and references to sections of law or preparatory works to laws should be furnished. Estimates and assessments should be explained more clearly and references to sources of data should be provided. If accounting principles, calculation methods or similar are changed, this should be explained and the reason for the change given.

It is also important that new or relatively new tax expenditures, and long-standing tax expenditures, should be disclosed. This is so as to make more clear the development of tax expenditures over time.

To make the statement more fit for purpose, the underlying accounting principles and calculation methiods need to be reviewed and made clearer. The statement should also be updated to ensure that all relevant tax expenditures are included. This means that a new review of the tax legislation needs to be made, similar to the one on which the Committee Report "Concessions and sanctions – an overall account"[73] was based.

In order for the statement to provide a basis of documentation for the budget work, it should be directed principally towards tax expenditures which are alternatives to support on the expenditure side of the central government budget. It would then not be necessary to convert tax expenditures to taxable allowances. Instead, tax expenditure estimates should as far as possible capture the liquid budgetary effects of the proposed tax expenditures.

73 Swedish Government Official Reports (SOU) 1995:36.

The Government should scrutinise new tax expenditures against a number of predetermined criteria

Tax expenditures are not fully integrated in the budget process in the same way as general expenditures. This is chiefly because tax expenditures are not subject to any budgetary restrictions. The measures which have been discussed, both nationally and internationally[74], with regard to further integrating tax expenditures into the budget preparation process are to incorporate tax expenditures under the expenditure ceiling, to create a special ceiling for new tax expenditures, or to draw up a number of criteria against which new tax expenditures should be weighed before they are introduced – in other words a tax expenditure checklist.

To incorporate new tax expenditures under the expenditure ceiling or a special "tax expenditure ceiling" demands better documentation for estimating the effects on the budget that the tax expenditures will have. In view of the fact that the budgetary effects of tax expenditures are the estimated cost to the unrealised tax revenue and that there is no outcome for all tax expenditures, such documentation is not always possible to produce. A first and alternative step towards improving the documentation when preparing new tax expenditures should therefore be to scrutinise each new tax expenditure against a number of predetermined criteria. This is the method advocated in the international recommendations which SNAO has used as its point of departure in this audit. Examples of relevant and possible criteria are:

1. Which problem needs to be tackled?
2. Has the problem any connection with overall policy priorities?
3. Is it possible to show that a measure/intervention is necessary?
4. What is the most effective way of solving the problem?
   Can it be shown that a tax expenditure is more effective than a measure via the expenditure side?
5. What are the budgetary effects of the tax expenditure? What socio-economic effects can the tax expenditure be assumed to have?
6. Is it possible to ensure adequate follow-up of the tax expenditure?

Scrutiny of new tax expenditures against these criteria should be performed in connection with the Government's internal preparations of new tax proposals and should be accounted for in the documentation which the Government submits to the Riksdag.

74 See Boije, R. (2002), Bör skatteavvikelser integreras i budgetprocessen? (Should tax deviations be integrated in the budget process?) and Brixi, H. P. et al. (2004), Tax Expenditures – Shedding Light on Government Spending through the Tax System.

The Government should consider how to handel tax expenditures within the fiscal policy framework

Scrutinising new tax expenditures against a number of qualitative criteria according to the above can be seen as a first step towards better integration of tax expenditures in the budget preparation process. In order to maintain good budget discipline, it is however important that the handling of the measures on the expenditure and revenue sides of the budget is reasonably symmetrical. The Government should therefore consider how tax expenditures should be handled within the fiscal policy framework.

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Interviews

Interviews with civil servants from the Department of Taxation at the Ministry of Finance, 31 October 2006.

Interviews with civil servants from the Budget, Fiscal Affairs and Taxation Departments at the Ministry of Finance, 7 November 2006.

Appendix 1. Terms and Definitions

Allowance (or grant)

An allowance (or grant) paid to a recipient without a requirement for any direct service in return. In government accounting the term is usually synonymous with public transfer payment. (See Transfer)

Appropriations

Expenditure funds on the central government budget which may be used for a specific purpose after approval by the Riksdag. There are currently two different types of appropriation: undesignated appropriations which may not be exceeded or saved until the following year, and framework appropriations which may be exceeded and saved until the following year.

Balance on the central government budget

The balance on the central government budget is defined as the difference between the budget's revenue and expenditure. If the balance is negative, there is a budget deficit and thus a borrowing requirement. A positive balance, which is the same as a budget surplus, means that repayments can be made on the national debt. Apart from the balance on the central government budget, fluctuations in exchange rates and temporary investments also influence changes in the national debt.

Budget Bill

The Government's proposed central government budget for the following budget year. The Budget Bill contains inter alia a budget statement, budget policy targets, frameworks for expenditure areas, appropriation proposals, and an estimation of government revenue.

Budget policy

Measures in the central government budget which affect the balance of the budget and public sector finances.

Central government budget

The central government budget is a plan for government revenue and expenditure over the course of a budget year. The central government budget consists of a revenue side and an expenditure side, as well as some items for estimating the government's borrowing requirements. The Riksdag makes decisions concerning the central government budget and appropriates funds for the use of the Government for various purposes.

Determination of the budget

The procedure for how the central government budget is arrived at (estimation of government revenue and establishment of appropriations) and the Riksdag's decision concerning the central government budget for the coming year.

Expenditure area

Expenditure in the central government budget is divided into 27 major expenditure areas. Each expenditure area corresponds to a specific area of application for the budget. For example, government expenditure on child allowance, additional child allowance and parents' allowance is accounted for in Expenditure Area 12 — Financial security for families and children.

Expenditure ceiling

One of two overall objectives which govern fiscal and budget policy.
The expenditure ceiling is the highest permissible level for government expenditure in a year. The expenditure ceiling system was introduced in 1997.

