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The Decline of the Swedish Inheritance and Gift Tax, 1991–2004

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Contents

Abstract

During the period 1991–2004, political support for the inheritance and gift taxation in Sweden diminished, which contributed to two major policy shifts. In 1991, a new tax schedule which reduced top rates was introduced. The tax was thereafter completely repealed in 2004. In this paper, we examine how background factors such as competitiveness and political legitimacy influenced these decisions. By studying the preceding decision-making processes, we find that the influence of these factors shifted over time and appeared in different combinations. While the 1991 reform was strongly influenced by competitiveness arguments, the repeal of the inheritance and gift tax was primarily a result of the declining legitimacy of the tax.

Keywords: Sweden, tax history, inheritance and gift tax

JEL classification codes: K34, N44, H71

1. Introduction

This paper examines the background factors behind the declining political support for the inheritance and gift taxation in Sweden during the period 1991–2004. We focus on two political decisions. The first decision is the new tax schedule introduced in 1991 where a system of three brackets ranging from 10 to 30 percent replaced a multi-bracket system with tax rates ranging from 10 to 60 percent. The second decision is the repeal of the inheritance and gift tax in 2004.

To this end, the paper builds mainly on official sources from the examined decision-making processes such as government bills, parliamentary records and commission reports. It is noted that before 1991, political support behind the inheritance and gift tax had been stable since the interwar period. The reasons for this support did not differ from the international pattern of justification behind the inheritance tax. It is often viewed against the strength of its effect as a commitment to equality of opportunity (the equality of opportunity principle) and through its potential to contribute to an improvement to the living conditions of members of society who are unsuccessful in the marketplace, and thus to a more equal distribution of wealth in society (the social justice principle) (cf. Beckert 2008b, 524-525). In recent years, this role of the inheritance and gift tax has gained increased attention within the political and academic debate on redistribution (Beckert 2008a; Piketty, 2014; Lindert and Williamson 2016; Atkinson 2015; Kanbur and Stiglitz 2016).

However, the Swedish process which ultimately resulted in a repeal of the inheritance and gift tax only in part shares those elements which has been highlighted in research on the debate on inheritance taxation in United Kingdom and the United States (Mumford 2007; Graetz and Shapiro 2011). There have not been any high-profile political controversies and campaigns such as those leading up to the repeal of the American estate tax (Graetz and Shapiro 2011). Nevertheless, just like the repeal of the American estate tax, the decline and final repeal of the Swedish inheritance tax was not an isolated political event. Rather, it is an indication of a larger political shift (Graetz and Shapiro 2011, 202-203; Graetz 2016, 812).

It is crucial to note that the decline of the inheritance and gift tax in Sweden coincided with a general shift not only within tax policy, but also within macroeconomic policy. When the inheritance and gift tax was introduced, it was to fund redistributive economic policies and the welfare state. In the post-war period, this interpretation of inheritance tax was consolidated and expanded as the state was given a key role in managing a regulated capitalist economy. However, from the 1980s politicians began to abandon the belief that taxes could be used effectively for both redistributive policy ends and as an instrument for managing the economy. This led to reforms and tax cuts which reduced the importance of equity as the goal for tax policy. Instead, the new tax policies promoted economic growth, which meant that issues such as ownership, entrepreneurialism and the role of free enterprise on deregulated markets was given a much higher priority than redistribution (Steinmo 2003). As a result, 'efficiency' have certainly become much higher valued than 'equity' in efficiency-equity trade-off considerations.

In this regard, the Swedish inheritance and gift has been exposed to the contradictions and paradoxes which has characterized the political debate on the inheritance tax in some countries (Mumford 2007). From an economic perspective, inheritance taxes have rarely contributed to more than two percent of the budget of any State. Nevertheless, the inheritance tax is often assigned a disproportionate position in the debate on tax policy (Beckert 2008b, 522). In the Swedish case, this has been manifested through the framing of inheritance and gift tax as a crucial tax due to its general impact on capital formation, investment and active ownership. In this respect, inheritance has become a high-profile issue in the debate as political parties repeatedly have connected it to the general direction of macroeconomic and redistributive policies and their overall political strategy.

In this respect, we focus on two main background factors: competitiveness and legitimacy. Regarding competitiveness, we note that European tax competition is an area that has affected inheritance and gift tax policy. This is in accordance with other research within the FairTax project by Krenek and Schratzenstaller (2017), who have studied the development of wealth-related taxes within European tax policy.[1] In this respect, it should be noted that up to the mid-1980s, country divergences within Europe had increased considerably as the nation states designed their sovereign tax policies. However, from around 1990 the fiscal isolationism of individual countries was considerably limited because of common pressures such as globalization, international tax competition and the influence of the European Union at both macro and micro level. This growing international integration was exerting pressures on national tax systems. For nation states, increased economic competitiveness became a major rationale for reform of taxes related to financial capital, real capital and other mobile production factors (Gandullia 2004, 3 and 25; Genschel and Schwarz 2011, 340). In the European Union, tax competition between member states emerged during the 1990s (Ganghof and Genschel 2008; Heinemann, Overesch and Rincke 2010). We will demonstrate how the Swedish government at critical occasions has framed inheritance tax as a crucial tax to adjust in its assessment of the European tax competition. In particular, the 1991 reform may be interpreted as a reaction to an 'openness shock' as the Swedish decision to join the European Community (EC) in 1990 coincided with the effects of the

[1] The tax competition perspective has also been highlighted by Boadway, Chamberlain and Emmerson (2010) as part of the Mirrlees Review.

liberalization and deregulation of capital controls that had been implemented during the latter part of the 1980s.

