PM   2012-01-17   Dnr 2012:11

VAT ON DIGITAL NEWSPAPERS AND MAGAZINES

How much tax revenue would the state lose if they were to introduce a 6% VAT on digital newspapers and magazines?

There are no official statistics on the total household consumption of digitally downloaded newspapers and magazines. However, in 2011, the Institute for Advertising and Media Statistics (IRM) conducted a sample survey which, among other things, collected data on household expenditure on newspapers in printed and digital format. According to this study, households spend on average 1 936 SEK per year on newspapers in print format, while spending for newspapers in digital format is considerably lower, averaging 15 SEK per household per year. Considering that there are about 4.6 million households in Sweden, this means a total consumption of about 70 million SEK (of which VAT revenues make up about 14 million SEK). The IRM's survey does not include data on consumer magazines. According to IRM's chief analyst Tobias Hedström, consumption of digitally downloaded magazines is significantly lower than consumption of newspapers. Additionally, it is Tobias Hedström's assessment that the total consumption of newspapers and magazines is below 100 million SEK per year.

Based on IRM's calculation of consumption expenditure of between 70-100 million SEK per year, a reduction of the VAT to 6 percent can be expected to reduce state tax revenues by between about 11-15 million SEK. (Please see the attached Appendix for details on how the VAT impact has been estimated.)

Given that a VAT reduction has an impact on the retail price, we can also assume a demand effect. According to economic theory, demand for a product /service increases when the price drops. How much demand is increased depends on the price sensitivity of the product / service. Price sensitivity is measured by means of so-called price elasticity of demand. The degree of price sensitivity for digital newspapers and magazines is unknown. However, suppose we assume a simplified price elasticity of -1, demand can be expected to increase by 1 percent when the price is reduced by 1 percent. A reduction of the VAT in accordance with the proposal of the constituent will, at full price and effect and an elasticity of -1 stimulate a price cut of about

15 percent and thus an increase in demand of 15 percent. Increased demand then leads to increased tax revenues by about 0.5 to 0.7 million SEK (see Appendix).

In this context, it is important to consider that the EU VAT Directive does not allow Member States to apply a reduced VAT rate on newspapers and magazines in digital format. For Sweden, this means that these services are taxed at the standard rate of 25 percent.

In contrast, printed newspapers and magazines are allowed a reduced VAT rate, and in Sweden, these services are taxed at 6 percent. A group of Swedish politicians from both political blocks are operating in the European Parliament, lobbying for a reduction of the VAT rate currently imposed on digital books and magazines to allow the principle of equality of taxation between the printed and digital formats to apply.[1]

Appendix

Estimated tax effect of a reduction of VAT on digital newspapers and magazines, given the level of consumption of 70-100 million SEK. Calculation of demand effect should be considered as an illustrative example as the actual price elasticity is unknown.

Reduced VAT effects resulting from VAT on digitally downloaded newspapers and magazines lowered to 6 percent, assuming full impact on the price and a price elasticity of -1

	Newspapers	Newspapers & Magazines
Consumption Expenditure 2011, approx.	70 000 000	100 000 000
expenditures excl. VAT	*56 000 000*	*80 000 000*
VAT at 25%	*14 000 000*	*20 000 000*
Consumption Expenditure at new VAT rate	59 360 000	84 800 000
expenditures excl. VAT	*56 000 000*	*80 000 000*
tax at 6%	*3 360 000*	*4 800 000*
1 Direct VAT effect	*-10 640 000*	*-15 200 000*
Price reduction[1]	15%	15%

---

[1] From an article written by Social Democrat MEP Olle Ludvigsson, Lower rate of VAT on digital books and magazines, http://debatt.svt.se/2012/01/08/sank-momssatsen-pa-digitala-bocker-och-tidningar/

Consumption Expenditure after increase in demand	68 264 000	97 520 000
VAT at 6%	*3 864 000*	*5 520 000*
2 Demand effect[2]	***504 000***	***720 000***
Net effect (1+2)	**-10 136 000**	**-14 480 000**

[1] (59 360-70 000)/70 000
[2] 3 864 000-3 360 000