Expenditure framework

The Riksdag establishes the framework for spending within each expenditure area for the coming budget year.

Expert Group for Fiscal Studies (ESO)

The Expert Group for Fiscal Studies (ESO) was a committee under the Ministry of Finance which was charged with preparing reports with broad and in-depth documentation to enable decisions to be made concerning budget policy and the public economy. ESO had independent control of its reports and their contents. ESO's activities came to an end in June 2003.

Financial power

Financial power refers to the right to make decisions regarding State revenue and to decide on spending and in other ways to have disposal of the assets of the State, in other words to decide on taxation and determine the budget.

Gross accounting

In gross accounting, revenue and expenditure are accounted for separately. The opposite is net accounting, which means that only the difference between revenue and expenditure is accounted for.

IMF

The International Monetary Fund (IMF) was set up in 1944. The main task of the IMF is to promote trade and growth by working for international and monetary co-operation and financial stability. Most of the work it does involves taking measures to prevent financial emergencies. Among other things, the IMF provides countries with advice on fiscal policy and financial reforms.

OECD

The Organization for Economic Co-operation and Development (OECD) is a collaborative organisation for the governments of its 30 member countries and is based in Paris. The OECD is a forum for the exchange of ideas and experience, and it also carries out analyses within all areas which affect the economies and economic development of its member countries.

Policy area

The central government budget is divided into 47 policy areas. The purpose of the division into policy areas is to enable better connection between objectives, costs and results. Accordingly, one or more objectives are determined for each policy area. Examples of policy areas are Child Policy, Cultural Policy and Labour Market Policy. Most of the appropriations on the central government budget are accounted for against a particular policy area.

Principle of uniformity

One of the points of departure in the 1990 tax reform was to make taxation more uniform. The principle involved designing the taxation in such as way that everyone in the same financial and social situation would be taxed in the same way. It would therefore be unimportant in which form an income was obtained and in which form an expenditure was paid.

Public sector

The State, the local government sector (municipalities and country councils) and the state pensions system.

Revenue heading

The revenue side of the central government budget consists, as of 2007, of eight different classes of revenue. The largest of these is revenue class 1000 – Taxes. Under each revenue class there are a number of different revenue groups and revenue headings. Tax on goods and services is a revenue group under the revenue class Taxes, which in turn consists of the revenue headings Alcohol Tax, Tobacco Tax, Energy Tax, and so on.

Spring Fiscal Policy Bill

The Government's proposed guidelines for future fiscal policy and the budget policy as a first step in the annual budget process.

Surplus target

The surplus target is the overall objective of the fiscal policy together with the expenditure ceiling. The surplus target aims for the financial savings in the public sector to be equivalent to 2 per cent of GDP on average over an economic cycle.

Tax account

In Sweden, all natural and juridistic persons who are required to pay some form of tax or charge have a tax account with the Tax Agency. The tax account is similar to a normal bank account. On the tax account are registered all tax payments made by the taxpayer, preliminary income tax according to statements of earnings and tax deductions, and the final tax for the year according to the final notice of assessed tax.

Tax expenditure

Tax expenditures are concessions (exemptions and special provisions) in the tax system which are given to certain groups of taxpayers or for certain types of economic activity. (See also Tax sanction.)

Tax sanction

Tax sanctions are special provisions and exemptions in the tax system whereby those subject to the special provision pay more in tax. Tax sanctions are thus on a par with an extra tax and are accordingly the opposite of a tax expenditure. (See Tax expenditure).

Transfer

A transfer of income from the government to the recipient without the requirement for any service in return, such as state pensions, child allowance, health insurance, or unemployment benefit.

Transfers can be made to households, businesses, organisations, local authorities, international activities and also within the State. (See Allowance).

World Bank

The World Bank was created in 1944 (at the same time as the IMF). Formally, the World Bank is an umbrella term for a group of five different agencies charged with contributing to economic development and the global fight against poverty.

Appendix 2. International Recommendations

Based on the experience of budgeting and accounting for tax expenditure in different countries, a number of recommendations and best practices have been drawn up by the OECD, the IMF and the World Bank. These are given below.

OECD Best Practices for Budget Transparency[75]

Tax Expenditures

- Tax expenditures are the estimated cost to the tax revenue of preferential treatment for specific acitivities.
- The estimated cost of key tax expenditures should be disclosed as supplementary information in the budget. To the extent practicable, a discussion of tax expenditures for specific functional areas should be incorporated into the discussion of general expenditures for those areas in order to inform budgetary choices.

IMF – Manual on Fiscal Transparency[76]

Introduction

7. Fiscal transparency[77] is only one aspect of good fiscal management, and care is needed to distinguish fiscal transparency from two other key aspects, namely the efficiency of fiscal policy, and the soundness of public finances. As the introduction to the original version of the Code notes, attention has to be paid to all three aspects, which are clearly interrellated. But institutional changes that would lead to more efficient government and promote sound public finances are not advocated directly in the Code. Thus if the government pursues fiscal policy objectives through extrabudgetary funds

75 OECD (2001).
76 IMF (2001).
77 The IMF has defined fiscal transparency as: "Being open to the public about the structure and functions of government, fiscal policy intentions, public sector accounts, and fiscal projections".

and tax expenditures, or if nongovernment public sector agencies engage in quasi-fiscal activities, the Code requires only that the purpose of such interventions should be clearly identified and their financial consequences reported. However, the expectation is that transparency about extrabudgetary funds, tax expenditures, and quasi-fiscal activities will provide less incentive for their extensive use, and lead to some of them being replaced by traditional practices of fiscal management.

Contingent liabilities, tax expenditures, and quasi-fiscal activities

2.1.3 Statements describing the nature and fiscal significance of central government contingent liabilities and tax expenditures, and of quasi-fiscal activities, should be part of the budget documentation.

