

## Follow-up by the Riksdag of exceptions from the standard tax rate for value-added tax in Sweden





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## Foreword

One of the cornerstones of the tax reform that was implemented in Sweden in 1990–91 was the principle of a flat-rate tax. This implies that as far as value-added tax is concerned the basic principle is that all goods and services should be subject to a tax rate of 25 per cent. Following the entry into force of the tax reform, the Swedish Parliament has on various occasions decided on exceptions to the regular rate for value-added tax. The decisions to introduce different rates of VAT for different goods and services have been taken for reasons including those determined by distribution policy and sectoral economic considerations. In the light of this, at its meeting on 9 June 2011 the Riksdag Committee on Taxation decided to carry out a follow-up of exceptions from the standard tax rate for VAT. The purpose of the follow-up by the Committee on Taxation has been to provide the Committee with greater knowledge prior to the consideration of the Budget Bill, at the preparation of the Government's annual report to the Riksdag of tax expenditure and of other bills and any private members' motions regarding the area of taxation.

The follow-up has focused on studying the flat-rate tax norm regarding VAT and providing an overall description of the design of VAT in an international perspective while accounting for which deviations from the norm apply in Sweden for various goods and services. Since VAT is the taxation base that is most harmonised between the member states of the EU, it has been of interest to study how usual it is that countries decide to introduce exceptions to a regular tax rate in the area of VAT. The effects of the two most recently decided exceptions to the regular ta

rate for VAT, which applied to entry to zoos and transport on ski lifts, have been analysed as no evaluation has been carried out previously.

The follow-up has been conducted by the Committee on Taxation's follow-up and evaluation group, comprising the following members of the Riksdag: Johnny Munkhammar (Mod), Chair of the Group, Hans Olsson (SocDem), Helena Leander, subsequently replaced by Mats Per-toft (Grn), Gunnar Andrén (Lib) with alternate member Martin Andreasson (Lib), Karin Nilsson (Cen), David Lång, subsequently replaced by Thoralf Alfsson (SocDem), Jacob Johnson (Lft) and Lars Gustafsson (ChrDem). The assignment has been carried out by Joakim Skotheim, at the Parliamentary Evaluation and Research Unit at the Committee Services Division in cooperation with the secretariat of the Committee on Taxation.

Work in the follow-up began during the autumn of 2011 and was concluded in May 2012. The report of the follow-up and evaluation group has since been published in the series Reports from the Riksdag (Report 2011/12:RFR13). The Committee arranged a public seminar in which the report was presented and discussed. The purpose of the seminar was to stimulate discussion and spread knowledge on the result of the follow-up to the relevant actors.

This brochure provides a summary of the findings of the follow-up and the Committee's position as regards the follow-up.

## Flat-rate taxation and exceptions from the main principle

One of the cornerstones of the tax reform that was implemented in Sweden in 1990–91 was the principle of a flat-rate tax. This implies that as far as value-added tax is concerned, the basic principle is that all goods and services should be subject to a tax rate of 25 per cent. In addition to this, there is a possibility in accordance with the EU's VAT Directive to use two reduced VAT rates for certain specific types of goods and

services, namely 6 and 12 per cent. The Committee on Taxation has on several occasions stressed the fact there are good reasons to aim for a system containing so few exceptions and areas with reduced tax rates as possible.

Following the entry into force of the tax reform, the Swedish Parliament has on various occasions decided on exceptions to the regular rate for value-added tax. The decisions to introduce different rates of VAT for different goods and services have been taken for reasons including those determined by distribution policy and sectoral economic considerations. One motive behind the amendments to taxation legislation that entail deviating from the principle of a flat-rate tax is that these deviations are considered to result in a higher level of socio-economic effectiveness. During recent years, the principle of optimal taxation has more and more come to be regarded as a complement to the reporting of tax expenditure.

## Value-added tax in an international perspective

Value-added tax is charged in connection with the sale of goods and services in the majority of OECD countries. There has been a certain convergence concerning the charging of VAT among OECD countries. In countries with lower VAT rates, the rate has been raised, while the opposite is true for countries with a higher VAT rate. The general rate of VAT among OECD countries was 17.6 per cent in 2009.

