Proposal of cornerstones in a great tax reform

[Translation of the article *Förslag till grundbultar i en stor skattereform*, by Björn Forssén, published in original in *Tidningen Balans fördjupning* (The Periodical Balans: Advanced articles) on 2 October, 2025. Translation into English by the author of this article, Björn Forssén.]

In this advanced article, Björn Forssén is developing his thoughts about the necessity of a new great tax reform in Sweden. One of the cornerstones (or linchpins) in the proposal is that not only the indirect taxes but also the income tax would be adapted to the EU law for the determination of the tax subject for enterprise law purposes. The other cornerstone consists of another EU-country – the Netherlands – may give guidance for the introduction in Sweden of a model for capital and dwelling taxation for private persons, a so-called box model.

Introduction

I suggest a new great tax reform in Sweden, why this advanced article also constitutes a contribution to the debate before the general elections in 2026. One of the cornerstones is that the taxation of enterprises should be constructed as legally certain as possible for the entrepreneur who thus is placed in the centre of the reform.[1] In that part, I propose that in the first place value-added tax (VAT), excise duty and corporation tax will be replaced with a gross tax based on the enterprises' ennobling value, for example in the form of a so-called production factor tax (Sw., *proms*). If the other EU Member States follow Sweden in that respect, an EU tax can be prepared for the future benefit of the welfare within the whole of the EU. Already in 2004, the EU Commission recommended the introduction of an EU tax as from 2014, and exhorted the Council to work with the question, but so far this has been put on ice in several long-term budgets by the EU. Regarding the other one of the cornerstones, I am bearing in mind a proposal from 2017 to The Expert group for Studies in public economy (*Expertgruppen för Studier i Offentlig ekonomi*, abbreviated ESO), where the professors Sven-Olof Lodin and Peter Englund suggested that Sweden should introduce a so-called box model concerning capital and dwelling taxation for private persons. The suggestion was based on a similar model in another Member State, namely the box model which has been applied since 2001 in the Netherlands. It was presented by them in the ESO-report 2017:4, which I have also commented in an advanced article in the Balans in 2017. Inter alia my recently mentioned articles have been placed on the ESO's website – to the comments in media about the report (see https://eso.expertgrupp.se/RAPPORTER/).

The VAT should direct the income tax regarding who is an entrepreneur

The EU law required that the connection from the VAT to the income tax for the determination of the tax subject for enterprise law purposes should be revoked, which also was done on 1 July, 2013 – after I had stated this as the main issue in my licentiate's dissertation from 2011. However, the legislator disregarded that I had recommended the reverse order as an alternative to making the determination of the tax subject EU conform (directive conform) concerning the VAT. I wrote that the case-law of the Court of Justice of

[1] See Björn Forssén, *Förslag till en stor skattereform i Sverige som också förbereder en EU-skatt* (A proposal for a great tax reform in Sweden which also is a preparation for an EU tax), *Tidskrift utgiven av Juridiska Föreningen i Finland* (The journal published by the Law Society of Finland) – abbreviated JFT, JFT 5–6/2024 pp. 455–496.

the EU (CJEU) and of the Supreme Administrative Court (*Högsta förvaltningsdomstolen*, abbreviated HFD) meant that there are suppositions of at least going further and examine whether the determination of who is an entrepreneur according to the income tax law can be governed (directed) by the VAT law.

I mentioned that there was no support to object against this reverse order to determine who is an entrepreneur for taxation purposes. The analysis in my thesis namely showed that the profit prerequisite for an actual business activity (*egentlig näringsverksamhet*) that was considered preventing this no longer was upheld in the case-law. Thus, that objection was not valid then and is neither so today. This, since it follows by the main rule on the determination of the tax subject for VAT purposes in Article 9(1) first para of the EU's VAT Directive (2006/112/EC) that the result is not decisive in that respect. The result can namely be plus or minus. If the person in question independently carries out an economic activity, he or she is a taxable person for VAT purposes regardless of the result in the economic activity. This is also in correspondence with the case-law regarding the determination for income tax purposes of an actual business activity.

