Tax in Denmark 2006

This description of the tax rules shows the most common taxes and duties paid by normal taxpayers. It also provides background information on the reasons for these taxes and duties.

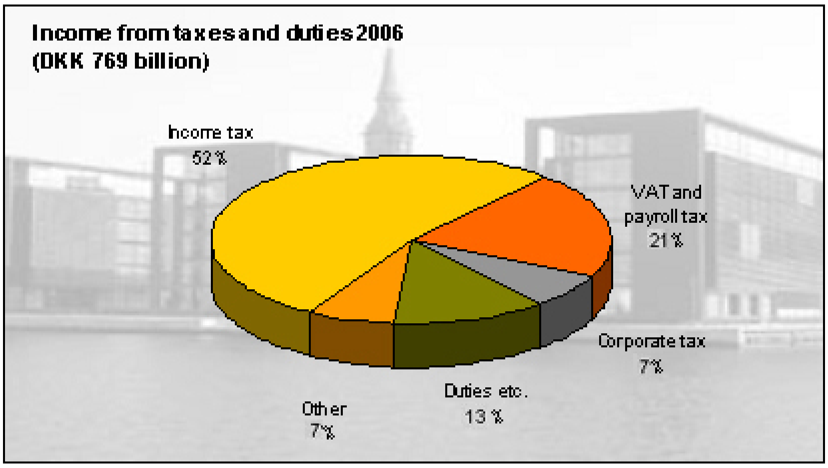
It is not intended for businesses, major shareholders and other people with more complicated tax affairs.

If this text does not provide the information you are looking for, please see the website of the Ministry of Taxation at www.skm.dk or the website of SKAT at www.SKAT.dk.

Unless otherwise specified, all amounts, limits etc. apply for 2005. If you require the figures for previous years, they can most likely be found on www.skm.dk/tal og statistik/.

Section 1: How is tax revenue generated?

It is estimated that the Danish tax authorities will collect DKK 769 billion in tax in 2006 (December estimate). This amount comes from many different tax sources including income tax, property tax, corporate tax and various duties. The diagram below shows the proportion of the different types of taxes and duties.



Income taxes

Less than 53 percent of the total tax revenue comes from income tax. This includes tax on wage income, interest and dividends as well as property value tax and the labour market contribution. Income tax makes up a significant part of the total state revenue. However, most of this revenue comes from taxation on personal income, which on its own constitutes almost 41% of the total revenue whereas the labour market contribution and property value tax make up just 11% of the total amount.

Both people and companies pay income tax

Companies pay a somewhat lower tax than private people. The income from corporate tax makes up 7% of the total revenue. This is due to the wish to attract businesses to Denmark. Corporate tax in Denmark is slightly higher than the EU average but has fallen significantly (from 50 to 28%) over a number of years. If Danish companies were to pay more in tax, they would not be a good investment as their profits would not be commensurate with the investment. In the long term, less investment in Danish companies would result in lower wages to the employees. Corporate tax is therefore also a tax on the workforce and not just on capital.

Consumption tax

In Denmark, 25% VAT is paid on virtually all goods and services. For example, VAT is paid on all groceries, clothes and cars and on all building work. However, some goods and services are exempt from VAT. These include newspapers, physiotherapists and banking services. These companies pay a *payroll tax* instead, which is a tax paid on the total payroll.

The amount paid in VAT depends on the size of a person's consumption. Income from VAT makes up around 21% of the total revenue.

Furthermore, a number of other consumption taxes are levied on various goods and services. These include duties on wine, beer, spirits and tobacco, and tax on electricity, water and heating. Some of these taxes are "pure" consumption duties with the sole purpose of creating revenue for the state while other taxes are environmental taxes aimed at regulating consumption. Examples of this latter category are the energy taxes and packaging tax.

The tax burden

The tax burden is an expression used for the total revenue to the state from tax and duties measured in relation to society's annual production, also called the gross domestic product (GDP). The tax burden in 2006 has been estimated at 47.8% whereas in 2005 it was 49.6%. The tax burden in Denmark is quite high compared with other countries but it has fallen in recent years.

The traditional measure of the tax burden is influenced by a number of technical factors which are not really part of taxation in society. These include the taxation of transfer incomes, tax payments from the public sector to private individuals, deferred payments linked to pension savings and corporate tax as well as the way taxes are split between indirect and direct tax.

The Danish tax burden will be overestimated because tax is paid on transfer incomes. Taxing transfer incomes leads to a tax on income which is not taken into account when measuring GDP. Accordingly, tax payments from the public sector should not be included in the tax burden as these taxes do not cause extra tax for either people or companies.

However, duties still form part of the GDP. As they do not make up a part of the income basis for taxes, the traditional tax burden will therefore be underestimated.

Consequently the tax burden is influenced by shifts in the balance between taxes and duties in the total tax payments. These shifts might be due to changes in the consumption quota, trade conditions or legislative changes.

Section 2: How is income taxed?

2.1. Income tax progression

What does progression mean in practice?

The Danish taxation system is progressive. This means that the last Danish krone you earn is taxed at a higher rate than the first krone earned. In practice, progression means that low income earners only pay municipal taxes and bottom-bracket tax to the state, those with slightly higher incomes also pay the middle-bracket tax on the upper part of their income and those with the highest incomes pay municipal tax, bottom-bracket tax, middle-bracket tax and top-bracket tax. Taxes are paid when income exceeds the respective tax's basic allowance, which in the case of the municipal and bottom-bracket tax is also called the personal allowance, for the middle-bracket tax the middle-bracket tax limit and for top-bracket tax the top-bracket tax limit.

Everyone has a personal allowance. If a person does not have an income greater than his or her personal allowance, he or she does not have to pay income tax. (However, labour market contributions must always be paid if the income is earned through paid work, see section 4.3.). The personal allowance is DKK 38,500. Young people under 18 years have a personal allowance of DKK 28,600.

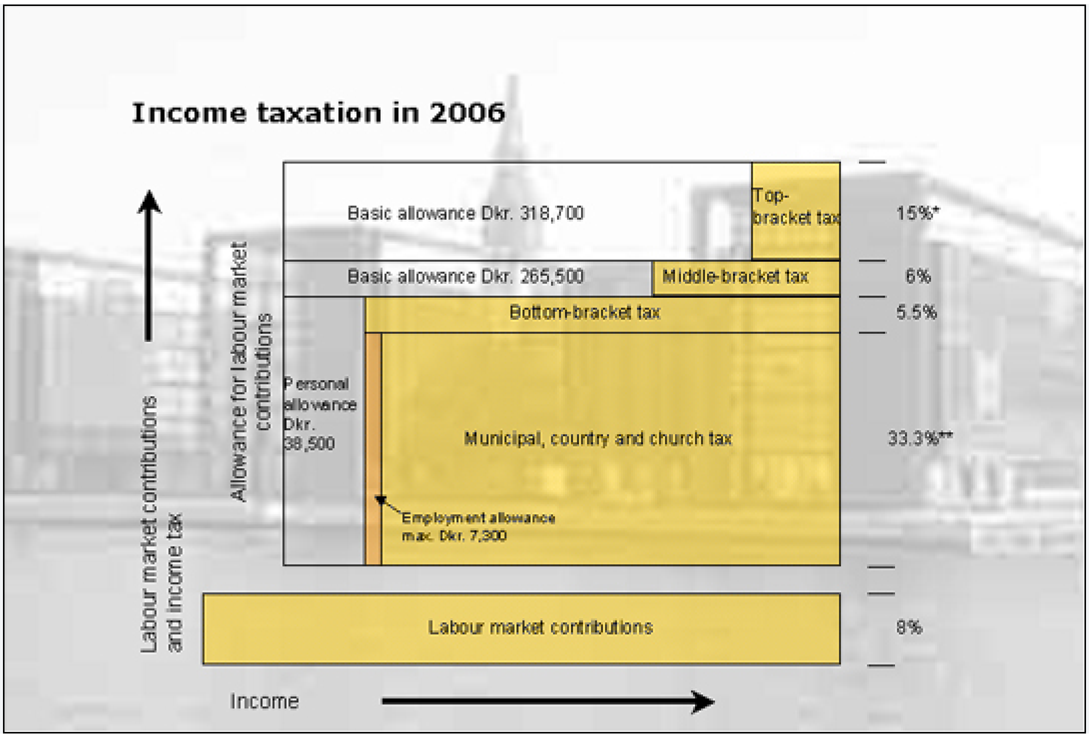
If a person has an income greater than his or her personal allowance, he or she will pay *municipal tax* and *bottom-bracket tax* on the excess amount.

Everyone also has a basic allowance in the middle-bracket tax. This middle-bracket tax only has to be paid on income exceeding DKK 265,500. Fewer than 35% of Danish taxpayers pay middle-bracket tax.

Top-bracket tax is only paid on income over DKK 318,700. One in five taxpayers pays top-bracket tax.

The average taxpayer has a personal income of just under DKK 210,000.

Below you can see how taxes increase in line with the size of income.



* 15% before any reduction in the tax ceiling (14.9% in an average municipality in 2006).

** The tax rate in an average municipality in 2006. The tax rate varies from 28.5% in the cheapest to 36.7% in Denmark's most expensive municipality.

2.2. Allowance for pension contributions

Contributions to private pension schemes can be deducted from the total personal income. In principle, this type of contribution is a purely private expense which does not concern the tax authorities. For example, other forms of savings are not tax deductible.

This has been done to give taxpayers an incentive to save for their retirement. This incentive should ensure that society has more total savings. For the individual, the savings ensure that there is a better division of spending over an entire lifetime and that the individual has more consumer options following retirement.

In contrast to this deduction allowance when contributions are paid in, the individual is taxed when the pension savings are paid out.

At the end of 2004, there was a total of more than DKK 1,800 billion saved in private pension schemes.

2.3. Who has to pay income tax in Denmark?

Tax regulations decide when tax must be paid in Denmark.

Permanent address in Denmark

If you live in Denmark, all your income is also taxed here. This means that, as a rule, income from abroad is also taxable in Denmark according to Danish regulations. In other words you are *fully liable to pay tax*.

Residence in Denmark is not synonymous with being liable to pay tax here. For example, if a person works abroad and has both housing abroad and in Denmark it can be difficult to decide in which of the places the person must be taxed. However, often the actual residence is considered to be the place where the family is.

Sojourn in Denmark

As well as a permanent address in Denmark, a longer period of stay in Denmark can lead to a person being taxed on all of his or her income here. A stay must stretch over at least 6 consecutive months to be considered a longer period of stay.

A person can also be liable to pay tax in Denmark even though he or she is, for example, a sailor on board a ship or someone posted abroad by a Danish authority.

Tax avoidance

Tax avoidance is a threat to the Danish tax base. To put a stop to tax avoidance, there are tax rules to ensure that people leaving Denmark pay tax on profits earned while they lived in Denmark. For example, if a person owns a portfolio of shares, the person will be taxed when he or she moves as if the shares had been sold at the time of moving. However, a tax extension can be granted.

Other connection to Denmark

Even though a person does not have a permanent address in Denmark, he or she can still be subject to Danish taxation.

For example, if a person lives abroad and owns a rental property or a company in Denmark, the person is taxed on the income from this according to Danish rules. Thus the person has *limited tax liability* in Denmark. This means that the person does not pay Danish tax on all of his or her income but only on the part of the income that is generated in Denmark.

A different set of rules apply to *border commuters* i.e. people who live abroad but who work in Denmark. This set of rules is aimed at people who, for example, work in Copenhagen but who daily cross the bridge from Malmø in Sweden where they live. The border commuter rules also apply to pensioners and people who have taken early retireneat.

Alignment with tax rules in other countries

In many ways, the Danish tax rules are aligned with tax rules in other countries. However, in other countries there may well be other rules for when an income should be taxed and where.

In some cases, this may mean that both Denmark and another country believe they have the right to tax the same income. To prevent double taxation in these cases, Denmark has entered into double taxation agreements with other countries. These agreements state when the income must be taxed according to Danish tax rules and when the other country has the right to tax the income.

Entering into these double tax agreements takes account of the fact that both citizens and companies are becoming increasingly international.

2.4. How is taxable income determined?

Since the beginning of the 20th century, the main principle for calculating taxable income has been the net income principle.

To work out taxable income, the total income is calculated and then all expenses are deducted. This gives a net income to be taxed.

For example, a regular wage earner may pay into a trade union or an unemployment insurance fund, make payments into a pension scheme and perhaps pay interest on debt in a house or on a car loan. These are all deducted to work out the income.

Net income and gross income

The net income principle does not always apply. For example, state taxes and labour market contributions are levied on gross income, i.e. income without allowance.

Since the tax reform of 1987 and until 2001, the changes in tax rules have moved largely towards taxing *gross income*, where tax is progressive. Or in other words, the changes to the tax rules have gradually removed the possibility of deducting expenses from income which is progressively taxed.

The effect of this is that allowances have gradually been given the same tax value for all taxpayers and are no longer dependent on income size. The value of the allowances no longer takes progression in income tax into account.

Different income bases

However, there is no simple way in a progressive tax system to ensure everyone the same tax value of an allowance. The deviation from the net income principle has therefore partly taken place at the expense of the desire for a simple tax system.

It has introduced different *income bases,* taxed individually and at different tax percentages.

Today, income is divided into *personal income*, *capital income* and *share income*. This is shown below. Additionally, there is a special income base for the *labour market contribution*.

