

Comprehensive Income Taxation of Personal Dwellings – the Swedish Experience

Peter Melz

Abbreviations

Apart from common abbreviations some acronyms are used for some expressions in this article. This is motivated to save space and maybe time for the reader, as well as to stress the key-elements of the article. They are the following:

OOCOA	Owner-occupied co-operative Apartment
OOD	Owner-occupied Dwellings
OOH	Owner-Occupied Houses
RET	Real Estate Tax
Skr	Swedish kronor (when this article was written at the end of July 2002, 1 Skr was appr. 0,11 Euro or USD)
TOOD	Taxation of Owner-occupied Dwellings

1 Introduction

In all Nordic Countries – Denmark, Finland, Iceland, Norway and Sweden – substantial taxes are levied on real estate used as personal dwellings. Nowhere in Scandinavia and probably in the world, is this taxation more comprehensive and ambitious than in Sweden. The Swedish experience of problems and possibilities connected with this kind of taxation could therefore be of interest for debate and reform of such taxation in other countries.

This article starts with a short description of the development of this taxation. Thereafter the advantages and disadvantages of the present taxation are discussed. Emphasis will be given to arguments brought forward in recent public debate as well as aspects highlighted by a number of Government Commissions entrusted with the hard task to refine the system. The basis for the

discussion is the Swedish situation. It is not the purpose and not possible to refer to the international literature in the field.¹

2 Development of the Taxation in Sweden

1. Taxation of Owner – Occupied dwellings (OODs) in Sweden is based on the consideration that the use of such dwellings constitute imputed income. Such an income has been taxable at least since the introduction of a general income tax at the beginning of the 20th century. Taxation as such has been uninterrupted, but the taxation methods have changed a number of times.

Initially the income of OODs was computed almost exactly in the same way as for rental houses. The difference was of course that the rent forgone by the owners use was substituted by imputed rental value. This also meant that income calculation included all types of costs for the dwelling, and this caused considerable problems of control. The net income (or deficit) of this calculation was then consolidated into the total personal income of the owner.

For practical reasons this income calculation was replaced by a standardized method for income calculation in the early fifties. In this method taxable revenue was calculated by applying a yield rate to the assessed tax value of the dwelling.² The yield rate was set equal to the interest rate on long term Government bonds, which was 3% at that time.³ Apart from interest costs, deductions for any costs connected with the dwelling were disallowed. This income calculation computed the net income of the OOD as a form of expected interest on the owner's net wealth (equity value) invested in the dwelling.

In the tax reform in 1991 the method was altered for technical reasons. The standardized revenue was replaced by a separate Real Estate Tax (RET) of 1,5% of the assessed tax value of the real estate.⁴ Before this reform, the calculation of the standardized revenue and the deduction of interest costs had formed a special part in the computation of the total taxable income of the owners. The reform meant that the revenue side (RET) was separated from the cost side (deduction of interest) of the taxation of OODs (TOOD). From a pedagogical point of view, this made it harder to explain and defend the TOOD. However, the aim and the effects are still as before that the combined result of the TOOD will be taxation of the yield of the capital invested in the OOD.

Taxation of OODs forms thus a part of national income taxation, and more precisely, a part of taxation of capital income. It is part of what is aimed to be comprehensive and neutral taxation of all sorts of income.

¹ Special reference can be made to the extensive research published by the Lincoln Institute of Land Policy; see "www.lincolnst.edu".

² The assessed tax value should now be 75% of the assessed market value. At the time of the introduction of the standardized method the ratio was a bit lower, around 2/3.

³ 3 % has for long periods also been the real interest rate on risk-free bonds.

⁴ RET is not only levied on OODs. However, the discussion will be contained to OODs and combined taxation (RET and the income tax effect of interest deductions) will be named taxation of OODs (TOOD).

In Sweden no local or regional RETs are levied and the function of the national RET as part of an income-type TOOD is thus more pronounced. However, for a considerable number of owners of OODs an extra tax burden comes in the form of the Net Wealth Tax, which is levied on net wealth starting at 1.5 million Skr.⁵ When these owners reflect on whether TOOD is reasonable or not, as will soon be discussed, it is hard for them not to take the Net Wealth Tax into consideration, which has a negative impact on their conclusion.

