

Lifetime and annual tax progressivity in Sweden

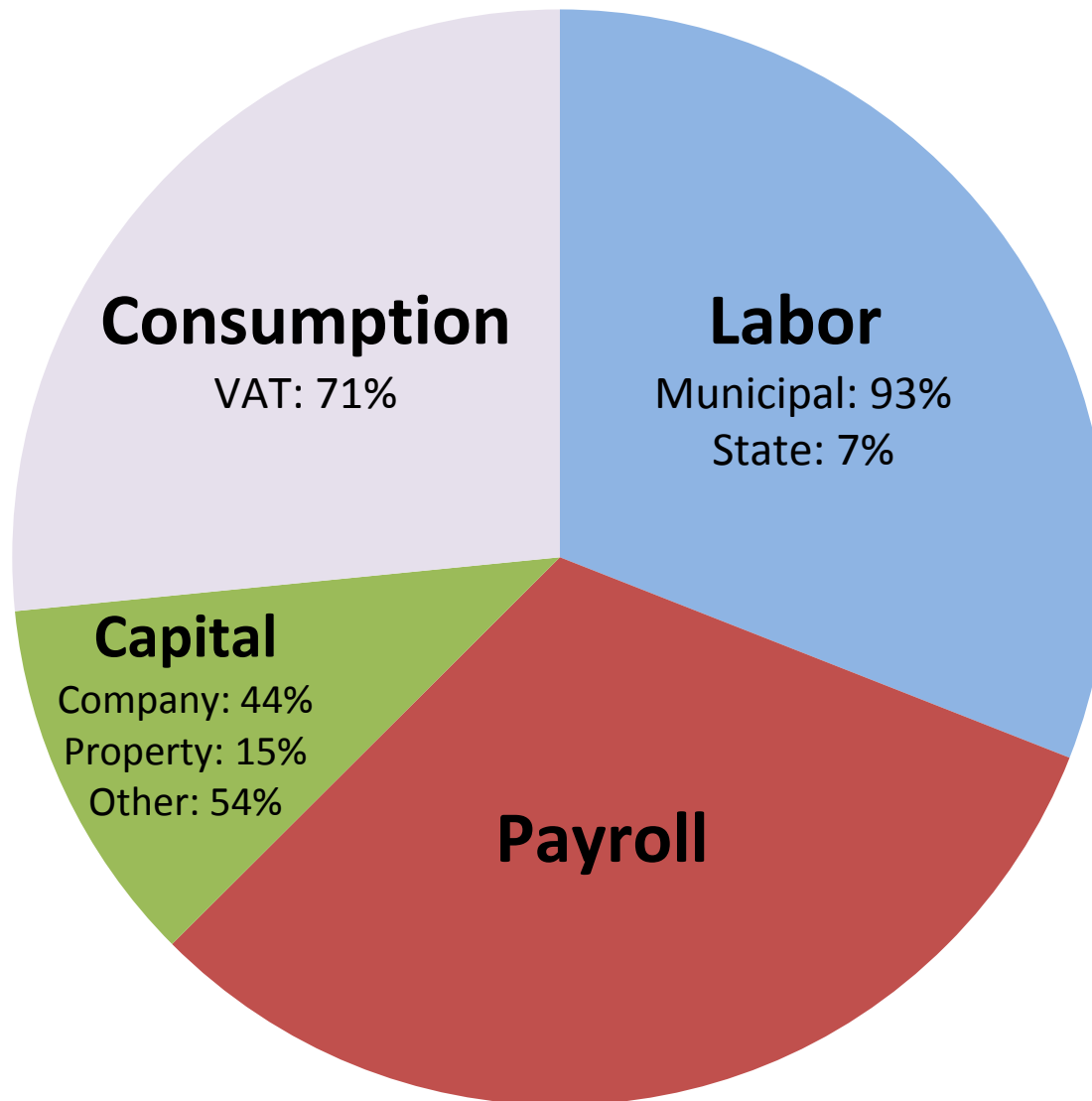