Incomes and allowances in the taxation bases	
Personal income	**Income included:** Wages, company profits, fringe benefits, national pension, maintenance allowances (e.g. maternity or sickness benefits), early retirement pension, private pension etc. **Allowances in personal income:** Contributions to pension savings, labour market contribution (either as an allowance on the income tax return or by excluding* employee pension scheme contributions) etc.
Capital income	**Income included:** Income from interest, capital yields from company etc. **Allowances in capital income:** Interest payments etc.
Assessment oriented deductions	**Allowances that can only be calculated by assessing taxable income:** Employment allowance, commuting allowance, subscriptions to trade union, unemployment insurance and early retirement scheme, maintenance payments (alimony) for children, ex-spouses etc.
Taxable income	Taxable income is the **net sum** of all incomes and deductions, i.e.: **Personal income** **+ / ÷ Capital income** **÷ Assessment oriented deductions** **= Taxable income**
Base for labour market contributions	Wage income, fees, profit from company or enterprise that is personal income, income as co-owning spouse, value of fringe benefits etc. Furthermore, unemployment, sickness and maternity/paternity benefits and certain cash benefits form part of the basis for the special pension savings.
Share income	Share dividends and share premiums in sales of unquoted shares. Losses incurred on quoted shares can only be offset in dividends and gains from other shares, see section 7.2.

* Contributions to pension savings made directly by the employer before tax and wage payment calculations.

1987 tax reform

The 1987 tax reform aimed to increase the incentive to save instead of getting into debt. It focused very directly on reducing the value of tax relief on interest for those with the highest incomes. This was through the introduction of *capital income* as a special income base, where income was taxed at a lower tax rate.

Following the 1987 tax reform, capital income had to be calculated as a total amount of income and deductions. For example, if interest payments were larger than interest income, the *net capital income* was negative. If the interest payments were less than the positive amount, the net capital income was positive. In this way, a net income principle was introduced which was only valid for capital income.

At the same time the option to deduct negative net capital income from progressively taxed income was removed. From 1987, interest payments could only be deducted from the taxable income.

Very large interest payments could not longer be used to reduce top-bracket income tax.

1993 tax changes

The 1993 tax changes further reduced the value of the tax relief on interest in the period 1994-1998.

The principle of the 1987 reform was retained that capital income should be calculated on its own according to a net principle and that negative net capital income could not be deducted from the top tax bracket. The fall in the taxable value of the tax relief on interest was therefore only due to the reduction in income taxes at the same time as the introduction of the labour market contribution.

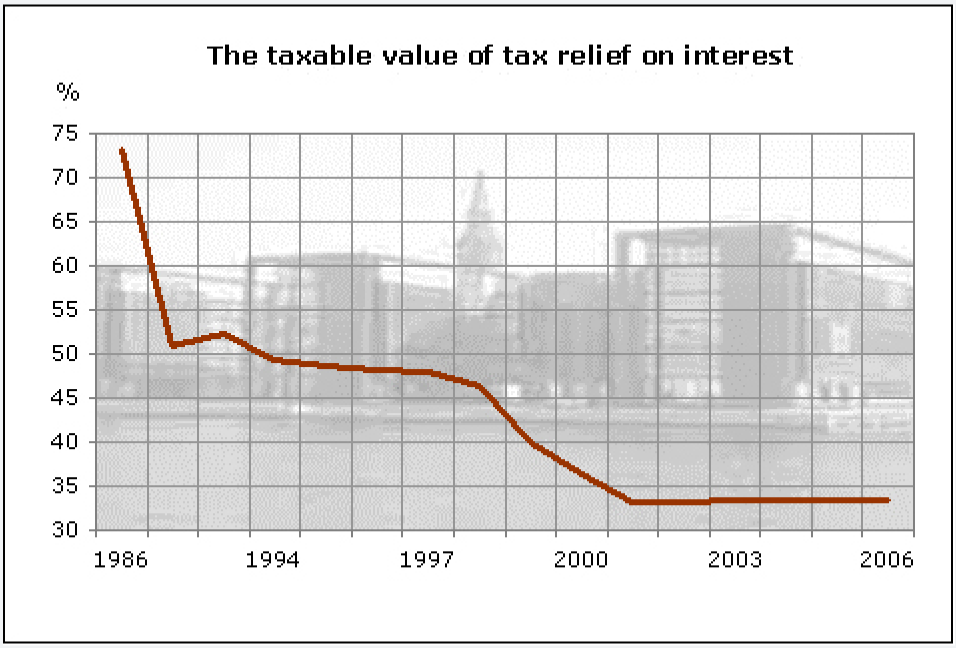
For well paid people, this meant a fall in the value of tax relief on interest to approx. 46%. However, at the same time this group experienced a fall in tax paid on the last earned krone of 10 percentage points. Or of approx. 6 percentage points when labour market contributions were taken into account.

1998 tax adjustments (the Whitsun tax package)

The tax adjustments in 1998 meant a continued reduction in the taxable value of the tax relief on interest. From 2001, when fully implemented, the adjustments no longer allowed negative net capital income to be deducted when calculating bottom-bracket tax. Following this, interest payments can only be deducted when calculating municipal taxes.

This means that tax relief on interest now amounts to 33% for all taxpayers.

Development in the taxable value of tax relief on interest

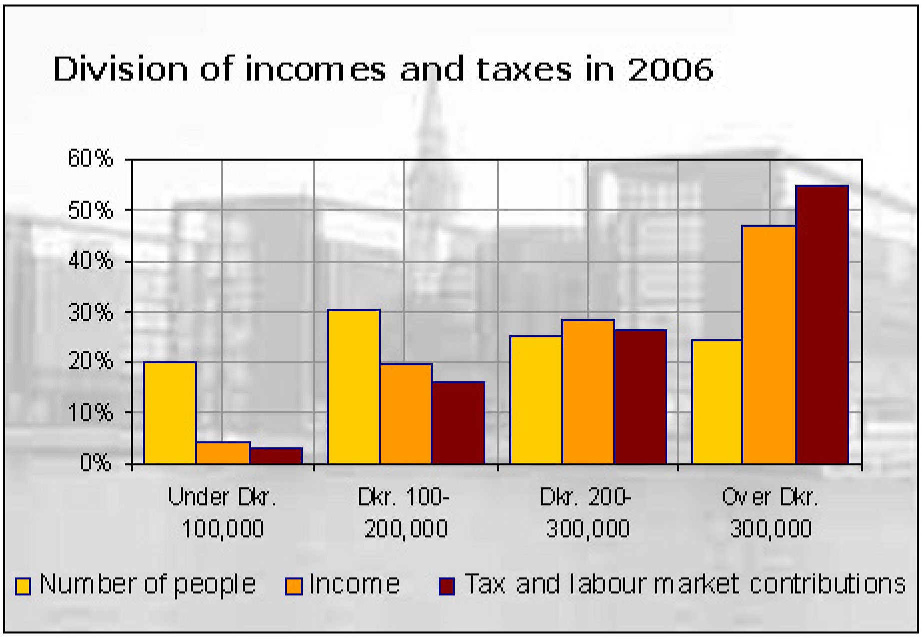


Lower work tax and the Spring package 2004 (Forårspakken)

From 2004, an employment allowance of 2.5% on income from work up to the middle-bracket tax limit was introduced. The allowance can be maximum DKK 7,300. It is awarded as an assessment oriented deduction to everyone engaged in active employment. The value of the allowance is therefore approximately 33%. The aim of the allowance is to give the unemployed and those outside the labour market an incentive to work – and to retain those who are in active employment. The allowance also gives those in active employment under the middle-bracket tax limit an incentive to work harder.

Redistribution via income tax

As shown on the diagram below, Denmark has a tax system where people with high incomes are taxed more punitively than those with low incomes.



The diagram shows that approximately 26% of taxpayers had the lowest incomes and only earned approximately 7% of the total incomes, which accounted for just under 4% of the total income tax. Conversely the diagram shows that approximately 11% of taxpayers earned the highest incomes, approximately 27% of the total incomes and paid approximately 47% of all income taxes.

2.5. How is income tax calculated?

Calculating what you should pay in income tax can be slightly complicated. There are rules on municipal tax, bottom-bracket tax, middle-bracket tax and top-bracket tax and rules on calculating income in the different income taxation bases.

Many people are not interested in the techniques that go into tax calculation; neither do they need to know about them in detail. They are most interested in the tax authorities using the correct figures when they calculate tax. But both the preliminary income assessment form and the annual statement from the tax authorities are so detailed that you can see how the tax has been calculated.

Tax calculation – an example

Below is an example of how income is first assessed and then how the different forms of income tax are calculated.

The example is based on a wage earner with interest payments on a mortgage, and with allowances for payments to a trade union and an unemployment insurance fund. The example wage earner earns DKK 350,000 annually.

Principles in tax calculation 2006			
Income assessment:		DKK	DKK
Wage income	(1)	350,000	
Labour market contribution (8.0% of wage income)	(2)	28,000	
Personal income	(3)=(1)÷(2)	322,000	322,000
Capital income (calculated as net sum of income and expenses)	(4)		÷ 35,000
Assessment oriented deductions (e.g. Trade union and unemployment insurance fund)	(5)		12,300
Employment allowance	(6)=2.5% of (1), max. DKK 7,300		7,300
Taxable income	(7)=(3)+(4)÷(5)÷(6)		267,400
TAX CALCULATION:			
Tax to municipality, county and church:			
Taxable income		267,400	
÷ personal allowance		÷ 38,500	
33.3% *(average municipality)*		0.333 x 228,900	76,224
Bottom-bracket tax to the state:			
Personal income (+ any positive net capital income)		322,000	
÷ personal allowance		÷ 38,500	
5.5 pct.		0.0548 x 283,500	15,536
Middle-bracket tax to the state:			
Personal income (+ any positive net capital income)		322,000	
÷ basic allowance in middle-bracket tax		÷ 265,500	
6.0 pct.		0.06 x 56,500	3,390
Top-bracket tax to the state:			
Personal income (+ any positive net capital income)		322,000	
÷ basic allowance in top-bracket tax		÷ 318,700	
15.0 pct. ÷ tax ceiling reduction of 0.1%*		0.1492 x 3,300	492
Income tax			**95,642**
Labour market contribution			**28,000**
Total income tax and labour market contribution			123,642

Note: The limits for amounts and tax rates are valid for 2006. The municipal tax percentage rate corresponds to the total tax percentage rate for the municipality, county and church in an average municipality in 2005.

*) The tax ceiling is 59% and the reduction constitutes the part of the amount of the tax percentage to the municipality, county and state that in total exceeds 59%. Church tax is not covered by a tax ceiling. In an average municipality in 2005 the reduction amounted to 0.1% (32.6% + 5.48% + 6.0% + 15.0% - 59.0% = 0.08%.)

In the example, the calculation of income tax starts with a wage income where 8% is deducted in labour market contributions.

This leaves an income base called *personal income.*

To be able to assess the total *taxable income,* the interest payments are then deducted – *the negative capital income.* If, contrary to the example shown, the wage earner had had significant interest income instead of large interest payments and thereby a *positive net capital income,* this should be added on.

At the same time the wage earner's payments to a trade union and an unemployment insurance fund are deducted. And finally the employment allowance introduced in 2004 is deducted. The employment allowance is calculated as 2.5% of the base of the labour market contribution. It can maximum be DKK 7,300. The earned income allowance and employment allowance are the ones stated as *assessment oriented deductions.*

When the personal income has been calculated and the negative capital income and assessment oriented deductions have been taken off, you can see the size of the taxable income.

Tax is paid to the municipality, county and church on the taxable income. Church tax is only paid if you are a member of the Danish National Evangelical Lutheran church. Approximately 85% of all Danes belong to the church.

Bottom-bracket tax is paid on personal income with the addition of positive net capital income. Before you calculate the municipal taxes and bottom-bracket tax you deduct your personal allowance.

Middle-bracket tax and top-bracket tax to the state is paid on personal income. Here you cannot deduct your personal allowance but the basic allowances of DKK 265,500 and DKK 318,700 respectively.

Tax relief on interest and the assessment oriented deductions do not have any effect on the amount of bottom-bracket, middle-bracket and top-bracket tax paid. As mentioned before, these are allowances which are only used in calculating municipal taxes.

Even though top-bracket tax is 15%, you will not end up paying the full 15% in all the municipalities. This is because a tax ceiling of 59% applies. The tax ceiling means that no one can pay more than DKK 0.59 of the last earned krone, not including church tax and labour market contributions. As municipal tax in many municipalities is so high that the top taxpayers end up paying more than 59%, a reduction is given in top-bracket tax. In 2006, the total tax percentage is above the tax ceiling in 198 of the country’s 270 municipalities.

The tax calculation in the example shows that the wage earner must pay 35% of his income of DKK 350,000 in tax to the municipality, county, church and state as well as pay labour market contributions. The greatest part of the amount paid goes to the municipality.

2.6. Tax is paid when the money is there

Another general principle in income taxation is that tax is paid when the wage or pension is paid to the taxpayer.

Only a minority of taxpayers have to remember to set aside money for tax. Tax is deducted when the wage is paid out. This also reduces the risk faced by the public sector that tax is never paid.

Pay-as-you-earn taxation is also connected with the desire to make tax is as easy as possible for the individual to administer. Citizens should not have to waste time calculating their tax, going to the post office to pay their tax or having a long and drawn out correspondence with the tax authority.

For this reason, much has been done in recent years to make life easier for taxpayers. New technology has helped greatly in this task.

