# Summary in English

The subjects and concepts dealt with in the individual chapters can be outlined as follows:

## 1. Definitions, concepts and compilation methods

*Definition of taxes*

Throughout this publication, Danish taxes and duties are defined as *a) compulsory transfers b) to the general government sector c) without any link between the payment and aquisition of services.* This traditional definition is used without exception, which gives the publication a somewhat wider scope, but at the same time a higher degree of consistency, compared with other tax statistics, e.g. those published by the OECD and the IMF.

*a) Compulsory transfers* are amounts levied by public authorities.

*b) The general government sector* is delimited according to the principles adopted for the national accounts statistics and comprises the following institutional units:

1. Institutions and similar units (except public quasi-corporations) integrated in central or local government accounts.
2. Government institutions having their own independent accounts.
3. Quasi-government institutions.

*Sub-sectors of general government*

The following sub-sectors of general government are distinguished:

1. Central government
2. Social security funds
3. Counties
4. Municipalities

The sub-sectors 3 and 4 are also known as the local government.

As a main rule, taxes to »supranational government«, such as the European Economic Communities, are included in central government taxation.

A transfer to the general government sector is not regarded as a tax of duty payment if it generates a *c) concurrent and equivalent counterpart.*

Aggregate figures for the receipts and disbursements of the general government sector are given in table 1.1, which is based on the *accrual principle,* in analogy with the national accounts presentations of taxes and duties in Chapter 2. Otherwise, the periodisation in this publication relates either to *the period when the taxable event occurs* (Chapter 5), *the registration period* (Chapter 8) or to *the period of payment* (Chapter 3).

## 2. National accounts presentation of taxes and duties

*Accrual principle*

The national accounts presentation of Danish taxation comprises all taxes and duties, just as Chapter 3 in principle, whereas the subsequent Chapters 4 through 8 deal with specific groups of taxes and duties. In contrast to Chapter 3, where the figures are shown on a *cash basis,* the periodisation in Chapter 2 is based on the *accrual principle.* For taxes related to flows of goods or services, the periods refer to the dates in the production or turnover process when the tax is levied. For other tax types the periods refer to the dates when taxes become due for payment without penal charges for late payment.

In Chapter 2 the *statistical units* employed are as specific as practicable, thus enabling alternative groupings and analyses. The units are defined in »oversigtstabel 1«.

*A detailed specification of total Danish taxation* is given in table 2.6, where the various taxes and duties are analysed by type (in terms of tax base) and by receiving sub-sector. Code numbers are written for sub-sectors in the first column and for tax types in the second column of the table.

The distribution by *receiving sub-sector* is summarized in table 2.2 and chart 2.1. Table 2.1 indicates the various taxes and duties to the European Economic Communities. Otherwise these taxes and duties are included in the central government sector.

The distribution by *tax type* is summarized in table 2.3 and chart 2.2.

*National accounts groups*

In table 2.4 and chart 2.3, the taxes and duties are analysed by *national accounts groups,* i.e. 1) taxes on production and import, 2) current taxes on income, wealth etc., 3) capital taxes, and the tax-like group of 4) obligatory social security contributions. These four groups and their total are expressed as percentages of GDP at market prices in table 2.5 and chart 2.4, for the purpose of indicating the *level of taxation* in Denmark.

Chapter 2 spans the year from 1991 to 2000, the results for the latest year being provisional. However, data are available for all years back to 1947, see appendix I in the 1984 edition of this publication.

## 3. Payments of taxes and duties

*Cash principle*

The figures in this chapter are based on the cash principle, which means that they refer to payments registered as received by public authorities.

Table 3.1 covers 95 per cent of the total proceeds of taxes and duties, as defined in Chapter 1. Members  contributions to unemployment insurance schemes as well as certain fees, fines and penalties are excluded, and the figures for payments of taxes on real property have been estimated on the basis of information concerning taxes levied.

The figures show net results, i.e. receipts after deduction of any disbursement.

The following brief description of tax types is confined to those covered by the Danish withholding-tax system.