As for legitimacy, we build on the results by Swedish economists Magnus Henrekson and Daniel Waldenström in their economic history of the Swedish inheritance and gift taxation during the period 1885–2004. Henrekson and Waldenström argue that the repeal was related to a decline in the relevance of compensatory arguments which had created and legitimized the tax and identify two main explanations to this. First, deregulation of financial and capital markets had increased the price of real estate and engendered a booming housing and stock market. Thus, a growing percentage of middle-class heirs had to pay inheritance tax. Second, legislative changes in the late 1990s combined with increasingly innovative strategies further enabled wealthy heirs to avoid the inheritance tax.[2] This combination meant that the inheritance tax lost its legitimacy among people because it became regarded as a voluntary tax for the very wealthy, while simultaneously hitting a large share of middle-class heirs (Henrekson and Waldenström 2016). As a result of these changes in the political and economic context, traditional supporters of progressive inheritance and gift taxation such as the Social Democrats and the Left party no longer had access to the same sort of compensatory arguments as they previously would be able to use to legitimize the tax (cf. Scheve and Stasavage 2016, 150).

[2] For an account of a similar debate in Britain, see Boadway, Chamberlain and Emmerson (2010).

2. The inheritance and gift tax before the 1991 reform

Inheritance tax is levied on capital when capital changes hand upon death (Silfverberg 2001). In Sweden, the first inheritance and gift tax legislation was introduced in 1885. This was initially designed as an estate tax, where the size of the estate was used for determining the tax. However, from 1894 the inheritance tax was based on individual shares, rather than on the estate. Each beneficiary – heir or legatee – was taxed separately on the value of the property that he or she received from the deceased. In this regard, the main purpose of the gift taxation introduced in 1914 was to prevent the inheritance from being circumvented by gifts among the living (*inter vivos*) (Gunnarsson 1995, 221-22; Du Rietz, Henrekson and Waldenström 2015).

During the first decades, tax rates were practically flat and very low. However, from 1934 the Social Democratic government increased the inheritance and gift tax rates, which changed the role of the inheritance and gift tax as a fiscal instrument. The Social Democrats argued that the inheritance and gift tax taxation should be based on a progressive scale where the taxed amount for the heir increased with the size of the inherited wealth (Government Bill 34/1933). The guiding principle behind this argument was the so called 'ability-to-pay' principle. According to the ability-to-pay principle, taxes should be levied on the basis of the taxable capacity of an individual. For instance, if the taxable capacity of a person A is greater than the person B, the former should be asked to pay more taxes than the latter. In the case of inheritance and gift tax, there has been a consensus among Swedish legislators that such contributions increases the ability to pay of the recipient and that this ability increases progressively with the received amount (Gunnarsson 1995, 224). During the post-war period, the Social Democrats reiterated their commitment as to the ability-to-pay principle. The inheritance and gift tax was increasingly linked to motives such as redistribution, equity and social justice (SOU 1957:48, 57-68; Government Bill 145/1958; Government Bill 71/1970, 43; Government Bill 1982/83:50). As a result, top marginal tax rates were increased on several occasions. For instance, the maximum rate for heirs and spouses was set at 60 percent in 1958. This rate was increased to 65 percent in 1971 and to 70 percent in 1982.[3]

Even if the tax rates introduced in 1983 were reduced in 1987 as the maximum rate for direct heirs and spouses was lowered to 60 per cent, the basic design and purpose of the inheritance and gift tax still reflected the structure that had been in place since 1933 (cf. Henrekson and Waldenström 2016). Redistributive motives dominated the agenda. This became evident as the government responded to demands for tax cuts by business interest groups such as the

[3] For a comprehensive overview of the inheritance and gift tax schedules, including rates and brackets, after 1933, see Du Rietz, Henrekson and Waldenström (2015).

Swedish Federation of Industries (*Sveriges Industriförbund*). The Swedish Federation of Industries argued that the Swedish inheritance and gift tax rates (as well other tax rates) was substantially higher than in other OECD countries, particularly the Nordic countries (Government Bill 1986/87:54, 33). However, the government did not take those arguments into account. Instead, it defended the relatively high Swedish maximum rates from a redistribution perspective. Even if it recognized the existing differences between Sweden and other industrialized countries, the government considered an adjustment in that direction as a secondary priority in relation to its primary redistribution ambitions (Government Bill 1986/87:54, 20-21). The government thereby excluded the possibility of radical tax reductions such as those proposed by the Swedish Federation of Industries. Nevertheless, the government acknowledged that the maximum rates introduced in 1983 reflected an exceptional situation where it was necessary to deal with an economic downturn. The economic recovery that had occurred during the 1980s had changed these conditions and made a reduction possible to achieve. However, the government was also careful to note that the new rates probably would not have any marked negative effects on redistribution (Government Bill 1986/87:54, 14). Table 1 describes the structure of the inheritance tax schedule decided in 1987 after a final adjustment of tax bracket boundaries and the exemption rules had taken place in 1991 (Government Bill 1990/91:54, 231-235).

Table 1. Inheritance and gift tax schedules before the reform in 1991.

