



Fondbolagens förening

SWEDISH INVESTMENT FUND ASSOCIATION

The investment savings account in focus

- background, current situation and future

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The investment savings account in focus

The investment savings account (ISK) has unsurprisingly received a lot of attention during the autumn. This due to the fact that Swedish savers now will have access to a tax-free savings alternative for the first time since the Allemansfonder. In this report we have compiled what is happening now, and also looked back at how ISK savings have developed since it was introduced almost thirteen years ago.

The Government's proposal for tax-free savings on ISK:

On the 5th of September 2024, the Government presented a package that intends to strengthen households' purchasing power. The package is included in the government's autumn budget and the package includes a proposal for tax-free savings on ISK. The proposal means:

- The first SEK 150,000 a person saves in an ISK or in an endowment insurance will be tax-free in the income year 2025.
- The tax-free level will be raised to SEK 300,000 in the 2026 income year.



Source: The Government's press conference on 5 September 2024 [link](#)

This is ISK

ISK was introduced in 2012 by the then government as a new tax-legal form of savings with an ambition to make it easier for savers to invest in, among other things, funds and shares. The purpose of the reform was partly to simplify tax declarations and partly to reduce the lock-in effects that arise in the savings market in connection with conventional taxation.

Conventional taxation means that dividends and capital gains are taxed at 30 percent and capital losses are deductible against capital gains. In addition, there is a smaller standard taxation of 0.12 percent for fund holdings. In the case of ISK, no tax is levied on dividends or realised profits when savers exchange or sell funds and shares, instead a flat rate tax is levied every year regardless of whether the savings have increased or decreased in value. Originally, the standard tax on ISK consisted of 30 percent of the government borrowing rate. In 2016, it was decided to increase the basis for the tax to the government borrowing rate plus 0.75 percentage points, and in 2018 the basis was raised further. Today, the standard tax amounts to

30 percent of the government borrowing rate plus 1 percentage point. In addition, since 2016 there has been a floor for the interest base that amounts to 1.25 percent.

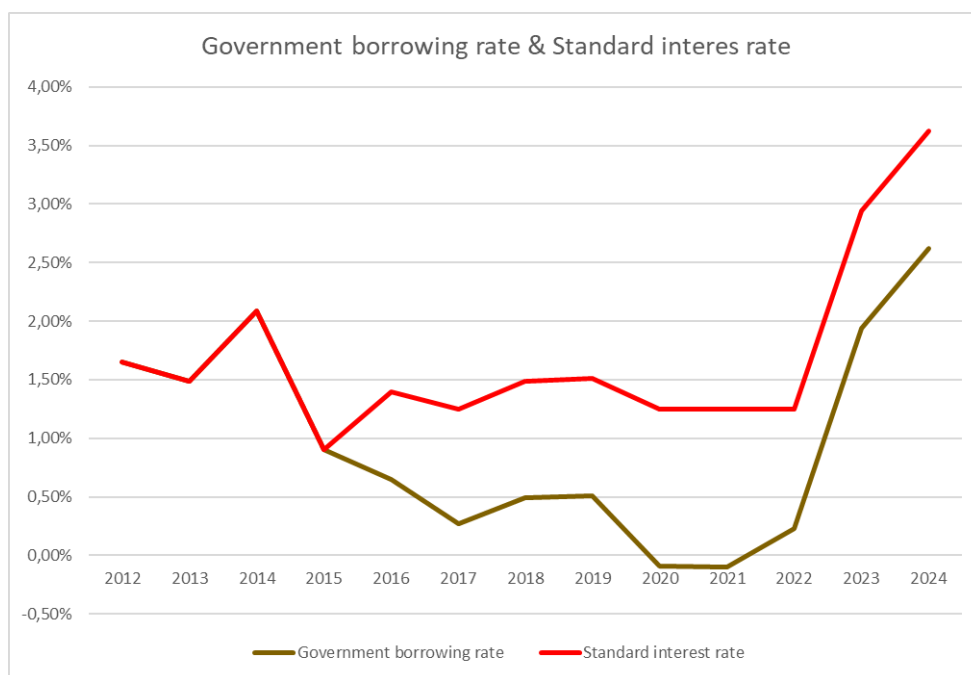
How the ISK tax is calculated today

The tax you pay on an ISK is determined in three stages: 1) the capital base, 2) the standard income and 3) the standard tax. The capital base is calculated by summing up the value of the assets in the ISK at the beginning of each quarter (i.e. January 1st, April 1st, July 1st and October 1st) and adding all deposits during the income year, then dividing the amount by four. The standard income is the capital base multiplied by the government borrowing rate on November 30th of the year before the income year plus one percentage point (with a floor of 1.25 percent). The standard tax is 30 percent of the standard income.