Today the tax authorities have most of the information they need to calculate tax for the vast majority of taxpayers. The employer provides information about payment of wages. The bank informs about interest income and payments. Pension funds send information about pension contributions to and payments from pension savings schemes. Unemployment insurance funds and trade unions also directly inform the tax authorities of payments to unemployment insurance funds, payments to early retirement pension schemes and trade union subscriptions.

The individual does not have to supply much information. Most people can just check that the information is correct. If this is not the case, many corrections and changes to the preliminary income registration and income tax return can be carried out over the telephone or on the internet.

Section 3: Families, married couples and children

3.1. Families, married couples and children

In general, married couples and children are taxed as individuals and not as a family. Until 1970, married couples were jointly taxed in the husband's name and it was the husband's responsibility to pay the tax. At that time, women did not have independent status regarding tax. Children under 15 years were jointly taxed with their parents. This family tax was primarily concerned with the actual tax calculation.

As arule, joint family taxation no longer exists.

However, marriages (and registered partnerships) are still in some circumstances favoured by special tax rules, just as children in some respects are treated leniently in taxation matters.

With favourable special rules for taxation of married people, marriage is recognised and given preferential treatment as a financial partnership. But there are other special rules that work in the opposite way to prevent married people using this financial partnership to reduce their tax. These rules also prevent incomes being transferred between parents and children within the family to reduce the total tax paid. It is illegal to use a spouse or children to avoid paying tax.

3.2. When a married couple lives together

Both spouses must calculate their taxable income, personal income, capital income and share income independently. The rules for married couples that follow here also apply for people living in a registered partnership.

Division of incomes and expenses between spouses

The spouse who manages or is liable for something, a security or a loan, must show the income and expenses associated with this on his or her income tax return.

For example, in the case of a house, it is the spouse who owned the house on marriage who manages it. If the house has been acquired during the marriage, for example through inheritance or as a gift, it is the recipient who manages it.

Likewise, the spouse who has bought an object for the marriage or who has taken out a loan to buy the object, is the one who manages it or the one liable for the loan.

In some cases, it is impossible to decide which of the spouses is affected by an income. In these cases, each spouse includes half of the income or expense.

Calculating tax for married couples

As mentioned before, in many cases married couples can be better off than unmarried couples living together when tax is calculated.

Tax legislation gives married couples extensive possibilities to exploit the various lower taxation limits. However, married couples must have been living together at the end of the income year to be able to make use of this.

As a spouse, you can transfer a number of basic allowances to the other spouse if you cannot use them yourself. By doing this, a basic allowance is not “wasted” and the total tax to be paid is less than for an unmarried couple.

At the same time, a spouse can also transfer any deficit to the other spouse. This also reduces the married couple’s total tax.

Of course, being able to transfer the basic allowance and deficit is most advantageous in marriages where one spouse has a large income while the other has a small or no income.

Examples of special rules for married couples

If, for example, one spouse in the couple is not able to make full use of his or her personal allowance, the remaining part can be transferred to the other spouse when tax is calculated. This makes allowances for families where one partner is not active in the labour market and therefore has no income.

When calculating middle-bracket tax, spouses can transfer to the other spouse the part of their basic allowance of DKK 265,500 which they have not been able to use. This is advantageous for families where one spouse has a part time job.

However, it is not possible to transfer to the other spouse any part of the unused basic allowance used to calculate top-bracket tax.

When calculating tax on share income, one spouse with a large share income can take advantage of the fact that the other spouse might not have any share income. Tax on share income is 28% on income under DKK 44,300 and this amount doubles to DKK 88,600 for married couples. Only the married couple’s total share income above this amount is taxed at 43%. In all other cases, share income over DKK 44,300 is taxed at 43%.

If a spouse has a deficit, the other spouse can deduct the deficit from his or her income. This can be an advantage for married couples where one spouse has a limited income but large tax-deductible expenses, for example in connection with starting a business.

The same applies if a spouse has a deficit in his or her personal income. Here it is possible to deduct the deficit from the other spouse’s personal income. If there is still a negative amount, it must be offset against both spouses’ positive capital income.

However, tax calculations do not always favour marriage.

When calculating top-bracket tax, married couples must add their total positive capital income to the income of the spouse with the highest personal income.

This means that married couples cannot exploit their freedom to move assets around in order to avoid paying top-bracket tax.

Co-working spouse

If a married couple runs a business together, the income from the business must be divided between them. The division is not dependent on who is formally registered as the owner of the business but on who is responsible for the day-to-day running of the business.

This focus on who runs the company instead of the formal ownership is related to the fact that spouses have a great deal of freedom to transfer assets between them. The tax rules must therefore guard against the married couple dividing the company’s income between them with the sole aim of reducing their total tax. Therefore, importance is attached to which of the spouses is actively responsible for running the company.

If the spouses do not participate in running the company equally, only one spouse is taxed on the company’s income. This will be the spouse who has put most work into running the company or who has the education or training needed to run the company. The other spouse can either be taxed as a co-working spouse or as a wage earner on a wage contract with the company.

To be eligible to be taxed as a co-working spouse in a company, the spouse must extensively participate in running the company. This requires that the spouse works in the company at least 3-4 hours a day.

If the requirement for extensive participation is met, up to half of the company's taxable profits before capital income and capital expenses, up to a maximum of DKK 196,800, can be transferred to the co-working spouse for taxing.

Taxing a co-working spouse typically benefits smaller companies such as those in the agricultural sector.

There is also a third possibility for married couples who participate equally and extensively in running a company. If they are both responsible to an equal degree for the obligations of the company, they can choose to assess the entire company's income jointly. When the company's income has been assessed, the married couple divides the company's profit or loss between them. Then they calculate individually their share of the company's profit. The division must not be random but must be objectively based on the running of the company. This is to ensure that spouses who participate equally in running a business enterprise are not in a worse position regarding tax than they were before they married.

Gifts to spouses

Spouses can give each other gifts without having to pay gift tax or income tax on them.

When a married couple gives or sells objects or securities to each other, it does not affect tax. On the other hand, the transfer affects who is regarded as managing or being liable for the object or the security in the future. It also affects who needs to calculate income and expenses associated with the object or security on the income tax return.

If one spouse transfers something to the other spouse, he or she must not assess a profit or loss on the transfer. The spouse who has received the thing or security is viewed as if he or she had bought it at the same time as it was transferred.

In this way, married couples have a significant freedom to move their assets within their financial partnership.

When tax has to be paid

In many ways, marriage is treated as a financial partnership. Married couples can therefore transfer certain allowances and incomes to each other to reduce tax. One spouse can use a right which the other has not been able to use fully. It could be said that married couples are jointly responsible for their rights.

However, when tax has to be paid, the married couple is also jointly responsible.

If one spouse has not paid his or her tax, the other spouse will have to pay it. The tax authorities need to first have tried to get the money from the spouse who has not paid his or her tax. If the tax authorities are not able to collect the money, the other spouse is liable for the tax. This applies from the income year when the marriage took place.

This is done from a natural wish that due taxes are paid to society. If more than one person is responsible for the same tax, there is a greater chance that the tax will be paid.

3.3. Divorce and separation

In Denmark almost 16,000 couples divorce annually. Many divorces follow a separation. When a marriage breaks up due to separation or divorce, the special rules for married couples no longer apply.

Division of the estate

Often some time passes between the separation or divorce becoming official until the separated or divorced parties divide their belongings. During this time there is no change in what is considered to belong to whom.

Therefore both parties continue to be taxed individually on their incomes and expenses according to the division of belongings up until that time.

When the estate has been divided, each party is taxed on the income and expenses associated with the belongings they have taken with them.

The division of the estate itself does not incur tax. Neither do the parties involved need to pay gift tax. This also applies even if one party has acquired some belongings which previously belonged to the other party. The same applies if the estate is not divided equally.

One party can take over objects from the other party. For tax purposes, the object is considered in this case to have been acquired at the same time and at the same price as it was originally acquired by the other party. This can be relevant if the object is sold on with a profit, at which time tax must be paid on the profit.

Alimony

If, because of a separation or divorce, it is necessary to pay alimony to an ex-spouse, the expense of the payment can be deducted from the taxable income. The expense can be deducted at the time it has to be paid and only if it is actually paid.

The person receiving the maintenance payment must include the amount in his or her personal income. Labour market contributions are not paid on this payment.

There can be many good reasons as to why a person might not want to make alimony payments to an ex-spouse for years after a divorce. Perhaps the person wants to break the connection. Instead of making regular alimony payments, the couple can agree that a lump sum is paid once and for all. This lump sum is not tax deductible for the person paying it. On the other hand, the recipient does not have to pay tax on the amount.

3.4. Unmarried couples living together

The special joint taxation rules for married couples do not apply for unmarried couples living together. For political reasons, many people are not interested in expanding the area of use for these special rules. They want to preserve marriage as a central institution in society.

Furthermore, an expansion of the tax rules leading to a degree of interweaving of a couple's economy would contradict the reasons for choosing to live together instead of marrying.

However, it is impossible to disregard the fact that unmarried couples living together have identical financial interests, in the same way as married couples do. It is difficult to live together without also having shared finances. In some areas, tax practices have also developed so that the conditions for unmarried couples are approaching those of married couples.

The most common tax problem experienced by unmarried couples is which party should have the allowance for interest payments on a mortgage or on something else which is used by both parties. There is no simple answer to this. Each case needs to be assessed individually. For example, it is possible to see who is named as the owner on the title deeds or who is named as the debtor on a house loan.

If one of the parties runs a business and pays the other party a wage, there is only tax allowance for the wage if it is considered commensurate with the work carried out. Because of the unmarried couple's financial partnership, it is necessary to guard against the parties randomly moving incomes around. The requirement that the wage is commensurate with the work carried out ensures that the person owning the company does not pay more in wages to the other party to avoid paying tax.

Unmarried couples who have lived together for at least two years can give each other gifts worth up to DKK 53,900 annually without having to pay gift tax. If the amount is higher, they must pay a duty of 15% on the excess amount. This limit is regulated annually.

3.5. When an unmarried couple's cohabitation ends

Unmarried couples living together cannot get divorced or separated. When cohabitation ends, there are no special rules to help them divide their assets. The parties must each take what they own.

If one party's assets have increased during their time together, the other party may have a right to a part of the assets or a corresponding amount of money.

For example, if the first party has paid all instalments on the house and the second party has paid for the housekeeping, the second party can have a right to a part of the assets tied up in the house. This money is tax free for the recipient. Even if the party has not paid off any debts in the house, he or she is considered to have done so - also for tax purposes.

If on the other hand, one party gives the other party a sum of money when cohabitation ends without there being any legal right to the money, the recipient must pay income tax on the amount.

3.6. Children

Children are also taxpayers. With a few exceptions, children must assess their taxable income in the same way as adults. This applies regardless of the child's age and regardless of whether the child lives at home or elsewhere.

Taxing children's income

Often children have to do chores to get pocket money. This might be helping around the house. If the parents run a company, children might help in the company and receive pocket money or wages for this. It would be contrived if children were taxed on pocket money for their help with the harvest or similar. Therefore, children under 15 years do not have to declare wages for work in their parents' company. On the other hand, parents are not entitled to deduct the expenses associated with the child's wages.

If the child is over 15 years, the wages must be taxed. Parents gain the right to deduct the wage expenses if the child has carried out work corresponding to the wages.

Children are liable to pay tax on certain benefits that are paid directly to them. Pensions and supplementary pensions paid to children following a parent's death are taxable for the child according to the legislation regulating pensions of public officials. The same applies to pensions from private pension funds and certain other benefits.

Other child benefits are paid to the parents. The child does not pay tax on these. This applies to public benefits such as dependent child allowance and child benefit (family allowance). Child maintenance payments in connection with a divorce, separation or separation of unmarried parents are also tax free if the payment does not exceed the normal payment. The normal payment amount is determined by the minister of social affairs and is DKK 12,456 annually. This amount is regulated each year. The parent making the payment can deduct the total child maintenance payment from their taxable income, less DKK 1,416. Special child maintenance payments paid on birth, christening and confirmation are also tax free if they are within certain limits.

Children's savings accounts

Parents can open a child's savings account in a financial institution. Neither the child nor the parents pay tax on the interest paid on the account in the time the money is tied up in the account. The child can also later withdraw the amount from the account without paying tax.

It is only possible to open one tax free account for each child. A maximum of DKK 3,000 can be paid into the account annually and a total of maximum DKK 36,000.

The money must be tied up in the account for at least 7 years. The money can be paid out at the earliest when the child is 14 years and at the latest when the child is 21 years.

The desire to give preferential treatment to children's savings is the same as the desire to give preferential treatment to pension savings. Both schemes support savings that are tied up for a number of years.

The advantages of opening a child's savings account are not as great as they used to be. Previously the amount paid into the child's savings account was tax deductible. This is no longer the case. Furthermore, the low interest rates of recent years mean that the advantage associated with tax free interest is not as significant as before.

However, it is now possible to place the child's savings in pools where the money is invested in securities. This can ensure a better return on the savings and possibly lead to a renewed interest in children's savings.

Gifts from parents to children

As a rule, duties or income tax must be paid on all gifts. But parents (also step-parents or foster-parents) and grandparents can give their children gifts without having to pay gift tax.

The total value of the gift or gifts must not be greater than DKK 53,900 for one year. This limit is regulated each year. If the gift amount is higher, a gift tax of 15% must be paid on the excess amount. The tax authorities must be informed of the gift.