*A-tax* is the provisional tax on wages, saleries, pensions, etc. which is withheld (and remitted to the Central Customs and Tax Administration) by employers.

*B-tax* is the provisional tax on income from self-employment and property (profits and interest, etc.).

*Balance due to tax underpayment* is any excess of final tax over provisional tax, as ascertained in connection with the final assessment. For 1998 balances under DKK 13,300 are collected together with the provisional tax for 2000, and balances exceeding that amount were collected separately in September through November 1999.

*Balance due to tax overpayment* is any excess of provisional tax over final tax, as ascertained in connection with the final assessment. Balances for 1999 were refundet in May thruogh September 2000.

*Voluntary payments* are made by taxpayers of their own accord in order to avoid tax underpayment and the 8 per cent addition charged on tax balances in connection with the final assessment and collection of balances.

If it can be proved before the ordinay final settlement that payments of provisional tax considerably exceed the final tax payable for the year, the difference may be claimed at once as a so-called *section 55 refund*.

*Dividend tax* is levied provisionally at the rate of 25 per cent on dividends paid on shares in limited companies.

*Dividend tax refunds* are repaymant to persons and corporations not liable to pay tax.

*Other payments* comprise various minor items, including excess payments, which are normally taxes paid but no yet due.

## 4. Overdue tax

Overdue tax means tax, which has been levied and has fallen due, but which remains unpaid at the time of compiling the taxes. The figures exclude amounts written off as bad debt or cancellation of debt by the Danish tax authorities.

Figures on total overdue tax are therefore easily affected by the established practice of the Danish tax authorities, with respect to cancellation, writing-off of debt and due dates.

*Writing-off of irrecoverable overdue tax*

In cases where overdue amounts of tax underpayment cannot be collected they are classified according to the rules governing irrecoverable (provisions for expected losses) or lost tax amounts (booked losses) and are charged to the writing-off account. Reasons for the writing-off may be, e.g. insolvent estates of deceased persons, business closures and bankruptcies. Another reason is the expiration of time (limitation). For example, if a *personal* tax debt (liability) is charged to revenue, it is transferred to a register of legally binding liabilities in the form of payables charged to revenue, where the extinction of a debt does not occur until payment is made, (cancellation), expiration of time, or the death of the person liable for the debt. In cases of expiration of time or death of the person liable for the debt, the tax claim is no longer legally binding and is written off as a loss (finally written off).

Payment of previously overdue amounts of tax underpayment charged to revenue are incorporated into the accounts as extraordinary revenue.

*Writing-off and cancellation in ESA95*

In the context of national accounts (ESA95), the taxation concepts are based on taxes evidenced by tax assessments *(accrual principle)*, but which are never paid. Henceforth, the tax claims can no longer be collected (irrecoverable/expiration of time), and this written-off is recorded in the other changes in the volume of assets accounts of the defaulting debtor. The cancellation of the debt by mutual agreement (debt rescheduling or composition) between the creditor (general government) and debtor (person or business) is treated as a capital transfer from creditor to debtor.

## 5. Personal taxation

### 5.1 The basis of taxation

*Income concepts*

According to Danish tax legislation, the taxable income consists of the taxable person's gross income, excluding expenses paid in order to acquire this income. Danish tax legislation is based on a net income principle, where the taxable income comprises the current factor incomes and transfers, but excludes capital gains and losses. Any income is subject to taxation, whether it is income in cash or payment in kind, or if derived from, e.g. abroad.

According to Danish tax legislation, taxation as from 1987 is not only calculated on the basis of the taxable income, but in various combinations of the taxable income, personal income and capital income, and as from 1991 also of share income.

