

Sweden

Tax system

Tax unit

In Sweden the tax system has been individualised since 1971.

Tax bands

The Swedish income tax system is characterised by two tax bands (less or equal 209 000 SEK and higher) and two average income tax rate ($t_1 = 0,31$ and $t_2 = 0,55$).

The lowest basic tax deduction is 8 900 and the highest 18 100 SEK. The basic deduction corresponding to the average gross income is 10 400 SEK for women and 8 900 SEK for men. It is also interesting to note that the gross income level which maximise the basic tax deduction (versus minimize the income tax) corresponds to a working time of approx. 25 hours a week.

After the 1991 tax reform the average marginal tax rate was 40%. As previously mentioned there is in Sweden separate taxation. However, the base for various transfers and fees is the income of the household. The fact that these transfers and fees are income related may influence the allocation of working time between spouses. The total marginal effect in Sweden may be divided into three main components: marginal income tax, housing allowance and public day care fees. (See section 2.4 for a description of the various income related transfers)

The theoretical highest marginal tax effect could before the tax reform exceed 100%. In other words, an increase in gross income could lead to a decreased in net income.

Child allowance

Child allowances are not income related. If you have a child under the age of 16 you will receive a general child allowance. The amount is 7 680 SEK per child and year.

Social Security System

Structure and contributions

The various social insurance benefits are mainly financed through revenues from the compulsory social insurance contribution levied on firms and self-employed (payroll tax). Social insurance contributions collected in the fiscal year 1994/1995 amounted to SEK 175 billion of which only 28 % was included in the Government budget. The bulk of these revenues (72 %) was allocated to funds and accounts outside the national budget.

These social insurance contributions are collected each month by the National Tax Board (Riksskatteverket). The funds are thereafter transferred to the National Insurance Board (Riksförsäkringsverket) which allocates the revenues from the various earmarked social contributions into various funds in order to finance seven separate benefits.

Sweden has relatively high compulsory social insurance contributions (33.1%), but up to 1993, Sweden had no compulsory employee contribution. Since then there is a special levy for sickness insurance paid by the employees and in January 1994, a tax aimed to partly cover the growing deficit in the unemployment insurance system, was introduced.

A general contribution ("Allmän egenavgift") was introduced in 1993 to cope with the growing public deficit. This General Tax Contribution amounts to around 4 % of gross incomes in which pensions are based, that is besides wage, sickness benefit, parental leave, unemployment compensation etc. This contribution is thus only paid by the employees.

To sum up, none of the social contribution items varies in relation to labour income. All social security contributions are paid as a fixed rate on the employer wage bill. Hence, the Swedish social contributions are neutral with respect to labour income level and working time.

Benefits

■ Sickness cash benefit

The Swedish sickness insurance was made universal in 1955. The health insurance system is, therefore, not directly linked to working life and there are no legal thresholds in working time affecting entitlement to health insurance. However, the level of benefit is related to actual income. It is paid for an unlimited period and is subject to income tax. ■

In order to reduce the increasing deficit in public expenditures, the sickness insurance system has, recently, been reformed. In the early nineties, benefits were lowered from 90 % to a replacement rate of 75 % of previous income and one waiting day was introduced. Payment for the first 28 days of sickness benefits has also been shifted to the employers. If the employee is still sick after this period, the social insurance office pays the benefits.

Sickness benefits are restricted to those days that a person would have worked if not being sick. Nevertheless, it must be noted that it is quite common that the compensation from public system is supplemented by additional payments from contractual insurance and special provision in collective agreement.

More precisely, a person is entitled to sickness allowance if the annual earned income exceeds an estimated 6 000 SEK per year. If a person is employed for at least a month he/she is entitled to sick pay from the first day of the employment. A person employed for a shorter period than a month is entitled to sick benefit if employment has started and been ongoing for a continuous period of 14 calendar days.