Tax expenditures

67. Tax expenditures include exemptions from the tax base, allowances deducted from gross income, tax credits deducted from tax liability, tax rate reductions and tax deferrals (such as accelerated depreciation). Tax expenditures are often identical in their effects to explicit expenditure programs. For example, assistance to individuals, families, or firms can be delivered either through expenditure programs or through concessional tax treatment. Once introduced, however, tax expenditures do not require formal annual approval by the legislature (though some may be subject to sunset clauses), and are therefore not subject to the same degree of scrutiny as actual expenditure. A proliferation of tax expenditures can therefore result in a serious loss of transparency.

68. The inclusion of a statement of the main central government tax expenditures as part of the budget documentation is a basic requirement of fiscal transparency. Such statements should indicate the public policy purpose of each provision, its duration, and the intended beneficiaries. Where possible, major tax expenditures should be quantified.

69. Providing the estimated costs of all tax expenditures in the budget documentation is included in the OECD best practice guidelines, which also call to the extent possible for the discussion of tax expenditures and general expenditure to be combined. Although there can be serious difficulties in cost estimation, reporting the approximate cost of tax expenditures and describing the basis of the estimates can significantly enhance transparency.

The World Bank and other experts

In December 2002, the Chinese Ministry of Finance organised an international conference to discuss experiences of tax expenditures in different countries, and how tax expenditures should be handled. The conference delegates were experts from the World Bank, the IMF, Australia, Belgium, Canada and the Netherlands. The conference reports have been published by the World Bank and the Chinese Ministry of Finance. The conference also resulted in a number of proposals and recommendations for better handling of tax expenditures.[78] These are as follows:

Policy option 1

The government should periodically compile an inventory of tax expenditures and report on their nature, legal basis, expected and actual effects, and past and likely future fiscal costs.

Policy option 2

Annual budget documents, or other core fiscal policy documents, should discuss tax expenditures and their fiscal costs and likely socioeconomic effects in the context of the government's overall fiscal policy analysis.

Policy option 3

Before deciding on a new tax expenditure, the government should clearly specify its objective, assess how this objective fits with policy priorities, evaluate alternative instruments for achieving the objective and design the new tax expenditure so as to minimize its possible negative effects. During the process of deciding on a newly proposed tax expenditure, scrutiny could be built around five questions:

1. What is the root of the problem that needs to be corrected?
2. Does the objective belong to the government's current policy priorities?
3. What is the most efficient way to achieve the stated objective?
4. What are the likely fiscal and socioeconomic effects?
5. How should the new tax expenditure be designed to minimize its possible negative effects?

78 See Brixi, H. P. et al. (2004), Tax Expenditures – Shedding Light on Government Spending through the Tax System, p. 228 f.

Policy option 4

A new tax expenditure should be approved in the context of the annual budget process, with the expected cost of the proposed tax expenditure competing aginst proposed spending items and the expected cost of proposed programs of government contingent support.

However, government may find it difficult to expand the scope of the budget process so as to ensure adequate consideration for alternative spending and nonspending programs and for their possible trade-offs. A second-best easier-to-implement option may be to introduce budgetary ceilings on spending by means of tax expenditures.

Appendix 3. The Tax Norm

The overall tax norm or benchmark tax which is used to identify tax expenditure in the Government's accounting is based on the "principle of uniformity", which was one of the basic principles of the 1990 Swedish tax reform.

Taking the point of departure in the principle of uniformity, a tax norm has been defined for each and every category of tax in the case of income tax, indirect tax on assessed income from work (i.e. social security contributions and special wage tax), value-added tax and excise duties.

The tax norms for the different categories of tax are described clearly in the statement of tax expenditure appended to the Government's Spring Fiscal Policy Bill. However, for a more exhaustive description of the tax norms, the Government refers to the Committee Report "Concessions and sanctions – an overall account" and to the1997 Spring Fiscal Policy Bill.79

Below follows a short summary of the tax norms defined for the various categories of tax. With regard to income tax we also reproduce the tax norm as it is described in the Committee Report "Concessions and sanctions – an overall account" and in the1997 Spring Fiscal Policy Bill. This is so as to illustrate how the tax norm has been defined in practice.

Summary of the tax norms in the Government's accounting

Income tax

In the case of income tax, the principle of uniformity implies that all income shall be taxed equally, irrespective of how it has arisen. This means, for example, that the non-taxable portion of a non-taxable transfer like child allowance or a study grant is a tax expenditure. The costs incurred in earning the income are deductible according to the tax norm for income tax. The costs of travelling to and from work are however regarded as personal living expenses. This means that in the Swedish tax system the right to claim a deduction for the costs of travelling to and from work is a tax expenditure.

79 Swedish Government Official Reports (SOU) 1995:36 and Government Bill 1996/97:150, 1997 Spring Fiscal Policy Bill, Appendix 4.

Value-added tax

Within the area of value-added tax, the principle of uniformity has been formulated so that all commercial sales are liable to tax. The rate of tax shall also be uniform and is a standard rate of 25 per cent. This means that the exemption from liability to tax which applies, for example, to the sale of real estate constitutes a tax expenditure. The same applies to the sale of goods and services which are taxed at less than 25 per cent, for example sales of foodstuffs, books and passenger transport services.

Indirect tax on assessed income from work

According to the norm for indirect tax on assessed income from work, all payment based on work shall form the basis for the charge of social security contributions or the special tax on certain earned income and pension costs, or special wage tax. Transfers such as child allowance, housing allowance and so on are thus not included in the basis for the charge. The tax rate shall be uniform. One example of a tax expenditure which belongs to indirect tax on assessed income from work is the regional reduction of social security contributions which has existed since 2002.

Excise duties

The accounting for tax expenditure in the area of excise duty comprises only energy and CO_2 taxes, including the nuclear power tax. The reason for this is that the Government has not viewed it as appropriate to account for tax expenditure in the case of taxes which are not universally applicable and which have a sufficiently broad tax base.