That it was necessary to revoke the connection from the VAT to the income tax and the determination there of what is in general constituting business activity depended on that reference meaning that *all* legal persons, for example limited companies, were made tax subjects also with regard to VAT. This conflicted with the main rule in the VAT Directive on who is a taxable person, where the prerequisites are the same regardless of enterprise form, natural person – sole proprietorship – or limited company etc. Thus, a legal person is not a taxable person solely by virtue of the subject registration at Bolagsverket (the Swedish Companies Registration Office) of for instance a limited company (*aktiebolag*) as precisely a limited company.

A common taxation frame benefits the legal certainty in the taxation procedure

Regardless of whether it will lead to the introduction of an EU tax, a tax reform should be carried out in Sweden meaning a reverse order compared with what applied before the reform of 2013 so that the VAT directs the income tax at the determination of who is an entrepreneur, In this way, the big advantage with my reform proposal concerning the taxation of enterprises is to accomplish a common taxation frame for the two types of taxes VAT and income tax in that respect.

Thus, it was a step in the right direction not allowing the income tax concept *näringsverksamhet* (business activity) to continue to determine who is an entrepreneur for VAT purposes. This was altered already on 1 July, 2013 but I consider that it remains to alter the tax system in the present respect. The judgment of who is an entrepreneur for taxation purposes should be co-ordinated by establishing a common taxation frame for the two types of taxes. Then, the tax authority (*Skatteverket*, abbreviated SKV) can make that judgment jointly in the taxation procedure for both VAT and income tax, where it is a matter of the taxation of enterprises.

Furthermore, with such a common taxation frame the book-keeping becomes the foremost evidence at the judgment of who which natural or legal persons that constitutes a tax subject for corporate taxation purposes. This since the requirement to maintain accounting records for a natural person becomes guiding in practice by the prerequisites in that respect according to the preparatory works to the Book-keeping Act resembling the prerequisites for the main rule

on who is a taxable person as well as for an actual business activity. Thus, my proposal gives legal certainty advantages by the trial of the tax subject question for corporate taxation purposes not being made twice in the taxation procedure.

A common taxation frame benefits the collection and the legal certainty in relation to both the EU law and the OECD's model treaty

The competence for the determination of the tax subject for VAT purposes lies in general at the EU, since the competence in that field has been conferred to the EU's institutions by the Swedish Parliament, whereas the competence in the field of income tax still remains at the parliament. Directives like the VAT Directive is binding for the EU's Member States according to the primary law and for indirect taxes like VAT a harmonisation demand applies concerning the legislations in the Member States. For income tax there is just a demand on approximation of the national legislations to each other applying. Concerning secondary law, the Council has issued only a few directives on income tax, for example the Merger Directive and the Parent Companies and Subsidiaries Directive, but nothing about who is an entrepreneur for income tax purposes. However, there is no obstacle in the EU law of letting the VAT direct the income tax where the determination of the tax subject for corporate taxation purposes. By in that respect introducing a common taxation frame for the determination of the tax subject regarding the two types of taxes in question should ensure a more efficient collection regarding these at the enterprises active on the internal market.

A common taxation frame and the legal certainty in relation to the OECD's model treaty

If a co-ordination to determine the tax subject, with the EU law as the guiding-star for both VAT and income tax, is not introduced, the double taxation agreements for the field of income tax constitute a dividing circumstance, since the OECD's model treaty is the basis in that respect – not the EU law. There is namely no OECD-court as a highest interpreter of double taxation agreements for the HFD to turn to at the interpretation of the more difficult questions.

I consider that the legal certainty would be strengthened for the entrepreneur totally if an entrepreneur question of a precedent interest concerning the determination and judgment of the tax subject is made by the HFD letting what regarding the VAT decides whether a preliminary ruling should be obtained from the CJEU as the highest interpreter of the EU law. If the VAT thereby directs also the income tax in that respect a case-law should be developed without the risk of deviations between the HFD and the CJEU. Thereby would a common taxation frame for corporate taxation purposes typically favour the legal certainty, since the instances below the HFD would be given a more legal certain guidance to decide more difficult interpretation question by the decisions being made assembled for the two types of taxes in the precedent cases.