The pension system

The Swedish pensions system is divided mainly into two schemes: the basic pension scheme (Folkpension) and the supplementary pension scheme (Allmän tilläggspension - ATP). Benefits of the first scheme, introduced in 1913 when the general retirement age was 67 years, were not related to income and with almost universal eligibility. To obtain full basic pension it is necessary to have been a resident in Sweden for 40 years or to have 30 years of ATP points. If a person has lived less than 40 years in Sweden or has less than 30 years of ATP points, the pension is reduced by 1/40 respectively 1/30 for each year missing. The second system, ATP, covers all wage earners and self-employed. Benefits from this scheme depends on individual earnings histories (pensions points system). If you have had an income from employment that exceeds the yearly base amount (36 000 SEK) you are entitled to ATP. The ATP pension is based on the average of the 15 years that the individual had the highest income. In order to achieve maximum ATP a person must have worked for 30 years. A person not qualified for ATP receives a basic pension scheme supplement.

The legal retirement age is 65 years. You may start drawing the pension either before or after 65, but not before the month in which you reach the age of 60. If you start drawing the pension before the age of 65 the pension will be smaller and will remain smaller for the rest of your life. If you wait until 65 the pension will be larger. After the age of 70, waiting no longer increases the size of the pension. The design aims at giving individuals the same average pension during the life time independently at which point of time the pension starts to be drawn. During the last decade, there has been in Sweden a clear tendency towards a more varied and earlier pension in time, but compared to other European countries the employment rate of older people remain high.

The basic pension system also gives the right to early retirement through the disability pension scheme (Förtidspension). Individuals are entitled to a full or partial disability pension depending on work invalidity. Originally, eligibility was based on a concept of work incapacity based on medical factors. From the early 1970s a disability pension could be obtained "for labour market reasons" for those over sixty years of age. In practice it was often extended under this age. Due to public budget constraints early retirement for labour market reasons was abolished in 1991.

Since 1976, pension may also be taken on a part-time basis according to the Partial Pension Scheme Act (Delpension). The recipients may reduce working time up to 10 hours per week. Working hours per week must nevertheless range between 17 and 35 hours. The benefits are paid from a fund financed by the employers (Pay roll tax) and administered by the National Social Insurance Board. The replacement rate was at the origin set at 65 % of previous gross income which due to the strong progressivity of the Swedish tax system meant a considerable higher replacement rate. The Conservative Government lowered the replacement rate for the first time in 1980 to 50 % of gross income for new applicants. In July 1987 the replacement the new elected Social-Democratic Government again increased rate to 65 %. Due to increasing deficits in early part-time retirement found the replacement rate was, from 1994, reduced to 55 % of gross income.

A new pension system is going to replace the present national basic pension and national supplementary system (ATP). The current system has been questioned during many years and a new system will probably be implemented in 1999. The new system, just like the current one, will be compulsory and income related. The new pension will be based on the total income of each individual throughout their whole working lives. In addition to earned income, periods of caring for children, national service and certain higher education will give entitlement to pension. Married couples born in 1954 or later will be able to share these joint pensions rights if they agree on it. Several commissions have put forward inquiries regarding the new pension system. However, the design is not yet, in September 1997, entirely settled on.

Unemployment compensation system

Unemployment compensation is given in two forms, either as income related unemployment insurance (UI) or as labour market assistance (KAS).

The unemployment insurance funds are currently administrated by 40 trade unions. The unemployment insurance system is voluntary for individual wage earners but for most trade unions, membership in the unemployment insurance funds is compulsory for union members. On the other hand, union membership is not obligatory for members of unemployment insurance funds. Any employee working in an industry covered by an unemployment insurance fund is entitled to become a member.

Owing to the voluntary nature of the Swedish Unemployment Insurance the trade unions determine the member's contribution rate. These employee contributions have over time, therefore, been increasingly supplemented with subsidies from the state budget.