The norm as regards excise duty is that the tax shall be proportionate. In the case of energy tax, it has been defined so that all energy consumption is charged the same tax per kWh, and where CO_2 tax is concerned the tax shall be proportionate to CO_2 emissions (the idea is that the tax should reflect a hypothetical price for CO_2 emissions). An example of an excise duty tax expenditure is the reduced tax on electricity consumption which applies in certain municipalities. Another example is the reduced CO_2 tax which applies to industry, agriculture and greenhouse growers.

The tax norm for income tax in Swedish Government Official Reports (SOU) 1995:36 and the 1997 Spring Fiscal Policy Bill

Government Bill 1996/97:150

The length of a taxation period shall be a calendar year or financial year. The tax rate structure can be progressive, proportional or degressive. Both individual and family taxation are possible. Tax reductions are compatible with the norm if their purpose is not to favour certain groups of persons liable to tax.

The tax base is defined as the sum total of the increase in net wealth and consumption expenditure over a taxation period. Since the tax base defined in this way is difficult to determine empirically, a number of specifications of the norm are required:

i) There may be no savings with untaxed funds. This means, for example, that deductions for pension savings will be defined as a tax concession. Since pension payments are subject to tax, the tax concession is the difference in marginal tax at the time the payment is received and marginal tax on pensions due. ii) Capital gains shall be taxed when they arise and not when they are realised. iii) Deductions may be claimed for the costs of earning an income. Travel to and from work is however regarded as a personal living expense. The reason for this is that the individual liable to tax is regarded as being able to choose where he or she lives. iv) The value of housework and leisure time shall not be included in the tax base. v) Prizes, rewards and scholarships and the like are however regarded as taxable income. vi) Transfers and other benefits are taxable income, likewise the benefit of living in one's own home. The tax benefit of living in one's own home is the difference between the tax on the interest on capital which the individual would have received if the property had been sold and the property tax which the homeowner pays under the current rules. An equivalent tax benefit arises for holders of tenant-ownership rights. vii) Depreciation in a business activity is treated in the tax legislation according to certain standard rules, while according to the chosen norm it should be treated according to the useful economic life of the asset.

Swedish Government Official Reports (SOU) 1995:36

System delimitation	The length of a taxation period shall be a calendar year or financial year; the tax rate structure can be progressive, proportional or degressive; both individual and family taxation are possible. Tax reductions are compatible with the norm if their purpose is not to favour certain groups of persons liable to tax.
Guideline 1	The period of taxation shall be one year, either a calendar year or financial year. To determine the correct taxation year, either the cash basis or accounting on an earnings basis can be used. Legislative provisions shall be designed so as to indicate when one or the other method shall be used, to enable certain persons liable to tax to choose their method. Likewise the same persons liable to tax can choose different methods for different types of income. Note: The guideline determines the principle of the taxation year's close.
2	A tax rate structure applicable to all persons liable to tax belongs to the elements of a normative income tax system. This tax rate structure can be proportional, progressive or degressive. Adjustment for inflation by revaluation of the tax rate structure, when it is progressive, is also part of a normative tax system. The same applies to provisions whose purpose is for other reasons to adjust the tax rate structure, provided that adjustments are made in general.
3	Individual taxation and family taxation can both form part of a normative tax system if they are applied consistently. This applies both to family taxation between spouses and between parents and children.
4	Tax reductions and other deductions from tax are to be regarded as deviations from a normative tax system, if the object of the deduction is to satisfy some social or economic purpose. On the other hand, such tax reduction is not to be regarded as a special provision if it can be considered to form part of the tax rate structure, applicable in principle to all, or criteria whose purpose is to favour persons liable to tax because of social, economic or similar reasons.
5	Provisions whose purpose in an income tax system with a progressive tax rate structure is to create equalisation between incomes during a period longer than one year lie within the framework of a normative tax system. Note: This means that the law on accumulated income and the law on the copyright holder account are compatible with the guideline. On the other hand, the law on the forestry account, if it does not apply to felling of storm-damaged trees, is not compatible with the guideline.
6	In a normative tax system, there shall be provisions enabling a deficit in one year to be set off against a surplus in another year. Note: This applies to a deficit in the same source of income. The set-off of a deficit in a business activity against income from work which applied in 1994 is a tax deviation.
7	If under international tax law there are special rules governing certain types of income or special activities performed by persons liable to tax, they are to be regarded as special provisions.
8	It is permissible in order to avoid international double taxation to apply the exemption method or credit of tax method. It is also possible in the same double taxation agreement to use these methods in parallel.

