

## Special payroll tax for older people

– reporting and effects

### Summary and recommendations

The Swedish National Audit Office has audited whether the Government's preparation and reporting of tax expenditure in the form of reduced special payroll tax for persons over the age of 65 has been clear and appropriate. The audit also included assessing whether the reduced special payroll tax for older people had the potential to achieve the objectives of the measure supported by the Riksdag. That is, if changes in the special payroll tax for older people affect their ability to continue working and to run their own businesses.

The Swedish NAO's overall conclusion is that the Government has not presented sufficient data for it to be possible to assess the effects of tax expenditure in the form of a reduced or abolished special payroll tax for older people. It is also unclear whether the reforms of the special payroll tax for older people have fulfilled the Riksdag's intentions.

### **Audit findings**

**The Government's preparation and reporting have not been clear and appropriate**

The Swedish NAO's conclusion is that the Government's preparation and reporting of tax expenditure in the form of reduced special payroll tax for persons over the age of 65 has not been clear and appropriate. It is therefore not possible to assess the effects of the tax expenditure. Furthermore, the Government has not treated tax expenditure the same as support on the expenditure side of the budget in the annual budget process.

The Government has presented the reasons or purpose for all proposals for regulatory changes audited by the Swedish NAO. On the other hand, the Government has not always reported separately the effects of the proposals on public finances. The effects the Government chooses to report also vary, as well as how the Government has chosen to report changes to the special payroll tax for older people in its tax expenditure reporting. Although the aim was mainly to

influence employment among older people, the Government does not always report the potential employment effects of the proposed rule changes.

Nor has the Government followed up on the current tax expenditure or reported any assessment of its effectiveness. This makes it more difficult for the Riksdag to prioritise initiatives that deliver the intended outcome. In recent years, however, the Government has begun to present in-depth analyses of individual tax expenditures in its communication on tax expenditure to the Riksdag.

### Uncertain if reduced special payroll tax contributes to higher employment among older people

The Swedish NAO's conclusion is that it is uncertain whether tax expenditure in the form of reduced special payroll tax for older people has fulfilled the Riksdag's intentions to increase employment among older people. Previous studies of payroll taxes for older people do not give any clear answers as to the effects that can be expected from this type of support. The fact that the special payroll tax for older people has changed several times in recent years also creates uncertainty for employers and employees and can thus influence the effects of tax expenditure. At the same time, there are several signs that older people work more today than before even without targeted tax relief. Thus, there is a risk that a reduced special payroll tax for older people subsidises an increase in employment among older people which would have occurred anyway.

One difficulty in studying the effects of the reduced special payroll tax is that the reform was introduced at the same time as several other reforms. The evaluations carried out, both by the Government and others, have not been able to separate the effects of the earned income tax credit and the abolished special payroll tax for older people. To try to clarify the effects of a changed special payroll tax, the Swedish NAO has carried out an empirical calculation of the effects on employment and self-employment of the special payroll tax introduced in 2016.

The Swedish NAO's empirical analysis of the special payroll tax introduced for older people shows that employment among employed 65-year-olds was not particularly affected. However, the payroll tax introduced seems to have had a certain negative effect on entrepreneurship for those over the age of 65. The effect is not great compared with other studies, but indicates that there may be differences between how a changed special payroll tax affects entrepreneurship and employment among older people. In particular, women run their own business to a lesser extent since the reintroduction of the special payroll tax. However, the results are difficult to interpret as the analysis also shows that income from business activities decreases for men, but not for women. It also appears as if those who started their own company around the age of 65 or those who combine their own company with employment run businesses to a lesser extent due to the reform.

It is not possible, based on the Swedish NAO's empirical analysis, to draw direct conclusions on the effects of abolishing special payroll tax for older people. The reason is that the effects are not necessarily the same when introducing the tax as when abolishing it. For this reason, it is of great importance to also analyse the effects of the abolished payroll tax in 2019, when statistics for such analysis become available.

## **Recommendations**

The Swedish NAO recommends that the Government:

- clarify how reported tax expenditure changes when rules for special payroll tax for older people are amended.
- present a follow-up analysis of the tax expenditure reported due to the reduced special payroll tax for older people within the framework of tax expenditure accounting.
- in particular, follow up and evaluate the abolition of the special payroll tax for older people in 2019 with a focus on the assessment of employment effects.