If parents give their children a gift such as shares or bonds, parents continue to be taxed on the proceeds, such as dividends or interest from the gift, until the child turns 18.

This rule is designed to guard against tax evasion. Parents must not be able to transfer incomes to their children to reduce their own tax. However, the child is taxed on any profits from the sale of the securities which have been given as a gift.

Loans between parents and children

Loans between parents and children are treated according to the usual tax rules.

This means that the person who has borrowed the money can deduct the interest payments from their tax, while the lender is taxed on his or her interest income. If the interest on the loan is at least 2% annually (corresponding to the minimum interest for the first half of 2006), the lender is not taxed on any capital gain on the loan. Correspondingly, the lender cannot deduct a loss due to depreciation arising from the loan. Read more about minimum interest in section 8.4.

It is typically parents who lend money to their children. Some parents choose to offer the loan interest free. This could be to help children settle down or start an education. In this case, there is, as a rule, no interest income or interest expense to tax. On the other hand, parents are taxed on any capital gains when the loan is transferred or paid off. This is a consequence of not having fixed an interest rate corresponding to at least the minimum interest.

If parents choose to offer their children an interest free demand loan, the loan is typically tax free, both regarding taxation of interest and taxation of capital gains. The fact that the loan is given on demand means that it can be terminated at any time without warning.

Calculating tax

As has been previously mentioned, children's taxable income is calculated in the same way as adults. As a rule, calculating tax for children is done in the same way as it is for adults. However, children under 18 years have less personal allowance than adults. The personal allowance for children is DKK 28,600.

Like adults, children must pay labour market contributions on wage income. This means that the 8% labour market contribution must also be paid on smaller incomes under the "no tax" card limit.

Children under 15 years only have to submit an income tax return if they have had a taxable income during the year.

3.7. Death in the family

Death of a spouse

If a spouse dies, the surviving spouse can decide to "retain undivided possession of the estate". This means that the surviving spouse takes over everything from the deceased spouse. No duties or taxes are levied.

It can be practical for the surviving spouse to choose this option. This postpones the division of the deceased's estate, which is significant if there are other heirs in addition to the spouse. The undivided possession of the estate can last as long as the surviving spouse wants it to, or until the surviving spouse dies or remarries.

If the surviving spouse chooses to divide the estate, the estate of the deceased is independently taxable. This means that the income in the estate must be assessed from the time of the death and until the settlement of the estate so that the estate of the deceased can be taxed.

However, in most cases a tax exemption applies. If the net fortune in the estate is not larger than DKK 1,786,800, and if all the assets do not collectively exceed DKK 2,382,100 it is not necessary to pay tax on the estate of the deceased.

More than 90% of all estates of deceased that are divided are exempt from paying tax on the estate because of this rule. The background for the exemption is that the tax income in these cases does not correspond with the administrative work needed to calculate the income. In these cases, taxes paid by the deceased are considered to be conclusive.

Spouses do not have to pay any inheritance tax, when they inherit from each other.

If parents die

Children who inherit from their parents, step-parents (or foster-parents with a special relationship) have to pay an inheritance tax on the inheritance of 15%. However, the inheritance tax is only paid on the total assets which exceed a basic allowance. The basic allowance is DKK 242,400. The basic allowance is regulated annually.

Section 4: Wage earners

4.1. Wage earners

There are approximately 2.7 million wage earners in Denmark. For many, their working wage is also their most important source of income.

The public sector receives most of its income from taxes on wage incomes. The tax on wage earners is therefore also society's biggest source of income.

Whenever wages are paid a significant amount is taken for tax. The amount is clearly shown on each wage earner's pay statement. This reduces the disposable amount each individual has for personal and family use.

Recent years' changes in wage earner taxation

Most wage earners have probably seen their pay statement change greatly over the past few years as there have been marked changes in tax on wage income.

Tax rates have been reduced; both for people with high wages and not least for those with low wages. The highest *marginal tax rate*, that is income tax on the last earned Danish krone paid by those with high incomes, has been reduced from 68% to 63% since 1993. The average marginal tax for wage earners has fallen since 1993 from 56% to 50%.

In 2004, an employment allowance was introduced benefiting all wage earners. This gives a tax reduction of up to DKK 200 a month.

Many people will be able to measure the fall in marginal tax in the form of a lower *income tax rate*. The income tax rate is the percentage of the wage which is deducted each time wages are paid according to the information the employer has received via the *tax card*. This states the rate at which earnings are taxable at source as well as deductions from taxable income.

At the same time as normal income tax was reduced, a labour market contribution were introduced. The labour market contribution appear directly on the pay statement.

The labour market contribution constitutes 8% of the wage. As this contribution is deducted from personal income, it corresponds approximately to a tax of only 4%. Marginal tax on people such as those with high incomes (including the contributions previously mentioned but not church tax) is therefore 63.0%.

4.2. What is tax paid on?

Most people receive their wages in *cash*, which is paid into their bank account in a financial institution. Some people are paid on an hourly rate. Others receive a monthly wage or wages for another limited period. In all cases, tax is collected on the cash amount paid. This also applies to cash sums paid as gifts or bonuses in connection with anniversaries or other special occasions.

But wages do not have to be cash. Many people receive parts of their wages as *staff benefits.* These are popularly called fringe benefits. Regardless of whether wages are paid in cash or as fringe benefits, in general they must be taxed.

Fringe benefits are part of the wages. Therefore, as a rule the value of the benefits must be taxed as wages. This principle in income taxation dates back to the start of the 1900s.

The basis for taxing a fringe benefit is that the benefit is assessed in terms of value. It is taxed based on the *market value*. This means the amount it would cost the wage earner to buy/hire the benefit on the open market.

It can be difficult to know how much a fringe benefit is worth in exact terms. For that reason, several places in tax legislation include some simple models showing how to assess the value of the most common fringe benefits.

Below are the rules for the most common fringe benefits including both the taxable and the tax free benefits.

Typical fringe benefits

Three typical fringe benefits which employers can make available for employees are *company car*, *free accommodation* and *company telephone*. Other benefits can be free pleasure boat, free TV and radio license and advantageous staff loan.

These are still benefits that can have widely differing values. The car can be large or small, as can the accommodation. You might use the car or the telephone extensively privately or not that much.

Some employees pay an amount to the employer to be able to use the fringe benefit. For example, there are many wage earners who pay an amount to use a company car. This amount is deducted from the value of the fringe benefit which has to be taxed.

To find the exact value of the fringe benefit in each individual case would require very complicated tax rules. It would also require significant control administration on the part of the tax authorities.

No one would benefit from such a difficult system. Instead the rules have been standardized. The value of the company car, accommodation and telephone are therefore assessed schematically.

Company car

A *company car* is a valuable fringe benefit. Many people enjoy a company car. In 2004, 85,000 people made use of a company car.

If a company car is available for use, it is the value of having the car available, and not how much the car is used that is included as a part of the wage income.

If a new car is made available as a company car, the personal income for each of the first three years must be increased by 25% of the part of the new car price which does not exceed DKK 300,000 and subsequently by 20% of the rest of the new car price. If the car is more than 3 years old, the price is reduced to ¾ of the new car price but the calculation is otherwise the same. However, the new car price is always set to at least DKK 160,000 when making calculations.

This calculation basis has been chosen because taxation must correspond to what it typically would cost if the car expenses had to be paid for with money that was already taxed.

The taxable value of the company car is taxed in the same way as wages and is found in the same *box* as the wage income on an income tax return. The employer is obliged to withold A-tax on the amount. The employer is also obliged to inform the tax authorities of the amount.

Free accommodation

If a wage earner has the use of free accommodation from his or her employer, the benefit becomes taxable. This is because the wage earner with free accommodation saves on private house expenses. This applies if it is a weekend cottage, a normal house or an apartment.

In 2004, 5,200 people made use of permanent accommodation while around 12,500 made use of a weekend cottage for shorter or longer periods of time.

The value of the free accommodation is fixed according to rates agreed by the Board of Assessment and these are found in special forms.

The value of the free accommodation is found in the same box as the wage income on an income tax return.

Company telephone

Use of a company telephone is the most common fringe benefit. Approximately 163,000 people made use of a company telephone in 2004. If the employer covers expenses for a telephone in the home, mobile telephone etc. the person using it is taxed on the value of the company telephone.

It is not the telephone itself which is taxed but the expenses incurred using the telephone. That is the expense the employee saves. To make it as easy as possible, the value of a company telephone is set to DKK 3,000 (although no more than the employer's actual expenses). This value applies, regardless of whether the telephone is used privately or for work-related conversations. Company telephone is B-income.

If you have your own expenses related to the regular telephone, mobile telephone, ISDN connection and other data connection made available by an employer, your taxation base can be reduced. According to the set-off rule, this means that if the employer's actual expense is DKK 3,000 or more, and if the household has expenses of DKK 3,000 for the telephone or data communication, there is nothing to tax.

Tax free fringe benefits

Despite staff benefits being taxable, it has been politically decided that a number of staff benefits should be tax free for the wage earner.

Initially, this applies to all benefits under a specified amount. In the second phase, it applies to the instances where the tax exemption can promote a specific political request.

Tax free benefits

Many employees receive small benefits in the course of a year as part of carrying out their work. This might be a paid *vaccination* or a *free newspaper* to use for work. As a rule, these benefits should be taxed but it is impractical for both the wage earner and the tax authorities if all benefits have to be registered.

For that reason, a *minimum amount* has been introduced for taxing staff benefits, which employers have made available to help with the employees' work. The minimum amount is DKK 5,100. This limit is revised annually. Therefore, a number of staff benefits under DKK 5,100 are tax free. But if the minimum amount is exceeded, the total value of all benefits must be taxed.

However, the value of certain benefits is taxed with no regard for this limit and the value of these benefits is not included in the calculation of whether or not the minimum amount has been exceeded. This applies to the value of free board and lodging, when the valuation can be determined according to the established normal values set by the Board of Assessment, company car, free weekend cottage, free pleasure boat, company telephone, free permanent residence, staff loan and TV and radio license.

Furthermore, a practice has evolved where certain gifts from one's employer are tax free. These are typically *Christmas gifts* and other *special occasion gifts* such as birthdays or weddings.

Tax free computer and data communication

Private use of a computer is also tax free for the employee when the employer has made a computer and computer equipment available for staff to use for work.

A computer can also be a *home work station*. A home work station provides a flexible solution for many people on the labour market, for example people with children. This tax exemption contributes positively towards an increased flexibility and mobility in the labour market.

It is also tax free for employees when an employer pays for their private data communication such as broadband. The tax exemption stipulates that the data communication connection must lead to the employee's computer which has access to the workplace's network.

Tax free healthcare

Employer-paid healthcare is tax free for employees. This tax exemption applies to medical treatment of employees suffering from illness or accident, corresponding preventative treatment, treatment at a chiropractor and treatment for abuse of medicine, alcohol or other drugs. The contributions made by the employer to encourage employees to stop smoking (stop smoking courses and nicotine preparations) are also tax free. If the employer has chosen to take out insurance cover for expenses incurred in treating the employee, the insurance premium is also tax free for the employee.

The tax exemption is dependent on the expense being paid as part of the employer's general staff policy for all company staff and on the employer's insurance policy covering all company staff. However, this offer can be limited according to general criteria on length of service and number of working hours.

Access to tax free healthcare also covers self-employed business owners and co-working spouses.

Tax free remuneration

Many wage earners have worked far from home for shorter periods of time. For example, many Danish craftsmen and builders have worked in the rebuilding of eastern European countries.

When people work far from home, they will often have greater expenses than if they worked close to home. These are *expenses* for board and lodging, meals at restaurants, cafeterias or similar.

Business expenses incurred during work related travel are payable by the employer on presentation of bills. In this way, the expenses are kept separate from the wage earner's account with the tax authority.

However, not all employers cover these expenses by paying the bills. Therefore, it is also possible to pay tax free *allowances for travelling expenses*, which are set at *standard rates.*

The employer can pay a tax free allowance corresponding to the standard rate without any documentation for the actual expenses. The standard rate is set according to typical actual expenses. It is revised annually and is DKK 417 daily.

4.3. What can be deducted in tax?

Wage earners may deduct certain *expenses* in tax.

The typical tax deductible expenses are the commuting allowance, unemployment insurance fund subscription, payments to an early retirement pension scheme, trade union subscriptions and other wage earner expenses. These allowances belong to the group on the income tax return called *assessment oriented deductions*.

Payments to *pension schemes* are placed on the income tax return in the box called allowance in personal income. The most common allowances are described below.

In fact, certain expenses are mostly private expenses but there has been a desire to make them tax deductible. This is because tax deductions support a desired behaviour in the wage earner.

Commuting allowance

Since 1985, the rules for the commuting allowance have been repeatedly simplified so that today only the distance between home and the workplace decides the size of the allowance.

Regardless of which *method of transport* you use, the commuting allowance between home and the workplace is calculated for the stretch which is the *normal transport route for cars*. The allowance does not increase because of, for example, the extra distance involved driving to the kindergarten to drop off or pick up children on the way to and from work.

The fact that the size of the commuting allowance remains the same regardless of the method of transport chosen gives *commuters* a free choice between car, bus, train, bicycle etc.

The deductible value of the commuting allowance is 33%.

A higher commuting allowance applies to commuters in fringe areas who have a long journey to work.

Allowance for trade union subscriptions, unemployment insurance fund subscriptions and contributions to early retirement pension.