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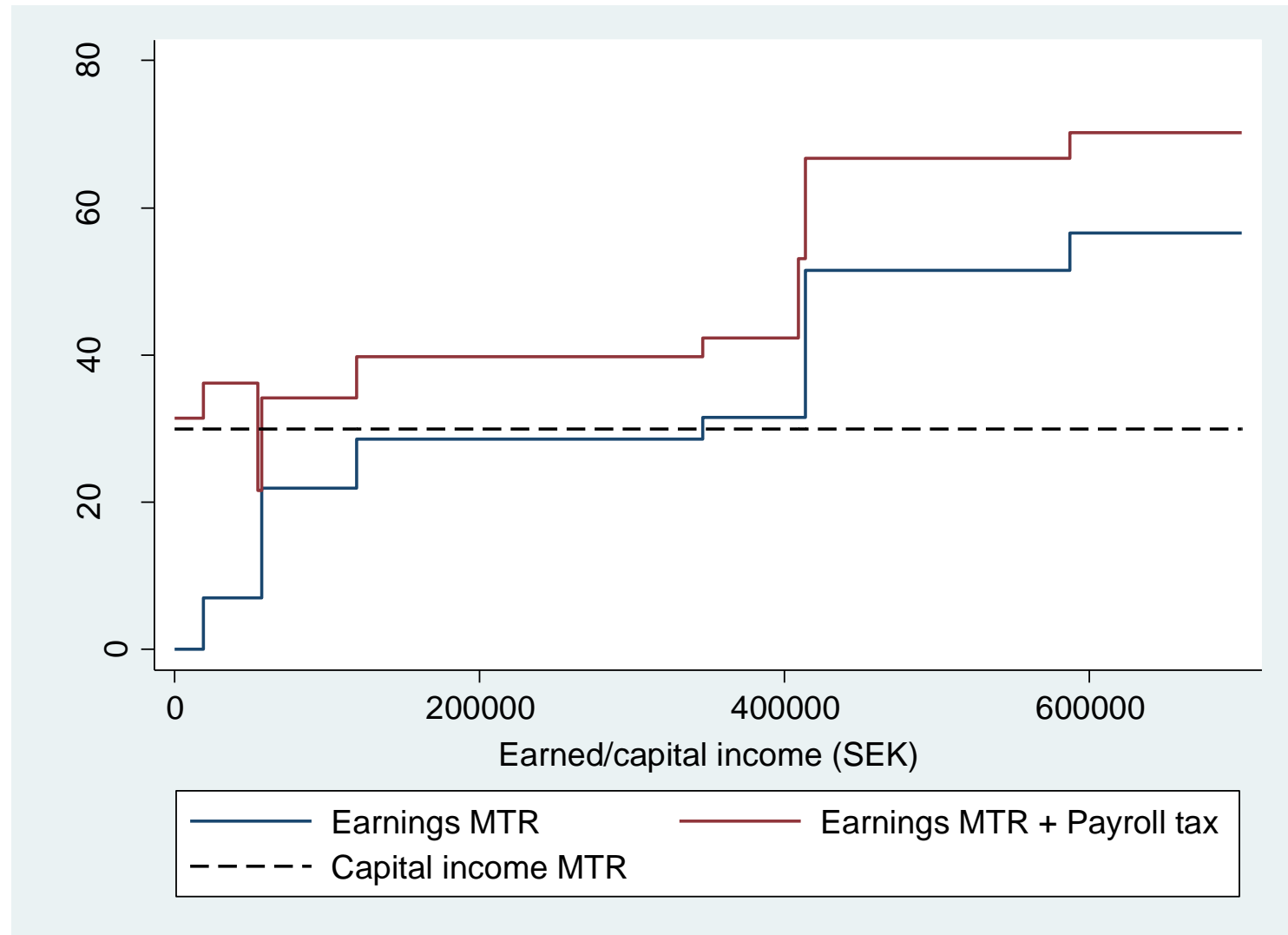
Overview of presentation