Taxable lot in Swedish Kronor		Tax SEK Percent
Class I. Children, spouse, descendants		
0 -	140,000	0 + 10
140,000 -	280,000	14,000 + 20
280,000 -	560,000	42,000 + 30
560,000 -	1,200,000	126,000 + 40
1,200,000 -	11,200,000	350,000 + 50
11,200,000 -		5,390,000 + 60
Class II. Brothers, sisters, parents and other heirs		
Taxable lot in Swedish Kronor		Tax SEK Percent
0 -	35,000	0 + 15
35,000 -	70,000	5,250 + 25
70,000 -	140,000	14,000 + 35
140,000 -	280,000	38,500 + 45
280,000 -	2,800,000	101,500 + 55
2,800,000 -		1,487,500 + 65
Class III. Non-profit organizations		
Taxable lot in Swedish Kronor		Tax SEK Percent
0 -	42,000	0 + 10
42,000 -	84,000	4,200 + 20
84,000 -		12,600 + 30
Basic exemptions in SEK		
Spouse:	280,000	
Children:	70,000	
Others:	21,000	
Gifts:	10,000	

Source: Du Rietz, Henrekson and Waldenström (2015, 47).

3. The 1991 inheritance and gift tax reform

In the autumn of 1991, the governing center-right coalition government made up of the Liberals, the Conservatives, the Centre Party and the Christian Democrats submitted a bill that reformed the inheritance and gift tax. This reform reduced the top statutory tax rates and simplified the bracket structure as a system of three brackets ranging from 10 to 30 percent replaced the multi-bracket system with tax rates ranging from 10 to 60 percent. These changes are described in detail in Table 2, which may be used to compare the new tax schedule with the previous tax schedule depicted in Table 1. The statutory top rates had been significantly lowered as the government had widened the lower brackets by adjusting boundaries upwards and at the same time moderated the degree of progression that had existed in the previous system (Government Bill 1991/92:60, 1 and 67-68).

Table 2. Inheritance and gift tax schedules after the reform in 1991 (effective 1992–2004).

Taxable lot in Swedish Kronor		Tax SEK Percent
Class I. Children, spouse, descendants		
0 -	300,000	0 + 10
300,000 -	600,000	30,000 + 20
600,000 -		90,000 + 30
Class II. Brothers, sisters, parents and other heirs		
0 -	70,000	0 + 10
70,000 -	140,000	7,000 + 20
140,000 -	280,000	21,000 + 30
Class III. Non-profit organizations		
0 -	90,000	0 + 10
90,000 -	170,000	9,000 + 20
170,000 -		25,000 + 30

Basic exemptions in SEK
Spouse: 280,000
Children: 70,000
Others: 21,000
Gifts: 10,000

Source: Du Rietz, Henrekson and Waldenström (2015, 48).

The government stated that the reform of the inheritance and gift tax was a reaction to globalization, economic integration and the deregulation of capital controls. Sweden (and the other Nordic countries) had lagged the developed capitalist democracies in formal-legal potential for international capital for much of the 1980s. Scandinavian capital markets remained more closed until an acceleration of deregulation in the mid- to late 1980s (Swank 2002, 130; Telasuo 2000). However, all ceilings on loans from banks and finance companies were lifted in November 1985 as a first step in the deregulation of the capital markets. The removal of restrictions of restrictions of controls and restrictions on the exchange market then followed in 1989, which meant that international flow of securities, bonds and shares was fully open (Svensson 2002, 200).

This coincided with the Swedish decision to apply for membership in the EC. In 1990, the Social Democrats had changed their traditional negative position concerning a Swedish membership in the EC (Government Written Communication 1990/91:50, 2-3). The Social Democrats were thereafter able to gain a parliamentary majority in favor of an application for Swedish entry into the EC with support from the opposition parties, which at the time included the Centre Party, the Liberals and the Conservatives. The Social Democratic government then submitted a formal application on July 1, 1991. After the general election in September 1991, the centre-right coalition continued the process towards a Swedish accession into the EC.[4]

Reflecting upon these developments, the newly-elected government noted in its economic policy analyses that, historically, periods of strong economic development in Sweden had coincided with expanding international economic integration. Sweden had benefitted from increased free trade and investment flows by participating in the international division of labor. During the 1980s, however, economic integration had been deepened through deregulation of capital markets and the abolition of capital controls. These developments had gradually changed the conditions for economic policy (Government Bill 1991/92:38, 28). These changing conditions also included the ongoing policy processes in the EC. It was noted that the economic integration was intensifying with the creation of the single market and the negotiations concerning the Treaty on European Union (the 'Maastrict Treaty'). The government also acknowledged the increased role the emerging transition economies in Eastern and Central Europe would have in the world economy (Government Bill 1991/92:38, 28-29).

Against this background, the government concluded that Sweden as a member of the EC would gain influence and enjoy all the benefits that the integration within the EC produced. From an economic and growth perspective, one of the most prominent positive effects of a membership in the EC would be that Sweden could attract foreign investments and foreign knowledge much easier than under the existing circumstances (Government Bill 1991/92:38, 28). However, as many aspects of Swedish economic policy and the Swedish tax structure differed markedly from the general pattern in the EC countries it was necessary to harmonize these areas with the policies in the EC countries (Government Bill 1991/92:38, 29-30). Here, it was noted that the Swedish inheritance and gift tax rates were relatively high not only in a

[4] For accounts of the process towards the decision to join the EC, see Lundgren Rydén (2000) and Gustavsson (1998).

European, but also in an international perspective. This not only counteracted the domestic savings but also discouraged foreign capital and entrepreneurs as capital would move to more profitable locations (Government Bill 1991/92:38, 32; Government Bill 1991/92:60, 67-68).

The government also observed that capital formation had become a more complex process after the integration of the international capital markets. Investments were no longer a simple function of domestic capital supply where the interventionist market regulations had been designed to finance domestic investments with domestic capital in the most efficient way. With deregulated capital markets, this mechanism had been weakened as it was no longer politically possible to assure that capital would flow in a certain direction. The crucial impulse for investments was no longer whether a country was rich in capital or not, but rather the preconditions that made a country attractive to invest in. This depended both on the expected return of capital and on the general development of the economy (SOU 1992:19, 280).