According to the Value Added Tax Directive, VAT is to be paid for all goods and services that are bought or sold for consumption in the EU, which makes it the tax base that is most harmonised between member states. The VAT Directive, which ensures that conditions for competition are maintained at both national and community level, prescribes a number of minimum levels as regards tax rates and defines the tax bases in a consistent manner. The regular tax rate may amount to a minimum of 15 per cent. In addition to this, member states may apply one or two reduced tax rates which should amount to at least 5 per cent.

The reduced tax rates may only be used for certain selected goods and services.

The majority of member states have to a lesser or greater extent chosen to introduce reduced VAT rates. Several countries have decided to raise the tax rates during recent years to get to grips with the crisis pertaining to central government finances that the global financial crisis has been instrumental in creating. The average regular tax rate has increased by a little more than 1 percentage point during the latest five-year period. The average regular tax rate in 2011 for EU-25 was 20.7 per cent, which is marginally higher than for EU-15, namely 20.8 per cent. Sweden, together with Denmark and Hungary, have the highest VAT rate, while Luxembourg and Cyprus are the countries with the lowest tax rate. At present, it is in principle only Denmark that uses a flat VAT rate and thus does not make use of the opportunities for reduction allowed for by the VAT Directive.

## Summary of the group's conclusions and observations

*A flat rate of taxation is still the main principle of the taxation system*

Flat-rate taxation still constitutes one of the main principles of the Swedish tax system. The use of a regular tax rate for the majority of goods and services contributes to the creation of a taxation system that is perceived to be just and simple for businesses, etc.

*There is a need to clarify the way the supplementary comparative norm "optimal taxation" is used.*

The Committee on Taxation has previously emphasised the fact that a flat rate of taxation constitutes the basic norm for the Government's

reporting of tax expenditure. One purpose of developing the reporting of tax expenditure is to enable it to be used as a tool in budgetary work, as well as for decisions regarding new or amended tax regulations. A development process of this kind would complement the current system of accounting.

*The average regular tax rate in the EU is approaching the Swedish level.*

It may be noted that VAT revenues in relation to the revenues that would have been possible if a standard tax rate had been applied to all end-consumption increased in Sweden as compared with other countries and the OECD average during the period 1992-2005. A large number of EU member states have, however, raised or decided to raise their VAT rates during recent years. If this development continues, this would mean, according to the group, that the risk of distortions in competition because of severely divergent tax rates compared with other countries will be reduced.

*It is important to learn from how the VAT system has worked in other countries*

It is important to focus on how different countries have chosen to construct their tax systems. There are probably lessons to be learnt in the planning of future work on developing or amending the Swedish VAT system, as regards both problems and possibilities that can be identified, especially in other EU member states.

*It is important to actively follow the Commission's work on amending the EU's VAT system*

The Committee on Taxation has expressed its support for the Commission's review of the common VAT system. In connection with the con-

sideration of the Commission's Green Paper on the Future of VAT, the Committee stated that there were good reasons in favour of a tax system with so few national exceptions and deviations as possible. National exceptions and areas with reduced tax rates should be continuously evaluated to ensure that competition is not distorted, the complexities of the system are not increased and to investigate whether the expected effect is attained. It is important that Sweden actively works towards the fact that a revised VAT directive is formulated in such a way that to a greater extent than is the case today will limit the use of reduced VAT rates, while at the same time providing scope for national flexibility.

*It is important to follow up and evaluate decisions on departing from the principle of flat-rate taxation*

In accordance with the current Riksdag Act, the Committee is responsible for following up and evaluating Riksdag decisions. This in turn requires any future reforms in the area of taxation to have clear goals that can thus be followed up easily. This is a necessary pre-condition to enable the Committee to take well-founded decisions. The effects of reducing the VAT rate for entry to zoos and transport on ski lifts in Sweden have not been evaluated previously. Furthermore, no clear goals were set regarding each of the reductions in VAT, which complicates work on evaluating the result of the reforms. Price developments have been studied to determine the way in which the average change in price for entry to zoos and lift passes has related to the change in the general development of prices.