2. TOOD is and has probably always been the most *contentious* part of individual income taxation in Sweden. In the last decade criticism has become more fierce and visible. For example demonstrations have been held every year against TOOD and an appeal concerning TOOD has been made to the European Court for Human Rights. Also among the defenders of TOOD some critical reflections have been demonstrated. Since the reform in 1991 Government Commissions (altogether maybe five to date) have almost constantly been commissioned with the task of refining and relaxing the taxation in various ways. The statutory overhaul of the assessed tax values has been postponed for a number of years and the tax rate for RET has been reduced a number of times and is now 1%.

Why has TOOD become more contentious in the recent years? The primary reason is obviously that the burden of TOOD has increased during the last decade. For some decades before the reform in 1991 the net effect of TOOD, including the deduction of interest costs, was positive for many owners of OODs. That is, income calculation resulted mostly in a deficit and thus a tax reduction could be obtained. This was especially the case because of high inflation and high nominal interest rates. As the yield rate normally was 2% and interest rates on mortgages during the 1980s were 10 to 15 %, the result was a deficit even for owners with a rather low ratio of debts. Since a deficit was deductible from other taxable income, which would otherwise be taxed at rates around 50 – 85%, the net effect was often an considerable tax reduction.⁶

In the tax reform in 1991 these tax reductions decreased considerably primarily due to a decrease in the tax rate for capital income to 30 %. Almost simultaneously inflation and interest rates started to decrease to a much lower level, that still prevails. Tax reduction caused by interest deductions fell therefore considerably.

On the other hand the RET that replaced the standardized imputed yield was calculated to remain at the same level for the majority of OODs.⁷ The base for the calculation – the assessed tax value of the real estate – did however with exception of a period of a few years, continue to increase considerably in many

⁵ The Government calculates that around 300 000 individuals will have to pay Net Wealth Tax out of around 7 million income tax payers. In this article the Net Wealth Tax will not be further discussed.

⁶ A first reform to reduce the value of the deficits was carried out 1982 and limited the tax reduction to a maximum of 50 % of the deficit.

⁷ The imputed income was part of the total taxable income and as the tax on this income was progressive the tax on the imputed income varied according to the level of earned income. The RET is proportional and has been calibrated after the highest tax bracket in the old system. Thus it has meant a tax increase for low-income earner.

regions. Although this was not a new phenomenon, the impact was more visible as regards RET. It is also probable that the debt ratio has decreased for many owners during the same period.

Finally it is worth mentioning that it seems that for a large number of owners the ratio between their earned income and the assessed tax value of their estates has decreased. This is specifically the case in regions where a considerable part of the population is or has been employed in farming, fishing etc. but where prices of real estate are now primarily related to the purchasing power of newcomers seeking summer houses.

For the sake of the above mentioned categories of owners of OODs but also other low-income-earners rules has been introduced which cap the RET to a certain percentage of the owner's income.⁸

3 Pros and Cons with TOOD; Equity, Neutrality etc.

1. Taxation of OODs, including deduction for interest costs, has normally had considerably negative impact on *Government tax revenues*. In the last years, as a result of the development described above, this has probably changed. The revenue from the RET levied on OODs amounted to 13 billions Skr 1999.⁹ It is harder to calculate the decrease in tax revenue caused by interest deductions. As a whole, interest on debts of individuals was 54 billions Skr in 1999 which would result in a tax reduction of not more than 16.2 billions Skr. As considerable assets and income of other kinds were reported, it is likely that the debt interest attached to OODs was considerably lower than that. A net revenue may have been the result, but probably this have been reversed now by reduced tax rates.

In general RET is considered to be an important and *reliable source* of tax revenue. The emphasizes of this character of RET has increased in recent years as other tax bases have become more moveable. However, in should be stressed that no tax base is fully immovable since taxes in the end is contingent of people to pay them.

2. Apart from tax revenue the most important argument for TOOD is that it is a natural part of comprehensive income taxation, which should contain all forms of income. It could be argued from the point of view of *equity or neutrality* that yield of capital assets should be taxed in whichever form it is derived. Although this view was stressed in the Swedish tax reform 1991, this ambition has not been completely satisfied. In the field of capital income, owners' use of assets constitutes imputed income for use of OODs only, whereas the use of other assets such as cars and boats, does not constitute imputed income. These exemptions are based on practical grounds, and the impact on tax revenue and investment decisions is probably limited. Exemption of OODs on the other hand would probably cause a significant distortion because of much higher values and high ratios of debt financing.