In this respect, the government assumed that the international economic integration and the EC membership could put increased pressure on Swedish tax policy and that the resulting overall tax cuts would be substantial. The government would not only have to comply with the treaty-based provisions for the value-added tax in the EC. It was also urgent and would require immediate policy measures to adapt the design and structure of capital taxation to the international conditions where national economies competed for capital (Government Bill 1991/92:38, 33; Government Bill 1991/92:60, 60-62 and 67-68).

Furthermore, it was also noted that while previously tax policy had to a large extent been strongly related to finance the growth of the public sector, internationalization had produced new conditions. The role of the tax system in the economy would thereby have to change to create incentives for savings and investments. It was therefore proposed that one new long-term priority would be to convince potential investors that the Swedish tax-to-GDP ratio was declining and that this trend would be kept stable without tax increases (SOU 1992:19, 206).

The reform of the inheritance and gift tax was also related to the review of economic policy that the government presented the same day (October 31, 1991) as the inheritance and gift tax reform was passed. As such, the reform of the inheritance and gift tax was framed as one part of a macro policy package, where many of the arguments used to motivate policy changes appeared in both the bill on macroeconomic policy and the bill on tax reform. Accordingly, the reform of the inheritance and gift tax was also motivated as an instrument to restore economic growth (Government Bill 1991/92:60, 61-62).

In its analysis of the macroeconomic situation, the government concluded that the Swedish economy was in a deep crisis. The development potential of the economy had been gradually weakened and the result had become a total stagnation. While it was estimated that the GDP growth in the OECD area would be around 3.5 percent during the period 1990-1992, the Swedish GDP would fall by around 1 percent. In this comparative perspective, the government considered the outlook for industrial production to be even more problematic. The expected increase in industrial production was 3.25 percent in the OECD as a whole and 2.5 percent in the European OECD countries. By contrast, Swedish industrial production was expected to fall by 4 percent (Government Bill 1991/92:38, 2).

Against this background, the government alarmingly raised the question whether the Swedish economy had any potential for a growth in comparison with the surrounding economies, even if there was a recovery in the forthcoming business cycle? The prognosis from the government was extremely negative. In the short term, all sectors in the Swedish economy displayed a weak development and were approaching a total stagnation. The unemployment rate had doubled during the last year and was expected to reach 3 percent at the end of 1991. It was likely that the unemployment rate would reach at least 4 percent during 1992 (Government Bill 1991/92:38, 2). During 1991, it was estimated that total industrial investments would fall by 18 percent (Government Bill 1991/92:38. Appendix 1, 24). It was noted that industrial production had fallen by 11 percent from the beginning of 1989 (the peak of the last business cycle) to the second quarter of 1991. The downturn during those 9 quarters was relatively quick in relation to the developments during earlier crises (as a comparison, it was noted that the downturn during 12 quarters from the end of 1979 to the end of 1982 had resulted in a fall in industrial production by about 9 per cent). This fall in industrial growth had reduced the share of industry in relation to GDP to only about 19 per cent, which was one of the lowest recorded figures during the Twentieth Century (Government Bill 1991/92:38. Appendix 1, 13). The number of employed within the industrial sector had fallen by 100,000 since the end of 1989 and continued to fall even further. According to the government, there was a risk that the future living standard and welfare level could be compromised (Government Bill 1991/92:38, 2-3).

The government concluded that high taxes was an important factor behind the decrease in development potential that the Swedish economy was experiencing. In this regard, the government stated that high inheritance and gift tax rates prevented savings and investments from being channeled to enterprises in the private sector. This, in turn, was harmful to growth and employment (Government Bill 1991/92:60, 61). The inheritance and gift tax reform was thereby integrated in an economic policy shift directed towards lowering a perceived excessive tax burden to strengthen the development potential and competitiveness of the economy (Government Bill 1991/92:38, 43). This would increase investment as a condition for growth by expanding the capital stock and introducing new technology. Such developments were also expected to create positive economies of scale through externalities (SOU 1992:19, 283). However, if the current tax structure was kept unchanged, this would have strong negative effects on the distribution of income and wealth. Capital, investment and businesses would flee the country, resulting in higher unemployment, lower real income and a decline in the general welfare level (Government Bill 1991/92:38, 43).

This discussion was also applied in scenarios based on macro simulations for the period 1989-2005. Here, the government presented a ‘growth scenario’ as one realistic option. This scenario implied that a domestic economic policy based on capital tax reductions would mean that improved capital formation and private savings in Sweden would interact positively with a continued liberalization of the world economy and the deepening integration within the EC. Accordingly, a decisive factor for a renewed growth would be the Swedish capacity to adapt to exogenous developments and attract investments. This ideal trajectory was described as ‘the stable recovery’ (*den stabila återhämtningen*) in the short term, which would be followed by ‘the good century’ (*det goda årtiondet*). This was put in contrast to a ‘backwardness’ scenario where economic policy remained constant in relation to the changes that were included in the ‘growth scenario’. In terms of GDP growth, the outcomes of these scenarios were quite different. In the ‘growth scenario’ GDP growth was predicted to become 2.5 percent, whereas in the ‘backwardness’ scenario predicted GDP growth was limited to 1.1 percent (SOU 1992:19, 151-52).