However, as an ISK holder, you do not have to do these calculations yourself. The institution that provides the ISK account (for example the bank or fund management company) calculates the standard income and sends it to the Swedish Tax Agency. The standard income, on which you pay 30 percent tax, is suppressed in the tax return. The standard tax is therefore not deducted from the ISK account but is included in the tax return.

Development of the standard tax on ISK for the income years 2012–2024

The graph below shows the standard interest rate and the government borrowing rate between the years 2012–2024. Even though the government borrowing rate fell sharply in 2012–2020, the standard interest rate remained at roughly the same level due to the introduction of a surcharge and a floor. It can be noted that the standard interest rate has been lowest in 2015 (0.90 percent), and highest in 2024 (3.62 percent), while the average for the thirteen years has been 1.70 percent.



Source: Debt Office, Swedish Tax Agency

Income year	Government borrowing rate (GBR)	Calculation std interest rate	Standard interest rate	Standard tax
2012	1,65%	GBR	1,65%	0,495%
2013	1,49%	GBR	1,49%	0,447%
2014	2,09%	GBR	2,09%	0,627%
2015	0,90%	GBR	0,90%	0,270%
2016	0,65%	GBR + 0,75%, Floor 1,25%	1,40%	0,420%
2017	0,27%	GBR + 0,75%, Floor 1,25%	1,25%	0,375%
2018	0,49%	GBR + 1%, Floor 1,25%	1,49%	0,447%
2019	0,51%	GBR + 1%, Floor 1,25%	1,51%	0,453%
2020	-0,09%	GBR + 1%, Floor 1,25%	1,25%	0,375%
2021	-0,10%	GBR + 1%, Floor 1,25%	1,25%	0,375%
2022	0,23%	GBR + 1%, Floor 1,25%	1,25%	0,375%
2023	1,94%	GBR + 1%, Floor 1,25%	2,94%	0,882%
2024	2,62%	GBR + 1%, Floor 1,25%	3,62%	1,086%

Source: Debt Office, Swedish Tax Agency

A median ISK saver has SEK 78,000 in ISK. When the standard interest rate was at its lowest, in 2015, the standard tax for this saver was SEK 211, and when the standard interest rate was at its highest, in 2024, the tax was SEK 847, which is four times as high.

Low-yield assets on ISK

The rule of thumb today is not to have assets on an ISK that is expected to give a lower return than the standard interest rate, since then it does not pay off with this form of saving. For 2024, this means assets that are expected to yield a return lower than 3.62 percent. But with the government's new proposal, the rule of thumb no longer applies: a saving of up to SEK 150,000 will be tax-free from 2025. From 2026, savings amounts up to SEK 300,000 will be tax-free. Due to the new rules, even interest-bearing assets with lower expected returns are suitable for an ISK.

Is ISK tax-advantaged?

When the new rules come into force, it will be easy to answer whether ISK is tax-advantaged. For capital up to the amount limit of SEK 150,000 for 2025 and SEK 300,000 for 2026, it will be tax-advantaged, compared to, for example, saving in funds with ordinary capital gains taxation. Even before that, it has been something of an accepted truth among savers, even if the standard interest rate, as we have shown above, has varied quite widely.

When ISK was introduced, calculations were made that showed an effective tax rate¹ on ISK savings of just over 19 percent, compared with the effective tax rate on savings with conventional taxation, i.e. just under 29 percent (Prop. 2011/12:1 p. 386 ff). Furthermore, this difference in the effective tax rate was considered justified (p. 345).

"The Government believes that the lower effective tax rate is justified because households' long-term savings in directly owned financial assets should be encouraged. Since savings in an investment savings account are not looked in, the form of savings can also constitute a buffer savings and offer good opportunities to save up for venture capital for your own entrepreneurship."

