

SPECIAL ANALYSIS

The Budget Bill for 2014

The government proposes unfunded measures totalling SEK 24 billion in its budget bill for 2014. The bulk of these measures, or SEK 21 billion, are on the revenue side. The proposals include increasing the earned-income tax allowance and the threshold for state income tax, and reducing the taxation of those aged 65 and over. The Riksdag has decided that the threshold for state income tax will not, however, be lowered. The NIER therefore estimates that measures totalling SEK 21 billion will be implemented in 2014.

Measures Proposed in the Budget Bill for 2014

General government net lending is influenced partly by macroeconomic developments and partly by fiscal policy measures. Table 12 presents the NIER's interpretation of the direct effects on general government net lending of the proposals in the budget bill for 2014, broken down in line with the National Accounts.

LOWER TAXATION OF WORKERS AND PENSIONERS

The government proposes an increase in the earned-income tax allowance, which will reduce net lending by SEK 12 billion in 2014. Those on incomes around the average will pay SEK 200–300 less tax each month, while the biggest decrease in absolute terms will be SEK 337 for those with monthly earnings above SEK 30,000.

The taxation of those aged 65 and over is also being reduced by raising the basic allowance for a tax saving of around SEK 100 per month. This will reduce net lending by SEK 2.5 billion.

In addition, the tax rate for foreign residents working in Sweden will be lowered from 25 to 20 per cent, reducing net lending by SEK 0.3 billion.

Table 12 The Composition of Fiscal Policy 2014

SEK billion, current prices

	Budget Bill	Forecast
Households' direct taxes ¹	-17.8	-14.8
Earned income tax credit, fifth step	-12	-12
Reduced income tax for elderly	-2.5	-2.5
Raised lower threshold for state income tax	-3	0
Reduced tax for foreign residents (SINK)	-0.3	-0.3
Other taxes	-0.4	-0.4
Reduced social security contributions	-1.8	-1.8
Taxes on capital	0.4	0.4
Raised excise taxes	1.1	1.1
Other income	-2.8	-2.8
Income	-21.0	-18.0
General government consumption	3.3	3.3
Central government consumption	1.0	1.0
Central government grants to local government	2.3	2.3
Transfers to households	0.4	0.4
Transfers to business	-0.7	-0.7
Expenditure	3.1	3.1
Total effect on general government net lending	-24.1	-21.1

¹The increase in the threshold for state income tax proposed in the budget bill for 2014 will not go ahead following a decision in the Riksdag. This equates to an increase in net lending of SEK 3 billion in 2014 relative to the proposals in the budget bill.

Note. The table presents the direct effect of a measure. The direct effect does not take account of whether the measure might lead to behavioural changes which, in turn, might lead to changes in tax revenue or transfer costs.

Source: Budget bill for 2014, NIER.

PROPOSED INCREASE IN THRESHOLD FOR STATE INCOME TAX BLOCKED BY RIKSDAG

Besides raising the earned-income tax credit and lowering the taxation of the elderly, the government proposed raising the threshold for state income tax from SEK 36,150 per month to SEK 37,400, resulting in a monthly tax saving of up to SEK 250 and reducing net lending in 2014 by SEK 3 billion. However, the Riksdag has decided that this change will not be made. Household direct taxes are therefore reduced by SEK 3 billion less in the NIER's forecast than proposed in the budget bill.

All in all, the NIER estimates that household direct taxes will decrease by SEK 14.8 billion in 2014 (see Table 12).

DIFFERENTIATED UNEMPLOYMENT CONTRIBUTIONS TO BE DISCONTINUED

Differentiated unemployment insurance contributions were introduced on 1 January 2007 in the form of employee contributions varying with the level of unemployment in each fund. One of the aims of this policy was to encourage wage restraint: the cost of higher unemployment resulting from large pay rises would to some extent be borne by employees, so giving them less of an incentive to push for such rises.

This policy has attracted criticism from several quarters.⁴² The government notes that the social parties have been keen to abolish differentiated unemployment contributions, and this is now proposed in the budget bill for 2014. More than 2.2 million employees will see an average decrease of around SEK 90 in their monthly unemployment contributions, which will reduce net lending by an estimated SEK 2.8 billion.

LOWER SOCIAL SECURITY CONTRIBUTIONS

The budget bill proposes a number of changes to social security contributions. To stimulate research and development, the government proposes lowering social security contributions for R&D personnel by 10 percentage points up to a ceiling of SEK 230,000 per group of companies per month.⁴³ This will reduce net lending by SEK 0.8 billion.

The government also proposes a further reduction of 2.5 percentage points in social security contributions for small businesses to 7.5 per cent, which will reduce net lending by an estimated SEK 0.5 billion in 2014.

Social security contributions for young people below the age of 23 are to be lowered from 15.49 to 10.21 per cent. Contributions for those aged 23 and 24 will be unchanged, while those aged 25 will no longer benefit from a reduced rate. This redistribution of social security contributions between age groups will reduce net lending by SEK 0.1 billion.

⁴² See, for example, chapter 7 of *Swedish Fiscal Policy 2011*, Swedish Fiscal Policy Council.

⁴³ See Svensson, R. "Effekter av ökade offentliga satsningar på FoU" [Effects of increased public investment in R&D] in "Tillväxt- och sysselsättningseffekter av infrastrukturinvesteringar, FoU och utbildning – en litteraturöversikt" [Growth and employment effects of infrastructure investment, R&D and education – A literature survey], *Specialstudier*, 37, December 2013, NIER, for an analysis of the growth effects of tax reliefs for R&D.

SLIGHT INCREASE IN EXCISE AND CAPITAL TAXES

The purpose of excise taxes is not only to generate tax revenue but also to reduce the consumption of certain goods and services. In the budget bill for 2014, the government focuses on alcohol and energy. Altogether, excise taxes on these goods will increase by SEK 1.1 billion in 2014.

The government also proposes several minor measures relating to capital taxes, including certain changes to the so-called 3:12 rules on income-shifting. Taken together, these will increase net lending by SEK 0.4 billion in 2014.

LIMITED MEASURES ON THE EXPENDITURE SIDE

Measures on the expenditure side total just SEK 3 billion. Much of this, SEK 2 billion, consists of higher central government payments to municipalities, primarily for initiatives in education such as career services for teachers, increased instruction in Swedish and mathematics, summer schools, help with homework, and the cancellation of the previously announced reduction in central government payments for upper secondary schools. Higher central government consumption will reduce net lending by SEK 1 billion, of which SEK 0.2 billion is an increase in defence expenditure.

On the transfer side, housing allowance will increase and the student allowance for the unemployed will be extended. Altogether, transfer payments to households will rise by SEK 0.4 billion. Transfers to firms will fall, meanwhile, due to reduced rural area support.

FISCAL POLICY ROUGHLY NEUTRAL IN 2014

All in all, the NIER estimates that general government net lending will be SEK 21 billion lower with the proposed measures than without (see Table 12). The tax reductions for households in particular will serve to stimulate demand. Household consumption would be lower in 2014 without these measures.

Cyclically-adjusted net lending will fall somewhat in 2014. However, the decrease is due largely to capital items, including Vattenfall not paying any dividends to central government in 2014. Excluding capital items, the change in cyclically-adjusted net lending is marginal (see “Fiscal Policy” in the chapter “Macroeconomic Development and Economic Policy 2013–2018”).