9	State-owned enterprises (with the exception of the Swedish National Pension Fund), which compete with private enterprises, and organisations which do not operate a business intended to provide a profit for the owners, shall be taxed in the same way as a corresponding private enterprise or organisation which is profit-making. Special provisions for certain persons liable to tax with regard to liability to pay tax on interest on capital and income from business activities are also deviations from a normative tax system.
10	In a normative tax system, a limited company and thus similar corporate bodies (venture capital enterprises as opposed to limited partnerships) may be taxed as a special tax subject.
11	Income earned from an enterprise, such as a partnership (limited partnership), may either be taxed at the partners or at the company.
Principal tax norm	The tax base is equal to the increase or decrease in net wealth added to all consumption expenditure during the period of taxation. Note: All income earned during the taxation period shall be taxed.
Specifications (S)	Since the tax base defined above is impossible to determine empirically, a number of specifications of the principal norm are required. The specification of the principal norm states inter alia that there may be no saving with untaxed funds, and that prizes, awards and scholarships and the like are taxable income. Transfers and other benefits are also table income, likewise the benefit of living in one's own home.
S1	There is no right of deduction for premiums paid into life insurance policies. Life insurance sums falling due for payment shall not be taxed. Note: The right of deduction actually involves two deviations: the saving is done with untaxed funds, and the marginal tax is often higher when the sums are paid in than paid out. If the deviation is measured as the difference in tax on pension amounts falling due for payment and the tax reduction for pension premiums on insurance taken out, the deviation measures the direct liquid effect on the budget. The cost deviation must however be measured as the difference between the tax that should have been paid and the tax that will be paid on a future pension. Also the individual pension saving is contrary to the guideline.
S2	Prizes, awards and scholarships and the like shall be considered taxable.
S3	Transfers in the form of cash support and support in kind, as well as the value of the benefit provided in the form of loans on which interest is charged, which are longer than market loans, should be taxable income if the subsidies are paid out or if the benefits are provided to individuals according to certain criteria, such as need, age, position or similar. Benefits which are received by all citizens do not however support tax deviations. Note: This means that all public transfers are taxable.
S4	The entire value of fringe benefits shall be included in the income of the person liable to tax. Note: Pension costs for employees is an example of such a tax deviation. The benefit is provided to the employee and should thus be taxed at the employee.
S5	The value of assets which are withdrawn from a business activity shall be considered as taxable income. Note: Withdrawal of fuel. Introducing a tax liability would presumably erode the tax base and cause major control problems.

S6	Investment income, such as rents and interest, and interest on capital, shall be liable to tax in a normative tax system. Capital gains are also taxable income. Unrealised capital gains are on the other hand not taxed. Note: The possibility of utilising capital losses for 100 per cent set-off against capital gains, with regard to listed financial instruments, is to be regarded as a tax deviation.
S7	The benefit of living in one's own home/owner-occupied flat shall be taxed on the basis of an alternative capital investment.
S8	Capital gains and capital losses arising from the sale of real estate shall be included in the tax base, when these gains/losses have been realised.
S9	Premiums paid by employers to insurance companies for life insurance schemes, for which the employee is the insured, shall be considered as taxable income for the employee when the premium is paid to the insurer. When the insured amount is paid out in the future it is tax-free. The returns earned by the insurer on the amounts paid in shall be taxed at the insured or at all events at the insurer at the same rate of tax as the insured had been charged. Payments made by the employer with respect to public pension insurances are only taxable at the employee if the pension system is structured as a premium reserve system. Note: The lower rate of tax on the return is a tax deviation.
Limitations	There must be guidelines which limit or restrict the principal norm, partly to prevent certain types of double taxation and partly for administrative reasons. The limitation implies inter alia that income with separate taxation shall not be included in the tax base, that deductions can be claimed for the costs incurred in earning the income,and that the value of certain types of work (e.g. housework and unpaid voluntary work) shall not be included in the tax base.
L1	Income with separate taxation shall not be included in the base on which the income tax is calculated. Note: This permits separate taxation of inheritance, gifts, lottery winnings, totalizator funds, and so on.
L2	The value of own work outside a business activity, such as household services, leisure time activities and unpaid voluntary work, is not taxable income. Note: The guideline entails that production of own work shall not be added to the increase in wealth according to guideline 1.
L3	Deductions may be claimed for all costs which arise in the course of earning and maintaining an income. Consumption expenses are not deductible. Note: Deductions for travel expenses to and from work are a private living expense and are thus a tax deviation.
L4	The cost of buildings, machines and equipment, and intellectual property rights and natural resources used in a business activity, shall be depreciated or amortised over the useful economic life of the asset.
L5	The methods of valuing purchased stocks and establishing costs of production shall be such that they comply with generally accepted accounting principles.

Appendix 4. Government Revenue and Expenditure – Decision-making Processes and Financing Principles

Financial power and normative power[80]

The right to decide over revenues to the State and to have disposal of the assets of the State, through decisions on spending, is known as the financial power. In Sweden, the financial power lies with the Riksdag.[81] The financial power encompasses the two functions of taxation and the determination of the central government budget. The determination of the budget involves the Riksdag making decisions on government expenditure by allotting appropriations for given purposes. The budget determination procedure also includes the Riksdag approving the estimates of State revenues.

As opposed to decisions on spending, which are made within the framework of the budget determination procedure, decisions on taxation are made by means of the Riksdag passing laws.[82] The majority of State revenues consist of taxes which are decided by means of legislation, but there are also other revenues, for example dividends from state-owned companies, which are not decided by the Riksdag but only estimated.

The Riksdag's decisions on taxation are both normative[83] (i.e. the right to decide on general rules of law which are binding on individuals and authorities) and budgetary, since State revenues are estimated within the framework of the budget determination.

The budget process is the decision-making process used to determine government spending, while the legislative process is the process used to determine the revenues to the State.

80 The description is based on Mattson (2000), Den statliga budgetprocessen – rationell resursfördelning eller meningslös ritual? (The central government budget process – rational distribution of resources or meaningless ritual?).
81 The fundamental provisions governing the Riksdag's and the Government's powers in the area of financial power are found in Chapter 9 of the Instrument of Government (1974:152).
82 Chapter 8, section 3 of the Instrument of Government (1974:152). See also Chapter 9, section 1 of the Instrument of Government (1974:152). In many other countries decisions on government spending, i.e. how government funds are to be used, are made in the form of laws.
83 The content of the Riksdag's normative power or normative competence is provided in the Instrument of Government (1974:152).

In order to characterise these processes, a description is provided below divided into the phases of preparation, decision-making, and follow-up and review. The follow-up and review phase contains follow-ups both during the current budget year and after the end of the budget year.

