Corporate Dividend and Capital Gains Taxation: A comparison of Sweden to other member nations of the OECD and EU, and BRIC countries

Prepared for the Confederation of Swedish Enterprise

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Introduction

The Swedish tax system last underwent a major reform in the early 1990s. This reform included significant changes in both individual and corporate income taxes. The changes substantially reduced income tax rates on corporate investment, and resulted in Sweden's tax rates on corporate earnings being markedly lower than those of many other countries in the Organisation for Cooperation and Economic Development (OECD) or the European Union (EU).

Since the early 1990s, however, other countries have made significant changes to how they tax such income, and this has eroded Sweden's relative tax advantage. While Sweden's flat 30% tax rate applied to dividends and capital gains has remained largely unchanged, the top GDP-weighted average dividend tax rate among OECD, EU and BRIC countries (excluding Sweden) has fallen from 34.6% in 2000 to 20.2% in 2012. The capital gains tax rate among these OECD, EU and BRIC countries also decreased during this period, though not as significantly as the dividend tax rate (falling from 20.8% in 2000 to 14.9% in 2012). Moreover, while Sweden had below average integrated dividend and capital gains tax rates after the 1990 reform – tax rates that capture both the corporate and individual level taxes – the integrated tax rates in other countries have fallen significantly between 2000 and 2012.

As is the case in many countries, corporate earnings in Sweden are subject to two levels of tax, a corporate-level income tax, and then a personal or investor-level tax when corporate earnings are paid out as dividends or realized as capital gains. Dividend and capital gains tax rates are important because they, together with the corporate income tax, impose a double tax on corporate earnings that can distort a number of economic decisions. First, the double tax can discourage capital investment, particularly in the corporate sector. This both reduces capital formation generally and leads to the misallocation of investment within the economy. Second, the double tax favors debt over equity financing. Greater reliance on debt financing may leave certain sectors and companies at greater risk during periods of economic weakness. Finally, a tax policy that discourages the payment of dividends can affect corporate governance by disrupting important signals dividend payments provide to investors about the financial health of companies.

This report documents the trends in dividend and capital gains tax rates at both the personal level and on an integrated basis between 2000 and 2012 for Sweden, member nations of the OECD and EU, and the BRIC countries.[1] These trends, and the economic significance of dividend and capital gains tax rates, raise the importance of these taxes as the Swedish government considers its proposal to reduce Sweden's corporate income tax rate.

The effect of the double tax on economic decision making

A key issue concerning the effect of dividend taxes on business and investor decisions is the extent to which they are capitalized into share values or affect a firm's dividend or investment decisions. Whether dividend taxes are capitalized into share values is important for understanding the distributional effects of dividend taxes because a change in dividend taxes affects not only those who receive company dividend payments, but all those who own company shares. Alternatively, to the extent dividend taxes are not capitalized into share values, they will affect investment decisions and company dividend policy by creating a wedge between before and after-tax returns.

Recent research suggests that both views hold depending on a firm's source of finance.[2] This research suggests that newer, immature firms more reliant on newly issued equity are less likely to capitalize dividend taxes into share values, while older mature firms more reliant on retained earnings are more likely to capitalize dividend taxes into share values. Under either view, dividend taxes adversely affect the decision to make new equity-financed investment.

The double tax can affect a number of other economic decisions. It lowers the after-tax return to equity-financed corporate investment, which discourages capital investment and results in less capital formation. With less capital available for each worker, labor productivity is lowered, which reduces the real wages of workers, and ultimately, their living standards. In addition to discouraging capital formation generally, the double tax also distorts a number of other economic decisions.

Corporate vs. investment elsewhere in the economy

The double tax increases the required pre-tax rate of return for corporate capital as compared to other sectors of the economy. While under a neutral tax system investment would flow to its best and highest use, without regard to its tax treatment, the higher required return that results from the double tax discourages investment in the corporate sector. In addition to the economic harm associated with this misallocation of capital, the double taxation also leads to too few companies receiving the benefits that accompany the corporate form (e.g., centralized management, access to capital markets).

Debt versus equity finance

The double tax also contributes to a higher effective tax rate on corporate investments that are equity-financed as compared to debt-financed. A number of factors may also contribute to this tax bias, such as the holding of debt by tax-exempt entities, such as nonprofits or within pension funds. A high tax rate on equity-financed corporate investment as compared to debt-financed investment leads to excessive leverage and raises the risk of bankruptcy or other forms of financial distress, particularly during periods of economic weakness. Overreliance on debt also reflects a misallocation of resources in the economy whereby more neutral treatment could raise economic performance.

Firm dividend policy

As a company chooses how to distribute profits to shareholders, the investor-level taxes on dividends and capital gains can affect that decision. If dividends are more highly taxed than capital gains, a company will be more likely to use stock repurchases or otherwise retain earnings as a way to return corporate earnings to the shareholder. The shareholder would then pay capital gains tax on the appreciation in share value. Synchronization of dividend and capital gains rates helps reduce the tax bias against dividend payments, such as in Sweden's single tax rate for both capital gains and dividends.

Dividends can improve corporate governance as they may be a simple and important signal to investors of a company's financial viability.[3] Dividends may also help address the principal-agent problem by serving as a restraint on corporate managers deviating too far from the interest of investors.

Recent evidence from the United States found that lowering the top national dividend tax rate from 35% to 15% corresponded with an increase in dividend payments by publicly traded corporations by approximately 20% within a year after the enactment of the tax cut.[4] An earlier study of the 2003 changes in dividend taxation in the United States suggested that dividends would increase by approximately 30% as a result of this reduction of tax rates on dividends and capital gains.[5]

The double tax on corporate profits – focus on Sweden

History of the taxation of dividends and capital gains in Sweden

The contemporary Swedish tax system has its roots in the 1991 Tax Reform, colloquially referred to as "The Tax Reform of the Century," which both reduced tax rates and broadened the tax base. To put this into context, while the United States' Tax Reform Act of 1986 garnered international attention for a similar rate reduction and base broadening strategy that shifted the tax burden less than 2% of US GDP between taxpayers, Sweden's 1991 reform shifted roughly 6% of Sweden's GDP between taxpayers.[6]

The 1991 Tax Reform included the adoption of a separate, but parallel tax on investment income, including dividends and capital gains, under which investment income became subject to a flat-rate tax independent of the progressive income tax on earned income.[7] The top combined central and sub-national income tax rate went from about 75% to a top income tax rate of 57% on earned personal income and a flat rate of 30% on personal capital income, including most dividends and capital gains. The reform also reduced the corporate income tax from 52% to 40% and subsequently to 30%. The tax rates for capital and corporate income have not changed much since the early 1990s and currently stand at 30% and 26.3%, respectively. Both of these taxes, in contrast to the progressive income tax on earnings, are levied solely at the national level.

