

The Impact of COVID-19 on Taxes and Incomes: Evidence from Sweden

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Abstract

We use population-wide tax register data to document the impact of the COVID-19 pandemic on firm sales, tax revenues, sick pay and income inequality in Sweden. The pandemic impact is identified using within-year, between-year, and geographical variation, and our data allows us to run placebo tests. Our findings confirm the large negative effects of the pandemic, but shed new light on their magnitudes and sensitivity to COVID-19 morbidity rates.

Specifically, we find that the impact on VAT and firm sales was larger than on commonly used industrial and service production indexes, larger than the effect on electricity for industrial use, but less than the effect on excise taxes on air travel. The pandemic's impact on short-term sick pay is large, but unlike tax payments, it does not vary with local infection rates, indicating behavioral responses to more generous rules for sickness insurance during the pandemic.

Monthly earnings inequality increased during the pandemic, and the key driver is income losses among low-paid individuals while middle- and high-income earners were almost unaffected. The pandemic had a larger negative impact on private-sector workers and on women. Using data on individual take-up of government COVID-19 support, we show that policy significantly dampened the inequality increase, but did not fully offset it. Annual total market income inequality, which also includes capital income and taxable transfers, shows similar patterns of increasing inequality during the pandemic.