⁸ The rules will not be described as they are rather complicated.

⁹ Tax Statistical Yearbook of Sweden, National Tax Board, 2001, table 4.7.

Critics of TOOD stress the fact that there does not exist an all-embracing taxation of capital income.

3. A more important form of criticism concerns the consequences of taxation of such a *special type of income*. Obviously special problems arise from taxation of benefits in kind, since the income is non-monetary and it is promptly consumed. Before an investment in an OOD the owner is able to accommodate to this fact by reserving enough of his monetary income or wealth to pay the TOOD. Later, after the purchase, the reserves may not be sufficient, if TOOD increase due to increase of assessed tax value for the OOD etc.

Another argument put forward against TOOD, which is related to the previous ability-to-pay problem, is that TOOD is contrary to the *realization principle* generally employed in income taxation. It is alleged that no income is realized until the OOD is sold. However, this is a misunderstanding. Real estate as most other assets normally give rise to *both* current income in the form of rents etc., and capital gains. The use of an OOD constitutes a realization of the current income. As a consumption takes place, a realization of income must have occurred before or momentarily. The future proceeds of the sale of the OOD could not include this income. In practice the apprehension that there is no realization is just another side of the previously mentioned impression that benefits in kind, especially with forced immediate consumption, create a limited ability to pay.

4. In Sweden the Government Commissions and most published scientific writing have been mostly favourable to the use of TOOD.¹⁰ However, the principle basis for TOOD is probably understood and accepted only by a limited number of people. This impression is based on anecdotal observations. What is not understood/accepted is primarily the principal reasons for TOOD. Nevertheless, some sort of TOOD is probably anyhow accepted of many of these sceptics because of revenue reasons etc.

In my opinion TOOD is justified from a principal and tax systematic point of view. However, as will be discussed below, the practical application does cause problems which in individual cases could be serious.

4 Some Problems with Practical Application

1. Although deceptively simple in its exterior design TOOD contains components which have to be based on valuations that are contentious. The calculation of the standardized yield contains decisions on what is a reasonable tax rate and the value of the OOD. The third component, deduction of interest, is not of that character and causes fewer problems.

The problems above mentioned are inherent in the standardized model of TOOD. The model could be modified to reduce the problems, but they can never be eliminated. And this is not only because of standardization. The alternative model of TOOD – the model used generally in Sweden before the reform in the

¹⁰ The author supports this opinion.

1950s – see above section 2 paragraph 1 – contains similar problems in the form of valuation of the alternative rent for the OOD.¹¹

Especially assessment of the market value of the real estate contains a lot of technical questions and thus potential problems. My knowledge of the technical questions is limited and they will not be discussed in the article. What will be discussed instead are some problems of more principal character. The problem selection has been influenced by my own knowledge of the Swedish situation.

2. As said before, the standardized method, consists of two standard components, assessed tax value of an OOD and calculation of tax employing a yield rate and a tax rate. (The yield rate and the tax rate may as in Sweden be combined into a direct tax rate on the assessed tax value (RET) or this may be carried out in two stages, as was done previously in Sweden.)

Assessment of tax values is the most complicated and problematic component. In Sweden, as a reaction towards widespread criticism, a Government Commission has investigated the precision of the existing system. The Commission's report (SOU 2000:10) did not reveal any principle problems and consequently no proposal of major amendments were made. It was considered that the present tax values based on market values should be maintained.

The *market value* of a real estate should equal the price supposed to be possible to obtain on the market. In the assessment system calculations are based on the prices of actual sales and then transferred to tax values for each real estate by use of methods which take into account variations in size, location, standard etc. The standardized method has been criticized for being too mechanical etc., but these aspects will not be discussed here. A more fundamental expression of criticism has been brought forward against the use of market values. There are a number of alternatives to market values and the most important ones will be discussed below.

A fundamental point of criticism of market values is the view that yield/interest should be based on historical investment in the OOD, and not the present market value. This alternative has some practical advantages. An obvious advantage of historical cost prices is to isolate the owner from tax increases caused by changed market conditions. This is especially important when market prices are influenced by new categories of purchasers (e.g. computer technicians in Seattle in the nineties, etc.) whose income is far above the income of old categories of owners (e.g. flight engineers in Seattle, fishers in the Stockholm archipelago etc.). The use of historical cost prices would mean a built-in protection for the owners so that they normally would not be forced to leave their OOD due to tax increases. In Sweden a statutory protection against market-based increases in rent applies to tenants¹² and it would therefore be fair

¹¹ I have discussed the advantages and disadvantages of the two models in an article in *International Studies in Taxation: Law and Economics*, Liber Amicorum Leif Mutén, at 259 – 271, Kluwer, 1997.