The 1991 reform also included added relief from the double tax on income from corporate investment. The double tax arises when corporate earnings are first taxed through the corporate income tax and again when distributed to shareholders as dividends or retained and later realized by shareholders as capital gains. Traditionally, Sweden has provided relief to taxpayers from the double tax through the "Annell" deduction. From 1963 to 1993 this deduction allowed corporations to deduct dividends paid on newly issued shares from taxable income subject to certain limitations. The annual deduction could not exceed 10% of the revenue raised from the shares, the sum of all deductions taken for dividends on a given bundle of shares could not exceed the revenue raised from those shares and the deduction could only be taken within 20 years of the shares' issuance.[8] Added to the Annell deduction in 1991 was the SURV reserve (SkatteUtjämningsReserV), a tax equalization reserve that allowed corporations to deduct no more than 30% of their net increase in equity.

Separate from the 1991 reform, in 1994 Sweden moved from a system that provided relief from the double tax at the corporate level to one that provided relief at the shareholder level. Specifically, the Annell deduction and SURV reserve were replaced with the elimination of dividend taxation at the shareholder level and a lower tax rate of 12.5% on capital gains. The following year, however, the taxation of dividend income resumed along with the higher 30% tax rate on capital gains. Neither the Annell deduction nor the SURV reserve were reinstated. Although there was relief for the double tax for unlisted companies from 1997 to 2006, since 1995 there has been no relief as expansive as the Annell deduction, SURV reserve, or elimination of dividend taxation at the shareholder level.

Integrated tax rates on dividends and capital gains

Table 1 illustrates the calculation Sweden's top integrated tax rate on dividends and capital gains. This example assumes a corporate investment that produces $100 in pre-tax income and calculates both the corporate-level and investor-level taxes on corporate earnings paid out as dividends or retained and realized as long-term capital gains. As shown in Table 1, this income is first subject to a 26.3% corporate-level tax. Investor-level taxes are then applied to the remaining $73.70 in income after remittance of the corporate-level tax.

Corporate income distributed to shareholders as dividends are subject to an additional 30% national capital income tax rate resulting in an additional $22.11 dividend tax and an overall top integrated tax rate of 48.4%.[9] Because capital gains are considered personal capital income as well, the top integrated capital gains tax rate on retained corporate income is also 48.4%. The effective tax rate on capital gains, however, may be lower because capital gains are taxed at the time of realization, not as they accrue.[10]

Table 1. Sweden's top integrated tax rates on dividends and capital gains, 2012

	Dividends & capital gains
Pre-tax corporate earnings	$100
	Corporate income tax
Corporate-level tax rate	26.3%
Corporate income taxes paid	**$26.30**
	Distribution to shareholders
After-tax corporate earnings	$73.70
	Individual income tax
Top dividend/capital gains tax rate	30%
Individual taxes paid on dividends/capital gains	**$22.11**
Total taxes paid	**$48.41**
Top integrated tax rate	**48.4%**

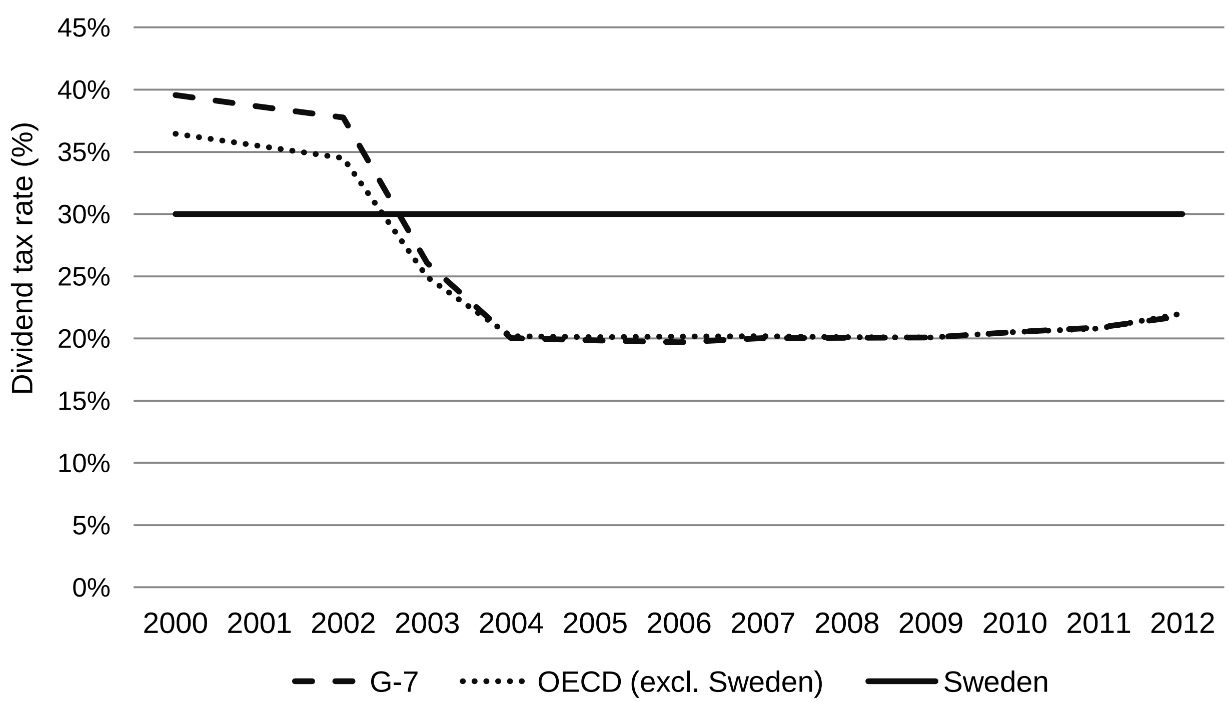
Source: Ernst & Young LLP

International comparison of dividends and capital gains taxes

Dividends and capital gains

Sweden's relatively low dividends tax rate began to erode in the early 2000s against G-7 and OECD countries. As shown in Figure 1, the top effective personal dividends tax rate, which takes into account all the various features of a country's tax treatment of dividends under its individual income tax, fell among OECD nations (excluding Sweden) from a top GDP-weighted average of 36.5% in 2000 to 22.0% in 2012. Including all OECD, EU and BRIC nations (excluding Sweden) the top GDP-weighted average dividend tax rate fell from 34.6% to 20.2% (Table 2), well below Sweden's 30% dividend tax rate.