1. Swedish personal taxation: a brief overview
2. Tax progressivity - how should it be measured?
3. Annual and lifetime tax progressivity
4. What accounts for the results?
5. Concluding remarks

2. Personal taxes in Sweden



Marginal tax rates in Sweden, 2012

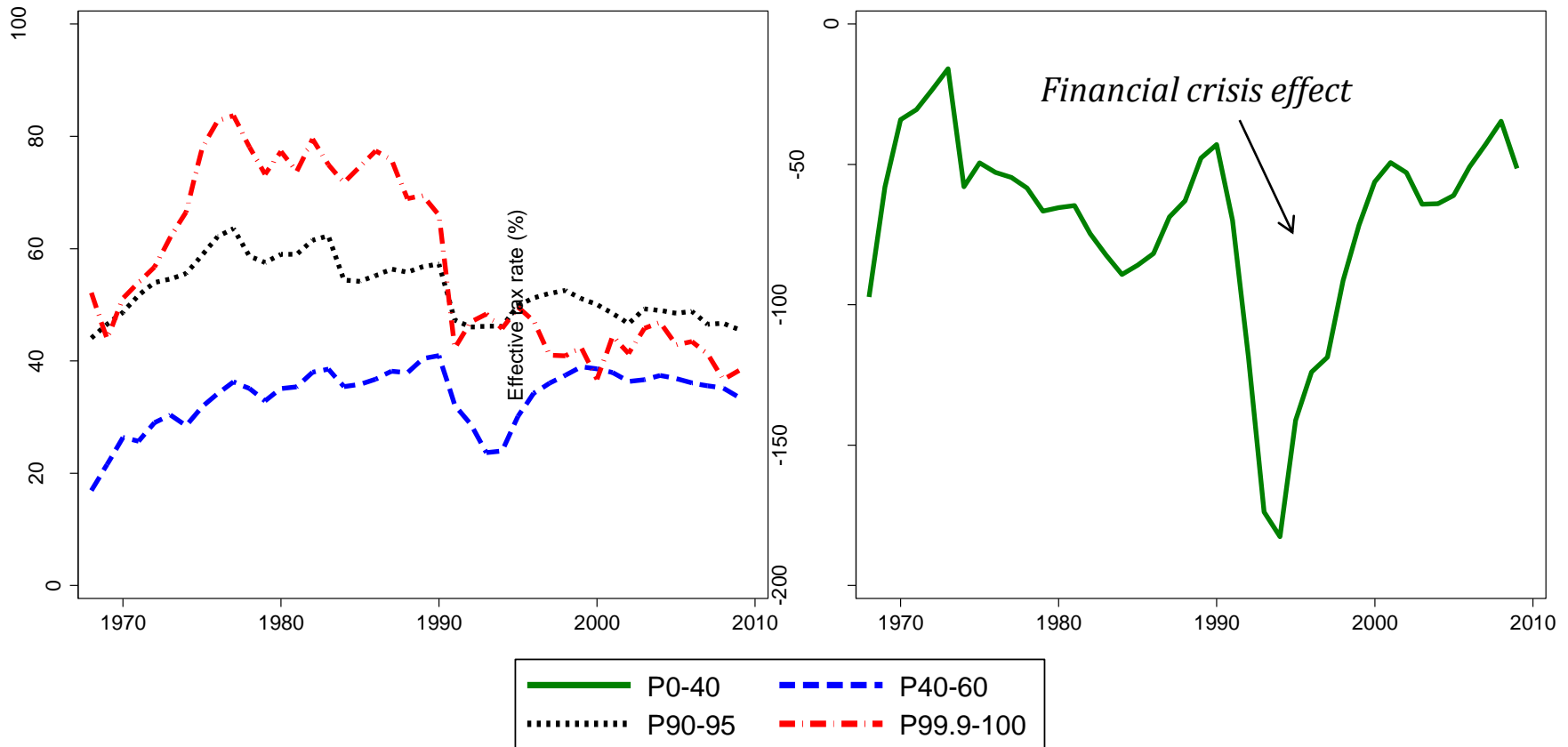


3. Measuring tax progressivity

- **Income concepts**
 - Market income (earnings, capital income, payroll tax)
 - Disposable income (Market income – Taxes + Transfers)
- **Taxes-transfers**
 - Taxes on earnings, capital, Property, Wealth, Payroll taxes
 - Transfers: Taxed (sickness, unempl.), untaxed (child, house)
- **Tax progressivity**
 - *Redistributive effect*: Inequality-reducing impact of taxation
 - *Disproportionality*: Deviation from proportional taxation

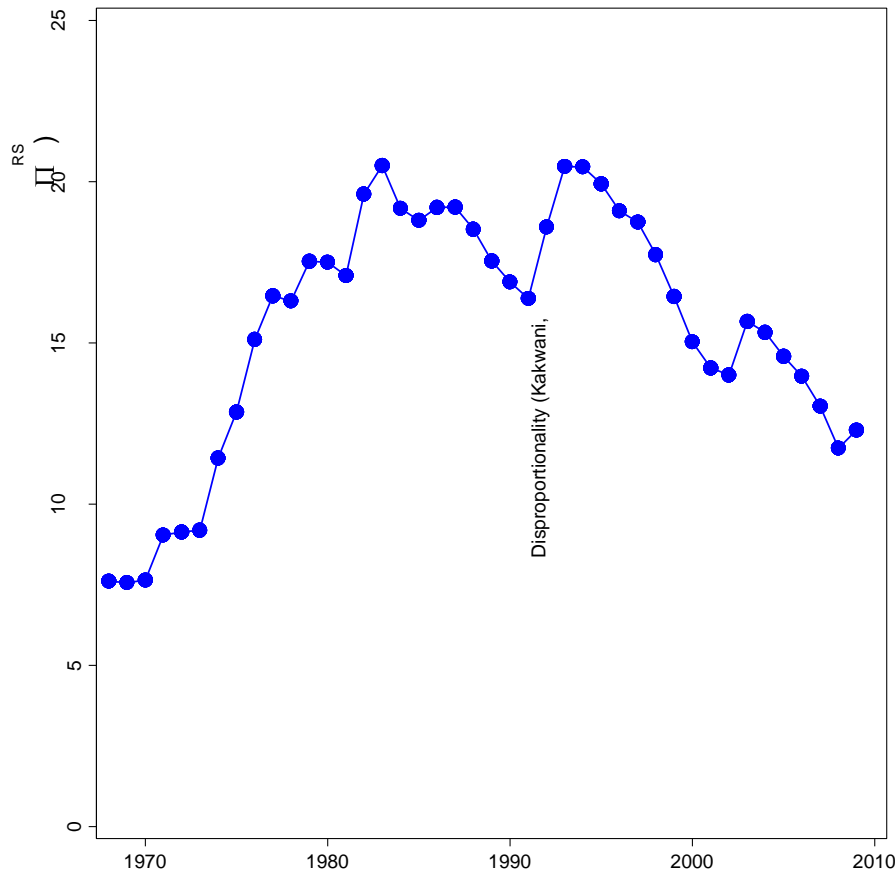
4. Results: Evolution of Swedish tax-transfer rates, 1968–2009