In Denmark there is great support for trade unions and unemployment insurance funds. Over 80% of wage earners are members of a trade union and over 90% belong to an unemployment insurance fund. Most wage earners have chosen to insure themselves against a loss of income should they become unemployed.

Payments of *unemployment insurance fund subscriptions* can be compared with an *insurance* which replaces the loss of normal income if a wage earner loses his or her job. It goes without saying that it is in the interest of society to insure wage earners against unemployment. Subscriptions to unemployment insurance funds are tax deductible.

If a person wants to retire early, he or she has to pay a special *contribution to an early retirement pension*. This contribution is tax deductible in the same way as the subscription to the unemployment insurance fund.

The allowances for the subscription to trade unions, unemployment insurance funds and the early retirement pension are *assessment oriented deductions* that can be deducted on the income tax return in the same way as the commuting allowance. The taxable value is 33%.

Allowance for double domestic arrangements

Because of work, it can be necessary to *temporarily* stay away from the family home. This leads to extra expenses for food and accommodation. To compensate for these, a person can receive an allowance for double domestic arrangements for a limited period.

The allowance is granted only as long as the stay away from the family residence is temporary.

If a person takes a permanent job in a new place, the stay is not temporary. In this case it is not possible to receive the double domestic arrangements allowance even though the family lives separately. This is because establishing two households is not necessary as it would be in the case of a temporary job.

The allowance for double domestic arrangements is DKK 400 per week. If a person wants to receive more than the DKK 400 allowance, his or her expenses must be documented.

Allowance for travel expenses

If when travelling for an employer an employee does not receive a tax free allowance or the employer does not cover the expenses on presentation of bills, the expenses can be deducted on the employee's income tax return. This only applies if the expenses together with other work related expenses do not exceed a limit of DKK 5,100. This limit is revised annually.

Pension contributions

Today, most wage earners pay into pension schemes. These payments are tax deductible. If the employer pays into the pension, the amount is not deducted on the income tax return. Instead, the paid amount is not included when assessing taxable income.

Labour market contribution – gross tax

8% labour market contribution is deducted from the gross wage. This means that the wage earner does not pay income tax on this amount.

The labour market contribution was introduced in 1984 as an innovation in the Danish tax system. The labour market contribution is only calculated on incomes arising from commercial activities. If a person is in the labour market, he or she will pay an earmarked contribution, labour market contribution, which helps those people outside the labour market. The labour market contribution is solely used to finance a rage of specific national expenses regarding the labour market.

These are public expenses for daily maintenance benefits, sickness benefits, maternity and paternity benefits, educational expenses and expenses incurred with leaves of absence and other labour market provisions. From 1999 the labour market contribution also covers expenses in new areas such as flex jobs, sheltered jobs, rehabilitation and early retirement.

Tax free allowance for payments to ATP

In addition to the labour market contribution, payments to ATP are also deducted before income tax is calculated on the wages. The amount paid in ATP is determined by the number of hours worked. ATP payments are received as pension payments when a person leaves the labour market. Read more about ATP in section 9.2.

The special pension savings of 1%

Finally, 1% of the gross wage is deducted for the special pension savings. These pension savings are also placed in ATP and are paid out when a person retires. Payment of the contribution was suspended in 2004-2007. See also section 9.2.

4.4. When tax has to be paid

Tax is calculated on the income earned in the course of a calendar year. Most of the tax is, as mentioned, collected over the year by the employer withholding a part of the wages before the employee is paid.

The amount retained by the employer is paid to the tax authorities as a provisional tax. At the end of the year, the accounts are done. This determines whether the A tax paid corresponds to the tax which has to be paid for the entire year.

Most people receive the regular income tax return, which the tax authorities complete with figures received from employers, financial institutions etc. The majority of the country's wage earners do not need to further supplement the advance income tax return with any more information. There are also many people who receive their annual tax statement with the advance income tax return.

The annual tax statement assesses incomes and allowances for the past year and is the basis for calculating tax as described in section 2.5.

Further information about the preliminary income assessment form, the income tax return and the annual tax statement can be found in section 11.2.

Section 5: Students, the unemployed and pensioners

5.1. While studying

State education grants and other forms of support during education

All students receive the *Danish state education grant* (SU). This state education grant ensures that all young people have equal access to education. The state education grant consists of a grant and the possibility of taking out cheap student loans. The amount of state education grant is dependent on age, whether or not the student lives at home and, in some cases, the parents' income.

The state education grant is taxable. However, labour market contributions and contributions to labour market supplementary pension scheme (ATP) and the special pension savings are not payable. Depending on the amount of grant some students may not use all of their "*no tax" card* (personal allowance). In these cases, the entire grant amount is tax free.

Other forms of support during education are also taxable. This applies to the *educational allowance* given to those on unemployment benefits if they choose to take an education and *school payment* paid to students undertaking a basic vocational program.

Income from paid work

Many students supplement their state education grant with income from paid work.

These wages are naturally taxable according to the normal rules. However, students should be aware that there are limits for how much money can be earned to supplement the grant before some of the grant has to be repaid.

Unlike wage earners, students are not allowed to deduct various expenses from their tax. Education is not work and the state education grant and other public grants in connection with education are not considered wages. The normal conditions for deducting expenses have therefore not been met.

Only students with paid work in addition to their studies can deduct expenses related to their work, see section 4.3.

Students have no commuting allowance for transport between their home and place of education but they receive a discount on monthly season tickets for public transport.

Scholarships

Scholarships from foundations or similar are a supplement to the state education grant and are a possible source of income. Normally, scholarships are included in taxable income. However, scholarships used for study trips abroad are tax free if they are used to cover regular expenses in connection with staying at the foreign place of study.

5.2. When education has ended

Repayment of student loans

When education has been completed, students start work and any student loan must be repaid. What is unusual about the student loan is that the loans and interest are not repaid until a few years after the student has graduated. Interest on student loans can be deducted, but as a rule only when the student has to repay it.

Ph.D. students

Some students choose to continue studying as Ph.D. students. A Ph.D. student is employed by an institution of higher education to do research and perhaps some teaching. They have the same status as wage earners and are treated according to the same rules.

5.3. Recipients of maintenance allowances and cash benefits, pensioners and early retirement

Taxing social payments

Payments to recipients of maintenance allowances and cash benefits and to pensioners are treated according to the normal tax rules. However, these groups do not have to pay labour market contributions on their benefits and allowances.

Unemployment benefit, cash benefit and pension payments are personal income in the same way as wage income. The payments are therefore included when assessing taxable income.

The tax is withheld and reported by the institutions responsible for paying the maintenance allowances, cash benefits and pensions. The recipient only has to check that the information given on the income tax return is correct.

ATP

In recent years more people are starting to save for their retirement in order to have some income with which to supplement their national pension.

To ensure that people who have not been active on the labour market for longer periods of time are not worse off than others when they retire, recipients of maintenance allowances, cash benefits and certain pensions have to pay contributions to the labour market supplementary pension scheme.

Special reduction rules for pensioners in owner-occupied housing

The property value tax is set so that tax is collected on 1% of the amount of the property value which does not exceed an amount of DKK 3,040,000. If a person's house or apartment is valued at more than this amount, the person must pay 3% in property value tax on the amount exceeding DKK 3,040,000. For pensioners, there is the same ceiling over property values as there is for other owners, i.e. the lowest of the following applies:

- 2001 assessment with a 5% supplement
- 2002 assessment or
- the current year's assessment

Pensioners can receive a reduction in the property value tax of 0.4% of the property value, but only up to a maximum of DKK 6,000 for permanent residences and DKK 2,000 for weekend cottages.

This reduction is regulated according to income.

Section 6: Property owners

6.1. Buying property

Registration fee on the title deeds

When the *purchase agreement* has been signed, the title deeds of the property are required to formally transfer the house from the seller to the buyer. Making changes in the land registry costs a fixed fee of DKK 1,400 per document. 0.6% of the purchase price is also payable. If the purchase price is less than the official assessment, 0.6% of the assessment is payable.

Initial expenses or transfer expenses regarding loans

It is only a small minority of people who can pay for property in cash. Most property deals require the buyer to take out a loan. When taking out a loan you need to pay a registration fee (mortgage deed stamp). The fee is 1.5% of the loan amount in addition to the fixed fee of DKK 1,400 per document.

6.2. Being a property owner

Tax relief on interest

Interest payments can be deducted when calculating capital income.

When you pay interest on a property loan, the tax authorities are informed of this, regardless of whether it is a mortgage loan or a bank loan. This makes it easier to file the income tax return. The tax authorities receive the necessary information and can calculate the correct amount of tax.

A fall in the value of tax relief on interest

The value of the tax relief on interest was reduced in the 1999 tax changes (the Whitsun tax package). From 2001 interest tax relief was not taken into account when calculating the various income taxes to the state. The current tax relief on interest has a taxable value corresponding to the municipal taxes of approximately 33%.

Property value tax

A property assessment forms the basis of various forms of tax including the *property value tax*, where tax is calculated based on the value of the property, and the *municipal property tax (land tax)*, where tax is calculated based on the value of the land.

Every other year properties in Denmark are assessed. The assessment determines the *property value* and the *land value* for each property. The property value is an estimate of the property's cash price if it were it to be sold. The land value is the value of the land in an unimproved condition. Various factors are taken into account when properties are assessed, such as the location and what it can be used for. In the years where property is not assessed by the tax authorities, the fixed values are regulated based on the development of property prices in the period following the most recent assessment.

Taxation of property value

Property value tax is not part of income tax but the calculated property value tax is collected with income taxes and is included on the tax card, which forms the basis for the tax that the employer withholds when paying wages.

As a starting point, property value tax is 1% of the part of the property value that does not exceed an amount of DKK 3,040,000 and 3% of the rest. Property taxes are therefore *progressive*.

Two interim arrangements allow reductions in property value tax for property owners who took possession of their property before 1st July 1998.

These owners firstly receive a reduction in the calculated property value tax to the value of 0.2% of the property value. This means that the owners in question must pay 0.8% of the property value tax on the part of the property value that does not exceed the progression limit of DKK 3,040,000 and 2.8% on the rest.

Furthermore, these owners receive a reduction in the calculated property value tax of 0.4% of the property value, although to a maximum of DKK 1,200. The types of property that are entitled to these reductions are mainly the same types of property that were previously entitled to a standard allowance for things such as maintenance. This means that owners of owner-occupied apartments and owners of certain listed properties do not receive the reductions in question.

The two reductions mentioned above are discontinued on change of ownership.

Tax freeze for property value tax

In 2002 a stop was put on any increases in property value tax. On introduction of the tax stop, the calculation basis for property value tax was frozen in 2002. The basis for the freeze is the 2001 assessment with a 5% supplement. However, if the 2002 assessment, or the assessment on the 1st October in the income year, is lower than this figure, the lowest assessment is used as a calculation base.

The basis for property value tax can never exceed this ceiling. If property values fall, so that the current year's property assessment is under this ceiling, the property value tax is calculated based on the current year's property assessment. If property values later rise, the calculation base will be able to rise again but only up to this fixed ceiling.

According to the current rules, property values are taxed over a progression limit of 3%. This limit has now been frozen to DKK 3,040,000. This freeze also applies even if house prices fall.

Ceiling on buying and selling property

If a property is sold, the new owner assumes the previous owner's ceiling for the basis of property value tax.

The new owner does not assume the special reductions which the previous owner may have had because the property was bought before 1st July 1998.

Ceiling for conversions, extensions and new building etc.

If a property later undergoes a conversion or extension requiring planning permission, the calculation base for the ceiling is increased so the basis corresponds to the lowest of the following amounts: 1) the amount the changed property would have been assessed at in 2001 with a 5% supplement, 2) the 2002 value of the changed property, or 3) the value of the changed property on the 1st October of the income year. This also applies if the property's size changes or if the property changes in use. If the owner lives there both before and after the changed use of the property, the changed use does not come into force until the property is sold.

For a new building, the calculation base of the ceiling is calculated so the basis corresponds to what a similar property would have been assessed at in 2001 with a 5% supplement, what it would have been assessed at in 2002 or what it would have been assessed at on the 1st October of the income year. In practice, this means that the assessment authorities assess the property according to the rules that applied for the 2001 assessment, for the 2002 assessment and for the income year. They then apply the lowest assessment.

Limiting property value tax rises from year to year

The full extent of the limitation rules has been reduced due to the implementation of the ceiling over property value tax. There is still a need for these rules in cases where the value of the property had fallen below the ceiling for the evaluation basis only to rise again, or in such cases where the evaluation basis rose to conversions or extensions that required a building permit.

The municipal property taxes (land tax)

The land tax is 0.1% of the value of the land to both the municipality and county. The municipalities set their own land tax, which property owners in the municipality must pay. However, it must be between 0.6% and 2.4%. Land tax is lower for agricultural and forestry lands. The land tax of the counties is set to 1% by law.

The average county and municipal land tax is approx. 2.4%.

The income generated by the municipal land tax makes up around 5% of the total municipal and county tax revenues.

As a property owner, in addition to land tax and other expenses to the municipality there are expenses for services such as refuse collection. Refuse collection charges are often levied with property tax. But expenses for refuse collection are exclusively based on user charges and have nothing to do with the tax system. It is just more practical to collect the amounts at the same time.

Environmental taxes

Environmental taxes are paid on consumption of electricity, water and heating.

The use of environmental taxes increased during the 1990s. However, income generated by the environmental taxes is used to ease income taxes.