The figure shows the concepts of and relationship between the various income concepts:

**Income concepts**

| | | |
|---|---|---|
| **Incomes:** | Wages and saleries, fees<br>Payminds in kind<br>Income from self-employment<br>Alimony | A |
| | Interest received<br>Surplus on owner-occupied dwelling<br>Share dividends and tax refunds (until 1990) | B |
| | Share dividend (from 1991) | C |
| **Fradrag:** | Transport<br>Unemployment insurance contributions<br>3%-deductions of the personal income (until 1993) | D |
| | Pension fund contributions<br>Losses on self-employment<br>Social security funds contributions (from 1994)<br>Special pension-scheme savings (from 1998) | E |
| | Interest payment | F |

We thus arrive at:

| | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Personal income | = | A | | | | ÷ | | | E | | |
| Capital income | = | | | B | | ÷ | | | | | F |
| Share income | = | | | | C | | | | | | |
| Income deductions | = | | | | | | D | | | | |
| Taxable income | = | A | + | B | | ÷ | D | ÷ | E | ÷ | F |

*Personal income*

This item comprises, for example:
- All incomes included in the taxable income, excluding capital income
- Expenses paid in order to acquire, ensure and maintain income in connection with self-employment, except for interest payments, exchange losses, commitment fees, negative capital yield, cf. the corporation tax act and unrequited transfers.
  The corporation tax system will be discussed later.

*Capital income*

This item comprises, for example:
- Interest received and interest paid
- Capital yiels from the corporation tax scheme
- Surplus or deficit on one-family or two-family houses, etc., weekend cottages, owner-occupied flats, land, etc.

– Costs involved in acquiring, ensuring and maintaining capital income during the year.

*Income deductions*

This item comprises, for example:
– The special 3%-deduction of the personal income, maximum DKK 3,900 in 1993
– Unemployment insurance contributions
– Amount deductible per km for transport between home and workplace.

*Share income*

This item comprises, for example:
– Share dividends.

*Corporation tax scheme*

Since 1987 it has been possible for self-employed persons to effect an assessment of taxes in accordance with the corporation tax act, instead of the personal tax legislation. The scheme is voluntary and most businesses can use the rules. Business owners have to decide for each income year whether they want to make use of the corporation scheme.

If the corporation scheme is used, all taxable receipts and expenses are included in the taxable income of the business.

## 5.2 Tax assessment

The assessment of total income tax to the central government, municipality, county and any church tax is shown below.

**The tax assessment for an average municipality in 1999**

1) income tax of 31.9 per cent of taxable income to the municipality and county
+
2) income tax of 0.8 per cent of taxable income to the National Church
+
3) lower limit income tax of 7.5 per cent of the taxable income to the state
+
4) mean limit for income tax of 6.0 per cent of the personal income and any capital income exceeding DKK 151,000 to the state
+
5) upper limit for income tax of 15.0 per cent of the taxable income exceeding DKK 258,400 to the state
÷
6) taxable value of the personal allowance (about DKK 13,000)

## 5.3 Types and rates of taxation

The rules governing personal tax assessment are laid down in the personal tax legislation. The tax assessment is based on a division of the taxable income into personal income and capital income.

*Central government tax (state tax)*

The proportional tax scale constitutes 22 per cent of the taxable income. Furthermore, for 1993 an additional income tax of 12 per cent is levied on that part of the personal income exceeding DKK 240,000. Finally, an additional income tax of 6 per cent of the total of the personal income and any positive net capital income is levied to the extent of the total exceeding DKK 168,000 in 1993. The amounts are regularly adjusted.

From 1994 the ordinary income tax of 22 per cent is replaced by the *lower limit for income tax*, which is 7.5 pct. of the taxable income in 1999. The additional income tax of 12 per cent is replaced by the *upper limit for income tax*, which is 15.0 per cent in 1999 and levied on that part of the personal income exceeding DKK 258,400. A *mean limit for income tax* of 6.0 per cent in 1999 of the personal income and capital income exceeding DKK 151,000 is also introduced. As of 1996 the income tax of 6 per cent is abolished.

*Municipal tax*

The rules concerning municipal income tax are laid down in the municipal tax legislation. Municipal tax is in principle proportional, and each municipality decides the size of its own tax rate. The national average tax rates and county rates are given in tables 5.3 and 5.4.