4. The political process towards the repeal, 2000–2004

The 1991 reform would be the last adjustment of the inheritance and gift tax before it was repealed in 2004. The tax in its reformed shape survived all other changes within tax and fiscal policy that occurred in the turbulent public finances that characterized the 1990s. Even if the Social Democratic government which came into office in 1994 introduced adjustments in the tax system which targeted high-income earners and very wealthy groups, it did not alter the inheritance and gift schedule which had been introduced in 1991. The Social Democrats thereafter administrated the inheritance and gift tax until they finally chose to repeal the tax in the autumn of 2004 (Henrekson and Waldenström 2016). The following sections will deal with the political process leading up to this outcome.

4.1 The tax reform agenda, 2000–2002

In the years 2000–2002, several indications appeared that the political support for the inheritance and gift tax was changing. One of the arenas where such arguments was raised was the Commission on Tax Mobility (*Skattebasutredningen*). The Commission on Tax Mobility appointed by the Social Democratic government in July 2000. It was chaired by the chief economist of The Swedish Trade Union Confederation (*Landsorganisationen*), Per-Olof Edin. In its inquiry, the Commission was instructed to pay special attention to those tax errors (tax losses due to incomplete enforcement of existing tax rules) arising due to new technology and the internationalisation of the economy. In this regard, the government wanted to be assured that there would be sufficient tax revenues to continue to finance a well-functioning welfare society at current ambition levels in a global context with increased tax mobility (SOU 2002:47, 31).

In its report published in November 2002, the Commission on Tax Mobility concluded that it was much too easy and profitable to hide financial assets and their yields outside of Sweden. Here, it was noted that capital as well as inheritance and gift taxes were often avoidable by those who knew the applicable tax rules. Sometimes these taxes also created significant generation change problems for family-owned companies. Wealth, inheritance and gift taxes, however, had a significant vertical distributive effect as they reduced the gap between wealthy households with high incomes and households in a less favorable economic situation. Wealth, inheritance and gift taxes were thereby viewed as a progressive complement to the proportional taxation of income from capital (this referred to the uniform 30 per cent level that had been introduced after the 1990/91 tax reform). However, their structure created great horizontal unfairness. This meant that taxes affected various groups of wealthy households arbitrarily and unjustly. As a result, the structure of these taxes violated some of the most basic principles of the tax system. The narrow bases, high marginal effects and the plethora of exemptions and tax breaks created powerful incentives for households and businesses to make purely tax-based decisions, both legal and illegal (SOU 2002:47, 37-38).

The Commission on Tax Mobility therefore concluded that Swedish taxation of capital, along with inheritance and gift taxation contained tax breaks in the form of exceptions that created large tax losses and negative distributive effects. From a fiscal perspective, this resulted in an inefficient increased tax in order to create positive distributive effects. Both aspects contributed to irrational economic decisions, and an overall loss of tax revenue. Against this background, the Commission noted that there were good reasons to appoint a parliamentary commission to review this area of taxation. One part of this reform would be to abolish the inheritance and gift tax for Tax Class 1 (spouses and lineal heirs) (SOU 2002:47, 38-39).

The idea of a review of the inheritance and gift tax on marital property was also raised in Parliament. In October 2001, 9 members of parliament from the Left Party submitted a private members´ motion which highlighted two problems with the existing inheritance and gift tax system. First, the group focused on the situation of surviving spouses who were inheriting private homes. It was noted that since the size of inheritance tax was based on the taxable value of the home, increased taxation values in bigger cities such as Stockholm had resulted in increasing inheritance taxes for this group. As a result, a growing number of home owners in this category were experiencing difficulties to pay inheritance taxes without selling their house. As a solution to this, the group from the Left party argued that surviving spouses who owned family homes should be relieved from inheritance and gift tax. The best way to achieve this was to introduce a substantial rise in the exemption level related to one- or two-family property in a bequest. Second, the group noticed that there existed problems related to the rules concerning inheritance of stocks. According to those rules, the inheritance tax was levied at the value of the stocks at the date of the shareholder´s death. If this value fell before the stocks were transferred to the heir, their value could fall below the tax obligations, putting the bequest at risk of going bankrupt. To mitigate this risk, the group suggested that the inheritance value of stocks should be based on their value on the day when they were transferred to the heir. The group concluded their private members´ motion with a request that the government would conduct a special review in order to deal with these two problems.[5]

[5] Swedish Parliament, Private Members´ Motions 2001/02:Sk481.

In June 2002, the Social Democrats government then appointed a parliamentary commission, the so-called Property Tax Commission (*Egendomsskattekommittén*), to review and evaluate not only the inheritance and gift tax, but also the wealth tax and the property tax. The Property Tax Commission was given relatively broad and general instructions. One important task would be to make the tax system more uniform by seeking neutrality where all forms of tax would be subject to standard rates. Special attention should also be drawn to the possibilities for simplifications and a tax design that favored enterprise and growth. However, there was one element in the Commission instructions which pointed towards a short-term policy shift. The Commission was ordered to prioritize its study on the inheritance between spouses.[6] As this issue previously had been raised by the Left party, it is also an indication that this element of the commission instructions had been preceded by negotiations between the parties that formed the parliamentary majority at that time. During the period 1998-2006, two successive Social Democratic minority governments governed Sweden. In this regard, the general election in September 2002 had no effect on the overall parliamentary situation. However, since Sweden has a unicameral system based on simple majority, the Social Democrats had to rely on support from the Green party and the Left party to gain a parliamentary majority. This meant that they had to negotiate with these two parties which often resulted in a compromise between the ideas and interests represented by the different parties.