*Changes in price following the decision to reduce the VAT rate for entry to zoos and transport on ski-lifts.*

It may be noted that the prices in both of these sectors has increased more quickly than the change in general price developments. The evaluation indicates that great variations concerning price developments



can occur between companies in a particular sector. It transpires that the entrance fees to zoos have risen more quickly than the price of lift passes; however, there is a difference in comparison periods. During the period 2001–2010, entrance fees to zoos increased by 80 per cent for adults and by approx. 89 per cent for children and youngsters. Taking account a full price impact on consumer prices, the prices would have been 4 per cent lower compared with the price level that applied before the reduction in VAT came into effect. Between the 2006/07 and 2010/11 seasons, the average price of lift passes increased by 10 per cent more than the change in the consumer price index (CPI).

#### *Explanations for the price development in the two sectors*

There are significant differences between the sectors as regards the impact of the reduction in VAT on prices. The price development for entrance to zoos pertains to a period of time that is twice as long as that for lift passes for downhill skiing. Over a longer period of time, it is likely that a sector and individual companies in that sector may be subject to major structural changes, which can alter the cost situation in the sector. Another explanation is the relation the particular sector has to the VAT reform. The skiing sector worked actively to bring about a reduction in the VAT rate for transport on ski-lifts, while a reduction of VAT was not urged on in such an active fashion by zoos. This may have been a contributory factor to skiing facilities reducing their prices for lift passes to a greater extent than was the case for zoos.

The costs specific to both sectors have probably risen more than the equivalent changes in the CPI. Parts of the reductions in VAT have probably contributed to covering some of these increased sector-specific costs. In the case of zoos, it is a question of demands from the authorities concerning protection of species, protection of animals, infectious disease control and work environment, as well as enforced sectoral norms that tend to force up costs. Sector-specific costs have increased for skiing facilities partly due to the increase in price for electricity.

Another plausible explanation for the price development in these sectors is that the change in price for both of the sectors includes a quality effect, that is the benefit that the lift pass or entrance fee to a zoo generates is of a higher quality and is thus valued more highly by the consumer today compared with when the VAT rate was reduced. This is illustrated by the fact that companies from both sectors have made great investments during the period from the time when the reduction in VAT came into force until today. As far as the skiing sector is concerned, it means an expansion of systems for producing snow, lifts and slopes, while in the case of zoos, it means for example more animals and larger enclosures and an increase in other attractions. Another indicator of the increase in quality is that the number of employees and visitors has increased dramatically in both sectors.

All in all, these explanations mean that we cannot exclude the fact that prices for lift passes have developed in line with how the actual costs for the sector have developed during the period 2001–2010. However, the same is not true for zoos where entrance fees have risen dramatically since the reduction in VAT. During the last ten years, zoos have made great investments and been subjected to major structural changes compared with ski facilities. Despite the fact that it is impossible to quantify, it would appear likely that the quality effect is primarily behind the price rise for entrance fees to zoos.

*The reduction in tax rates has not created any new demarcation problems.*

According to the Tax Agency, the reduction of tax rates has not resulted in any increased tax burden for the Agency or any demarcation problems, etc. in both of the analysed sectors.

## Follow-ups and evaluations from the Committee on Taxation

- 2004/05:RFR4 The Committee on Taxation's public seminar on tax competition on 15 March 2005
- 2006/07:RFR8 Uppföljning av kvittningsregeln för nystartade företag (in Swedish) (Follow-up on the rules for pairing for newly started companies)
- 2007/08:RFR13 Skatteutskottets uppföljning av skogsbeskattningen (in Swedish) (The Tax Agency's follow-up of taxation of forestry)
- 2007/08:RFR7 Public seminar on attitudes to taxes

The follow-up reports are also available on the Riksdag website ([www.riksdagen.se](http://www.riksdagen.se)) and can be ordered from the Riksdag Printing Office (address: SE-100 12 Stockholm, tel: +46-8-786 58 10, fax: +46-8-786 61 76 or e-mail:[ordermottagningen@riksdagen.se](mailto:ordermottagningen@riksdagen.se)). Summaries in English of a number of the reports are available on the Riksdag website.

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