*County tax*

County tax was introduced with effect from 1972. The levy base is the same as for a municipality.

*Church tax*

Church tax is levied on members of the National Church of Denmark, i.e. about 90 per cent of all taxpayers. Church tax is divided into two parts: national church tax and local church tax. The church tax rates are fixed by the municipalities.

*Wealth tax*

Since 1987 wealth tax has been levied according to the rules governing personal taxation. The wealth tax is a certain per mille of the taxable wealth exceeding a certain basic amount. The basic amount is adjusted according to a regulation number fixed each year.

As of 1997 the wealth tax is abolished.

*Tax ceilings*

In order to avoid that tax paid on "the last krone" - the marginal tax rate - is too high, the personal taxation legislation provides that the tax rate levied on income or wealth should, in some cases, be reduced.

From 1987 the following rules apply:

*»Tilted« tax ceiling*

If a taxpayer's income tax to the central government, county and municipality, (but not the church) on "the last krone" exceeds 58.0 per cent in 1998 and 59.0 per cent in 1999, the state tax is reduced to the extent of the excess amount.

*»Horizontal« tax ceiling*

If a taxpayer's income and wealth tax to the central government, county and municipality (but not the church) exceed 71.0 per cent in 1996 of the taxable income, wealth tax is first reduced and then income tax to the state to the extent of the excess amount. As of 1997 the wealth tax is abolished, and therefore the "horizontal" tax ceiling is abolished.

## 5.4 Provisional tax - final tax

*Tax at source*

Tax deducted at source in Denmark is collected according to the Pay-As-Your-Earn-System, i.e. tax is paid currently with the acquisition of income. As the tax paid is, generally, not final but provisional, the so-called annual assessment is effected at the end of the income year. Hereafter, the final taxation is calculated and the result of the income and tax assessment is forwarded to the taxpayer in May through September of the year following the income year.

*Provisional tax*

Data concerning provisional taxes for the income years 1990-1999 are given in table 5.6, chapter C.

*A-tax* is the tax withheld of the A-income. If A-tax is not withheld, or if the amount withheld is too small, the taxpayer has to effect payments to the Central Customs and Tax Administration in the form of so-called section 68 payments.

*B-tax* is provisional tax levied on the taxpayers. These taxpayers only earn or primarily earn B-income, mainly income from self-employment and interest received.

*Dividend tax* is levied at the rate of 25 per cent on dividends paid on shares in limited companies.

*Voluntary payments* are made by taxpayers of their own accord. If payment is made before 1st July of the year following the income year, the taxpayer is exempted from paying the balance due to tax underpayment and the additional amount added to the balance. The majority of the voluntary payments are normally made just before the end of the time-limit.

The so-called *section 55 payments* are in principle refunds of surplus tax effected according to the Danish Tax at Source Act, which provides that if it can be assumed that the provisional tax already paid will substantially exceed the final tax, the tax overpayment can be immediately refunded to the taxpayer, who does not then have to wait for the ordinary time for refunding of surplus tax, i.e. in the period May through September of the year following the income year.

*Underpaid tax from previous years,* item D.1 in table 5.6 constitutes tax underpayment during the income year 2 years earlier, and which has been collected via the provisional tax system together with the actual provisional taxes.

*Recipients of share dividends* are entitled to dividend tax reliefs, item D.2 in table 5.6. The tax reliefs are included in the taxable income and in connection with the tax assessment. The tax reliefs constitute 25 per cent of the dividend received.

*Final assessment*

Incomes and taxes in connection with the final assessment appear from table 5.6 in chapters E and F.

*The primary data used for the statistics*

Figures in tables 5.6-5.12 are compiled on the basis of registers operated by the Central Customs and Tax Administration.

Corrections are continually made as some tax cases are not concluded until several years after the end of the income year. Statistics Denmark have decided, though, that corrections are only made concerning the last two years and thereby consider other years as final.

The degree of consistency between the information is slightly reduced owing to the various coverage and the various times of compilation.

