

Audits of foreign capital income and the long-term compliance effects

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The aim of this study

- The objective of the analysis presented in this report is to evaluate the short-term and long-term behavioral effects of an audit of capital income from abroad (dividends and interest income).
- The audit covered the tax year of 2020 and was based on information on foreign capital income that the STA regularly receives through the international information exchanges.

AEOI Automatic Exchange of Information

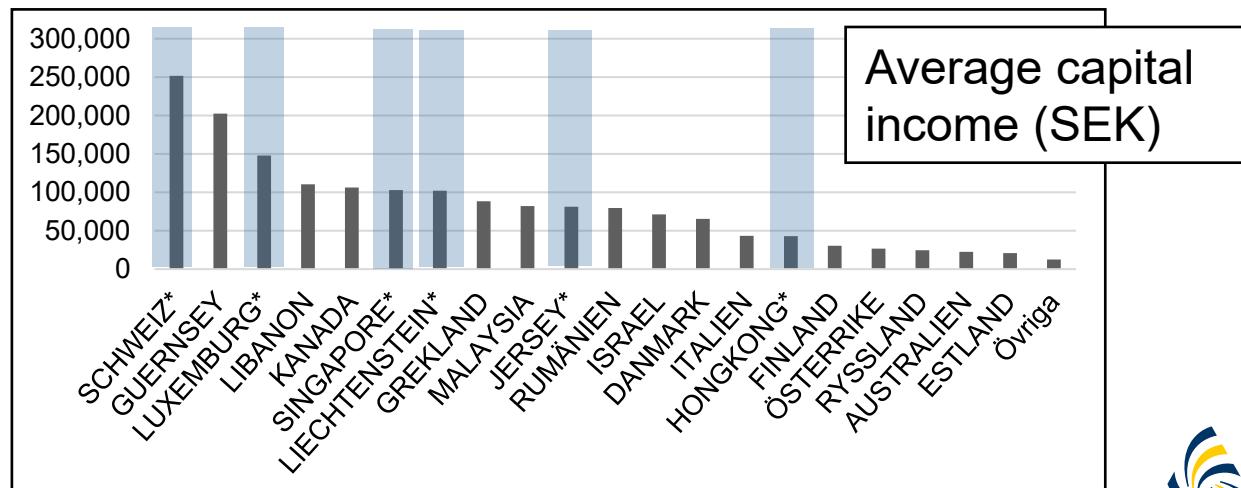
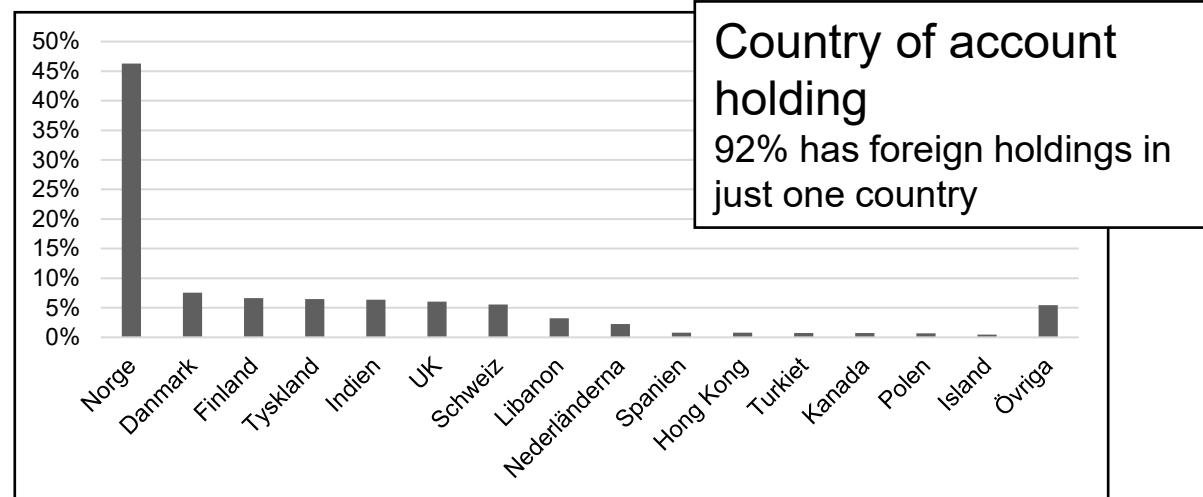
- Since 2016 the Swedish Tax Agency (STA) has received information on taxpayers' foreign capital income on a regular basis through the CRS, DAC2, and FATCA agreements (henceforth CRS for short)
- The purpose of the information exchange is to prevent and reduce international tax evasion
- As a result of the information exchange, the STA receives around one million control data on capital income each year from almost 100 countries for between 500,000 and 600,000 unique individuals.
- Calculations based on these data show that the total value of foreign financial assets held by Swedish households amounts to around SEK 300 billion (approx. EUR 27 billion).