Budget process for decisions on spending

The preparation phase

The Instrument of Government provides that the Government shall deliver a proposal for a central government budget to the Riksdag. The proposal is delivered in the form of a Budget Bill which comprises proposals for government revenue and expenditure for the budget year.[84]

The Budget Act[85], which sets out the Government's powers and obligations in the sphere of financial power, contains specifications and supplements to the provisions of the Instrument of Government and to the Riksdag Act which have relevance for the budget preparation process. Under the Budget Act, the proposal for the budget shall be complete when it is delivered to the Riksdag. This means that revenue and expenditure proposals for the following budget year may not be delivered later than in the Budget Bill. Furthermore, government revenue and expenditure shall be budgeted and accounted for gross on the central government budget. Finally, the Budget Act states that the Government is accountable to the Riksdag for the intended objectives and for the results which have been achieved in various areas of activity. The preparatory works to the Budget Act[86] state that expenditure and activities which are financed by tax revenue must always be handled with the greatest care. When the Riksdag makes decisions, it should therefore have access to information concerning the results which have been achieved thus far and the objectives which are expected to be achieved.

The formulation of the Budget Bill is also treated in an internal document produced by the Government Offices (the budget circular). The budget circular is based on the provisions in the Instrument of Government and in the Riksdag Act and on the requirements in the Budget Act which the Government must satisfy vis-à-vis the Riksdag. According to the circular, the work on the Budget Bill requires the budget proposal to be complete, that only what is relevant for the Riksdag's decision-making should be included in the Budget Bill, and that the requirements for budget preparation provided in the Instrument of Government must be complied with.

84 Chapter 3, section 2 of the Riksdag Act (1974:153).
85 Act (1996:1059) on the Central Government Budget (The Budget Act).
86 Government Bill 1995/96:220, The Budget Act.

The preparation requirements described in the Instrument of Government are the requirements for obtaining information and opinions from the government agencies and the organisations concerned which are applicable to the particular pieces of government business.[87] As regards the performance information to be provided in the Budget Bill, according to the budget circular the governing requirement should be the Riksdag's need for supporting information to enable it to take a position on the budget proposal. It is also considered desirable for the performance information in the Budget Bill to contribute to an understanding of the reasons for the Government's budget proposal.

The decision-making phase

The Riksdag makes decisions concerning the central government budget. The Riksdag's consideration of the Government's budget proposal (the Budget Bill) takes place in two steps, according to the framework model which has been applied since the 1997 budget year.[88]

In the first step, the Riksdag decides on the spending framework for the expenditure areas and also approves the revenue estimates for the budget. The Riksdag also decides which changes to taxation and charges should be implemented.

In the second step of the framework model, the Riksdag decides on the appropriations within the respective expenditure areas. The spending framework for the expenditure areas which was decided in the first step may not be exceeded. Each expenditure area is treated as a package and the Riksdag takes decisions on all appropriations within an expenditure area in a single decision.

The State's funds may not be used in any way other than that decided by the Riksdag, and where spending decisions are concerned the Instrument of Government prescribes solely that "the Riksdag allocates appropriations for stated purposes".[89] The Riksdag's decision to allocate appropriations means that it makes decisions on the purpose of the spending and on the amounts involved. With the appropriations follow conditions governing the right of the Government to exceed allocated amounts and to use unutilised funds during the following budget year. In connection with the Riksdag's consideration of the Government Bill on the central government budget[90], the Committee on the Constitution stated in its report[91] that, formally speaking,

87 Chapter 7, section 2 of the Instrument of Government (1974:152).
88 The framework model is regulated in Chapter 5, section 12 of the Riksdag Act (1974:153).
89 Chapter 9, sections 2 and 3 of the Instrument of Government (1974:152).

the Riksdag has an unrestricted right of detailed determination in connection with the spending authorisations. This means that “the Riksdag is at liberty to set whatever conditions it wishes when specifying the purpose for the appropriations, provided that the conditions have an organic connection with the purpose of the appropriations in question and are not contrary to measures taken previously”.

The follow-up and review phase

Through the introduction of the expenditure ceiling and tighter provisions in the Budget Act, the demands have increased for the Government to follow the development of government expenditure and revenue during the current budget year. According to the Budget Act, the Government is required to inform the Riksdag of expenditure and revenue developments at least twice a year. This is done through the Spring Fiscal Policy Bill and the Budget Bill. Here, the Government must account for and explain any material differences between the budget and the projected outcomes. The preparatory works to the Budget Act state that the term ”material difference” refers both to a difference in relative as well as absolute figures.[92] An amount which is more than five per cent higher or lower than the budgeted amount normally requires an explanation. A material difference in relation to previous projections should be explained even if the deviation cannot be regarded as material in relation to the budgeted amount.

The Government’s accountability to the Riksdag also includes an obligation under the Budget Act to account to the Riksdag for the intended objectives in the proposed budget and for the results which have been achieved in various areas of activity. According to the preparatory works to the Budget Act, it is appropriate to draw attention to the results of state-owned activities in the budget process. The Committee on Finance has also stated[93] that ”there must be a clear connection in the Budget Bill between objectives, results and budget” and that there is ”a value in whether the objectives are expressed in terms which enable them to form the starting point for public policy priorities and discussions”. In the budget circulars, the importance is stressed of it being possible to analyse and account for the connection between objectives, results and resources.

The implementation of the budget is followed up by various checks. The main methods are financial review, performance review and audit. The

90 Government Bill 1995/96:220, The Budget Act.
91 Committee Report 1996/97:KU3, p.17.
92 Government Bill 1995/96:220, The Budget Act, p. 108.
93 Committee Report 2000/01:FiU2, p. 12.

results from these reviews can subsequently form the basis for future budget decisions, when the budget process starts again.

In its Government Annual Report, the Government accounts to the Riksdag for the preliminary outcome of the central government budget. This is in accordance with the Budget Act's requirement for the Government to account to the Riksdag for the preliminary outcome of the budget no later than four months after the end of the budget year. It is at this time that the Government is also required to explain any material differences between the amounts budgeted and the preliminary outcome.