Figure 1. Trend in dividend tax rates (GDP-weighted) for G-7 and OECD countries, 2000-2012



Note: Dividend tax rates for the G-7 and the OECD (excluding Sweden) are weighted by each country's GDP. Includes both central government and sub-national tax rates.
Source: OECD and computations by Ernst & Young LLP.

These reductions in the average GDP-weighted personal dividend tax rate, however, were due to the sharply lower personal dividend tax rates enacted by several large economies. For example, in 2003 Japan reduced its personal dividend tax rate from 43.6% to 10%. The United States also reduced its top personal dividend tax rate in 2003 from 43.5% to 19.8%, including the average state dividend income tax rate. Canada moved from a partial imputation credit to a full imputation credit, but also lowered its corporate tax rate leaving its top personal dividend tax rate only somewhat lower (29.5% in 2012 as compared to 32.3% in 2000). Germany also reduced its top personal dividend tax rate slightly. In contrast, the United Kingdom and France both increased their top personal dividend tax rates. In the United Kingdom, which retained its partial imputation system, the personal dividend tax rate rose from 25% to 36.1%. There was also a slight increase in France's top personal dividend tax rate increasing from 40.8% in 2000 to 41.1% in 2012. The decline in the unweighted top average dividend tax rate of OECD, EU and BRIC countries (excluding Sweden), which gives equal weight to each country regardless of the size of its economy, fell modestly from 21.9% in 2000 to 19.8% in 2012.

Table 2. Top personal level tax rates on dividends and capital gains for the OECD, EU, and BRIC countries, 2000 and 2012

Country	Top personal dividend tax rate (2000)	Top personal capital gains tax rate (2000)	Top personal dividend tax rate (2012)	Top personal capital gains tax rate (2012)
GDP-weighted average				
OECD, EU and BRIC (excl. Sweden)	34.6	20.8	20.2	14.9
EU (excl. Sweden)	28.3	13.7	28.8	23.3
OECD (excl. Sweden)	36.5	21.1	22.0	18.2
Unweighted average				
OECD, EU and BRIC (excl. Sweden)	21.9	18.5	19.8	14.7
EU (excl. Sweden)	21.7	16.8	20.8	16.8
OECD (excl. Sweden)	24.6	19.0	22.3	16.0
OECD and EU Countries				
Australia	22.0	47.0	23.6	22.5
Austria	25.0	0.0	25.0	25.0
Belgium	15.0	0.0	25.0	0.0
Bulgaria	40.0	40.0	5.0	10.0
Canada	32.3	36.7	29.5	22.5
Chile	35.3	15.0	25.0	18.5
Cyprus	20.0	20.0	20.0	0.0
Czech Republic	15.0	32.0	15.0	0.0
Denmark	40.0	40.0	42.0	42.0
Estonia	0.0	26.0	0.0	21.0
Finland	0.0	28.0	22.4	32.0
France	40.8	26.0	41.1	32.5
Germany	31.1	0.0	26.4	25.0
Greece	0.0	0.0	25.0	0.0
Hungary	46.0	20.0	16.0	16.0
Iceland	10.0	38.3	20.0	20.0
Ireland	44.0	20.0	41.0	30.0
Israel	25.0	50.0	30.0	25.0
Italy	12.5	12.5	20.0	20.0
Japan	43.6	26.0	10.0	10.0
Korea	20.0	20.0	35.4	0.0
Latvia	0.0	0.0	10.0	15.0
Lithuania	0.0	0.0	20.0	0.0

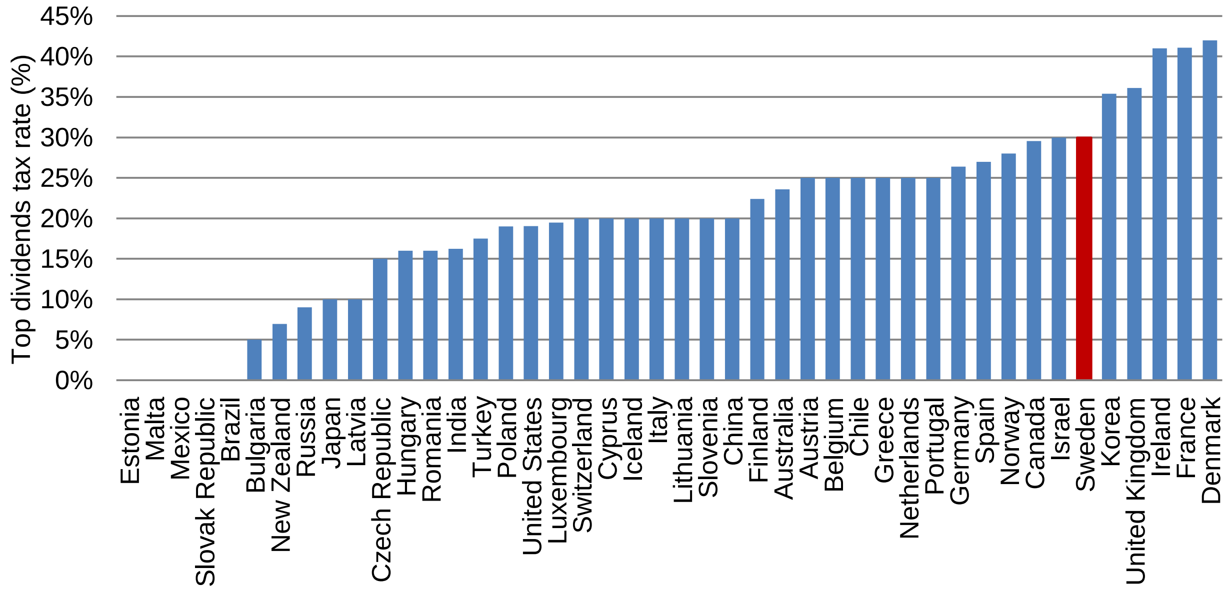
Luxembourg	23.6	0.0	19.5	0.0
Malta	0.0	35.0	0.0	35.0
Mexico	0.0	0.0	0.0	0.0
Netherlands	60.0	0.0	25.0	0.0
New Zealand	8.9	0.0	6.9	0.0
Norway	0.0	28.0	28.0	28.0
Poland	20.0	0.0	19.0	19.0
Portugal	25.0	0.0	25.0	25.0
Romania	10.0	0.0	16.0	16.0
Slovak Republic	15.0	42.0	0.0	19.0
Slovenia	30.0	50.0	20.0	0.0
Spain	27.2	20.0	27.0	27.0
Sweden	**30.0**	**30.0**	**30.0**	**30.0**
Switzerland	42.1	0.0	20.0	0.0
Turkey	31.2	0.0	17.5	0.0
United Kingdom	25.0	24.0	36.1	28.0
United States	44.8	25.0	19.0	19.1
BRIC Countries				
Brazil	15.0	15.0	0.0	15.0
Russia	15.0	30.0	9.0	13.0
India	10.0	10.0	16.2	0.0
China	20.0	20.0	20.0	0.0