Effective tax rate = (Market inc. – Disposable inc.) / Market inc.

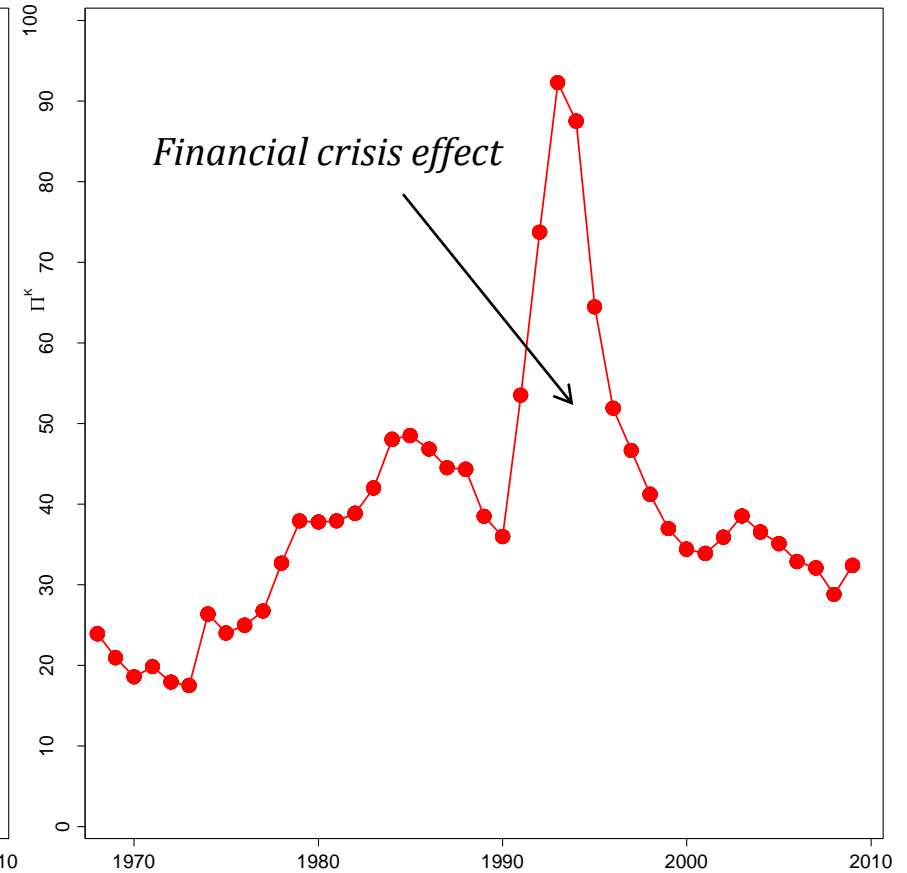


Annual tax-transfer progressivity

Redistributive effect

