



RIKSREVISIONEN  
*The Swedish National Audit Office*

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Uniform taxation?

## Summary

The early 1990s saw the implementation of a radical tax reform in Sweden which has later come to be called the 'tax reform of the century'. It was preceded by considerable investigative efforts that thoroughly examined various aspects of the design of the tax system. The aim of the tax reform was to create a long-term stable tax system that would be more efficient than its predecessor from the perspective of the national economy and public finances. At the same time, the policy objectives for the redistribution of wealth were to be maintained. One fundamental principle of the tax reform was that *equal income should be equally taxed* (referred to below as 'uniform taxation'). This also applied to various types of consumption, which were to be subject to the same tax rate.

Since that tax reform, a large number of changes have been made to the rules. Several of them can be deemed to constitute deviations from the principle of uniform taxation. It is therefore relevant to ask what weight the various Governments have assigned in practice to that principle: Is there an explicit orientation away from one of the fundamental principles of the 'tax reform of the century'? Has the Government presented and given reasons for deviations from the principle of uniform taxation when the tax system has been modified?

The present audit by *Riksrevisionen* (the Swedish National Audit Office, SNAO) sheds light on these issues in relation to a selection of rule changes that have taken place since the tax reform, which is a natural starting point given that the Riksdag stated as recently as 2009 that the guiding principles of the 1990–1991 tax reform should continue to inform legislative work and that the number of special rules should be kept to a minimum.

The existence of a large number of special rules and exceptions will make the tax system less transparent and more difficult to grasp. It may also cause problems in delimitation and increase the costs of tax administration.

The present audit focuses on the *reasons given* for deviations from the principle of uniform taxation. The aim is not to assess whether those deviations were beneficial to society or not. The audit also does not cover excise taxes. While excise taxes were covered by the tax reform, they are non-uniform by definition.

To provide a more complete picture of the changes that have taken place in the tax system since the reform, a presentation of those changes is annexed to the performance-audit report. We have counted 509 proposed tax-legislation changes in 1992–2009 (or 385 if excise taxes are excluded).

## **The tax reform**

The tax reform of the early 1990s aimed to solve a number of problems: it was intended to reduce opportunities for tax avoidance and evasion, broaden tax bases and reduce marginal effects. While the reform did not result in a truly uniform tax system where labour and capital were taxed equally, the Swedish tax system did become significantly more uniform in that all income belonging to the same category was taxed equally.

The evaluation carried out after the tax reform showed that it had been successful in several respects and that levels of wealth had risen for large groups of income earners, even though the fact that the reform was under-financed had also created problems. Later government inquiries into the design of the tax system have stressed the importance of uniform taxation. The Tax Base Inquiry emphasised this, even though it also noted that the deviations made from that principle in the field of capital taxation had to be considered inevitable. The VAT Inquiry recommended a uniform VAT rate, deriving some of its arguments from the fundamental ideas underpinning the tax reform.

## **The principle of uniform taxation has become less important**

In the present report we examine a selection of those changes to tax legislation that have entailed deviations from the principle of uniform taxation. We address VAT, social-security contributions, tax relief for household services (RUT) and for the repair, maintenance, re-building and extension of certain homes (ROT), employment support and certain parts of the taxation of employment and capital income.

Various reasons – increasing the labour supply, supporting certain regions or industries, etc. – have been given to justify deviations from uniform taxation. However, the need to adjust to international conditions has only rarely been the reason for changes to tax rules in the cases we have examined. We have noted the following about the deviations from uniformity that we have studied:

- In cases where proposed changes entailed a deviation from the principle of uniformity, the Government only exceptionally stated this in its texts relating to the proposal. One such exception was the first time that the ROT tax relief was introduced. Since this was seen as a temporary measure, however, the deviation from uniformity was not deemed to constitute a strong enough argument against the proposal. The ROT tax relief has subsequently become permanent.
- Even where the documentation provided to the Riksdag as a basis for its decision did not make it clear that a change constituted a deviation from the principle of uniformity, in most cases examined by us those changes have come to be treated as tax deviations by the Government. The exceptions include certain major changes, for example in relation to the taxation of employment income.

- The principle of uniformity is used in an elastic manner. Since 2007, differences in the taxation of current employment income (wages and salaries) and deferred employment income (old-age pensions) are seen as compatible with the principle of uniform taxation. The earned-income tax credit is consequently not seen by the Government as a deviation from the principle of uniformity and is thus not included in the presentation of tax expenditures. The increased basic personal tax allowance for the least well-off pensioners is also excluded from that presentation.
- In some cases the Government has expressed the opinion that the effects of the deviations from uniformity should be evaluated, but the Government has rarely initiated such evaluations. In their absence, it is uncertain what the positive effects of the rule changes may have been.
- Special rules have created a demand for new special rules; this is particularly clear in the VAT field.

Our general conclusion from our audit of tax policy is that the principle of uniformity no longer appears to be as important as it was at the time of the 1990–1991 tax reform and for a few years thereafter. We have further found that the criticism previously levelled by the SNAO against the Government's presentation of tax expenditures – to the effect that the underlying principles have changed over time – remains valid.

### **'Optimal taxation' is highlighted as an alternative standard**

The current guidelines for tax policy, which were presented by the Government in 2008 and subsequently endorsed by the Riksdag, set out a number of objectives for tax policy: it should help increase permanent employment, create good conditions for business and investment, promote general and fairly distributed welfare and higher employment, help manage negative impacts on the environment and public health, and strengthen citizens' confidence in the tax system. The principle of uniformity remains a general requirement imposed on tax policy, but its importance seems to have decreased. The Government has also in recent years been increasingly clear that it wishes to emphasise the theory of optimal taxation as an alternative standard for taxation. Under this theory, put simply, tax rates and tax rules are differentiated across taxpayers or activities with a view to increasing economic growth and reducing the negative effects that taxes exert on the national economy.

Far-reaching application of optimal-taxation theory would entail very radical changes in Swedish tax policy. Before any such radical changes are made, investigations at a more general level should be carried out to shed light on the advantages and disadvantages of the new principle.

## **Recommendation**

The SNAO recommends that the Government should do the following:

- Whenever deviations from the principle of uniformity are proposed, it should be clear from the relevant Government Bills that this is the case. The disadvantages of deviating from uniform taxation should be weighed against the advantages that a rule change is expected to entail. It should also be clear whether such a deviation should be deemed to constitute tax expenditure.