

Future tax revenues and changed energy use

Summary and recommendations

The Swedish National Audit Office (Swedish NAO) has audited whether the Government has taken into account the major changes in the climate and energy area in its assessment of the long-term sustainability of public finances. The overall conclusion is that the Government has not done so to a sufficient extent.

Central government revenues from energy and carbon taxes tend to decrease in the future with current tax rules. However, the same trend is not visible in the Government's long-term calculations. The Swedish NAO estimates that the Government has overestimated annual tax revenues in the long term by approximately half a per cent of GDP, which corresponds to SEK 25 billion measured in terms of current GDP and monetary value. This may affect the view of the need for fiscal policy measures in the future. The Government should therefore develop the calculation model used so as to capture development in the area of climate and energy.

Audit findings

The Government does not take into account developments in the area of climate and energy

Central government revenues from energy and carbon taxes have shown a downward trend in the 2000s relative to GDP. This is explained, among other things, by active environmental and climate policy at both national and EU level, which has contributed to more efficient energy use and reduced greenhouse gas emissions.

According to the Swedish Energy Agency, energy efficiency will continue to improve. At the same time, the use of fossil fuels will be phased out. With current tax regulations, this will lead to reduced revenues from energy and carbon taxes. The Government has not taken this development into account in its long-term calculations of public finances.

Significant long-term tax losses are not identified

The Government has overestimated future revenues from energy and carbon taxes. Based on several different scenarios for future energy use developed by the Swedish Energy Agency, our calculations show that tax revenues in all scenarios are significantly lower in the long term than in government calculations.

The Government overestimates tax revenues in 2050 by about a half per cent of GDP, according to our calculations. This corresponds in current terms to approximately SEK 25 billion, or a quarter of the total tax revenues from taxes on energy, environment, and road traffic.

Misleading view of sustainability in public finances

If tax revenues are overestimated, this means that the indicators used to assess whether public finances are sustainable in the long term may be misleading. A downward adjustment of tax revenue reduces the safety margins in the assessments. For some of the indicators, the safety margins could even disappear. There is therefore a risk that the Government's data to the Riksdag could give an incorrect picture of the sustainability of public finances.

If there are unexpected tax losses in the future, this means a need for increased funding to prevent a deterioration in public finances. This entails higher taxes, lower expenditure, or increased borrowing. The scope for other reforms is, in other words, less than the surplus in the Government's long-term calculations indicates.

The Government needs appropriate scenarios of high quality

In order to develop the calculation models and make good long-term forecasts at the Ministry of Finance, it is necessary that the Swedish Energy Agency's scenarios are not only of high quality but also designed appropriately for calculating the sustainability of public finances. At present, there is no identified main scenario among the scenarios that the Swedish Energy Agency regularly produces.

Recommendations

The Swedish NAO makes the following recommendations to the Government:

- Develop the method for calculating long-term tax revenues so that it identifies developments in the climate and energy area.
- Instruct the Swedish Energy Agency to regularly produce a main scenario of Sweden's energy system in the long term.