Note: Weighted average based on each country's GDP. Include both central government and sub-national tax rates. Source: OECD, *Table II.4. Overall statutory tax rates on dividend income* and computations by Ernst & Young LLP (BRIC countries and United States). Rates are generally those in place as of January 1, 2012.

Sweden's 30% capital gains tax rate is also significantly higher than the 14.9% top GDP-weighted average capital gains tax rate among OECD, EU and BRIC countries (excluding Sweden) in 2012, as well as the 20.8% tax rate in 2000. Fifteen of the 44 countries listed in Table 2 (OECD, EU and BRIC countries) imposed a zero capital gains tax rate in 2000 and 2012, although some countries moved to nonzero tax rate regimes, while others moved to zero capital gains tax rate regimes. Many of the countries with zero capital gains tax rates tend to be among the smaller economies.

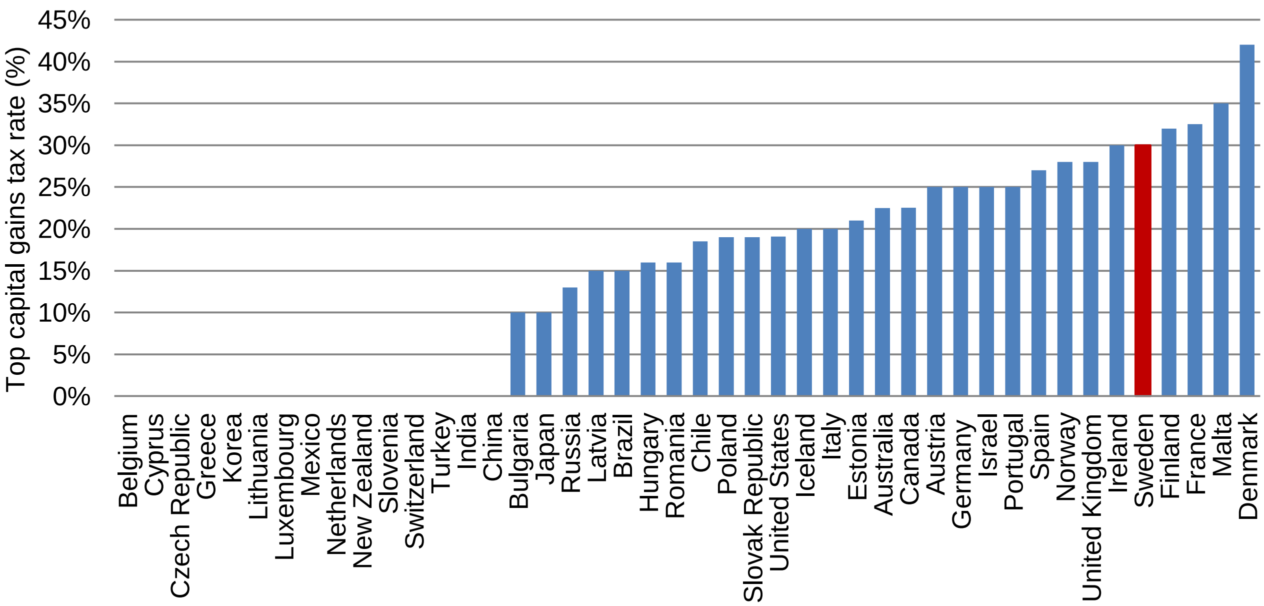
As shown in Figures 2 and 3, Sweden currently has the sixth highest top dividend tax rate and the fifth highest capital gains tax rate among the 44 OECD, EU and BRIC countries. Denmark (42%), France (41.1%), Ireland (41.0%), the United Kingdom (36.1%) and Korea (35.4%), all had higher top dividend tax rates, while Denmark (42.0%), Malta (35.0%), France (32.5%) and Finland (32%), had higher top capital gain tax rates.

Figure 2. Dividends tax rates for OECD, EU, and BRIC countries, 2012



Source: OECD and computations by Ernst & Young LLP.

Figure 3. Capital gains tax rates for OECD, EU, and BRIC countries, 2012



Source: OECD and computations by Ernst & Young LLP.

Other types of tax treatment for dividend income

The discussion above focuses on the top dividend tax rates. Some countries, including Sweden, apply a flat rate to dividend income, but a number of countries provide more lenient taxation for taxpayers with low- or moderate incomes, a flat dividend exclusion with tax due on amounts above the exclusion or some other combination of treatments.