¹² The rent control sets limits for rents charged by private landlords by setting a ceiling for rents at the level charged by public landlords. These latter rents are mainly cost-based.

to have a similar moderation of market impact on costs in the form of taxation of OODs.

The most important arguments against this alternative are that it would create inequality among owners of OODs, conspicuously low taxation of OOD purchased a long-time ago and lock-in-effects as a purchase of a new OOD would increase the tax base and the tax.¹³ In Sweden the historical cost price alternative has been proposed seriously in the debate, but has never been considered as a serious alternative by any Government Commission concerning TOOD.

3. In my opinion market value is the best basis for calculations of the revenue component of TOOD. This is the revenue received by the use of the OOD which could be calculated as the alternative (forgone) interest on the capital invested in the OOD (market value). The market value functions well as a basis for the calculation if it is reasonable to assume that interest on market values also has a fair correspondence to the level of an alternative rent for the OOD.

I have some doubts if this could be considered to be the case without modifications. The assessment of market values and hence tax values is based on recent sales of real estate. This means that the market values are the result of the most recent buyers' purchasing power. At least in the last decades, the incomes and thus the purchasing power of average buyers exceeded the income of the average owner of OODs. This raises doubts whether the owners of the total stock of OODs would really be able to pay a rent/interest proportional to the present sales prices (market values). If this is the case, it would be motivated to reduce the tax values, maybe by calculating them on the basis of *average prices for a longer period*.¹⁴

In Sweden this view has been analysed in the latest published Government report about TOOD.¹⁵ The Commission made calculations for two alternatives with the assessed tax values based on averages for six or twelve years. The result was expectantly a more even distribution of the changes in tax values. Further, as the prices were normally rising in these periods, the level of the assessed tax values was lagging behind the development of the market values. The Commission considered it an advantage that the system would moderate future changes in assessed tax values and thus make it somewhat easier for owners to calculate the RET for coming years. The Commission, however dismissed this alternative primarily because they made it a prerequisite for the reform that the total amount of RET should not decrease, and thus decreases in RET in some regions – primarily the big cities – would have to be compensated by increases in other regions. This was not acceptable for reasons of the distribution of income and regional policy.

¹³ These disadvantages could in various way be decreased by indexation, carry-over rules etc., but this will not be discussed here.

¹⁴ For a further explanation of my view see my article in *International Studies in Taxation: Law and Economics*, Liber Amicorum Leif Mutén, at 259 – 271, Kluwer, 1997.

¹⁵ SOU 2000:34 at 206 ff.

In my opinion, which has been expressed before,¹⁶ the main argument for the method, if circumstances are those as presumed above, is simply that the result of using average values probably gives explicit or implicit yield values that are closer to the true values for using OODs. A substantial tax decrease caused by lower assessed tax value may have to be compensated by tax increases, but they should be general.

4. A more technical aspect of the assessed tax value is the risk that, even if the system may function well in general, individual assessed tax values may deviate substantially from the market values. In Sweden the risk for an over-valuation, and hence over taxation, should be reduced by a *security margin* as the assessed tax value should constitute only 75% of the assessed market value. It is reasonable that the risk of deviation from the correct level of taxation should primarily fall on the Government.

However, there is a risk that this margin will be reduced or eliminated at a later stage of the legislative process when the tax rate applied to the assessed tax value is computed. This is the case in Sweden as regards the RET. First a suitable tax rate was decided as a percentage of the assessed market value. The statutory tax rate was then calculated as a higher rate in order to take into account the reduction in the assessed tax value.

This is not a practical problem, it is only to decide if there should be a security margin or not. If it is decided that the security margin should be eliminated it should be done in a transparent way. It would be far more straightforward for RET if the security margin was skipped in the valuation, that is to use assessed market values without reduction, rather than increasing the tax rate.

It is unclear whether a security margin exists today at all. In the tax reform 1991 it was explicitly stated that the tax rate was calculated in order to eliminate the security margin. Since then the tax rate has decreased from 1.5% to 1%, without any comments concerning the security margin.