The difference in effective tax between savings on ISK and savings with conventional taxation has narrowed as a direct result of the adjusted standard return on ISK. Since the change in 2018, the effective tax rate for savings on ISK is estimated to be just over 23 percent.

Even notwithstanding the change in the effective tax rate on ISK savings, there has been discussions as to whether ISK has been a tax-advantaged form of savings or not.

In the journal *Ekonomisk Debatt*, Lundberg (2017) and Farago, Hjalmarsson and Kiss (2023) have argued that ISK has not been tax-advantaged – not even with its original formulation of the tax conditions. Instead, conventional taxation under many conditions, and especially with the current conditions for ISK taxation, is regarded as advantageous for long-term savings.

The main argument put forward is that an analysis based only on the effective tax rates overlooks the fact that the standard taxation model that applies to ISK de facto entails a transfer of risk from the state to the individual with a savings on ISK. Lundberg argues the following: "For the taxpayer, conventional capital taxation is an insurance against large fluctuations because the state, somewhat simplified, takes 30 percent of both capital gains and capital losses. This disappears with ISK, as taxation is then based on the size of the investment and not on its return. For the state, ISK means a smaller but more stable income stream."

The Swedish National Audit Office came to a similar conclusion in its 2018 audit²: "Investment savings accounts are not clearly advantageous in terms of taxation".

The conclusion should be that in 2025 ISK will be tax-advantaged for savings up to SEK 150,000, in 2026 for savings up to SEK 300,000, but for amounts exceeding it is not possible to establish that ISK is tax-advantaged.

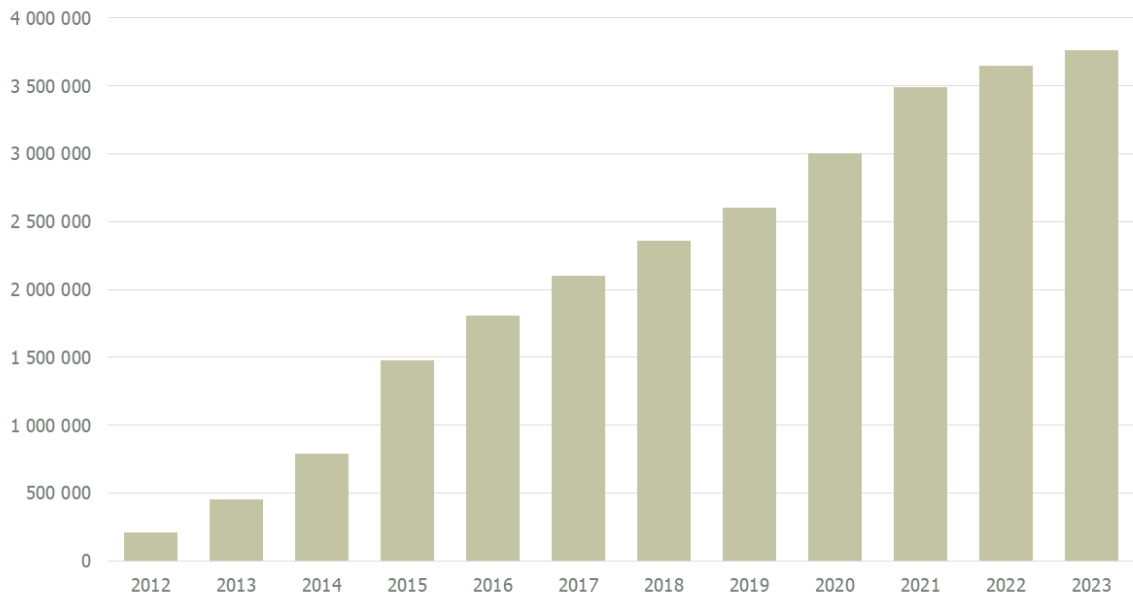
Development of the number of savers and wealth

There are no official statistics on savings on ISK, but some information can be obtained from the Swedish Tax Agency. It shows that the number of unique holders of ISK accounts amounted to approximately 3.8 million in 2023.