For example, France generally provides an unlimited exclusion for 40% of dividends, but also provides a flat annual deduction of EUR 3,050 for married couples and EUR 1,525 for individuals. In practical terms, with the combination of the exclusion and the flat deduction, married couples must pay tax if they receive more than EUR 5,084 in dividends and individuals if they receive more than EUR 2,541. In Finland, dividends on shares in non-listed companies are tax-exempt up to an amount equaling 9% of the value of such shares held by the individual. However, of the amount of dividends exceeding EUR 60,000, 70% is generally taxed as capital income and 30% is tax-exempt. The United Kingdom has a lower capital gains tax rate of 18% for taxpayers within the basic rate band limit (equal to or less than £34,370) and also offers a £10,600 deduction for capital gains. In the United States, at the federal level a zero tax rate or full exemption is applied to dividend income, as well as long-term capital gains, for taxpayers in the federal 10% or 15% income tax brackets (e.g., married couples with incomes below US$69,000 in 2011).

Importantly, lower tax rates or an unlimited exclusion reduces the overall top integrated dividend tax rate because it applies to the last dollar of dividend income received. Thus, the exclusion or tax rate can be expected to affect the various economic decisions described above. In contrast, the flat deduction will only affect economic decisions for those individuals whose total dividend income is below the specified amount, but will generally have no beneficial effects on economic decision-making for those with dividend income above these amounts. Nevertheless, these types of arrangements can have significant distributional effects by reducing the tax payments of taxpayers who receive dividends.

Integrated dividend and capital gains tax rates

An important aspect of both dividend and capital gains taxation is that these investor-level taxes represent only one of the two layers of tax imposed on income from corporate earnings. Analyzing the integrated dividend and capital gains tax rates provides a more complete view of their potential impacts. Most OECD, EU and BRIC nations provide at least some relief from the double tax and many have done so for several decades. The type of relief varies by country, but it has often been provided at the shareholder level through three different approaches: a dividend exclusion, lower rates, or an imputation credit, whereby shareholders receive a credit for taxes previously paid at the corporate level.[11]

Integrated top dividend tax rates

As shown in Table 3, among the 44 OECD, EU and BRIC countries, Sweden (48.4%) has the ninth highest integrated dividend tax rate, exceeded by countries such as France (61.4%), Denmark (56.5%) and the United Kingdom (51.4%). In 2000, Sweden had an integrated dividend tax rate that was significantly lower than that of most other OECD, EU and BRIC nations: Sweden’s top integrated dividend tax rate was 49.6% in 2000, compared to a GDP-weighted average of 58.1% among the OECD, EU and BRIC countries (excluding Sweden). However, recent changes in dividend and corporate income tax systems has left Sweden with a top integrated dividend tax rate that is above the 45.4% top GDP-weighted average integrated dividend tax rate among the OECD, EU and BRIC countries (excluding Sweden).

Table 3. Integrated top dividend and long-term capital gains tax rates on corporate equities for the OECD, EU and BRIC countries, 2000 and 2012

Country	Integrated dividend tax rate (2000)	Integrated capital gains tax rate (2000)	Integrated dividend tax rate (2012)	Integrated capital gains tax rate (2012)
GDP-weighted average				
OECD, EU and BRIC (excl. Sweden)	58.1	50.6	45.4	41.5
EU (excl. Sweden)	54.2	45.3	49.2	45.2
OECD (excl. Sweden)	60.5	51.1	48.0	45.2
Unweighted average				
OECD, EU and BRIC (excl. Sweden)	46.1	44.6	39.4	35.4
EU (excl. Sweden)	46.2	43.1	38.6	35.4
OECD (excl. Sweden)	49.3	45.3	42.0	37.3
OECD and EU Countries				
Australia	48.5	65.0	46.5	45.8
Austria	50.5	34.0	43.8	43.8
Belgium	49.1	40.2	50.5	34.0
Bulgaria	59.5	59.5	14.5	19.0
Canada	61.0	63.5	47.9	42.8
Chile	45.0	27.8	38.9	33.6
Cyprus	43.2	43.2	28.0	10.0
Czech Republic	41.4	53.1	31.2	19.0
Denmark	59.2	59.2	56.5	56.5
Estonia	26.0	45.2	21.0	37.6
Finland	29.0	48.9	41.4	48.7
France	63.2	54.0	61.4	55.7
Germany	60.9	43.3	50.7	49.8
Greece	35.0	35.0	40.0	20.0
Hungary	55.7	34.4	32.0	32.0
Iceland	37.0	56.8	36.0	36.0
Ireland	57.4	39.2	48.4	38.8
Israel	52.0	68.0	47.5	43.8
Italy	44.9	44.9	45.1	45.1
Japan	66.7	56.3	44.2	44.2
Korea	44.6	44.6	51.0	24.2
Latvia	25.0	25.0	23.5	27.8
Lithuania	24.0	24.0	32.0	15.0
Luxembourg	52.2	37.5	42.7	28.8
Malta	35.0	57.8	35.0	57.8
Mexico	35.0	35.0	30.0	30.0
Netherlands	74.0	35.0	43.8	25.0

New Zealand	39.0	33.0	33.0	28.0
Norway	28.0	48.2	48.2	48.2
Poland	44.0	30.0	34.4	34.4
Portugal	51.4	35.2	43.8	43.8
Romania	32.5	25.0	29.4	29.4
Slovak Republic	39.7	58.8	19.0	34.4
Slovenia	47.5	62.5	36.0	20.0
Spain	52.7	48.0	48.9	48.9
Sweden	**49.6**	**49.6**	**48.4**	**48.4**
Switzerland	56.5	24.9	36.9	21.2
Turkey	65.0	33.0	34.0	20.0
United Kingdom	47.5	46.8	51.4	45.3
United States	66.5	54.5	50.6	50.7
BRIC Countries				
Brazil	37.0	46.5	34.0	43.9
Russia	30.0	51.0	27.2	30.4
India	38.5	44.7	43.5	32.5
China	33.0	46.4	40.0	25.0

Note: Weighted average based on each country's GDP. Includes both central government and sub-national tax rates. Source: Ernst & Young LLP, *The 2012 Global Executive*, 2012 and computations by Ernst & Young LLP. Rates are generally those in place as of January 1, 2012.

Integrated top long-term capital gains tax rates

Sweden has one of the highest integrated long-term capital gains tax rates (48.4%) among OECD, EU and BRIC nations in 2012 and is exceeded by only seven countries – Malta (57.8), Denmark (56.5%), France (55.7%), the United States (50.7%), Germany (49.8%), Spain (48.9%), and Finland (48.7%) – among the OECD, EU, and BRIC countries. Moreover, the top GDP-weighted integrated long-term capital gains tax rate in OECD, EU and BRIC nations (excluding Sweden) has fallen from 50.6% in 2000 to 41.5% in 2012.