5. The connection between the market value of OODs and the presumed yield of OODs is based, as mentioned above, on the assumption that the price is appraised by a purchaser at a level which gives him a yield equal to what is normal on the market. For example, if a presumptive purchaser considers 3 % as a reasonable yield for an OOD and he appraises the yield as the recurring real value of using the OOD, at 90 000 Skr, he would be willing to pay 3 million Skr for the OOD.

An interesting observation which was made when the Swedish *tax rate* for RET was determined 1991, is that the purchaser demanding for example 3% yield on his investment might expect that yield not only in the form of current income but also in the form of capital gain. It would thus be reasonable to reduce the portion of the expected recurrent yield. In Sweden 0.6 percentage points out of a total of 3 % was considered to be allocated to expectations of appreciation of the real value of the OOD and hence realization of a capital gain in the future. The current yield was then calculated at 2.4 %.

¹⁶ Skattenytt 1997 at 148 – 165.

It seems reasonable that such conditions and expectations often prevail. I presume that the real value of OODs in most developed countries increases, with the exception of shorter periods. However, in Sweden for example, there have been long periods without an increase in real value. Between 1975 until 1998 the prices increased on average one percentage point less than the inflation.¹⁷ Another observation is that prices develop very differently in different regions. For example, during the period with an average decrease in real value, the real value of OODs increased considerably anyhow in the most popular areas, primarily in the big cities. That may indicate different expectations concerning appreciation in different regions, but it is probably hard to prove that this justifies different levels of taxation rates in different regions.

6. So far I have discussed OODs without distinguishing between various forms of dwellings. There are of course many variations in legal form especially if we take different countries into account. The main forms could be considered to be owner occupied houses (OOH) and *owner occupied co-operative apartments* (OOCOA). The discussion will be limited to these forms and the Swedish conditions.

In Sweden the aim is to tax all forms of OODs in a similar way. However, differences in legal form also justifies differences in the form of taxation. The owner of an OOCOA is not the primary tax subject: it is instead the co-operative association which owns the real estate where the apartment is situated.¹⁸ Although the forms of legal ownership differ TOOD should function in the same way for OOHs and OOCOA. However, in practice the resulting tax may greatly differ for the same economic investment in an OOD depending on whether it is an OOH or an OOCOA.

This is caused by the assessed tax values used for calculating RET for the co-operative associations. The tax values are calculated as if the houses were rented out and will therefore be based on market prices for rented houses. These market prices are kept down because of the statutory rent control. However, prices of OOCOA are not controlled and may rise in high-demand areas well above prices for an OOH of the same size. The situation can be illustrated by the following simple example:

An OOH is bought for 4 million Skr. The assessed tax value is exactly what it should be theoretically, 3 million Skr. RET will be calculated on this value. An OOCOA is bought for the same price. RET and income tax¹⁹ is computed on the assessed tax value for the real estate of the association. A part of this assessed tax value and the attached tax payment will be assigned to each owner of OOCOA in the association. The assessed tax values assigned to OOCOA vary very much. A qualified guess is that it in this case could be around 500 000 Skr if the OOCOA is situated in central Stockholm.

¹⁷ SOU 2000:34 at 186.

¹⁸ One TOOD-component is assigned to the owner. He has the right to deduct interest on debts for the purchase of an OOCOA.

¹⁹ For technical reason cooperative associations pay both RET and income tax. The intention is that the combined taxes should be equal to RET levied on OOHs.

This phenomenon is primarily limited to the largest cities in Sweden. In the rest of the country rent-control does usually not lead to rents below a presumed market level, and hence assessed tax values of properties owned by co-operative associations in those areas do not substantially deviate from the values calculated on the basis of the market values of OOCOAs.

The market value could be considered, as in this article, to be the best basis – maybe with some modifications as discussed above – for the calculation of the revenue component of a TOOD. The assessed tax values and the resulting TOOD in the OOCOA sector deviate in a large number of cases drastically from taxation based on the market values of the OOCOAs. This is a clear deviation from the stated goal of neutrality in taxation in general, and especially concerning tax neutrality regarding the choice of the form of an OOD.