The legislative process for decisions on revenue

As opposed to decisions on spending, decisions on revenue, if they concern tax revenue to the State, must, according to the Instrument of Government, be decided through legislation.[94] Decisions on revenue thus follow the legislative process. Under the Instrument of Government, it is the Riksdag which makes decisions on laws.[95] It is not unusual for this entire process, from first initiative to execution, to take several years.

The preparation phase

Most legislative proposals are initiated by means of the Government appointing a committee to examine the question and to draw up a draft bill.

The basic requirement for the Government's preparation of a draft bill is the procedure by which the bill is submitted for consideration and comment by the involved parties, which is regulated in the Instrument of Government. The purpose of this procedure is to obtain all necessary information and opinions from authorities, organisations and individuals.[96] The Riksdag has indicated that these consultations should normally be in writing.[97]

The Instrument of Government also prescribes that the Government should deliver important draft bills to the Council on Legislation for its opi-

94 Statutory expenditure within, for example, the transfer system, also requires a decision made in law.
95 The Riksdag's normative power is laid down in Chapter 8 of the Instrument of Government (1974:152). Certain elements of the Riksdag's normative power can be delegated (to the Government and to agencies under the Government), but not those elements which concern laws or ordinances which are of the nature of important public law. Tax laws, inter alia, belong to this group. Pursuant to Chapter 8, section 3 of the Instrument of Government (1974:152).
96 The need for draft bills to be submitted for consideration to the involved parties is governed by the preparation requirement in Chapter 7, section 2 of the Instrument of Government (1974:152).
97 Committee Report 2003/04:KU10, p. 56.

nion prior to laying the bill proposing the new legislation before the Riksdag. The task of the Council on Legislation is to undertake juridicial scrutiny of the proposed bill.[98] The Government can dispense with consulting the Council if the question dealt with in the proposed bill is such that there would be no merit in consulting the Council or if consulting the Council would delay the consideration of the legislative business and this would lead to substantial difficulties. In the case that the opinion of the Council is not obtained, the Government is required to account to the Riksdag for the reason for this omission.

The Riksdag Act provides that a draft bill shall contain a statement concerning its preparation and the reasons for the Government's proposal.[99]

Provisions governing the content of government bills have been developed in the "Propositionshandboken" (Government Bill Handbook)[100], which is an internal manual used by the Government Offices for preparing draft bills. This states that a draft bill shall contain a statement as to how the matter arose which the bill seeks to address and stating which committee has examined the question. The statement shall also indicate whether the proposal has been submitted for comment to the involved parties, according to the requirement in the Instrument of Government, and whether the proposal has been scrutinised by the Council on Legislation. If either of these two procedures has not taken place, the reason for this must be given. In the reasons for the Government's proposal, the Government is required to state why it wants the Riksdag to adopt the proposal.

The Government Bill Handbook also emphasises the importance of carrying out problem analyses and consequence analyses prior to decisions being made.

The decision-making phase

The Riksdag's decisions on taxation legislation are made according to the provisions laid down in the Riksdag Act and do not differ from those whch apply in general to other parliamentary decisions of the Riksdag.[101]

According to the budget circulars, there is nothing to prevent legislative issues being included in the Budget Bill. However, the proposals must limit themselves to proposed bills which have a direct connection with matters addressed in the Budget Bill and where it is appropriate that the Riksdag should consider the bill in connection with the determination of the budget.

Owing to the structure of the framework model, where the Riksdag ma-

98 Chapter 8, section 18 of the Instrument of Government (1974:152).
99 Chapter 3, section 1 of the Riksdag Act (1974:153).
100 Ds 1997:1.
101 Chapter 5 of the Riksdag Act (1974:153).

kes decisions on spending and on estimates of State revenue and also considers proposals for changes to taxation at one and the same time, there is a connection between spending and revenue decisions. This is despite the fact that spending and revenue decisions take place through different processes.

As opposed to the determination of the budget, decisions on taxation apply to more than one budget year at a time. In general, there is no time limitation at all and, under the Instrument of Government, laws may not be amended or cease to exist other than by law.

The follow-up and review phase

The Government's accountability to the Riksdag means that it is required to follow closely how government revenue develops in relation to the amounts estimated.[102] Just as in the case of expenditure, the Government must account for the outcome of government revenue at least twice during the current budget year. No later than four months after the end of the budget year, the Government is required to account for the preliminary outcomes of the central government budget.

Under the Budget Act, the Government must explain any material differences between the amounts budgeted and estimated, and the preliminary outcomes.[103] Since the Riksdag approves an estimate of the government revenue and not a budgeted amount, it is not quite clear what the Budget Act's provisions mean as regards how the Riksdag should comment on deviations on the revenue side. The preparatory works to the Budget Act[104] provide some guidance on this point, however, stating that the Government must provide information concerning each appropriation and revenue heading, and must also explain any material differences in relation to the amounts estimated and decided by the Riksdag.

The Committee on Finance has observed that there has been no comment on the fact that certain revenue headings relating to tax reductions have been exceeded by relatively large amounts.[105] In the Committee's opinion, the Government should in future comment on all major deviations.

There is no follow-up of results on the revenue side equivalent to the annual follow-up of results made on the expenditure side. This means that there is no annual scrutiny on the revenue side.

The scrutiny only takes place where new or changed provisions for taxation or charges are proposed. The procedure for evaluating taxes is thus

102 Section 35 of The Budget Act (1996:1059).
103 Sections 36-37 of The Budget Act (1996:1059).
104 Government Bill 1995/96:220, The Budget Act, p. 74 f.
105 Committee Report 2005/06:FiU24, p. 9.

unsystematic and is done by means of the Government appointing a committee or charging some government agency with the task of evaluating an individual tax or tax provision.[106]

Financing principles

In addition to the surplus target and the expenditure ceiling, there are, as previously mentioned, other principles and restrictions governing the budget work of the Government, the so-called "financing principles". These financing principles are set out in the instructions for the preparation of the budget carried out by the Government Offices which are issued annually by the Ministry of Finance. The financing principles apply unless the Government decides to depart from them.