Another aspect to capital gains taxation is whether countries typically tax capital gains at tax rates that are lower than those applied to ordinary income. In addition to the issues related to the double tax described above, a lower tax rate on capital gains can be justified on policy grounds because high capital gains tax rates lengthen investors' holding period and the capital gains tax is often a tax on both real and inflationary gains. Nearly all of the OECD, EU and BRIC countries tax capital gains at rates below the rates applied to earned income.

This has implications not just for international tax competitiveness, but also for domestic entrepreneurship. For example, income tax rates generally have been found to affect the entry and exit from businesses as individuals decide whether to start up their own business or work for another firm.[12] Higher income tax rates generally also deter these businesses from hiring workers and investing, and higher tax rates also affect the rate at which businesses grow.[13]

The rules governing capital gains, such as holding periods, special rates, and other special rules for particular assets, vary widely among countries. The Appendix provides a summary of these rules.

Role of lower corporate income tax rates

The reduction in corporate income tax rates is a major factor explaining the decline in the GDP-weighted average integrated dividend and capital gains tax rates abroad. As shown in Table 4, of the 33 OECD nations (excluding Sweden), 31 had lower statutory corporate income tax rates in 2012 than in 2000. Moreover, five of the six EU non-OECD nations – Bulgaria, Cyprus, Latvia, Lithuania and Romania – as well as the four BRIC countries – Brazil, the Russian Federation, India and China – have all lowered their corporate tax rates.

Table 4. Top corporate tax rates by country, 2000 and 2012

Country	Top Corporate Rate (2000)	Top Corporate Rate (2012)
GDP-weighted average		
OECD, EU and BRIC (excl. Sweden)	37.7	31.5
EU (excl. Sweden)	36.2	28.8
OECD (excl. Sweden)	38.0	33.0
Unweighted average		
OECD, EU and BRIC (excl. Sweden)	32.0	24.4
EU (excl. Sweden)	31.3	22.7
OECD (excl. Sweden)	32.3	25.4
OECD and EU Countries		
Australia	34.0	30.0
Austria	34.0	25.0
Belgium	40.2	34.0
Bulgaria (Non-OECD)	32.5	10.0
Canada	42.4	26.1
Chile	15.0	18.5
Cyprus (Non-OECD)	29.0	10.0
Czech Republic	31.0	19.0
Denmark	32.0	25.0
Estonia	26.0	21.0
Finland	29.0	24.5
France	37.8	34.4
Germany	43.3	33.0
Greece	35.0	20.0
Hungary	18.0	19.0
Iceland	30.0	20.0
Ireland	24.0	12.5
Israel	36.0	25.0
Italy	37.0	31.4
Japan	40.9	38.0
Korea	30.8	24.2
Latvia (Non-OECD)	25.0	15.0

Lithuania (Non-OECD)	24.0	15.0
Luxembourg	37.5	28.8
Malta (Non-OECD)	35.0	35.0
Mexico	35.0	30.0
Netherlands	35.0	25.0
New Zealand	33.0	28.0
Norway	28.0	28.0
Poland	30.0	19.0
Portugal	35.2	25.0
Romania (Non-OECD)	25.0	16.0
Slovak Republic	29.0	19.0
Slovenia	25.0	20.0
Spain	35.0	30.0
Sweden	**28.0**	**26.3**
Switzerland	24.9	21.2
Turkey	33.0	20.0
United Kingdom	30.0	24.0
United States	39.3	39.0
BRIC Countries		
Brazil	37.0	34.0
Russia	30.0	20.0
India	38.5	32.5
China	33.0	25.0

Note: Weighted average based on each country's GDP. Include both central government and sub-national tax rates. Source: OECD, *Table II.4. Overall statutory tax rates on dividend income* and computations by Ernst & Young LLP (BRIC countries and United States). Rates are generally those in place as of January 1, 2012.

Scheduled reductions in corporate income tax rates abroad will continue to drive the integrated dividend tax rates down further. The Swedish government has proposed to reduce the Swedish corporate income tax rate from 26.3% to 22% in 2013.

The United Kingdom is scheduled to lower its corporate income tax rate to 22% in 2014. Likewise, Australia is scheduled to reduce its corporate income tax rate one percentage point to 29% in 2013. Chile, having temporarily raised its corporate income tax rate to 20% in 2011 and 18.5% in 2012, is increasing its tax rate to 20% in 2013.

Summary

In the early 1990s, the Swedish tax system underwent a major reform that reduced individual and corporate income tax rates on income from corporate investment. These changes left Sweden with tax rates significantly lower than those of OECD, EU, and BRIC nations. However, other nations have since made major changes to how they tax income from corporate investment both at the personal and corporate-level. A motivation for the Swedish government's recent proposal to lower the corporate income tax rate from 26.3% to 22% in 2013 is, in part, to keep pace with these trends.

While Sweden had dividends and capital gains tax rates that in 2000 were below the average of other nations of the OECD, EU and BRIC, it now has tax rates that are higher. Among OECD, EU and BRIC countries (excluding Sweden), the top GDP-weighted average dividend tax rate fell from 34.6% in 2000 to 20.2% in 2012, well below Sweden's dividend tax rate of 30% in 2012. The top GDP-weighted average capital gains rate fell from 20.8% in 2000 to 14.9% in 2012 for OECD, EU and BRIC countries (excluding Sweden), also below Sweden's capital gains tax rate of 30%.

Sammanfattning

I början av 1990-talet genomfördes en genomgripande reform av det svenska skattesystemet genom vilken såväl individbeskattningen av inkomster från bolag som beskattningen på bolagsnivå minskades. Genom dessa förändringar fick Sverige en beskattning av sådana inkomster som väsentligt understeg nivån inom OECD-, EU- och BRIC-länderna. Sedan dess har emellertid andra länder än Sverige genomfört stora förändringar av beskattningen både på ägar- och bolagsnivå. Ett skäl till regeringens nyligen föreslagna sänkning av bolagsskatte-satsen från 26,3 % till 22 % är att under år 2013 anpassa sig till denna utveckling.