A number of Government Commissions have been assigned to solve this problem. Two of them presented technical methods to remedy the problem.²⁰ The suggestions are that the assessed tax values should be based on market values for sales of OOCOAs. It is an apparently simple solution. However, this method contains a complicating component which make the result of assessment significantly less reliable than the assessment of tax values of OOHs. The problem is that the price paid for an OOCOA is normally not the full price for the apartment. The object purchased is a share in the co-operative association and this share represents the right to use the apartment, but normally also a share in other assets and debts in the association. A simple illustration will make this more easy to understand:

A share in a co-operative association is bought for 2 million Skr. The attached share of the associations debt is 500 000 Skr. Theoretically the price for the apartment thus is 2.5 million Skr and this would be the basis for the assessed tax value.

However, there is no method to determine to which degree these debts impact the price for an OOCOA in an individual case. To simply add the debt component to the price of the share would therefore probably result in too high an assessment of the market values of OOCOAs.

So far, no changes have been proposed by the Government. Many co-operative associations and their national organizations have been clearly negative. The majority of co-operative associations that would gain from a change have not been very outgoing and have probably not enough influence on the national organizations' decisions. As noted above in paragraph 3, a Government Commission considered another change not to be acceptable because of the consequences for the distribution of income and regional policies. The short-comings concerning taxation of OOCOAs may have an even more undesirable effect on the distribution of income and regional policies. An improvement of the assessment would result as implied above not only in increased taxation in the big cities and thus primarily among high-income earners, but also in a decrease in taxation in other regions. In my opinion, such aspects should, however, have limited importance for the decision.

²⁰ It should be noted that I participated as a non-voting member (expert) in these Commissions.

Reformed taxation of OOCOAs would enhance some problems already concerning taxation of OOHs. TOOD causes liquidity problems and affects especially old owners who purchased their dwellings at prices and with incomes that were far below the average prices and incomes of today. There are probably relatively more such owners among the owners of OOCOAs than among the owners of OOHs.

A reform would make taxation of OOCOAs market-based, as taxation of OOHs already is. This would increase neutrality and fairness as regards TOOD. Still costs in the last big sector of dwellings, rented apartments, is not determined by market. Rented apartments are more close substitutes to OOCOAs than to OOHs and there may therefore be reasons to consider whether a move to market based taxation for OOCOAs would create a new neutrality problem. Probably, it would be contentious mostly in those cases where a market-based taxation of OOCOAs was to increase the total costs including tax to levels above the rent for equal rented apartments.

5 Concluding Remarks

The Swedish system of taxation of owner-occupied dwellings is clearly intended to be a component in a comprehensive income taxation. The separation of the taxation of the revenue side – with a real estate tax – and the cost side with interest deductions in computing capital income may make this less obvious, but it is nevertheless clear from the stated intentions and the effects of taxation. The primary arguments for the Swedish TOOD is therefore that it is necessary to uphold income tax neutrality between different forms of investment, and in the discussed field between different forms of dwellings.

Taxation problems are caused mainly because income from an OOD is a non-monetary benefit in kind which is momentarily consumed. Tax on this income must therefore be paid, as other costs for an OOD, out of other income or funds. Further RET is not fixed for coming years, but the level is a result of the market valuation of OODs. Taxation is normally not directly connected to the value of using an OOD, but to the value of the asset itself, i.e. the OOD. For a number of owners of OODs this causes problems or at least creates great concern. For these reasons TOOD is contentious in Sweden and taxation has been reduced in a number of ways recent years.

The easiest way to alleviate the burden of TOOD is to decrease the tax rate, which has also been done, from 1.5 percentage point to 1 percentage point. This means a reduction of 33 %. However, it is a crude way to compensate for the possible deficiencies of the system, since tax is reduced in the same proportion for everybody. In my opinion other changes would be at least principally more motivated:

- Special provisions could be introduced for low-income earners and other owners who may have serious cash problems. Such rules have been introduced in Sweden in the form of a reduction in RET when the payment would exceed a certain proportion of earned incomes etc.

– It should be closely examined if modifications of market values as basis for assessed taxed values is justified in accordance with what was discussed above in section 4 paragraph 3.

– Abolishment of the Net Wealth Tax on OODs. I suppose that the present percentage of RET 1 % would normally not cause cash problems. Adding another, the Net Wealth Tax of 1.5 %, onto this increases the cash problem considerably. The combined taxes would be 2.5 % of assessed tax values and theoretically 1.875 % of market values. If the yield level assumed in the tax reform 1991 is correct, this would mean that 1.875 % out of a total current yield of 2.4 % should be paid in tax. This is equal to a tax rate of 78 %, well above the highest rate for earned income in Sweden.