The financing principles for the expenditure and revenue sides of the budget which follow below are taken from the Government's internal budget circular prior to the 2006 Spring Fiscal Policy Bill.

It appears from the circular that a number of budgeting principles determine the framework for how financing will take place. These budgeting principles are the principle of completeness in the central government budget, the gross accounting principle, that the surplus target and expenditure ceiling set the limits for proposals on spending and tax reforms, and that administrative costs shall not be budgeted for or financed under an appropriation for a direct grant. These budgeting principles, according to the circular, need to be supplemented with a number of principles to enable financing of increases in expenditure and decreases in revenue during the budgeting phase as well as the current budget year.

According to the circular, the financing principles are motivated chiefly by budget policy targets. Owing to the structure of the expenditure ceiling, the financing principles are focused on the expenditure side and greatly limit, for example, the use of revenue increases. Furthermore, the natural consequence of the surplus target is the application of strict financing principles on both the expenditure and revenue sides.

On the expenditure side, the following financing principles apply during the budgeting phase:

106 An example of the latter is the evaluation of the home computer loan system done in the past year by the Swedish Agency for Administrative Development. See the Report of the Swedish Agency for Administrative Development 2005:14, The home computer loan system: free of charge for employers - expensive for the State and municipalities.

- The expenditure area framework sets limits for proposals and redistributions between appropriations and expenditure areas
- Expenditure increases must be financed by expenditure reductions
- Permanent increases in expenditure shall be financed by permanent reductions in expenditure
- Savings on appropriations shall be based on changes in legislative provisions. Expenditure reductions as a result of macroeconomic changes or volume changes may not be used as financing
- Appropriation savings and reservations may not be used as financing
- There may be no redistributions from transfer appropriations to administrative cost apppropriations
- Government grants or state subsidies to municipalities and county councils shall be adjusted for measures decided by the Government which are directly aimed at local government activities.

According to the circular, the revenue side is important for achieving the surplus target, and the commitments on the revenue side shall therefore be prepared in connection with the preparation of expenditures. The preparation of revenue-related proposals shall take place in connection with the Spring Fiscal Policy Bill and the Budget Bill. The timetable which applies to the preparation of proposals which affect expenditure thus also applies to revenue-related proposals. In the case of decreases in revenue, the following financing principles apply:

A decrease in revenue related to an expenditure area shall be financed by means of one of the following:

- the reduction of an expenditure
- the raising of a tax or charge, or
- the utilisation of projected budgetary scope over and above the surplus target (in practice this means that no financing is indicated).

Appendix 5. Tax Expenditures Subjected to More Careful Review

Designated tax expenditures according to the Statement of Tax Expenditure in the 2006 Spring Fiscal Policy Bill

A3	Deductions on earnings for seafarers
A6	Regional increases in basic deductions
A9	Deductions for travel expenses incurred in commencing or leaving certain employment in the EEA
A10	Reduced tax for foreign key personnel
A13	Benefit of personal computer
A14	Benefit of environmental vehicles
D2	Distrubution of shares in unlisted companies
D10	The Limitation Act
F1	Reduction with a certain focus on small companies, social security contributions for self-employed
F2	Regional reduction of social security contributions for self-employed
F3	Reduction aimed at small companies and regional reduction for employers' social security contributions
F4	Temporary reduction of employers' social security contributions for sole proprietorships 2006–2007
G4	Temporary suspension of special tax on certain earned income and pension costs for sole propietorships 2006–2007
H6	Conveyance of passengers
H8	Books, periodicals and magazines, etc.
H13	Admission fees to zoological parks
I10	Deductions for energy tax on fuel in combined power and heating plants
I14	Temporary exemption from energy tax on diesel fuel for working machines in the forestry industry
I18	Exemption from energy tax on electricity for participants in energy efficiency programmes within industry
I22	Reduction of CO22 tax on diesel fuel for working machines in the agricultural and forestry industries
I23	Temporary exemption from CO22 tax on diesel fuel for working machines in the forestry industry
I29	Reduction of CO22 tax on fuel in combined power and heating plants
J1	Tax reduction for connection to broadband
J2	Tax reduction on charges to the unemployment benefit fund
J3	Tax reduction on trade union dues

J4	Tax reduction for building work under the ROT scheme
J5	Tax reduction on seafarers' earnings
J6	Tax reduction for storm-damaged forests
J7	Limitation rule for small self-contained houses
J8	Limitation rule for wealth tax
K1	Employment subsidies for the long-term unemployed
K2	Employment subsidies for persons on long-term sick leave
K3	Sheltered public employment (OSA)
K4	Domestic shipping subsidies
K5	Temporary employment subsidies to municipalities and county councils
K6	Stimulating investment in small rental dwellings and student dwellings
K7	Investment incentives for pre-separation of waste at source
K8	Investment incentives for energy and environmental investment in public premises
K9	Investment support for conversion from direct-acting electric heating in dwelling houses
K10	Investment support for conversion from oil-fired heating in dwelling houses
K11	Training for personnel in nursing and care of the elderly
K12	Subsidised training deputyships
K13	The "plusjobb" subsidised wages scheme
K14	Certain installations for environmental improvement in small self-contained houses
M9	Nuclear power tax
Tax expenditures which were introduced prior to 1997 but changed to a great extent after 1997	
A1	Employer's costs of employees' pensions
A2	Tax on income in close companies
A7	Deduction for increased living costs arising from temporary work, dual residence and commuting
A26	Staff welfare
C5	Provision for staff fund
C13	Subsidies to the National Museum of Science and Technology and the Swedish Film Institute