Compensation is paid to unemployed that has been members of a certified unemployment insurance fund for at least 12 months - the membership requirement. In order to become a member a person must work for at least 17 hours the week for application. In addition, the unemployed must have worked for at least 5 months during the 12-month period before the unemployment spell - the work requirement. The insurance rules also permit that the work requirement can be met by participation in labour market programs.

The compensation is, at present, 75 per cent of previous earnings¹. Unemployment insurance is paid for a maximum of 300 days for those under 55 years of age. This represents about 60 weeks (420 days) since only workdays count. In October 1983 unemployment insurance recipients were given the right to a relief work at the end of the benefit period. Since the length of the temporary relief work scheme (6 months) is equal to the length of work requirement the individual is entitled to a new period of benefits. The same rule exists for participant in labour market training. The unemployment insurance is renewable with 5 months job offer.

It should also be noted that in order to be eligible to unemployment benefits the unemployed persons must have worked at least 3 hours per for at least 80 days during 12 months before the unemployment spell. As mentioned earlier this working time limit creates therefore an incentive to work at least long part time.

The other benefit system, Cash Assistance (KAS), provides unemployment benefits for those who are not covered by the certified funds. To qualify for Cash Assistance either a work or schooling requirement must be fulfilled. The work requirement is the same as that for unemployment insurance. The schooling requirement means that individuals who have completed one years full time study qualify for benefits. There is also a possibility to qualify for KAS for school-leavers. Individuals who enter the labour market directly from school can receive KAS after a waiting period of 90 days.

The same rules concerning registration at the employment agency and acceptance of suitable work apply. The daily cash assistance is not means tested and is much lower than the daily benefit from the Unemployment Insurance-funds: KAS is SEK 230 per day while the maximum amount in the unemployment insurance-system is as mentioned above SEK 546 per day. The benefit period with cash assistance for those under 55 years is 150 working days. Both wage replacement benefits take the form of a daily benefit and are subject to income taxation.

In case of involuntary part-time on a permanent basis² the wage earner can be compensated for the difference between full time and part time earnings through the unemployment insurance system but not for more than one benefit period (300 days) at a replacement rate of 75 %. If the qualification rules are fulfilled (work and membership requirement) and if a person has a full time permanent job (ex. short term contract, substitute) and is forced, for labour market reason to accept a part-time job he/she can thus be compensated for the difference between full time and part time. The possibility to receive compensation for the difference between full-time and part-time earnings is based on former employment contract and not on how much a person would prefer to work.

Parental leave scheme

Compensation is from Oct -97, 80 % of previous earnings³ after a five day waiting period. The compensation can be at the most 580 SEK per day.

▯ Individuals with fixed -term part time employment contract are not eligible.

Average male earnings for men and women

Average income

			Gross earnings			Basic deduction		Gross earnings-		Tax payable		Effective average tax rate			Net income after taxes		
	A	SEK	B	SEK	A+B	A	B	Basic		A	B	A	B	A+B	A	B	A+B
Single	AI	237300	0	0	237300	8900	0	228400	0	84952	0	0,35799	0	0,35799	152348	0	152348
Married																	
Sole earner	AI	237300	0	0	237300	8900	0	228400	0	84952	0	0,35799	0	0,35799	152348	0	152348
Full/Part time	AI	237300	0,25AI	59325	296625	8900	8900	228400	50425	84952	18004,7	0,35799	0,30349	0,34709	152348	41320,	193668,
	AI	237300	0,5AI	118650	355950	8900	17100	228400	101550	84952	36226,5	0,35799	0,30532	0,34043	152348	82423,	234771,
	AI	237300	0,75AI	177975	415275	8900	11100	228400	166875	84952	58850,2	0,35799	0,33066	0,34628	152348	119124	271472,
Both full time	AI	237300	0,75AI	177975	415275	8900	11100	228400	166875	84952	58850,2	0,35799	0,33066	0,34628	152348	119124	271472,
	AI	237300	AI	237300	474600	8900	8900	228400	228400	84952	84952	0,35799	0,35799	0,35799	152348	15234	304696
	AI	237300	2AI	474600	711900	8900	8900	228400	465700	84952	224959	0,35799	0,47399	0,43532	152348	24964	401989