4.2 The abolishment of inheritance tax on marital property, 2002–2003

In January 2003, The Property Tax Commission published its first report on inheritance and gift tax, which concerned inheritance between spouses. As the government had waited until after the 2002 general election to appoint the members of parliament who were included in the commission, its first report had been prepared at a relatively rapid pace. As such, its recommendations were simple and straightforward. The commission proposed that the government should abolish the inheritance tax between spouses altogether. This was motivated by the previously raised argument that the rise in taxable values could force spouses who inherited the family home to sell off this property since they did not have enough capital or other assets to pay the inheritance tax. Rising prices in the real estate market had meant an increase of the taxable value that was not matched by any

[6] SOU 2004:36, appendix 1. Dir 2002:87. Översyn av reglerna om fastighetsskatt på småhus m.m., förmögenhetsskatt samt arvs och gåvoskatt.

corresponding increase in the home owners´ incomes (SOU 2003:3, 34-35). In the period 1996–2001, the average price increase of a single family private home was 54 percent. The increase in city-regions such as Gothenburg and Stockholm was even more considerable: 63 percent and 99 percent, respectively (SOU 2004:36, 26).

In October 2003, the government introduced its bill on the issue, which reflected the recommendations and arguments presented by The Property Tax Commission. It proposed that the inheritance tax on marital property would be abolished from January 1, 2004 (Government Bill 2003/04:15). The bill was then passed in December 2003 with support from the Green Party and the Left party. One indication of their support on this issue was manifested in the statement from the parliamentary tax committee. As part of its report, the members from the Green Party and the Left Party had issued a statement of opinion (*särskilt yttrande*). Here, they expressed their satisfaction with a repeal of the inheritance tax between spouses since this would benefit surviving spouses with low incomes that owned houses in areas with rising taxation values. Against this background, they also apologized that the reform had taken so long to prepare. It would have been more merciful if the decision could have come earlier in the year, but they had to accept the delay as part of their agreement with the Social Democrats regarding the State budget and the related macroeconomic and fiscal policies.[7]

4.3 The EMU referendum and 'growth talks', 2003–2004

During 2003, the debate about the future of the inheritance and gift tax became affected by tax competition arguments. This was, not unlike the situation in 1991, related to how the government interpreted the current Swedish position in relation to the policies of the European Union. In September 2003, a referendum regarding a Swedish accession to the European Monetary Union (EMU) and a replacement of the Swedish Krona with the Euro was held. In the referendum, the Swedish voters voted against Sweden joining the EMU and an introduction of the Euro. Prime Minister Göran Persson reacted to this outcome in his statement of government policy during the inauguration ceremony to the parliamentary session of 2003/2004. Persson declared that the fact that Sweden remained outside the Eurozone could be potentially harmful to the Swedish economy and welfare State. For that reason, compensatory macroeconomic policy measures needed to be devised. Among other things, it was necessary to review the corporate and capital taxes to ensure that these did not

[7] Swedish Parliament, Report from the Parliamentary Tax Committee 2003/04:SKU7, 9.

diverge considerably from the economies within the Eurozone that Swedish firms competed with.[8]

This statement reflected the fact that the government had established close links with the Confederation of Swedish Enterprise during the EMU campaign. Both the Social Democrats and the Confederation of Swedish Enterprise were in favour of a Swedish accession to the EMU and campaigned on a joint platform in the months leading up to the referendum. Furthermore, the Confederation of Swedish Enterprise is the Swedish business peak association representing and as such, it represented both the general interest group for Swedish businesses and the main employers´ organization.

Against this background, the government initiated so called 'growth talks' (*tillväxtsamtal*) in the autumn of 2003. These talks included the Confederation of Swedish Enterprise, the major labor unions and the associations representing the municipalities and county councils. During these talks, the Confederation of Swedish Enterprise proposed a radical tax policy reform. It rested on the basis that the government would abolish the inheritance and gift tax and the wealth tax if the employers accepted that this loss of revenue was replaced by an abolishment of the tax credit related to employee benefits for the first five employees in every firm. However, as this would affect the smallest firms in a disproportionately negative way, the proposal created a resistance among those firms, which meant that the planned agreement not could be reached (Fichtelius 2007, 226-234).

Even if the 'growth talks' did not result in any immediate decisions on the inheritance and gift tax, several centrally placed stakeholders emerged in the aftermath. In the government, not only the Social Democrats but also the Left Party indicated that they could agree on some kind of settlement. In the private sector, it was obvious that the Confederation of Swedish Industries was regarded as the most important actor for the government to consider. But in the spring of 2004, these actors were still uncertain about how to proceed. Based on media reports it is obvious that they had adopted a 'wait and see' strategy. In their public communication, they stated that while they did not exclude any alternatives, they were not yet prepared to make any decisive commitments.[9]

[8] Swedish Government Offices, Statement of Government Policy 16/9 2003.

[9] For a summary of this debate, see Håkansson (2004), Brevinge (2004), Tidningarnas Telegrambyrå (2004), and Nyhetsbyrån Direkt (2004).

4.4 The final report from the Property Tax Commission

In June 2004, the Property Tax Commission issued its second report on inheritance and gift tax. This report recommended several changes in the legislation. It was proposed that intergenerational transfer of closely-held (non-public) family businesses should be exempted from inheritance tax. The gift tax for owners who chose to transfer such firms while they still were among the living would also be lowered: from 30 to 15 percent of the net asset value (SOU 2004:66, 89-91). Furthermore, it was proposed that gifts between spouses would be exempt from gift tax (SOU 2004:66, 18).