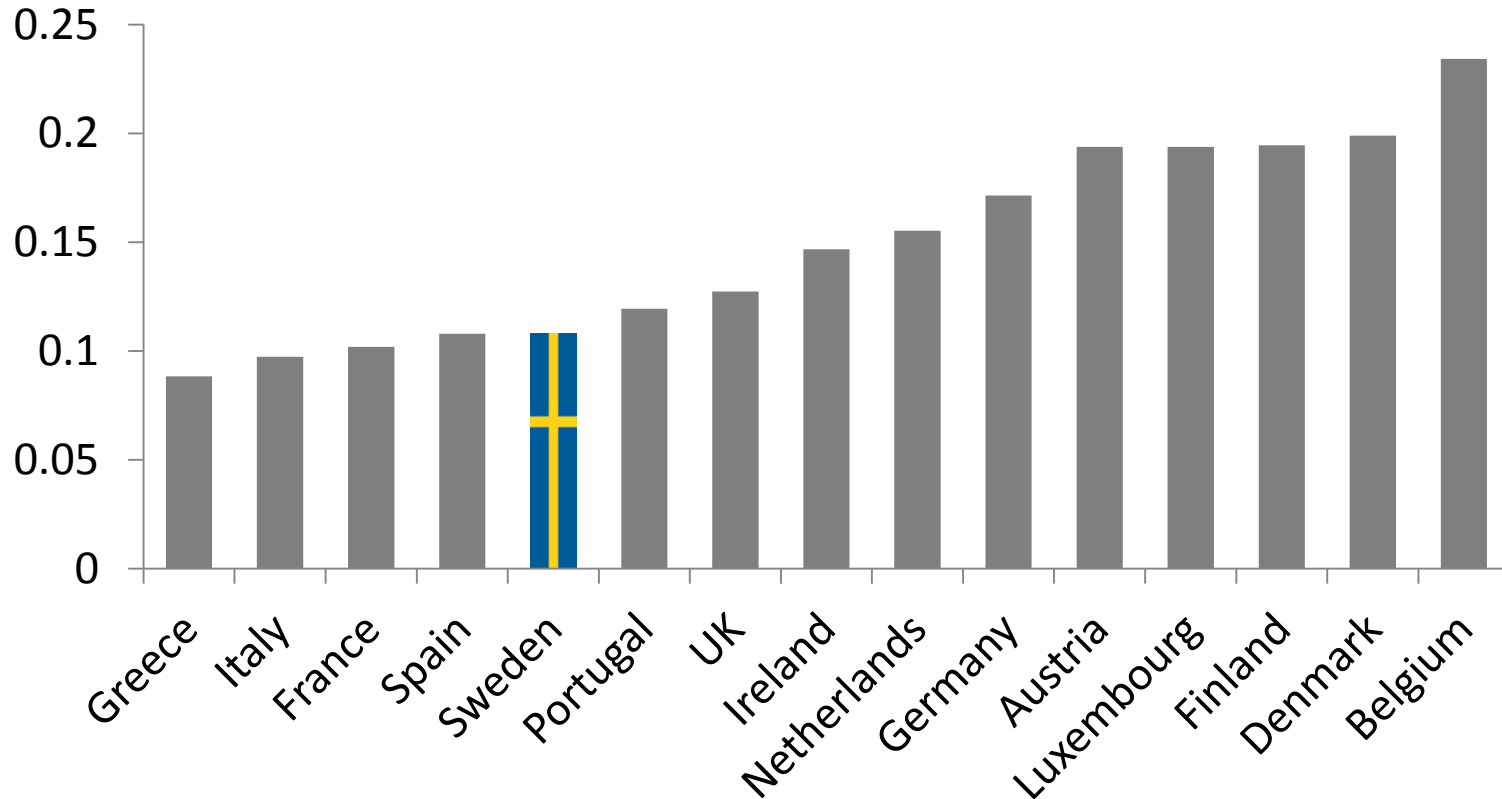


Disproportionality



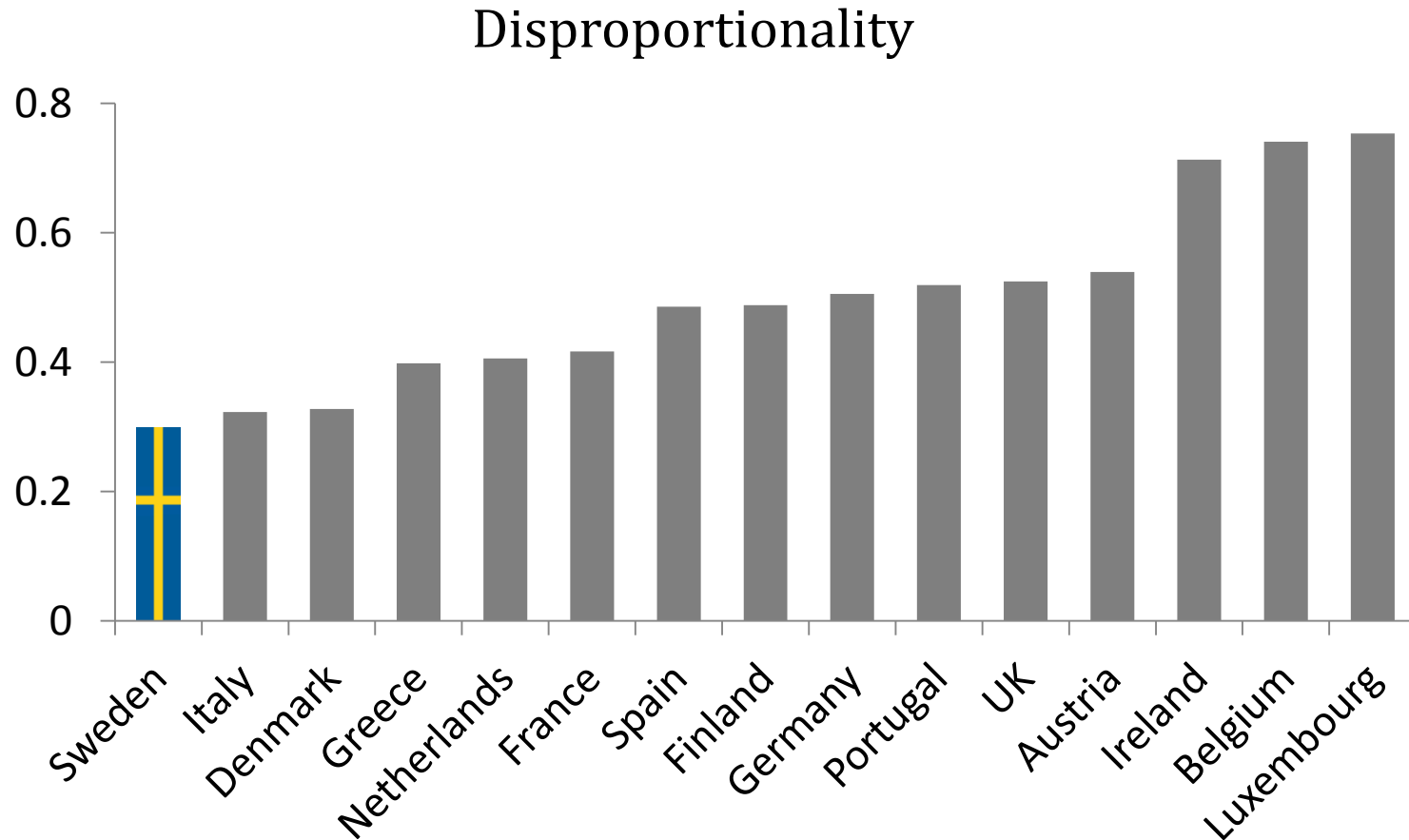
Is Swedish progressivity internationally high?