Average male earnings for men and women

High income

			Gross earnings			Basic deduction		Gross earnings-		Tax payable		Effective average tax rate			Net income after taxes		
	A	SEK	B	SEK	A+B	A	B	Basic		A	B	A	B	A+B	A	B	A+B
Single	2AI	474600	0	0	474600	8900	0	465700	0	224959	0	0,47399	0	0,47399	249641	0	249641
Married																	
Sole earner	2AI	474600	0	0	474600	8900	0	465700	0	224959	0	0,47399	0	0,47399	249641	0	249641
Full/Part time	2AI	474600	0,25AI	59325	533925	8900	8900	465700	50425	224959	18004,7	0,47399	0,30349	0,45505	249641	41320,	290961,
	2AI	474600	0,5AI	118650	593250	8900	17100	465700	101550	224959	36226,5	0,47399	0,30532	0,44026	249641	82423,	332064,
	2AI	474600	0,75AI	177975	652575	8900	11100	465700	166875	224959	58850,2	0,47399	0,33066	0,43490	249641	119124	368765,
Both full time	2AI	474600	0,75AI	177975	652575	8900	11100	465700	166875	224959	58850,2	0,47399	0,33066	0,43490	249641	119124	368765,
	2AI	474600	AI	237300	711900	8900	8900	465700	228400	224959	84952	0,47399	0,35799	0,43532	249641	15234	401989
	2AI	474600	2AI	474600	949200	8900	8900	465700	465700	224959	224959	0,47399	0,47399	0,47399	249641	24964	499282

Average male earnings for men and women

Low income

			Gross earnings			Basic deduction		Gross earnings-		Tax payable		Effective average tax rate			Net income after taxes		
	A	SEK	B	SEK	A+B	A	B	Basic		A	B	A	B	A+B	A	B	A+B
Single	0,75AI	177975	0	0	177975	11000	0	166975	0	48795,	0	0,27416	0	0,27416	129179,	0	129179,
Married																	
Sole earner	0,75AI	177975	0	0	177975	11000	0	166975	0	48795,	0	0,27416	0	0,27416	129179,	0	129179,
Full/Part time	0,75AI	177975	0,25AI	59325	237300	11000	8900	166975	50425	48795,	18004,7	0,27416	0,30349	0,28150	129179,	41320,	170500
	0,75AI	177975	0,5AI	118650	296625	11000	17100	166975	101550	48795,	36226,5	0,27416	0,30532	0,28663	129179,	82423,	211603,
	0,75AI	177975	0,75AI	177975	355950	11000	11100	166975	166875	48795,	58850,2	0,27416	0,33066	0,30241	129179,	119124	248304,
Both full time	0,75AI	177975	0,75AI	177975	355950	11000	11100	166975	166875	48795,	58850,2	0,27416	0,33066	0,30241	129179,	119124	248304,
	0,75AI	177975	AI	237300	415275	11000	8900	166975	228400	48795,	84952	0,27416	0,35799	0,32206	129179,	15234	281527,
	0,75AI	177975	2AI	474600	652575	11000	8900	166975	465700	48795,	224959	0,27416	0,47399	0,41949	129179,	24964	378820,