The SKV should give priority to the registration control regardless of whether the reform will be carried out

I consider that the registration question is of a decisive importance for an efficient collection regardless of whether the existing system is retained or my suggested reverse order and a common taxation frame is introduced to determine who is an entrepreneur for taxation purposes. If the entrepreneurs cannot perceive that they are comprised by a legally certain

control the loyalty towards the tax system will tend to decrease, that is to the financing of our common welfare.

Moreover, I state that the importance of an efficient collection has not only been emphasized by the EU Commission, but the importance of the collection was expressed also already in the VAT reform of 1991 by the legislator naming the entrepreneur an agent for the State with regard to collection. Especially concerning those hard to take legislative measures against VAT frauds experience shows that it is inefficient to put in resources by tax audits and other control measures first when frivolous enterprises have been allowed to grow in numbers in the VAT register.

Under the existing system the most important measure to counteract VAT frauds is not that the legislator tries to stop the drainage of the public treasury by introducing at certain spots reverse liability of payment (reverse charge) for supplies of goods and services within the country. By my suggestion to replace inter alia the VAT with a gross tax the cash flow between registered and the State will be abolished and thereby the VAT frauds in question. However, experience shows that a tax system waterproof against frauds will never be constructed why the SKV should return to giving priority to who is an entrepreneur at the moment of registration, regardless of whether my reform proposal will be introduced.

An EU tax should also solve the problems with begging EU migrants

If my suggestion to introduce a common tax frame for VAT and income tax also leads to the introduction of an EU tax that tax should be a part of a gross tax, preferably a *proms*, which as mentioned in the first place would replace VAT, excise duty and corporation tax at the Member States. If Sweden and the other Member States of the EU thus follow my suggestion and introduce a *proms* that ’EU line’ can be carried out in the form of a directive from the EU on the introduction of a suchlike gross tax.

The ’EU line’ which I am thus stating as subsequent to my reform proposal regarding the tax system in Sweden should also solve the problems with migrants from e.g. Romania and Bulgaria who because of a lack of welfare in the home countries come to for instance Sweden to beg. In a debate article from 2024 in the then 100th anniversary celebrating *Socialmedicinsk tidskrift* (The Social Medicine Journal), I argued for the introduction of a general EU tax to counteract corruption in for instance Romania and Bulgaria. Then, the EU Commission could make claims directly against the governments of those countries to work on an effective collection for the financing of the welfare so that the need to beg in for instance Sweden would be eliminated. That would probably be a more effective social effort, instead of continuing to focus on the more abstract Pillar of Social Rights as a solution of the EU migrant question and on a begging prohibition.

The box model simplifies the capital and dwelling taxation for private persons

The other cornerstone in my proposal for a great tax reform in Sweden means, as mentioned, that I am bearing in mind the proposal in ESO-report 2017:4 of introducing a unified capital and real property taxation for private persons with the Netherlands box model as a model. I have, as also mentioned, commented the box model in the Balans advanced section and iterate only the following from the summary of the report on how a Swedish box model is supposed to function:

The box model is meant to replace most of the present capital income taxation, including capital gains tax, and also the various forms of residential property taxation. To achieve greater uniformity and fairness in residential property taxation, the model includes both one-and two-family houses and cooperative flats in the box. The income tax schedule capital remains but all personal debts not associated with other income tax schedules than capital are included in the debt side of the box. The tax base will constitute a standardised yield calculated on the net within the box (assets minus liabilities). The proposal means that the standard yield will be fixed and independent of the current interest rate and business cycle so that a standard tax of 4 per cent is intended to include direct as well as indirect yield. A tax rate of 30 per cent cause in practice a tax of 1.2 per cent of a positive net within the box (0.04 × 30 procent). By the tax being levied on an ongoing basis over the period the asset is held the lock-in effect that the current capital gains tax can cause will be completely eliminated, that is there will not be any taxation at sales of e.g. a dwelling or shares. For a negative net within the box after debt is subtracted there will not be any deduction or tax reduction allowed.