Environmental taxes, including CO2 tax, constitute:

2006 level	Energy tax	CO2 tax	Total environmental tax
Oil, for heating, DKK/l	1.86	0.24	2.10
Natural gas, DKK/m3	2.04	0.20	2.24
Electricity, for heating, øre/kWh	51	9	60
Electricity, for other purposes, øre/kWh	57	10	67
Water, DKK/m3	5.00	-	5.00

6.3. Changes while owning property

Conversion or extension

If the property is converted or extended, the value of the property will typically rise. This rise in value will affect the property assessment, which will subsequently affect the property value tax calculation, if reconstruction or expansion required a permitplanning.

If the conversion or extension is financed with loans, it will affect taxable income because the tax relief on interest will increase.

Changes in use, such as rental

If the use of the property is changed, for example by renting it fully or partially, this will also affect tax.

If a property is rented out, it becomes a commercial business. This means that the owner will both be taxed on the rental income, and receive tax relief for the expenses incurred with running and maintaining the property.

If *rooms* are rented out as accommodation, for example to students, the rent income is tax free as long as it does not exceed a *basic allowance*.

The basic allowance is 1 1/3% of the value of the property, although always a minimum of DKK 24,000. The basic allowance remains unaltered even though the property is only rented out for part of the year. If the rental income is greater than the basic allowance, the excess must be included in your income. If the basic allowance is used, there is no tax relief for other expenses. The owner can also decide to make an assessment of rental income and expenses but then he or she will not receive the basic allowance for the rental income.

It is also possible to change the use of the property by using part of it for business, for example a hairdresser's salon. This also changes the owner's tax status. First of all, property value tax decreases because the business part of the property is not included in the calculation.

Changes in financing

If changes are made in how a property if financed, for example if interest rates have fallen and it becomes advantageous to refinance, this can have various consequences for tax.

Firstly, the new loan will mean different interest expenses. Especially when refinancing to low interest loans, it is important to be aware of what this means for the net expenses for the property. The fact that less interest is paid also means that less tax relief on interest is received.

Secondly, *capital gains* are taxed in special circumstances. These are 1) if a cash loan is paid off in the property before time and a profit is made on it, although not through the property sale, 2) if the credit association or building society requires it, or 3) if a surviving spouse takes over the property in connection with administration of the estate or undivided possession of the estate. The capital gain is created when there is a difference in the price paid for the loan and the price at which the loan is redeemed.

Tax is not paid on capital gains on debenture loans.

Finally, refinancing can mean that a registration fee must be paid on the difference between the old and the new loan if the new loan is larger than the old one. This is 1.5% of the difference plus the fixed registration fee of DKK 1,400. If on the other hand, one mortgage loan (or loan similar to a mortgage loan) is exchanged for another of the same size, only DKK 1,400 is payable.

Taking out a top-up loan is treated in the same way as a normal loan. A registration fee of 1.5% of the loan amount must be paid together with a fixed fee of DKK 1,400.

6.4. Selling property

According to the so-called *detached house rule,* the profits are tax free on the sale of one-family or two-family houses, owner occupied apartments, housing cooperative apartments and weekend cottages when the owner has lived in the property fully or partially throughout the ownership period. However, this exemption is in most cases subject to the property's plot size being less than 1,400 $m^{2.}$ The majority of properties in Denmark have a plot size of less than 1,400 m^2

As profits made on the sale of typical owner-occupied properties is not taxable, neither can any losses be deducted.

6.5. Tax and other accommodation forms

Tax is also significant when purchasing a housing cooperative apartment or a weekend cottage.

Housing cooperatives

If a person chooses to buy a property in a housing cooperative, he or she is not a traditional property owner. Instead the person "rents" from the housing cooperative association who owns the property. From the point of view of tax, this means that the housing cooperative association has the right to tax relief on interest. The housing cooperative association can make use of the tax relief on interest if it has taxable income.

Property value tax is not paid on housing cooperative properties.

Sales of housing cooperative apartments are covered by the detached house rule and any profits are therefore tax free.

Weekend cottage

As an owner of a weekend cottage, a person must pay property value tax on the property in the same way as with regular property.

If a person rents out his or her summerhouse, the rental income is taxable. However, there is a tax allowance for expenses incurred running and maintaining the weekend cottage.

A person can choose to make a statement of expenses so the actual expenses are deducted. Tax deductible expenses are, for example, expenses for furniture, fittings, household effects and property taxes.

But the tax rules also allow for a more simple way of administering the weekend cottage – through the standard allowance.

For weekend cottages that are only rented out for part of the year, the *basic allowance* is DKK 7,000. Thereafter, there is an allowance of 40% of the *gross rental income* after the allowance of DKK 7,000.

If a person has chosen to deduct the actual expenses, he or she must continue to do so. The person cannot at a later date choose to use the simper standard allowance.

In both cases, regardless of the calculation method, the allowance can never be more than the gross income.

When the weekend cottage is sold, any profits are tax free according to the detached house rule, provided that the owner and his or her household have used it for private purposes for part or all of the ownership period.

Section 7: Shareholders

7.1. Shareholders

Shareholders own part of a *limited company*. As a rule this ownership entitles the person to part of the company's profit and allows influence on decision making that affects the company. Shareholders are allowed access to general meetings and have the right to vote.

Shareholders are only liable for the amount they have invested in the company. It is not possible to lose more than the investment sum. This also applies to shares in *small private companies* (ApS). As a rule, co-owners in a small private company are treated as shareholders for tax purposes.

7.2. Tax and share investments

Investment in shares through pension savings

Most people own shares through their *pension savings.* Taxation on income from shares owned via a pension savings scheme are typically lower than taxation of shares bought privately.

This applies mainly because the returns on share investments in pension schemes are only taxed at 15%. The returns are stated at the market value on the balance sheet, which means that exchange fluctuations are taken into consideration regardless of whether or not the shares have been sold.

However, if shares are bought privately – i.e. not through pension savings – the returns are taxed by up to 28% or up to 43% if the share income is sufficiently large. However, any gains are not taxed until the shares are sold.

Marginal tax rates for allocated share income[1)].

In pension savings	38.8
Not in pension savings, after 3 years ownership	49.0/59.2

1) states the composite tax rate, including 28% corporation tax.

By purchasing shares through pension savings, a person can continue to look after his or her share portfolio, for example by exchanging one type of share for another. But the pension funds spent on the shares are generally tied until retirement. A tax privileged pension savings scheme can be terminated prematurely but this incurs a relatively high tax of 60% on the amount paid out.

Share investments bought with free funds

Many people also choose to invest in shares bought privately. Over 1 million people own shares listed on the stock exchange that have been bought privately.

Effective Jan. 1, 2006, the tax rules for gains and losses on shares have been simplified. All gains on shares are generally taxed as share income regardless of how long they have been owned.
The only exception is that quoted shares can be sold tax free, if they at the end of 2006 were part of a portfolio of quoted shares whose value was less than DKK 136,000 (DKK 272,100 for married couples), and if the share holder had owned them for more than three years when they are sold.

Accordingly, losses can be deducted. Losses on quoted shares can be offset in share income from quoted shares (both dividends and gains) with the right to carry forward any excessive loss to later years with no time limit. Losses on unquoted shares can be offset in other income after special rules.

The significance of the 3-year rule for taxation of profit and loss		
2006		**Ownership longer than 3 years**
All common shares(regardless of time of ownership)	Gains	Gains are taxed as share income
(Tax free rule for quoted shares in small portfolios owned Dec. 31, 2006)	Losses	Losses on quoted shares (Losses offset in dividends and gains from quoted shares. Excess amount can be carried forward with no time limit). Losses on unquoted shares (special access for offsetting losses in other income).

7.3. Owning shares

As a shareholder you will typically receive a dividend from the company at least once a year. The share dividend is generated by the company allocating a part of the year's profits. The company's profits are taxed at 28% corporation tax level before they are allocated to the shareholders.

The dividend is taxable and is included in the share income with share profits.

Share income is taxed progressively at two different rates. Share income under DKK 44,300 (2006) is taxed at 28%, while any share income above this level is taxed at 43%. For married couples, the progression limit for taxing share income is double this amount, i.e. DKK 88,600. These amounts are regulated annually.

When a company or an investment trust allocates dividends to share holders, it must withhold dividend tax of 28% of the total dividends.

Tax on share income that does not exceed DKK 44,300 is calculated as a final tax at 28%. Tax on share income exceeding DKK 44,300 is calculated at 43%. Tax on share income exceeding DKK 44,300 is included in the final tax at the same time as the tax authorities offset the dividend tax that the company has already withheld of the part of the dividend exceeding DKK 44,300.

The majority of Danish shareholders do not have a share income of more than DKK 43,300. Therefore taxation is simple for most shareholders. The withheld dividend tax of 28% is the final tax on the share income and the shareholder does not need to file the dividend on his or her tax return.

7.4. Selling shares

Effective Jan. 1, 2006, the tax rules for gains and losses on shares have been simplified, so that gains in general are taxed and losses are deductible.

Two transitional provisions are implanted in connection with the new rules.

The first transitional provision assures, that share bought before 2006 can be sold tax free, if they are part of a portfolio that at the end of 2005 was less than then DKK 100,000-limit, i.e. DKK 136,600 for single taxpayers and DKK 273,100 for married couples. It is a further condition for being tax free that the shares have been owned for more than 3 years, when they are sold.

The second transitional provision regards shares that are acquired before Jan. 1, 2006, and have been owned less than 3 years, when they are sold.

Since the gain is taxable, losses can also be deducted. If one suffers a loss from selling quoted shares the loss can be offset in dividends from quoted shares or from selling other quoted shares. In this way it is the net gain from the total sale of quoted shares that is taxed with 28 and 43 % respectively.

For shares bought before the 19th May 1993, the value of shares on the 19th May 1993 can be used to calculate profit or loss instead of the actual price. In this way it is only the part of the profit created after the 18th May 1993 that is taxed. Accordingly, only the part of the loss made after the 18th May 1993 can be offset against the profit made from the sale of other listed shares which have also been owned for at least 3 years.

If one suffers a loss on the sale of unquoted shares, the loss can be offset after a special scheme. The loss is offset in share income. If share income becomes negative, i.e. there is a net loss, a "negative tax sum" is calculated that is offset in tax of other income. If the negative sum is larger than the other tax, the excessive amount can be carried forward and be offset in tax for the coming years.

Special sales situations

If a shareholder moves abroad, he or she must be aware that the move will cause any share profits to be taxed, even though the shares have not been sold on moving. However, it is possible to be allowed to postpone the payment. In certain circumstances the person must provide security for the tax payment.

At the time of the move, the shareholder's portfolio is assessed and the unrealised profits are taxed. This means that the person is taxed as if the shares had been sold at the time of moving. A loss can only be offset against any profits arising from settling the person's tax affairs in connection with moving.

7.5. Investment trusts

An investment trust is an association of investors

There are various types of investment trusts. The different types of investment trusts vary in the tax paid on the profits and the option of a loss allowance.

Different types of investment trusts

There are three types of investment trusts

1. Investment trusts taxed as "investment companies"
2. Investment trusts taxed as if they paid dividends
3. Account holding investment trusts

All types of investment trusts are tax exempt.

Members of an "investment company" are taxed on the dividends earned after the inventory principle.

The aim is that the tax on dividends from dividend paying amd account holding investment trusts is the same as if the member had invested in the shares of his or her own accord. This taxation principle is known as the transparency principle. This means that members are treated as if they had owned the shares themselves and not bought them through the investment trust. But members of dividend paying investment trusts are not taxed on gains made by the trust on shares that have been owned for more than 3 years.

If a dividend paying investment trust does nothing more than invest in shares, the members are taxed on the gains from the sale of their membership certificates just like gains on noted shares.

If a dividend paying investment trust makes other investment, the gains from the sale of a membership certificate as capital income.

Account holding investment trusts play no role for common investors.

7.6. Employee share options

Special tax rules can apply for shares which have been received or bought by company employees. There are three sets of rules for employee shares.

The most widespread arrangement is the so-called free shares, where the employee is not taxed on the value of the shares when they are received, but only on any subsequent increase in value. The amount received may not exceed maximum DKK 20,000 annually and the shares must be tied up for 7 years.

There are also special rules for options and warrants, where taxation can be postponed in certain circumstances until the time when the shares are sold, if the share allocation is within certain limits. Tax is the same as for share income, i.e. 28%, 43%, although the expense is not tax deductible for the employer.

Finally, there are rules that allocated options and options which do not meet the requirements of the above agreements are taxed at the time when they are sold.

The Danish Ministry of Taxation’s website has a more detailed explanation of the rules:

http://www.skm.dk/publikationer/udgivelser/1824.html

Section 8: Bondholders

8.1. Tax and bonds

Interest from bonds is taxable in the same way as other interest income. However, capital gains and capital losses on bonds do not, as a rule, have any effect on tax. There is no allowance for any costs incurred with the custody account and in general transaction costs are not deductible either.

8.2. Buying bonds

A bond is a *debt security*. When you buy a bond, it is the equivalent of a loan to the bond issuer. The bond issuer is obliged to pay a certain rate of interest at certain times to the buyer. The issuer is also obliged to repay "the loan" to the buyer. This repayment is either made at a certain time or with instalments over a longer period.

Differences in bonds

There are various forms of bonds. The most usual are government bonds and mortgage bonds. There may be different series within the different types of bonds, with differing maturities and interest rates.