Medan Sverige år 2000 hade en beskattning av utdelningar och kapitalvinster som understeg genomsnittet hos länder inom OECD, EU och BRIC har Sverige nu högre beskattning. Den BNP-justerade genomsnittliga beskattningen i dessa länder (exklusive Sverige) avseende den högsta beskattningen av utdelningar i respektive land har fallit från 34,6 % år 2000 till 20,2 % år 2012, vilket väl understiger den svenska skattesatsen om 30 %. Den BNP-justerade genomsnittliga beskattningen i samma länder avseende den högsta beskattningen av kapitalvinster i respektive land har fallit från 20,8 % år 2000 till 14,9 % år 2012, vilket också understiger den svenska skattesatsen om 30 %.

Appendix

Tax treatment of long-term capital gains on corporate equities for OECD, EU, and BRIC countries, 2012

Country	Top long-term individual capital gains tax rates on corporate equities	Holding period for long-term capital gains	Other key details
Australia	22.5%	1 year	Only 50% of the capital gain resulting from the disposal is subject to tax.
Austria	25%	N/A	Gains derived from the sale of shares in a corporation are taxed at a rate of 25% if the sale takes place as of 1 April 2012. For sales until 31 March 2012, special transition provisions apply depending on the acquisition date and the percentage of owned shares.
Belgium	0%	N/A	
Brazil	15%	N/A	Capital gains on one transaction each month are exempt from tax if the sale price is less than R$35,000 (approximately US$17,500). Capital gains derived from the sale of shares listed on Brazilian stock exchanges are exempt from tax if the sale price is less than R$20,000 (approximately US$10,000). If the sale price exceeds R$20,000, the entire gain is taxed at a rate of 15%.
Bulgaria	10%	N/A	
Canada	22.5%	N/A	Capital gains tax equal to half of ordinary income tax rate.
Chile	18.5%	N/A	Capital gains derived from sales of shares and other investments are subject to the First Category Tax as a final tax if the transactions are not habitual and not between related parties.
China	0%	N/A	

Country	Top long-term individual capital gains tax rates on corporate equities	Holding period for long-term capital gains	Other key details
Cyprus	0%	N/A	Tax at a rate of 20% is levied on gains derived from the disposal of immovable property located in Cyprus or from the disposal of shares of companies whose assets include immovable property located in Cyprus, unless the shares are listed on a recognized stock exchange. The gain is the difference between the sale proceeds and the original cost of the property, adjusted for increases in the cost-of-living index. No other assets are subject to capital gains tax.
Czech Republic	0%	6 months / 5 years	The sale of securities is exempt from tax if the securities have been held for a period of more than 6 months and if the individual had less than a direct share of 5% in the company in the 24-month period preceding the sale. The sale of other securities is generally exempt if the holding period exceeds five years.
Denmark	42%	N/A	A lower capital gains tax rate of 27% applies to gains of up to DKK 48,300 and 42% thereafter.
Estonia	21%	N/A	
Finland	32%	N/A	Capital gains on shares are taxed as capital income at a rate of 30%. If the capital income received during a calendar year exceeds €50,000 the exceeding income is taxed at a rate of 32%.

Country	Top long-term individual capital gains tax rates on corporate equities	Holding period for long-term capital gains	Other key details
France	32.5%	N/A	
Germany	25%	N/A	Gains on the sale of shares are not subject to tax if all of the following conditions are satisfied: • The shares were acquired before 1 January 2009. • The vendor had a participation of less than 1% in the company. • The shares were held by the vendor for more than one year. Gains derived from a disposal of shares of a corporation are considered business income rather than investment income if the vendor has held a direct or indirect participation of at least 1% of the corporation in the last five years.
Greece	0%	N/A	Capital gains derived from the sale of listed shares acquired on or after 1 January 2012 will be subject to tax according to the general income tax provisions.
Hungary	16%	N/A	
Iceland	20%	N/A	
India	0%	1 year	Long-term capital gains (gains derived from listed securities held longer than one year) derived from the transfer of equity shares or units of an equity-oriented fund listed on a recognized stock exchange in India are exempt from tax if Securities Transaction Tax (STT) is paid on such transaction.

Country	Top long-term individual capital gains tax rates on corporate equities	Holding period for long-term capital gains	Other key details
Ireland	30%	N/A	Capital gains are taxed at a rate of 30% for disposals on or after 7 December 2011 (25% for disposals between 8 April 2009 and 6 December 2011). Exemptions are available on capital gains for the first €1,270 of taxable gains derived during the 2012 tax year.
Israel	25%	N/A	Capital gains are divided into real and inflationary components. In general, real gains derived before 31 December 2002 are taxed at the regular personal tax rates (30% to 48%). However, real gains derived from foreign publicly traded securities before 31 December 2004 are generally taxed at a rate of 35%. Any capital gains derived after these dates are taxed at a rate of 25% (or 30% if a 10%-or-greater shareholder [material shareholder]).
Italy	20%	N/A	If the transaction involves a qualified percentage of the company's shares, the ordinary rates are applied to 49.72% (40% in case the sale of securities occurred before the 1st of January 2009) of the gain.
Japan	10%	N/A	Capital gains derived from the sale of shares are generally taxed at 20% (15% national tax plus 5% local inhabitant tax). If a taxpayer sells certain listed shares through a securities company or bank in Japan, a reduced tax rate of 10% (7% national tax plus 3% local inhabitant tax) applies until 31 December 2013.

Country	Top long-term individual capital gains tax rates on corporate equities	Holding period for long-term capital gains	Other key details
Korea	0%	N/A	Although capital gains derived from the transfer of shares in a company listed in the Korean stock market are not taxable, the shareholder of such a listed company is subject to capital gains tax on gains derived from the transfer of shares if the shareholder, together with related parties, owned at least 3% of the total outstanding shares or at least W 10 billion worth of the shares based on the market value at the end of the preceding year ("majority shareholder").
Latvia	15%	N/A	
Lithuania	0%	366 days	
Luxembourg	0%	6 months	Substantial shareholdings (more than 10%) in resident or nonresident corporations are fully subject to tax on capital gains in the hands of resident taxpayers. However, half of the average tax rate (a maximum rate of either 20.28% or 20.67%) and tax relief of €50,000 (€100,000 for spouses or partners jointly taxable) apply to capital gains if substantial shareholders sell the shares after a six-month holding period. For the disposal of substantial shareholdings, an adjustment for inflation applies to the acquisition price. Capital gains on non-substantial shareholdings (10% or less) and other securities, such as shares in investment funds, are tax-free only if they are realized more than six months after acquisition. Otherwise, the gains are fully taxable.
Malta	35%	N/A	

