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

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Marginal tax rates in Sweden, 2012

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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

*Effective tax rate = (Market inc. − Disposable inc.) / Market inc.*

Financial crisis effect
Annual tax-transfer progressivity

Redistributive effect

Disproportionality

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Is Swedish progressivity internationally high?

Redistributive effect

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

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Is Swedish progressivity internationally high?

![Disproportionality Bar Chart]

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

Redistributive effect

Disproportionality

Financial crisis effect
(very large transfers)

Annual progressivity

Lifetime 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

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Tax burden volatility channel: The bottom pays higher lifetime taxes

- Same annual and lifetime tax burdens *in the top*
- Lower annual tax burdens *in the bottom*

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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