Earlier studies

- Boas et al. (2024). Effects of the introduction of information exchange, gaps in information, regulatory compliance, etc.
- Angelov & Johansson (2020), Swedish Tax Agency (2023) two studies of the effect of guidance mailings.
- Swedish Tax Agency (2024a) analyzes which groups have reported errors to the greatest extent.

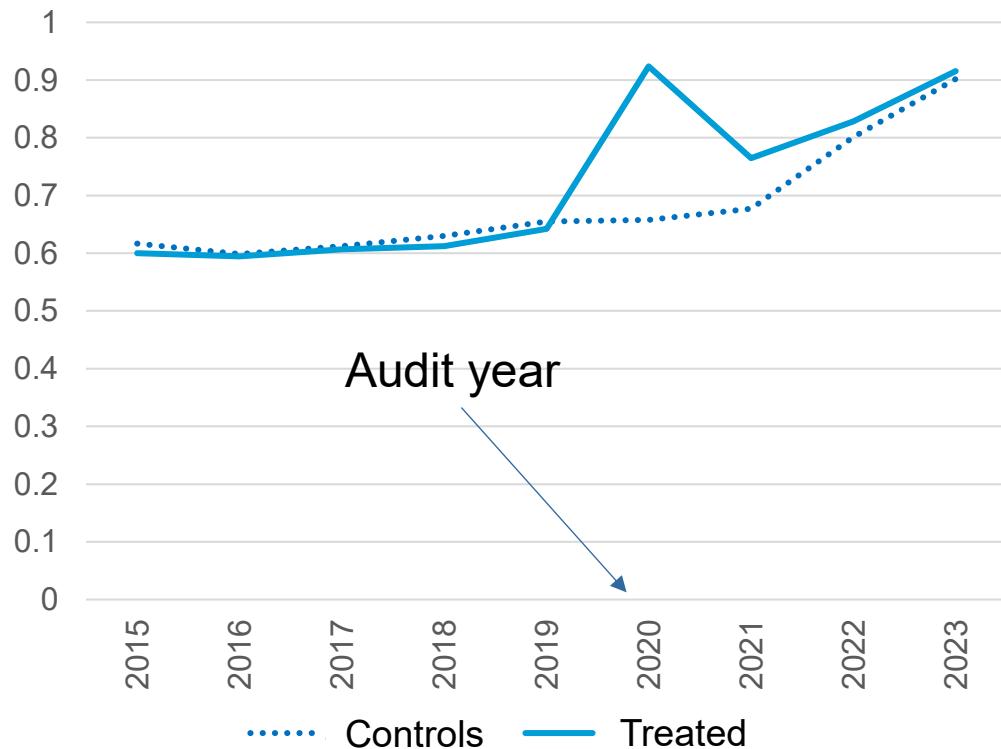
Target population and audit sample

- The target population, which consisted of approximately 23,000 taxpayers, included those who, according to CRS data, had at least SEK 2,000 (approximately EUR 180) in foreign capital income (dividends and interest income).
- The audit was carried out on a random sample of 1,000 taxpayers.
- We analyze the period 2020-2023.