Country	Top long-term individual capital gains tax rates on corporate equities	Holding period for long-term capital gains	Other key details
Mexico	0%	N/A	The gain calculation includes adjusting the cost for inflation. Gains derived from shares sold on the Mexican stock exchange are exempt from tax if the taxpayer does not trade more than 10% of the paid-in stock of the listed company within 24 months.
Netherlands	0%	N/A	Capital gains derived from the sale of a substantial interest in a company (that is, 5% of the issued share capital) is taxed at a rate of 25%.
New Zealand	0%	N/A	
Norway	28%	N/A	
Poland	19%	N/A	
Portugal	25%	N/A	Capital gains derived from sales of shares of stock companies, bonds and debentures, up to an annual positive balance (between gains and losses) of €500 are exempt from tax.
Romania	16%	N/A	
Russian Federation	13%	N/A	Taxed at normal income tax rate.
Slovak Republic	19%	N/A	Taxed at normal income tax rate.
Slovenia	0%	20 years	Capital gains are taxed at a flat tax rate of 20% with a reduction of the tax rate for every completed five-year period of ownership of the capital. As a result, the following are the tax rates: • 15% after 5 years • 10% after 10 years • 5% after 15 years

Country	Top long-term individual capital gains tax rates on corporate equities	Holding period for long-term capital gains	Other key details
			• 0% after 20 years
Spain	27%	N/A	Capital gains derived by tax residents are taxed at a rate of 21% on the first €6,000, 25% on the amount exceeding €6,000 up to 23,999.99, and 27% on the amount exceeding €24,000.
Sweden	30%	N/A	
Switzerland	0%	N/A	
Turkey	0%	N/A	
United Kingdom	28%	N/A	There is a lower capital gains tax rate of 18% for taxpayers within the basic rate band limit (equal to or less than £34,370). There is a £10,600 deduction for capital gains.
United States	19.1%	1 year	The federal tax rate is 0% for individuals in the 10% or 15% bracket for ordinary income. This tax rate inclusive of national and sub-national capital gains tax rates and accounts for federal deductibility of state and local taxes.

Source: Ernst & Young LLP, *The 2012 Global Executive*, 2012.

[1] The BRIC countries include Brazil, the Russian Federation, India and China.

[2] See Alan J. Auerbach and Kevin A. Hassett, (2003), "On the Marginal Source of Investment Funds," *Journal of Public Economics,* 87 (1), January, pp. 205-232.

[3] For example, see Randall Morck and Bernard Yeung, (2005), "Dividend Taxation and Corporate Governance," *Journal of Economic Perspectives,* Vol. 19(3), pp. 163-180.

[4] See Raj Chetty and Emmanuel Saez, (2005), "The Effects of the 2003 Dividend Tax Cut on Corporate Behavior: Interpreting the Evidence," *American Economic Review*, Vol. 96(2), pp. 124-129.

[5] See James Poterba, (2004), "Taxation and Corporate Payout Policy," *American Economic Review,* Vol. 94(2), pp. 171-175.

[6] See Peter Birch Sørensen, (2010), *Swedish Tax Policy: Recent Trends and Future Challenges (ESO 2010:4)*. Stockholm: Ministry of Finance.

[7] Individuals who are taxed as residents in Sweden are liable for a 30% income tax on investment income (i.e., dividend income, interest income from bank savings and capital gains on financial investments, real estate or other assets). When computing investment income, all types of capital income, including dividends and capital gains, are added together, and all types of deductible costs, including capital losses, are deducted. Except for interest expense on loans used in a business, interest costs are deductible in computing capital income. The calculated result is taxed at 30%.

[8] These were the limitations in force at the time of the repeal of the Annell deduction; the limitations had at times been less generous.

[9] For investment in unlisted companies, the Swedish tax rate on dividends is 25%. The integrated tax rate on such investments is thus calculated to be 44.7% [=26.3%+(73.7%x25%)]. Companies held by a small group of individual owners, or by owners that are themselves active in the company, may qualify as a close company. For such owners, there is a limit for dividends and capital gains on so-called qualified shares, with amounts above this limit taxed as wages under the progressive rates up to 57% including both national and sub-national income taxes. For such income, the top integrated tax rate is 68.3% [=26.3%+(73.7%x0.57%)].

[10] Because capital gains are taxed when they are realized rather than when they accrue, taxation is deferred from when the increase in value occurs until the time at which the asset is sold. This deferral of tax results in a lower effective tax rate because the asset will grow at a pre-tax rate of return until it is realized.

[11] Under an imputation credit, shareholders gross up their dividend by the corporate tax rate (i.e., the dividend divided by one minus the corporate tax rate) to compute the gross dividend. The taxpayer then claims the allowed credit. A full imputation system would completely eliminate the corporate-level tax, while a partial credit would eliminate just part of the corporate-level tax.

[12] See Donald Bruce and Tami Gurley-Calvez, "Federal Tax Policy and Small Business," In Overcoming Barriers to Entrepreneurship, Rowan and Littlefield Publishers, forthcoming; William M. Gentry and R. Glenn Hubbard, "'Success Taxes, Entrepreneurial Entry, and Innovation," Working Paper No. 10551, National Bureau of Economic Research, June 2004.

[13] See Robert Carroll, Douglas Holtz-Eakin, Mark Rider and Harvey Rosen, "Income Taxes and Entrepreneurs' Use of Labor," *Journal of Labor Economics,* April 2000, 18(2), pp. 324-351; Robert Carroll, Douglas Holtz-Eakin, Mark Rider and Harvey Rosen, "Personal Income Taxes and the Growth of Small Firms," *Tax Policy and the Economy*, NBER, Vol. 15, 2001, pp. 121-147; and Robert Carroll, Douglas Holtz-Eakin, Mark Rider and Harvey Rosen, "Entrepreneurs, Income Taxes, and Investment," In *Does Atlas Shrug? The Economic Consequences of Taxing the Rich*, Joel Slemrod, ed., Russell Sage Foundation and Harvard University Press, NY, 2002, pp. 427-455.