As for the inheritance and gift tax that concerned other categories, the Property Tax Commission strived towards achieving a greater neutrality within the system and to correct those distortions that emanated from the many special incentives and exceptions that had been introduced over time. This would be addressed by two reforms. First, the existing progressive inheritance and gift tax would be transformed to a proportional tax, where all subjects paid a 30 percent tax on inheritances or gifts. Second, it was proposed that the valuation rules, which varied according to the asset type under the current system, would be made more uniform. As a general rule, all assets and debts included in a bequest or gift would be valuated at 50 percent of the market value. This would prevent tax planning strategies strategies which focused on lowering the inheritance or gift tax by acquiring assets that had the lowest taxable value. One example of this were shares quoted and valued on the different investment lists linked to the Stockholm stock exchange. According to the existing rules, such shares were subject to different inheritance and gift tax rates, depending if they were quoted on the A or O list. In turn, this meant that the owners of firms with shares quoted on the A list could move them to the O list in order to lower their tax. According to the Property Tax commission, such strategies were considered to be unfair since they only benefitted those groups who could afford to pay for tax planning (SOU 2004:66, 266-67).

In this regard, it should be noted that the proposal concerning the abolishment of the inheritance tax for intergenerational transfers of closely-held (non-public) family businesses was introduced late into the commission work process. It was only before the last committee meeting that this proposal was introduced. One of the commission members who actively supported this proposal and made it possible was Per Rosengren, representing the Left Party.[10]

The publication of this report was the last major event that preceded the budget negotiations ahead of the State budget that would be introduced in the autumn of 2004. During these

[10] Swedish Parliament, Recording of Proceedings 2004/05:52 Thursday 16 December, 29.

negotiations the Social Democrats, the Left Party and the Green Party struck a deal to abolish the inheritance and gift tax altogether. In the following section, we deal with this decision and analyze its foundations and influences against the positions of the involved actors that has been described previously in the article.

4.5 The government bill and the final parliamentary debate

In the government bill, it was initially noted that the decision to repeal the inheritance and gift tax was a response to the criticism against it that had been voiced over the previous years. The arguments presented may thereby be considered as a combination of those brought forward by the different actors dealing with inheritance and gift tax since the appointment of The Commission on Tax Mobility in 2000. Against this background, the government stated that even while it had come to a relatively quick decision to repeal the tax, this decision had a long background history. The government noted that the inheritance and gift tax was viewed as unfair due to the extensive possibilities to legally avoid taxation that existed for wealthy groups. In addition, it was also noted that the inheritance and gift tax gradually had targeted new groups of property owners and stock owners, which was perceived as an unwanted and negative effect. In practice, a number of the arguments previously raised by the Left party was used as a motivation for the repeal in this regard. These included not only the problems for surviving spouses to deal with increased inheritance tax due to rising taxation values on their real estate, which in fact had been dealt with already in 2003. With an indirect reference to the private members´ motion from the Left Party in 2001, the government also highlighted the new situation where increasingly more people were active on the stock market and the valuation issues that were related to sudden shifts in the value of stocks between death and inheritance (Government Bill 2004/05:25, 5).

The repeal was also motivated with reference to the problems the existing inheritance tax legislation caused for the intergenerational transfer of family businesses. The criticism from the Property Tax Commission concerning valuation of shares and the related tax planning issues was also highlighted in this context. Surprisingly, there appears to have developed a common understanding between the Confederation of Swedish Enterprise, the government and the Left Party regarding the significance of this argument, which makes it a very rare event in Swedish economic and political history.

In the *remiss* comments from The Confederation of Swedish Enterprise on the report from the Property Tax Commission, their arguments for a repeal of the inheritance tax focused on the situation of family businesses. The Confederation of Swedish Enterprise noted that a repeal of the tax was becoming increasingly more urgent as every other Swedish business owner was at least 50 years old. This meant that around 140,000 firms soon would undergo a generational shift. For a large majority of those firms, the existing inheritance and tax rules made intergenerational transfers uncertain. It was likely that those firms would cease as they would not be able to handle the gift and inheritance taxes as well as other, related taxes. The heirs who took over a family business would not only have to pay the inheritance tax, but also pay off the heirs who chose not to become partners in the business. Frequently, this forced heirs to make transactions in the inherited business in order to free up the necessary capital gains and dividends to fund such payments. This led to a further depletion of the business capital which ultimately threatened the existence of the firm. The Confederation of Swedish Enterprise also warned that an introduction of uniform and neutral rules for the valuation of shares proposed by the Property Tax Commission would increase the inheritance tax for those small businesses with a large degree of family ownership that were quoted outside the A list. This decision would affect the potential of many family businesses negatively as their future possibilities to attract capital would be constrained. This, in turn, threatened the overall prospects for growth and employment in the welfare state.[11]

In the parliamentary debate, Per Rosengren of the Left party acknowledged this interpretation of the role of small businesses in a growing economy. According to Rosengren, the repeal was not targeting traditional small businesses such as grocery stores or petrol stations which were protected by the exemption rules in the existing legislation. The general retail, wholesale and service level in the Swedish towns and cities would not have been threatened by a continued inheritance and gift tax. What Rosengren instead focused on was bigger or growing family businesses in the major cities such as Stockholm whose potential could be limited when owners used assets to pay inheritance tax, rather than to invest them in order to expand. One case that was especially mentioned in this regard was a real estate developer in Stockholm which could have used the amount paid in inheritance tax to build 800-900 new apartments. Rosengren also noted that since Stockholm was a substantial contributor to aggregate growth, it was in the national interest to support emerging actors in the advanced service sector such as consultancy firms.[12]

[11] Näringslivets Skattedelegation, 'Yttrande över betänkandet (SOU 2004:66) Egendomsskatter – Reform av arvs- och gåvoskatter', 2-3.