¹ "The effective tax rate shall mean the actual tax levied in relation to the true economic rate of income to which the tax relates", Prop. 2011/12:1 p. 387

² Source: "Investment savings account – a simple form of savings in a complex tax system (RIR 2018:19, p.7)

Number of ISK account holders (unique holders)



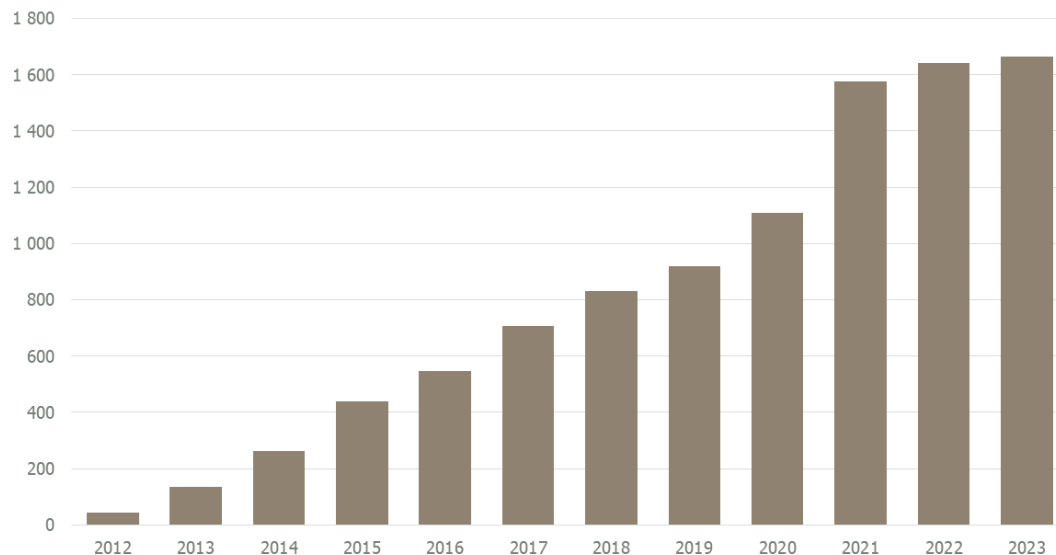
Source: The Swedish Tax Agency

The increase has been strong over the twelve years shown in the chart, before levelling off in 2022 and 2023. So, there are many who benefit from the new tax rules and it will probably attract more savers to ISK.

Furthermore, the Swedish Tax Agency publishes how large the total standard income (SEK million) has been for each tax year. By dividing this by the standard interest rate, an estimate³ of total wealth of ISK is obtained. In 2023, the wealth amounted to SEK 1,665 billion.

³ Note, there will be no exact estimate since the capital base on ISK is not calculated on the value as of December 31st.

Estimated wealth in an ISK account (SEK billion)



Source: Swedish Tax Agency, calculations Swedish Investment Fund Association

The development has some similarity with the number of holders, a sharp increase in 2012–2021 that then stagnates in 2022 and 2023.

Fund savings on ISK

As previously mentioned, there are no official statistics on savings on ISK. Since 2014, the Swedish Investment Fund Association has been trying to measure fund savings that take place via ISK. However, the fund management company usually does not have access to who the end customer is, and the ISK savings in the statistics are therefore an underestimate.⁴

⁴ ISK in the Swedish Investment Fund Association's statistics = cases where fund management companies and ISK institutions are part of the same group. Other fund management companies have the financial company that offers ISK as a counterparty and thus do not know what type of savings it concerns. This savings thus falls under the category "nominee-registered fund units" as well as other nominee-registered fund savings.