Furthermore, there may be a difference regarding whether or not the bonds are *callable*. A callable bond means that the issuer may redeem it prior to the stated maturity date. A non-callable bond cannot be redeemed with exceptional payments or premature repayments in cash, but only with other bonds.

The repayment profiles of bonds can also vary. For *bullet loans*, the entire bond amount is repaid at maturity while interest payments are made regularly. This also applies to some treasury notes and government bonds. It is also possible to take out an interest only mortgage.

Serial loans are repaid with equal amounts at each due date but the interest means that the total amount is larger at the start of the period and decreases towards the end.

Annuity loans have small repayments at the start which increase in size towards the end of the loan period. However, the total repayment including interest is equal throughout the entire period. Most mortgage bonds are settled according to this principle.

8.3. Owning bonds

Tax on interest from bonds

For private investors, interest on bonds is taxed as capital income in the same way as any other interest income.

The interest received over the course of the year is included on the income tax return.

For example, if the interest on a bond is due on 2nd January and 1st July, the accumulated interest received on the 3rd January (because the 2nd January 2005 is a Sunday and not a bank day) and 1st July should be included on the 2005 income tax return.

If the bond is sold on the 10th March, the interest received on the 3rd January should be included on the 2005 income tax return. Additionally, interest for the period from the 1st January until the 10th March must also be included. As no interest is paid on the bond before the 1st July, it is typically the buyer of the bond who pays the seller for the loss in interest revenue.

This amount is called *accrued interest.* In return for this amount, the buyer is entitled to receive the entire interest at the next payment date, in this example the 1st July. If the sale takes place close to the interest payment date, in practice it is the seller who receives the interest and the seller pays the buyer for his or her part of it.

Tax is paid on the accrued interest or it is deducted for the year in which the transaction takes place. This also applies even if the interest on the bond for which payment has been made or received is not due for another year.

8.4. Selling or redeeming bonds

Tax on capital gains /losses

In the vast majority of cases a private investor who invests his or her savings in bonds will not pay tax on profits caused by a price increase of bonds. But neither can any losses be deducted.

Whether or not a person has to pay tax on capital gains in connection with the sale or redemption of a bond depends on whether the bond meets the requirements for the *minimum coupon rate*.

Minimum coupon rate

The minimum coupon rate is an interest rate that is set for 6 months at a time a few days before the start of the applicable period. The minimum coupon rate is calculated based on market interest according to certain guidelines and is published in the price book value list and in the Danish Official Gazette.

At the time the bond is issued, the minimum coupon rate requirement must be met. Any later changes in interest are insignificant, even if the bond is sold on to a new owner. For the period from 1st January to 30th June 2005, the minimum coupon rate is 3%.

”Blue-stamped” bonds

If the requirement for the minimum coupon rate is met at the time the bond is issued, it is called a *blue-stamped* bond. This blue-stamping means that any capital gains on sale or redemption is tax free for private investors. As previously mentioned, private investors in bonds will typically only deal in blue-stamped bonds.

“Black-stamped” bonds

If the bond does not meet the minimum coupon rate when it is issued, the bond is *black stamped*. This means that any capital gains are taxable for the bond owner and for any later buyers of the black-stamped bond. Despite this tax liability, any losses cannot be deducted if the bond owner makes a capital gain.

Special situations

In some situations, capital gains are taxable even if the bond meets the minimum coupon rate and is blue-stamped.

This applies firstly if the bond is bought with *borrowed funds*.

This is the case if the investor has taken out a large loan in connection with the purchase of the bond or if there is a clear connection between the loan and the bond purchase.

In this situation, capital loss cannot be deducted.

Another exception to the main rule of private people’s tax free capital gains on blue-stamped bonds is *foreign currency bonds*.

For example, if a bond is issued in Euro or US dollars, the capital gains are taxable. At the same time, it is possible in most cases to deduct any capital loss.

Section 9: Pension investors

9.1. While saving

There are different rules for the different forms of private pension schemes. These apply both to the income received from the pension savings and also to the contributions paid into the pension savings scheme.

Tax rules do not prevent the various forms of pension savings from being combined. Therefore pension savings can be organised to suit both the individual's finances while saving up and the amount he or she expects to receive on retirement.

Having an employer-administered scheme does not prevent people from taking advantage of the tax privileges of capital pension schemes. Savings can be placed in both pension types.

Capital pension

A capital pension is a pension savings scheme whereby the money saved up is paid out as a lump sum upon retirement.

The tax rules for capital pensions differ from other private pension schemes. There is an *amount limit* on the maximum tax deductible contribution allowed. At the same time the value of the tax allowance for contributions to capital pension schemes is also limited.

You can only deduct annual payments of up to DKK 42,000 from your personal income. For other pension schemes, the same limit does not apply.

Contributions to capital pensions cannot be deducted from *top-bracket tax.* Therefore, payments to a capital pension have less deductible value than payments to instalment pensions or pensions that provide a regular income. The deductible value for contributions to a capital pension can maximum be 45% compared with up to 60% for other types of pension savings schemes.

Pension schemes providing a regular income

Contributions made by an individual to pension schemes that provide a regular income can be deducted from personal income. As the allowance can be deducted from the top tax rate, it has the highest possible tax value. If an employer makes the contribution, the individual will not receive the allowance but neither is the contribution included in taxable income.

If a person chooses a pension savings scheme that provides regular income, the only restriction is that the deductible amount must not exceed personal income. For most people, this means that the maximum contribution to this type of pension scheme is limited to the size of their wage income.

Many of the pension savings schemes that form part of labour market agreements are schemes that provide a regular income. They are typically worked out so that the employer pays 2/3 of the total contributions while the employee pays the final 1/3.

Instalment pension

An instalment pension is a savings scheme where the amount saved is paid out in instalments over a period of at least 10 years.

There is an allowance in personal income for contributions to an instalment pension. There is no limit on the size of the maximum contribution, apart from the size of personal income, which the contribution must not exceed. A requirement of instalment pensions is that the contributions to the scheme must be made over a period of at least 10 years.

Taxing regular returns

The money paid into a pension savings scheme gives a return which, together with the contributions, increases the size of the savings.

The returns are generated by dividends and capital gains on shares, and interest and capital gains from bonds, and rents and profits from sales of property in which the pension funds are invested.

The returns are not paid to the saver but are assigned to the pension scheme.

All returns from the pension savings are taxed at 15%. This rate applies both to interest and share returns. However, for share returns, corporate tax of 28% will have been paid before the money is allocated to the shareholders.

9.2. When pension savings are paid out

Capital pension

A capital pension is paid out as a lump sum. The amount saved cannot be paid out until the recipient is 60 years old. When the money is paid out, it is taxed at 40%.

Pension savings with regular income and instalment pensions

Payments from pension schemes providing a regular income and instalment pensions are taxable in the same way as wages and the national pension. The same applies to payments from the labour market supplementary pension scheme (ATP) and from the special pension savings (SP). However, there is the difference that labour market contribution of 8% must be paid on wage income, and payments to the labour market supplementary pension scheme in ATP are taxed at 1%, whereas these contributions are not levied on payments from pension schemes and from the national pension.

Premature termination

Pension savings can be withdrawn at any time, but if tax privileged pension savings are withdrawn before the person is 60 years old, 60% tax is payable. This does not apply in cases of life threatening illness. In these cases, tax is 40%.

Deductible value of contributions and income tax on payments from pension schemes.

2006, %		**Contributions**			**Income**	
	Bottom	*Middle*	*Top*	*Bottom*	*Middle*	*Top*
Scheme with regular income	38.8	44.8	59.7	38.8	44.8	59.7
Instalment pension	38.8	44.8	59.7	38.8	44.8	59.7
Capital pension	38.8	44.8	44.8	40.0	40.0	40.0

Note: Figures for an average municipality with a tax rate of 33.3%.

Section 10: VAT, payroll tax and environmental taxes

10.1. VAT (moms)

VAT was introduced in 1967. This made Denmark one of the first countries to introduce a general indirect consumption tax levied as a value added tax at the different stages of production and sale.

Consumption tax

The aim of a consumption tax such as VAT is to tax private people’s consumption of goods and services. Private consumption is everything that is not related to business or commercial activities.

General

A general consumption tax such as VAT differs from a specific tax, such as excise duties, because it covers all goods and services.

Indirect

A consumption tax can be levied either directly on the individual consumer or indirectly. VAT is an indirect tax. That means that it is not imposed on the person who has to pay the tax, but is levied on the person who supplies the goods and services to the consumer. The tax is transferred to the final consumer through an increase in the price of the goods or services.

Multi-stage tax

A consumption tax can be levied either as a single stage tax or as a multi stage tax. VAT is a multi stage tax that is levied at each stage, i.e. the manufacturing stage, the wholesale stage and the retail stage. The previous purchase tax “*oms*”, replaced by VAT in 1967, was a single stage tax on the wholesale trade.

Value Added Tax (VAT)

A value added tax means that the individual company must pay tax on the value added. This is the value increase that takes place in the company. Each time goods or services are sold, VAT is paid on the sales price but the company can deduct the VAT which it has paid for the production of the goods, such as the VAT paid on the raw materials and manufacturing costs. This stops the scheme leading to double taxation. Only the final consumption is taxed.

6th VAT directive

From 1967 to 1978 the VAT law covered all goods without exception, while only the services specifically named in the law were subject to VAT.

As a consequence of a 1977 EU resolution, the scope of VAT was expanded the following year with a general VAT on services. Following this resolution, only services explicitly named in the directive were exempt from VAT.

The 6th VAT directive was introduced to harmonize VAT and VAT exemption in all member countries and thereby make it easier to assess member states' economic contributions to the EU based on VAT.

However, this assessment has not been completely harmonized throughout the EU as for the time being member states can still make use of exemption agreements for a number of goods and services. This conflicts with the main resolutions of the 6th VAT directive.

Exemptions

As examples of deviations from the EU norm, for a transitional period Denmark retains the right not to levy VAT on transport of people and property sales, just as Denmark can continue to levy VAT on radio and TV licenses and certain cultural services such as theatre performances. In principle, newspaper publication is subject to VAT but the rate is 0.

Danish exemptions that comply with the main rules in the 6th VAT directive and therefore are not limited to a transitional period include VAT exemption for the financial sector, a number of services in the field of education, social and health services and property rental.

VAT basis

The VAT basis is the amount that calculation of VAT is based on. The main rule is that VAT is paid on delivery of all goods or services. This means that generally VAT is due on every amount paid in a transaction subject to VAT. The payment is basically the same as the invoiced sales price to the buyer.

VAT rate

In general, the Danish VAT rate is 25% of the VAT basis for all goods and services subject to VAT. This corresponds to 20% of the shop price. For newspaper publication the rate is 0. The actual VAT rate for artists' first time sales is 5 %. The actual rate is compiled mathematically by reducing the VAT basis to 20 % of the sales price, so that one pays 25 % of 20 % equalling 5 % of the general VAT basis.

10.2. Payroll tax

Payroll tax came into effect on 1st July 1990.

There are 4 methods used to calculate payroll tax:

- For companies in the financial sector, payroll tax is 9.13% of the payroll.
- For foundations and associations, payroll tax is 5.33% of the payroll.
- For companies that publish or import newspapers, payroll tax is 2.5% of the value of the company's newspaper sales.
- For doctors, cultural businesses, private schools and courses, travel agencies and taxi drivers, payroll tax is 3.08% of the payroll plus/ minus the company's profit or loss.

Included in a company's payroll is any form of wages which the company's employees have received including any supplements, regardless of whether they form part of the wages or are paid separately. Special rules apply to payments in kind.

10.3. Energy taxes

There are energy taxes in Denmark. There is the regular energy tax on coal, oil, natural gas and electricity. Motor fuel taxes such as those on petrol and diesel are also included here.

The legislative basis for energy taxation can be found in the energy tax legislation which includes the coal tax law, oil tax law, gas tax law, electricity tax law, carbon dioxide tax law and the sulphur tax law.

Aim

The energy taxes also have another advantage which is that they encourage companies and households to save on their energy consumption and reduce environmental damage. The normal energy taxes give the consumer an incentive to save on energy.

Level and levying

The rates for the regular energy taxes are set according to the energy content of the fuel. The tax on coal, oil, natural gas and electricity used for heating corresponds to around DKK 51 per GJ. However, this does not apply to energy used for vehicle motor fuel. Here the tax level is set as high as possible taking into account existing demands on mobility, distribution effects, competitiveness and border trade. The rates for the different types of fuel are stated in the energy tax laws per litre, per kg or m^3.

Energy taxes are paid by the energy supplier who then transfers the charge to the consumer via the bill for the energy supplied.

Electric heating rate

A special lower tax rate applies for electricity used to heat permanent residences with an annual consumption of over 4000 kWh, the so-called electric heating rate. The electric heating rate can be used in weekend cottages, which are legally used by their owners as a permanent residence. To take advantage of the electric heating rate, the electric heating installation in the residence must be registered with an electricity company as used for heating. The municipality must certify that the installation is in a residence which is registered as a permanent residence heated by electricity, or in a weekend cottage used legally by the owner as a permanent residence.

10.4. Car taxes

Taxes on cars generate around 30 billion DKK annually. The tax revenue from the registration tax varies greatly from year to year, since car sales are extremely sensitive to changes in the national economy.

Who pays car taxes?

In general, tax must be paid on all vehicles that are used permanently in Denmark. All car taxes are paid by the car's owner and are linked to the specific vehicle. Car taxes fall into two groups: regular taxes and a tax on acquiring the vehicle. The most normal car taxes are explained below.