Redistributive effect



Note: Progressivity scaled by pre-tax Gini. Source: Verbist (2004, Euromod)

Is Swedish progressivity internationally high?

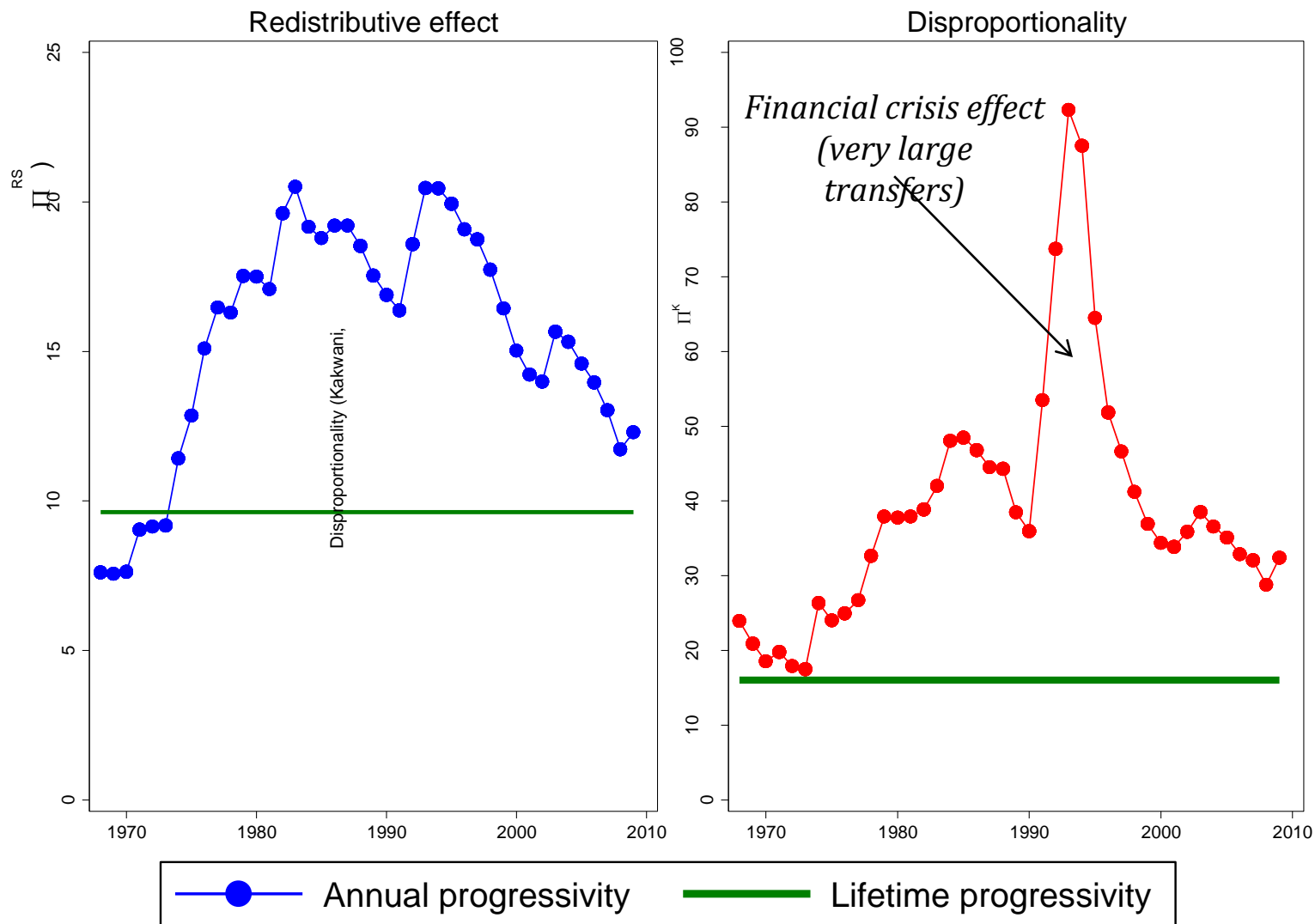


Note: Progressivity scaled by pre-tax Gini. Source: Verbist (2004, Euromod)

5. Lifetime tax progressivity in Sweden

- We analyze a **cohort of individuals** aged 20–40 in 1968
 - Followed for up to 42 years
- Sum all incomes and taxes over lifetime and calculate tax rates