### 5.5 Advance assessment

The result of the advance assessment for the income year 2001 is based on the ordinary advance assessment, which for a majority of the taxpayers are effected by the Central Customs and Tax Administration in the autumn of 2000. Advance assessed incomes adjusted after the ordinary general assessment are not included in these tabulations.

The tabulations are prepared by the Central Customs and Tax Administration and are based on all taxpayers.

*Taxable population*

Out of the approx. 4.5 mio. taxpayers covered by the ordinary advance assessment for 2001, the advance assessed income for about 3.5 mio. taxpayers was effected by computer, while the assesed income for 1.0 mio. taxpayers was effected separately by the municipal tax authorities. The latter group comprises, e.g. the taxpayers who of their own accord in October 2000 forwarded an advance assessment form for 2001 to the Central Customs and Tax Administration.

## 6. Taxation of corporations

Corporation tax is levied on resident corporations such as joint-stock companies and co-operatives, and on foreign corporations earning profits, property income or dividends in Denmark. Central and local governmental institutions and private non-profit institutions are exempt of tax.

The tax base is the corporate profits as defined in the general provisions of the tax legislation, apart from the fact that special income is included in ordinary income. For production, marketing and purchasing co-orporatives, however, the taxable profits are calculated with reference to the size of their net assets.

The corporation tax rate is for 1998 and 1999 the rate is 38 per cent, except that for production, marketing and purchasing co-operatives it is only 16 per cent, of taxable profits for the financial year ending in the previous tax year.

From 1992 it has been possible for corporations to reduce their tax to 34 per cent instead of 38 per cent, if they pay their taxes in the year of the earnings instead of the year after as usual. From 1993 this kind of tax in obligatory to every newly established corporations and corporations who chose to pay their taxes during the year of the earnings i 1992. As from 1999 the taxe rate is reduced to 32 per cent.

Corporation tax is payable as a lump sum each 20th November. The tax revenue is divided between the central government (88 per cent) and the municipalities (12 per cent).

## 7. Taxation of real property

The values used for the calculation of real property taxes are obtained by general public assessment of real property, which are conducted every four years. In inter-assessment years the latest assessment values are adjusted automatically by means of information about price trends, etc.

*Land tax*

By far the largest part of the tax revenues consist of land tax (»grundskyld«) levied by local governments. Of these, the municipalities are free to fix their own land tax rates individually, whereas in recent years the counties have been tied to land tax rates fixed centrally by legislation - for 2000 and 2001 the rate was 10 per mille. In addition to land tax, the local governments levy reimbursement duty (»dækningsafgift«) on land and buildings values of public properties and on buildings values of business properties.

The real property taxes are collected by the municipalities in a varying number of instalment over the year.

## 8. Customs and excise duties

This chapter indicates the levies amounts when recorded by the Departement of Customs and Excise. The time reference is somewhere between the time of turnover and the time of duty payment, as the turnover dates precede the dates of levied duty recording, which in turn precede the date of duty payment. The rules concerning reporting and duty payment differ substantially among the various kinds of duty.

*Value added tax*

The most important duty is the value added tax. Denmark has a single-rate VAT. Since 1 January 1992 the VAT rate is 25 per cent.

Besides, selective excise duties are levied on a large number of products.

The chapter includes payments to the European Communities of various levies and duties collected.

## 9. International comparisons

The international comparisons are derived from OECD tax statistics published annually in Revenue Statistics of OECD Member Countries.

As mentioned above, the OECD's concept of taxation is somewhat narrower than the one used elsewhere in this publication. Thus fines (except tax fines) and certain compulsory fees and compulsory loans to public authorities are not comprised by the OECD's tax statistics.

For the present publication the OECD's tax groupings have been somewhat rearranged, to achieve greater similarity with those of table 2.6. The definitions of the tax type groups in the international comparisons are outlined in »oversigtstabel 1«.

The tables of Chapter 9 generally cover the period 1970-1999. Where 1999 is included, the figures for that year are provisional.