According to the proposal taxation in the income tax schedule capital will be retained alongside box taxation but only to a limited extent. This 'capital income'-taxation will apply to assets that cannot be included in the box due to valuation problems, and in that way will income minus associated interest be taxed. That taxation includes e.g. income from unlisted securities, primarily 3:12 shares and, analogous to the ISK model (i.e. the so-called *investeringssparkonton*, investment savings accounts, abbreviated ISK), certain substantial securities holdings.

That taxation within the box model of assets and debts will be made in practice by 1.2 per cent of a positive financial net resembles the taxation wealth which was abolished at the end of the year 2007. A stumbling-block is that private persons' dwellings are included on the asset side in the box model. For small real property the assessed building value and for co-operative flats and freehold flats the share thereof belonging to the real property's tax assessment value will constitute the value of the asset. This would apply instead of today's index-linked municipal real property fee for small houses with a comparatively low cap amount. A suggestion to introduce the box system will thus be hard to introduce politically, since it sets different interest groups against each other, but that is the politicians used to handle. However, the model has, as mentioned, yet applied in the Netherlands since 2001 and should above all in combination with a *proms* for the enterprises gain attention also in Sweden for reasons of simplification.

A *proms* and the box model leading to most private persons not being liable to file tax returns

If my proposal with a *proms* for the enterprises is introduced in combination with the box model a simplification will be achieved for private persons so that they in most cases will not need to file income tax returns each year. Employee taxation can be carried out by the enterprises together with the *proms* account a definitive tax at source on salaries. However, self-employed person's social security contributions for natural persons who are entrepreneurs would also be included in the *proms* according to my proposal, and a part of the basis for that tax then forms the pensionable income that the SKV report to the Swedish Pension Agency for calculation and decision regarding the individual entrepreneur's pension entitlement. At least to begin with, the employer's contribution for national social security purposes would after an introduction of my proposal for a tax reform continue to be

accounted for separately by employers which are legal persons – and by private persons who are employers.

Concerning capital and real property taxation, the private persons who still would be liable to file income tax returns would only consist of those of them who have had such incomes from payers not comprised of liability to file statements of earnings and tax deductions. This due to the banks etc. which are comprised of liability to file such statements would be comprised by the box system and would carry out the collection in the same way applying today for standardised incomes from the ISK.

The box model should not cause any problem for the enterprises unless Lex Uggla emerge again

For the enterprises, I consider that the box model should not cause any problem, since unlisted securities like 3:12 shares shall not be included in the box system but will be comprised by 'capital income'-taxation as to the rest.

However, in the recently mentioned respect I may mention again that I in my commentary of the box model state that clarity should be tried to attain at the working out of a Swedish box model for capital taxation. This above all to avoid that the so-called Lex Uggla-problems that existed for some time regarding the wealth tax and disappeared due to the abolishment altogether of the wealth tax in 2007 would emerge again at the box taxation.

The mentioned problems meant that the SKV considered that owners of unlisted limited companies etc. should pay wealth tax on excessive liquidity in the company. Thereby, they risked having to pay wealth tax on capital needed in the enterprise for investments and to recruit new employees. This might be a question dividing the political parties with regard to the capital taxation for owners of close companies being – on the theme of justice – matched against the taxation in general of so-called low-income groups. Then it is supposed that the 3:12 rules should be abolished or become impaired for the owners in the smaller enterprises.

Concluding viewpoints

There is a lot more to bring up in a great tax reform, but I consider that the first cornerstone in my proposal is the most important. It is about achieving a functioning corporate taxation which means an effective collection for the financing of the welfare. Thereby, the individual entrepreneur's confidence in being guaranteed legal certainty in the taxation procedure and proceedings on tax will be upheld.

By the production of goods and services, it is the enterprises that make new money in the society. Therefore, it is a must that the taxation of the production of goods and services is as effective as possible and in that respect is thus the main thread in my proposal that it shall lead to a more effective collection by the entrepreneur in the capacity of – if you like – an agent for the State with regard to collection. It is not necessary to do everything in one step. The legislator can begin with my proposal on the two cornerstones regarding the corporate taxation and the taxation for private persons respectively and the combination of those and then move on with the reform work.

BJÖRN FORSSÉN *Doctor of Laws and jurist in his own legal firm in Stockholm*.