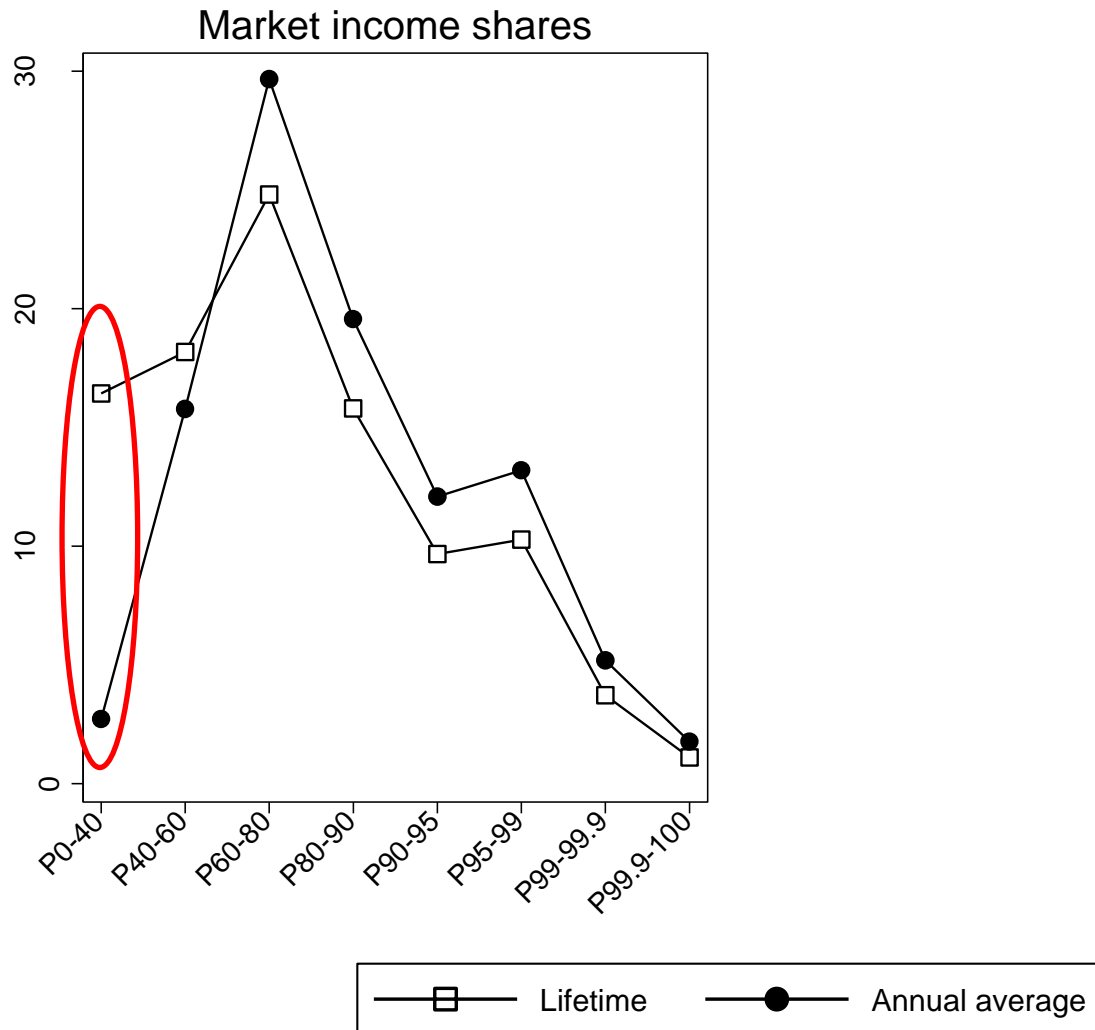
Lifetime vs annual progressivity



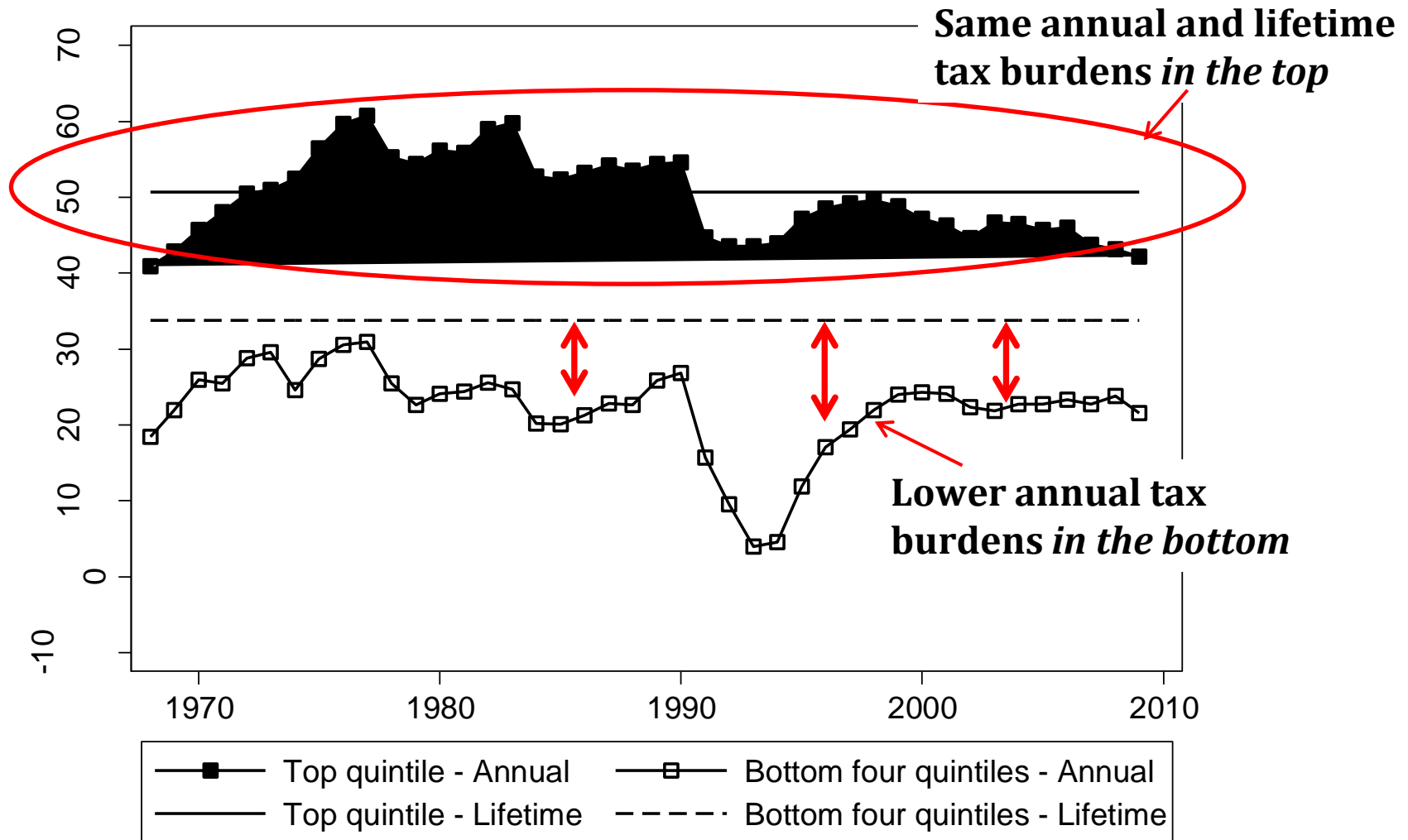
Empirical findings

1. Annual progressivity trend follows inverse-U shape
 2. Lifetime progressivity lower than in a single year
 3. The level of lifetime redistribution low
 - Inequality is reduced by a fourth (10 Gini points)
 - Suggests within-lifetime redistribution
- *What can account for the observed patterns?*
- Income distribution channels
 - Tax system channels

Income volatility channel: Transitory "poverty" and Taxes as insurance



Tax burden volatility channel: The bottom pays higher lifetime taxes



6. Concluding remarks

1. Swedish taxes are high, but not very progressive

- High progressivity of the 1970's and 80's exceptions
- Why high taxes and low progressivity?
 - Efficient solution for welfare states
 - Redistribution through welfare services

2. Over the lifetime, progressivity is even lower

- Indicates redistribution *within* lifetime

3. Factors driving these results seem to be:

- Transitory low-incomes
- Taxes work as insurance against income shocks