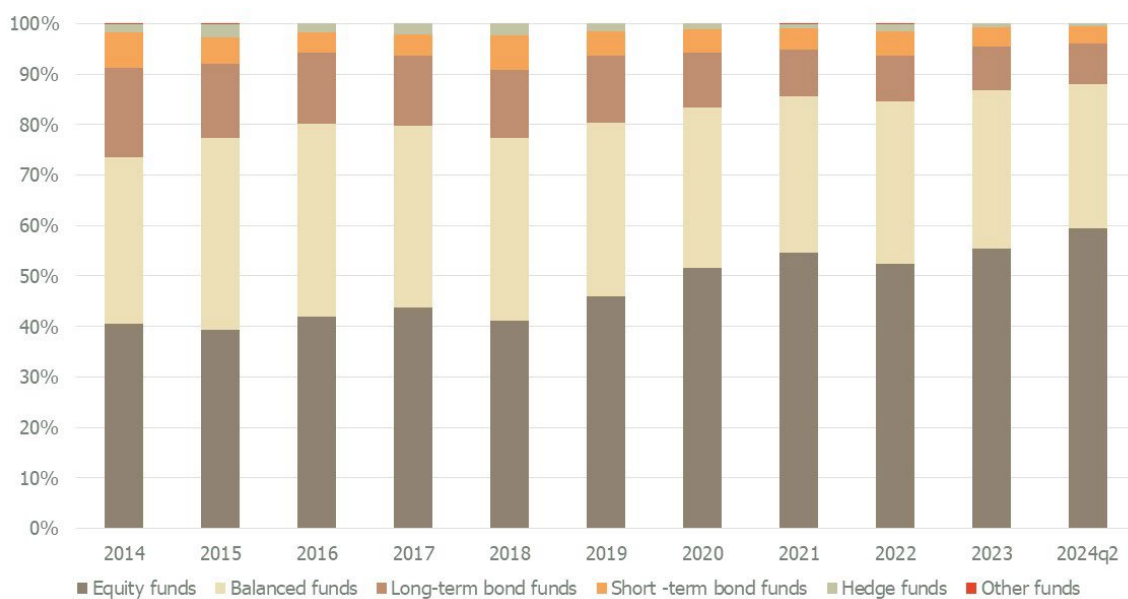
Net Asset in funds 2024-06-30, mdkr	
Households, direct inv.	602
ISK	716
IPS (Ind. Pension Saving)	173
Unit linked	1 784
Premium Pension Savings	2 502
Nominee Accounts	818
Non prof. Inst. Serv. househ	144
Swedish corporations	873
Others	165
TOTAL	7 777

Source: The Swedish Investment Fund Association

A qualified estimate is that a large part of the nominee-registered fund savings also takes place via ISK. If we assume that 50 percent of this also constitutes ISK savings, the fund assets will be SEK 1,125 billion instead of SEK 716 billion.

If this estimate is used for the distribution of ISK fund savings to distribute the savings by fund type, it gives the following distribution:

Fund assets of ISK (incl. 50 percent nominee-registered by fund type)



Source: The Swedish Investment Fund Association

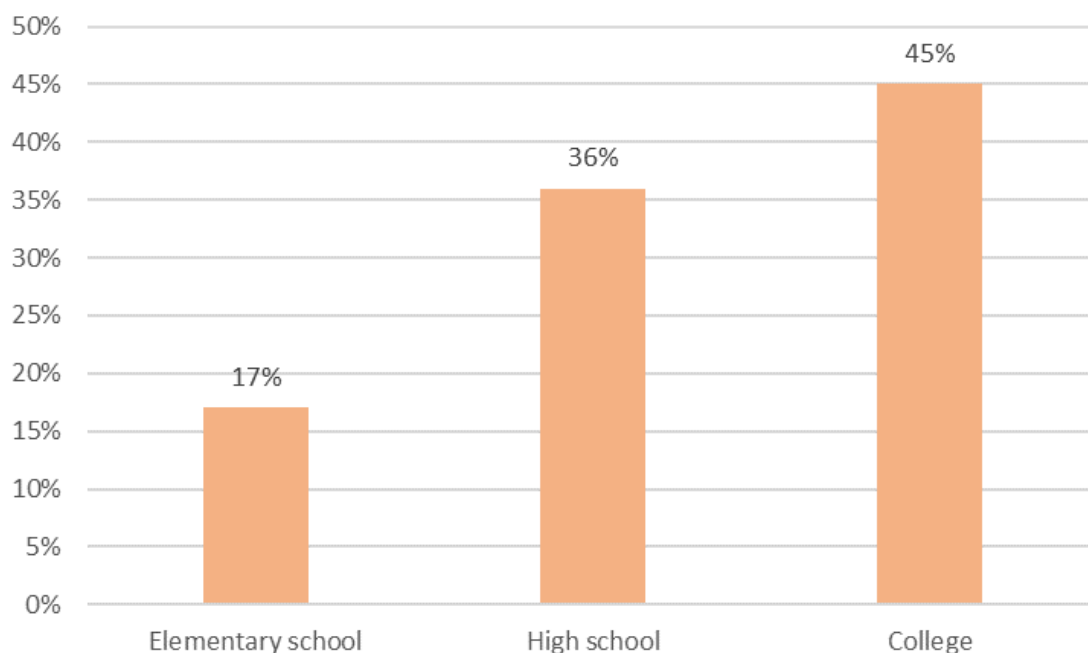
It can be stated that in 2024, 88 percent were invested in equity or balanced funds, which is not surprising given that ISK taxation has so far steered towards asset classes with higher expected returns, such as equities.

