



Summary

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The costs and effects of tax deduction on home repair services

Summary

The Swedish National Audit Office (Swedish NAO) has audited whether tax deduction on home repair services has led to less undeclared labour and increased labour supply for households that use this tax deduction. The Swedish NAO assesses that tax deduction on home repair services has been relatively important for reducing demand for undeclared skilled services, while on the other hand the effect has been very limited when it comes to increasing labour supply and income. The audit also shows that there are clear indications that the use of undeclared wages and other types of crime has increased in the construction industry.

The overall conclusion of the Swedish NAO is that tax deduction on home repair services, in its current form, does not generate enough tax revenues through reduced undeclared labour and increased labour supply to justify central government costs for the tax deduction. The results of the audit indicate that it would be cost effective to lower the ceiling of tax deduction for home repair services per person and year.

In its audit, the Swedish NAO has examined the long-term and structural objective of the tax deduction, which the Riksdag decided upon its introduction in 2009. In the past, a tax deduction with different designs has been applied as a temporary countercyclical aid.

The tax deduction on home repair services has reduced household demand for undeclared skilled services relatively much

The Swedish NAO assesses that tax deduction on home repair services has had a relatively large impact for households to be less likely to demand undeclared skilled services compared to 20 years ago. However, it is difficult to more precisely determine the impact of the tax deduction on undeclared labour because, for natural reasons, there is no comprehensive knowledge of the scope of undeclared labour. On the basis of the information that is nonetheless available, however, central government costs for the tax deduction appear to be quite large in relation to the effects achieved to combat undeclared labour. The cost for central government to achieve the reduction in undeclared labour that has now been achieved is considerable.

The existence of undeclared wages in the construction sector can be counteracted better by other means than this tax deduction

While households have reduced their demand for undeclared labour, the use of undeclared wages has increased in the construction industry. This development is particularly prominent among small construction companies that also perform the bulk of all home repair services covered by the tax deduction on home repair services. This means that many of the home repair services covered by the tax deduction that the households perceive as being declared and above board at the consumer level are in fact paid with undeclared wages at one or more levels beyond the consumer level. In addition, problems with working life crime have increased sharply in the construction industry. The Swedish NAO considers that initiatives other than the tax deduction on home repair services are required to counteract the type of undeclared labour and other crime that is now present in several of the skilled services companies and in other parts of the construction industry.

The tax deduction on home repair services has a marginal impact on households' labour supply and income

The audit shows that the tax deduction on home repair services has low accuracy and therefore can only to a limited extent contribute to increasing labour supply for the households that apply the tax deduction. This is partly because one in three households that use this tax deduction are pensioners, persons who are not gainfully employed or persons in households with very high incomes. For many households, it is also difficult to perform the work themselves, since several of the

services covered by the tax deduction require a relatively high degree of specialist knowledge. All in all, this means that a large part of the services covered by the tax deduction would have been purchased on the market even if the tax deduction did not exist and that only a limited amount of extra time is freed up for marketing efforts.

Furthermore, the Swedish NAO's statistical survey suggests that households with the possibility to make tax deductions for home repair services have not increased their earned income. In conclusion, the results indicate that the tax deduction does not lead those who apply the deduction to increase their labour supply to any great extent.

The costs of the tax deduction should be adjusted according to the effects achieved against undeclared labour

In 2023, the subsidy level was 30 per cent of the labour cost including VAT and the maximum deduction amount was SEK 50,000 per person. The costs of the tax deduction should be adjusted according to the effect achieved to combat undeclared labour, as it is not deemed to have any significant effect on buyers' total labour supply. Lowering the maximum allowed deduction per person is effective for reducing central government costs.

Recommendations

The Swedish NAO recommends that the Government reduce the tax deduction by designing it so that its cost effectiveness increases in relation to the target for combating undeclared labour. This can be done, for example, by lowering the maximum tax deduction on home repair services per person and year.