[12] Swedish Parliament, Recording of Proceedings 2004/05:52 Thursday 16 December, 37.

5. Summary and analysis

In this paper, we have found that the background factors behind the declining political support for the inheritance and gift taxation in Sweden during the period 1991–2004 shifted in significance over time and appeared in different combinations. As for the 1991 reform, we note that globalization processes such as economic integration and the deregulation of international capital markets as well as fear for growth had a decisive influence on decision makers. After a lagged formal-legal reform of the financial markets, Sweden experienced a sudden political pressure from the force of free and open international capital flows. There was also a growing realization that a full EC membership would mean a reorientation of many domestic policies. Traditionally, the Swedish position towards the EC was dominated by the sentiment that if Sweden was going to join the EC, it would be under the condition that the Swedish economy would be sheltered through exemptions from certain areas in the Rome Treaty and other EC treaties. This would retain a core of national policies which were non-negotiable (Magnusson 2009). By contrast, after the decision to join the EC in 1990, politicians concluded that after entering the EC, the Swedish economy would be exposed to the emerging European tax competition. This coincided with a macroeconomic situation where the Swedish economy was more severely affected by the international economic crisis during the first years of the 1990s than other economies in the OECD. This produced an extremely negative outlook on the economic future from the government. The government did not consider it likely that Sweden could recover from the crisis in a competitive and sustainable manner if immediate reforms within tax policy and economic policy were not implemented.

With regard to the repeal of the tax, we noted that competitiveness had an indirect influence as the outcome of the EMU referendum intensified the pressure and readiness from the involved actors to reach a decision. However, it was not the decisive factor. In this regard, we have confirmed the relevance of the argument put forth by Henrekson and Waldenström (2016) that the decline in support for the inheritance and gift tax among the Social Democrats and the Left Party was the crucial factor behind the repeal of the tax.

It has been noted that the appointment of The Commission on Tax Mobility in 2000 marked the beginning of a change in the continuous support for the inheritance and gift tax that had existed since the 1930s. During this period, the Social Democrats established the ability-to-pay principle and the increasingly progressive tax schedules whereby wealthy persons were expected to pay relatively more of the tax revenue that was needed for the public sector and the welfare state than other tax subjects. However, from 2000 it was realized that due to the deregulation of capital and financial markets and an increase in the legal possibilities for tax planning, the inheritance and gift tax was no longer considered to be an efficient instrument to tax the wealthy and increase redistribution.[13] At the same time, there was a growing political awareness that the inheritance and gift tax was affecting more groups than previously due their increased engagement on the property and financial markets. Consequently, there arose a gradual understanding that the inheritance and gift tax was unnecessarily harmful for several key groups of the electorate, which decreased the political legitimacy of the tax. One manifestation of how widely spread this sentiment had become is the arguments and rhetoric used by the Left party when it motivated the repeal of the inheritance tax between spouses as a measure to protect home ownership and household savings.

In this regard, we have also highlighted how changing attitudes towards the family business contributed to the repeal of the tax. Here, the crucial issue became the intergenerational transfer, which was framed as a problem that threatened the potential contribution of family businesses to economic growth and the welfare State. To fully appreciate this attitude shift, it is fruitful to put it in a wider perspective which takes related developments into account. During the years after 2000, the general tax situation of closely-held (non-public firms) was subject to several inquiries. This was related to the problem that closely-held (non-public) businesses may be regarded as a unit created to support a family or an individual and accumulate individual or family wealth. But as the income related to the individual and the profits related to firm are subject to different tax schedules, firm owners may be inclined to convert high taxed to low taxed incomes/profits. It has therefore been necessary to control such tax planning through income splitting within firms through legislation (Alstadsæter and Jacob 2012).

In 2006, the Social Democratic government decided to introduce more generous income splitting rules for closed (non-public) corporations through a reform of the so called '3:12 rules'. Through the introduction of a standard rule, a significant portion of the wage income became subject to a reduced capital tax – 20 percent instead of 30 percent which is the standard capital income tax (Lodin 2011, 174-75; Government Bill 2005/06:40). From this perspective, it appears that as the family business became increasingly recognized within economic policy and tax policy, the legitimacy of the inheritance and gift tax decreased. The interpretation of the family firm as a tax subject shifted drastically as efficiency arguments

[13] In a long-term perspective, this decision may also be interpreted as one of numerous exceptions from the overall tax design that had been decided in the 1991 tax reform. In this respect, Gunnarsson and Eriksson (2017) note that the Commission on Tax Base Mobility, the Commission on Unified VAT and the Property Tax Commission, all from the around 2005, represent the last notable major political effort to advance the tax system introduced after the 1991 tax reform.

replaced equity arguments. The repeal of the inheritance and gift tax thereby became interpreted as a crucial measure in the ongoing policy shift towards small businesses.

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7. Project information

FairTax is a cross-disciplinary four year H2020 EU project aiming to produce recommendations on how fair and sustainable taxation and social policy reforms can increase the economic stability of EU member states, promoting economic equality and security, enhancing coordination and harmonisation of tax, social inclusion, environmental, legitimacy, and compliance measures, support deepening of the European Monetary Union, and expanding the EU's own resource revenue bases. Under the coordination of Umeå University (Sweden), comparative and international policy fiscal experts from eleven universities in six EU countries and three non-EU countries (Brazil, Canada and Norway) contribute to FairTax research.

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