Gender specific wages

Average income

	Gross earnings					Basic deduction		Gross earning Basic deduction		Tax payable		Effective average tax rate			Net income after taxes		
	A	SEK	B	SEK	A+B			A	B	A	B	A	B	A+B	A	B	A+B
Single	AI	237300	0	0	237300	8900	0	228400	0	89847	0	0,38	0	0,38	147453	0	147453
married/cohabitants																	
Sole earner	AI	237300	0	0	237300	8900	0	228400	0	89847	0	0,38	0	0,38	147453	0	147453
full/part time	AI	237300	0,25 AI	46225	283525	8900	8900	228400	37325	89847	13420	0,38	0,29	0,36	147453	32805	180258
	AI	237300	0,5 AI	92450	329750	8900	15400	228400	77050	89847	27584	0,38	0,3	0,36	147453	64867	212320
	AI	237300	0,75 AI	138675	375975	8900	15100	228400	123575	89847	43855	0,38	0,32	0,36	147453	94820	242273
both full time	AI	237300	0,75 AI	138675	375975	8900	15100	228400	123575	89847	43855	0,38	0,32	0,36	147453	94820	242273
	AI	237300	AI	184900	422200	8900	10400	228400	174500	89847	61491	0,38	0,33	0,36	147453	123409	270862
	AI	237300	2AI	369800	607100	8900	8900	228400	360900	89847	163127	0,38	0,44	0,42	147453	206673	354126

Gender specific wages Income after taxes,

High income

	Gross earnings					Basic deduction		Gross earning Basic deduction		Tax payable		Effective average tax rate			Net income after taxes		
	A	SEK	B	SEK	A+B	A	B	A	B	A	B	A	B	A+B	A	B	A+B
Single	2AI	474600	0	0	474600	8900	0	465700	0	224959	0	0,47	0	0,47	249641	0	249641
married/cohabitants																	
Sole earner	2AI	474600	0	0	474600	8900	0	465700	0	224959	0	0,47	0	0,47	249641	0	249641
full/part time	2AI	474600	0,25 AI	46225	520825	8900	8900	465700	37325	224959	134198	0,47	0,29	0,46	249641	32805	282446
	2AI	474600	0,5 AI	92450	567050	8900	15400	465700	77050	224959	275835	0,47	0,3	0,45	249641	64867	314508
	2AI	474600	0,75 AI	138675	613275	8900	15100	465700	123575	224959	438553	0,47	0,32	0,44	249641	94820	344461
both full time	2AI	474600	0,75 AI	138675	613275	8900	15100	465700	123575	224959	438553	0,47	0,32	0,44	249641	94820	344461
	2AI	474600	AI	184900	659500	8900	10400	465700	174500	224959	61491	0,47	0,33	0,43	249641	123409	373050
	2AI	474600	2 AI	369800	844400	8900	8900	465700	360900	224959	163127	0,47	0,44	0,46	249641	206673	456314

Gender specific wages Income after taxes, low income

Income after taxes, low income

	Gross earnings					Basic deduction		Gross earning Basic deduction		Tax payable		Effective average tax rate			Net income after taxes		
	A	SEK	B	SEK	A+B	A	B	A	B	A	B	A	B	A+B	A	B	A+B
Single	0,75 AI	177975	0	0	177975	11000	0	166975	0	58881	0	0,33	0	0,33	119094	0	119094
married/cohabitants																	
Sole earner	0,75 AI	177975	0	0	177975	11000	0	166975	0	58881	0	0,33	0	0,33	119094	0	119094
full/part time	0,75 AI	177975	0,25 AI	46225	224200	11000	8900	166975	37325	58881	13420	0,33	0,29	0,32	119094	32805	151899
	0,75 AI	177975	0,5 AI	92450	270425	11000	15400	166975	77050	58881	27584	0,33	0,3	0,32	119094	64867	183960
	0,75 AI	177975	0,75 AI	138675	316650	11000	15100	166975	123575	58881	43855	0,33	0,32	0,32	119094	94820	213914
both full time	0,75 AI	177975	0,75 AI	138675	316650	11000	15100	166975	123575	58881	43855	0,33	0,32	0,32	119094	94820	213914
	0,75 AI	177975	AI	184900	362875	11000	10400	166975	174500	58881	61491	0,33	0,33	0,33	119094	123409	242503
	0,75 AI	177975	2 AI	369800	547775	11000	8900	166975	360900	58881	163127	0,33	0,44	0,41	119094	206673	325767