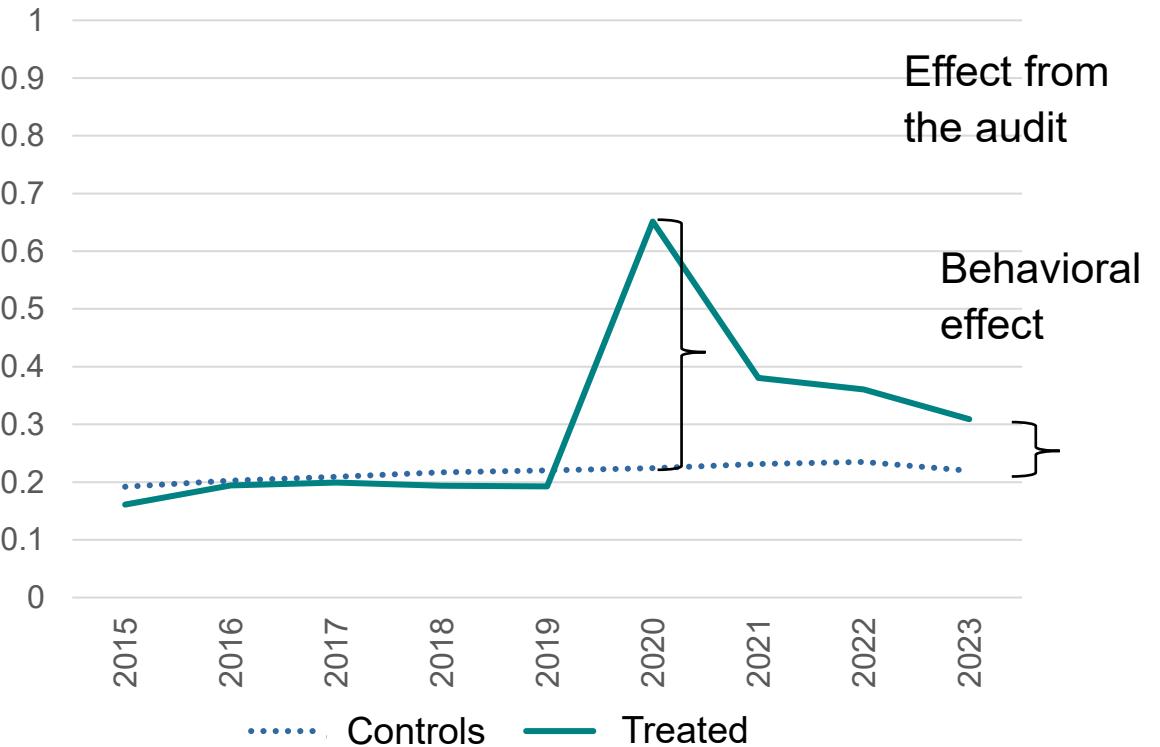


Main results

a) Share reporting any capital income
(domestic and foreign)



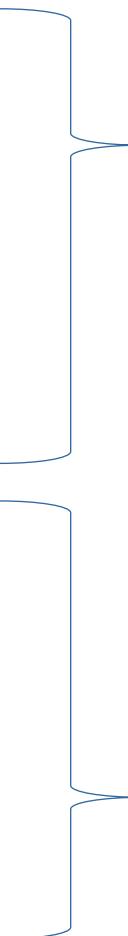
b) Share reporting foreign capital income



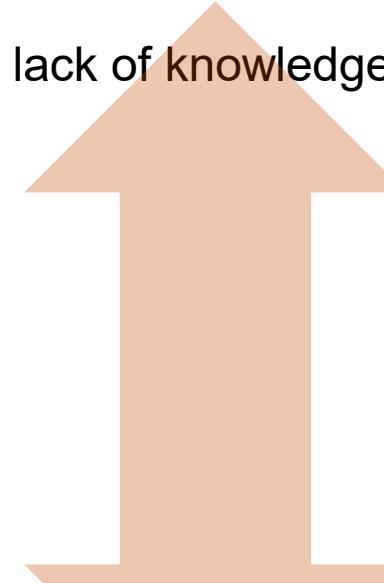
Dividends and interest income

What are the reasons for underreporting?

- In most cases, relatively small amounts of income were misreported.
- Misreporting was more frequent among younger people and among those with relatively low (reported) earnings.
- The frequency of errors is relatively high for those who did not report any earned income at all. Could be that they have unreported earned income from abroad.
- The audit found a higher frequency of errors for individuals with accounts in so-called low-tax jurisdictions, but similar behavioral effects as others.



Indicates a lack of knowledge of the rules



It cannot be ruled out that part of the explanation is deliberate tax evasion, but there may be other explanations related to lack of knowledge of the rules

Concluding remarks

- Substantial underreporting of foreign capital income, also evidence that the audit resulted in changed behavior
- An audit has a disciplining effect, via risk expectation adjusts, but it also has information effects
- As for the behavioral effect the results resembles that following a guidance letter
- Underreporting is probably due to lack of knowledge of the rules...
 - Relatively low amounts were underreported, younger individuals and those with low earnings show higher frequencies of underreporting

... but it cannot be ruled out that part of the explanation is deliberate tax evasion

- Could be that they have unreported earned income from abroad
- The audit found a higher frequency of errors for individuals with accounts in so-called low-tax jurisdictions

Concluding remarks

- Adjustment through other channels (capital deductions for interest expenses, etc.)
 - There is a behavioral effect of the audit on capital deductions (deductions for interest expenses, etc.) a year or so after the audit. These deductions were not reviewed as part of the audit.
 - In order to understand the full effects of an audit, other outcomes may be important to investigate
- We need to follow up on recent changes
 - An increased detail in the reporting starting for income year 2024
- Further changes may be worth implemented and evaluated
 - Interactive real time guidance

The rapport is available at STA

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