If we look at net savings, it can be stated that fund savers appreciate ISK. Summarized for 2014-2024q2, net savings via ISK amounted to SEK 360 billion⁵, and during the same period, fund savers have net sold funds from their direct savings (those with capital gains tax) for SEK 208 billion.

Does education level matter if you have ISK or not?

With the help of register data⁶ from 2020, we can see if education level plays a role in whether you save via ISK or not. One could assume that those with a higher level of education to a greater extent read up and pick up when new taxation conditions are introduced, and this also seems to be the case. Of those with compulsory education, 17 percent had an ISK saving in 2020 compared to 45 percent for those with a higher education.

Fund ownership via ISK per level of education 2020 (percent of population per education group)



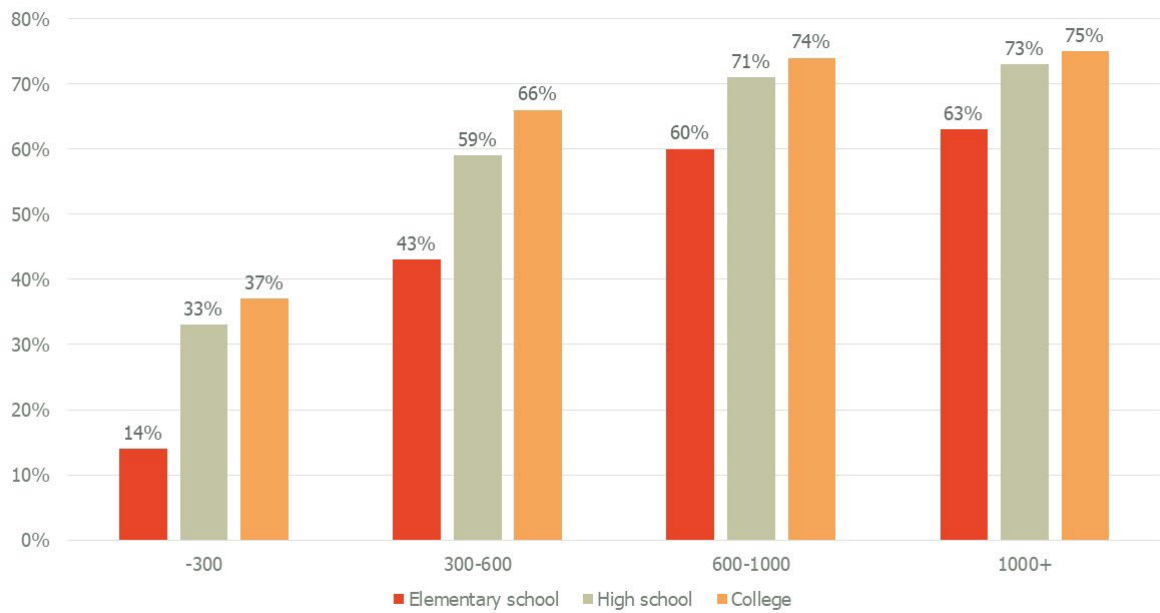
Source: The structure of fund ownership in Sweden: An empirical study - update until 2020.

⁵ SEK 460 billion if we include 50 percent of net savings in the nominee-registered category.

⁶ See Waldenström/Fondbolagens förening [link](#)

The importance of education for saving in funds via ISK can be affected by how much income you have, and thus your ability to deposit more money. Therefore, it is interesting to look at how savers in the same income group differ if they are divided by level of education.

Fund ownership via ISK by level of education and income bracket (SEK thousand) 2020 (percent of population)



Source: The structure of fund ownership in Sweden: An empirical study - update until 2020.

It turns out that even for savers in the same income group, the probability of having ISK savings increases with the level of education.