Registration tax

Registration tax is attached directly to the individual vehicle and is paid as soon as the vehicle is going to be used on public roads in Denmark. It is levied on all newly registered cars, motorcycles, vans and lorries with a permissible total weight of up to 4 tons, taxis, busses and other vehicles. Once the vehicle has been registered in Denmark there is no need to pay registration tax when the owner changes. Registration tax is only paid once on a car in its lifetime in Denmark.

Cars

Registration tax is calculated on the dutiable value, which is the vehicle's normal price including VAT on sale. At least 9% trade profit is always included in the dutiable value. All equipment supplied with the car is also included, except radios and other extra equipment installed by the supplier. Furthermore, supplying and financing costs of maximum DKK 1,680 for cars are kept out of the calculation basis.

For new cars, the registration tax is generally calculated as 105% of the part of the dutiable value under DKK 64,200 and 180% on the part of the dutiable value which is over DKK 64,200.

A legislative change in May 2003 put a ceiling on the effect of price increases on new cars so that registration tax is reduced if car prices increase extraordinarily. The example below shows the calculation of registration tax for a typical medium class car with a street price of DKK 220,000. The calculation has been made using both the **full rate** (maximum rate) and the January 05 rate where the registration tax rate was **reduced** by 1.56%.

Example of price calculations for a regular passenger car using full rate and the reduced rate of January 2005.

			Full rate 2006		January 2006
			DKK		DKK
Car price before registration tax					
Supplier sales price ex. VAT			83,262		83,262
VAT of 25%			20,816		20,816
Car price including VAT	(1)		104,078		104,078
Allowance in taxed value					
Radio	yes		1,000		1,000
Airbags	4 stk.		5,120		5,120
ABS	yes		4,165		4,165
ESP	yes		2,600		2,000
Taxed value	(2)		91,793		91,793
Registration tax					
Tax on value (2) exceeding DKK 62,700		180.00 %	49,667	179.08 %	49,413
Tax on value (2) under DKK 62.700		105.00 %	67,410	104.08 %	66,819
Tax allowance					
- Rear windscreen wiper/washer			- 300		- 300
- Interior adjusted right wing mirror			- 300		- 300
- Seatbelt alarms	3		- 300		- 300
Total registration tax	(3)		116,176		115,332
Street price of the car, ex. delivery costs(1) + (3)			220,254		219,410
Tax saving					844

For second-hand cars brought to Denmark, the tax is calculated according to the same principle as for new cars but the progression amount limits are less. For a passenger car between 1 and 2 years old, the registration tax of 105% is calculated on DKK 46,600 and 180% on the rest. The table below gives an overview of how the progression limit is graduated along with the age of the car.

Age of the car	Progression limit (DKK)
new	64,200
0 - 1 years	54,500
1 - 2 years	46,600
2 - 3 years	38,600
3 - 4 years	30,500
4 - 5 years	22,500
5 - 6 years	14,600
Over 6 years	6,500

Security and environmental allowances

There are a number of allowances for registration tax in the tax basis given for security or environmental considerations. Furthermore, the cost of special equipment for the disabled is kept separate from the dutiable value. These allowances are made because a value based tax such as the Danish registration tax implies that extra equipment for environmental benefit and security should increase the tax as the extra equipment increases the value of the car. The allowances have therefore been worked out according to the extra costs of the security or environmentally beneficial equipment, encouraging consumers and producers to install it. The table below shows the security allowances.

Table 4.2: Security supplement and allowance

	Car	Van
Allowance in dutiable value (DKK)		
Antilock braking system (ABS)	4,165	
Airbags	1,280 per bag max. 4 bags	
ESP system	2,600	
Diesel vehicles with low particle emission	4,000	
Supplement to dutiable value (DKK)		
No airbags	7,450	
Only one airbag	3,725	
Registration tax allowance (DKK)		
Interior adjusted right wing mirror	300	300
Rear windscreen wiper and washer	300	600
Seatbelt alarms, 3	300	-
Extra high installed brake lights	-	200

Environmental allowance

In 1999 the registration tax law was changed to favour special fuel efficient cars. Energy efficient vehicles were granted a reduction in registration tax. The reduction applies to vehicles registered after the 1st January 2000 and can be seen in the table below.

Diesel vehicles with particle filters are given a reduction in the basis for registration tax of 4,000 DKK in the period 2006-2009. The reduction applies to both cars and commercial vehicles with low particle emissions. This corresponds to a reduction on cars of approx. 7,200 DKK and approx. 1,200 DKK on commercial vehicles. At the same time, the rebate on registration tax for back window wipers and washers is abolished from 2007, since back window wipers and washers have become standard equipment in most cars.

Table 4.3: Reduction in registration tax

Fuel consumption (km/l)		Registration reduction	
Petrol	*Diesel*	*2000-2005*	*2005-2010*
25 – 28.6	28.1 - 32.1	1/6	0
28.6 – 33.3	32.1 - 37.5	1/3	1/5
33.3 – 40.0	37.5 - 45	1/2	2/5
> 40	> 45	2/3	3/5

For example, a petrol driven car with a petrol consumption of 30km per litre registered in the period 2001-2005 receives a 1/3 reduction in registration tax.

Commercial vehicles

For new commercial vehicles with a total weight of up to 2 tons, and certain vehicles weighing between 2 and 4 tons that are more similar to a station car than a commercial vehicle, registration tax is 95% of the value exceeding DKK 15,500. For other commercial vehicles with a total weight of between 2 and 4 tons, the tax is 0 DKK up to DKK 34,100 DDK, and 30% of the exceeding amount. For commercial vehicles weighing more than 3 tons, the tax can be no more than 56,800 DKK. Vehicles over 4 tons (lorries) are generally exempt from tax.

Motorcycles

Tax on new motorcycles is calculated as 105% of the part of the dutiable value between DKK 8,100 and 14,800 and 180% of the rest. For second-hand motorcycles and commercial vehicles brought to Denmark the amount limits are graduated as for cars.

Taxis

Registration tax for taxis, (vehicles licensed for and exclusively used for commercial transportation of passengers), is 20% of the value of the car that exceeds DKK 12,100. If the vehicle stops functioning as a taxi, full tax on the car's current value must be paid. However, it is not necessary to pay tax on taxis which are re-registered after having driven for at least 3 years and at least 210,000 km, or at least 2 years and at least 250,000 km as a taxi.

Caravans and mobile homes

Vehicles that weigh over 2 tons and that are clearly built and furnished for accommodation and sleeping a minimum of 4, have a registration tax rate of 60% of the value of the vehicle exceeding DKK 12,100.

Other caravans are taxed as cars minus the expenses for interior furnishings.

Repayment of registration tax

The tax on a second-hand car or motorcycle is repaid if the vehicle is deregistered and taken out of the country. The repayment amount is set as the registration tax that should have been paid if the same vehicle was brought into the country from abroad minus 15%.

Amounts under DKK 4,000 are not repaid for motorcycles, commercial vehicles, taxis and ambulances and under DKK 7,500 for cars including camper vans and buses.

Tax is not repayable on accident damaged vehicles that would have to pay for re-registration in this country. No repayment is made for vehicles that are more than 35 years old from the first registration date.

Just as for vehicles brought into Denmark, vehicles applying for registration repayment must be fit to be registered. This means that ownership must be transferable without a compulsory safety test for the vehicle. Registration tax for extra equipment is only repaid if registration tax was paid in the first place and the repayment cannot exceed the tax that was originally paid, minus 15%.

10.5. Regular car taxes

The regular taxes consist of vehicle excise duty, green owner tax (based on fuel consumption), countervailing charge and road tax.

Vehicle excise duty

Vehicle excise duty is calculated based on the weight of the vehicle. As a rule, vehicle excise duty is payable on all cars registered before 1st June 1997. After 1st June 1997, vehicle excise duty was replaced by the green owner tax which is based on fuel consumption. Today, only cars registered before 1st June 1997 and commercial vehicles, lorries, camper vans and motor homes etc. continue to pay vehicle excise duty. These vehicles continue to pay because there is no official fuel consumption norm for vehicles produced before 1997 and for commercial vehicles and camper vans, which means it is impossible to calculate the green owner tax for these vehicles.

Green owner tax

As previously mentioned, in 1997 the vehicle excise tax was replaced by the green owner tax. The green owner tax is a regular tax linked to the individual vehicle and is calculated exclusively on the vehicle's fuel consumption. The aim of the change was to reduce environmental damage caused by cars by linking the taxes more closely to the individual car's environmental performance. This change has led to a reduction in tax for fuel efficient vehicles. For example, a diesel VW Lupo pays DKK 160 annually in green owner tax while an automatic Peugot 607 with a 3 litre petrol engine must pay DKK 6,480 annually.

Countervailing charge

In addition to paying vehicle excise duty or green owner tax, diesel cars also pay countervailing charge. The countervailing charge counteracts the difference in tax on petrol and diesel oil to create equality between cars that use diesel and cars that use petrol. When petrol tax is increased, the countervailing tax is increased and when the tax on diesel is increased, the countervailing charge is reduced. For normal diesel cars, the countervailing charge is calculated as a tax saving by using diesel instead of petrol for 16,000 km annually. This means that if you drive 16,000 km annually, you will pay the same amount in tax regardless of whether you drive a petrol or diesel car.

Who pays regular car duties?

Cars

In general, vehicle excise duty or green owner tax must be paid on all cars that are liable for registration tax in Denmark. Diesel cars must also pay countervailing charge. The taxes are attached to the car and are paid up to 4 times a year to the Central Motor Vehicle Registry

Vans and lorries

Vans and lorries weighing up to 4,000 kg registered for the first time after 2nd June 1998 must, in addition to vehicle excise duty, pay a supplement for private use if the vehicle is used for non-commercial purposes. Vans and lorries weighing more than 4,000 kg which do not pay road tax only pay vehicle excise duty at special rates. Lorries and articulated lorries with a permissible total weight of over 12 tons and used for road transportation must pay road tax for the right to use the Danish road network. These vehicles also pay a special vehicle excise duty which is differentiated according to the suspension system. Road tax is levied on both domestic and foreign commercial vehicles.

Vintage cars and electric cars

Cars over 35 years old (vintage cars) pay only 25% of the applicable rates. Electric cars are exempt from paying tax.

10.6. Environmental taxes

Most environmental taxes are levied on companies. When a company's costs increase because of a tax, the company has two options: either increase the price of the product to compensate for the tax cost (the manufacturer passing the tax on to the consumer), or find a more environmentally friendly way to manufacture the goods. If the manufacturer chooses to transfer the tax to the consumer, i.e. increase the price, the goods become more expensive for consumers and consumers therefore reduce their consumption of these goods. Both the consumers' reduced consumption and the manufacturer's move to more environmentally friendly alternatives benefit the environment.

Environmental taxes can be divided into three general groups:

- Taxes on environmentally harmful products involved in consumption or manufacturing
- Taxes on discharge of pollutants
- Taxes on scarce resources

Taxes on environmentally harmful products

Examples of environmentally harmful products are pesticides and insecticides, which pollute the water table, CFC gases (Freon), which break down the ozone layer and HFC gases (greenhouse gases), which increase the greenhouse effect. All of these products carry environmental taxes.

Some products are not environmentally harmful in themselves but become so when disposed of. Examples from this group are PVC, which forms harmful dioxin when it is burnt and nickel cadmium batteries (rechargeable batteries), which are found in items such as mobile telephones and drills. These must be specially disposed of because they are harmful for both people and the environment.

Taxes are also levied on products which create large amounts of refuse. Packaging and disposable plates are examples of this type of product. They are not especially harmful in themselves but contribute to increased amounts of refuse. There are good reusable alternatives to this type of product– for example china.

There is also a general tax on refuse to reduce the total amount of refuse and encourage composting and refuse recycling.

Tax on discharge of pollutants

Examples of taxes on discharge of pollutants are the waste water tax and carbon dioxide tax. Waste water tax provides an incentive to reduce discharge of waste water and carbon dioxide tax (also called CO_2-tax) helps reduce carbon dioxide emissions, which increase the greenhouse effect.

CO2-tax is just like energy taxes levied on coal, oil, natural gas and electricity.

With the CO2-tax there is a special incentive to limit the amounts of environmentally damaging emissions of carbon dioxide into the atmosphere. In turn, this promotes energy conservation or conversion to energy forms with lower or no CO2 content, such as natural gas or perpetual energy.

CO2-tax rates are fixed according to the CO2 content of the fuels and thus amount to what corresponds to 90 DKK per ton CO2. If one wants to know the CO2-tax rate for each type of fuel, this is listed per litre, kilogram or Nm3 in the Carbon Dioxide Act.

Taxes on scarce resources

Tax on water and raw materials are examples of taxes on scarce resources. These taxes encourage saving and recycling of water and raw materials wherever possible.

Who pays environmental taxes in Denmark?

In Denmark, it is mainly companies, including manufacturers and importers, who pay environmental taxes. In many cases, there are administrative and control reasons as to why the tax is paid at the first stage and not by the individual citizen. As the companies to a large degree pass the bill on to the consumer, in practice it is the consumer who ends up paying. As mentioned previously, the aim of the taxes is to encourage consumers and companies to reduce consumption and switch to more environmentally friendly alternatives.

No tax on export

The tax is lifted on Danish export companies to enable them to compete with foreign competitors and to avoid double taxation. If a company has already paid the tax, it is repaid and if the company has not yet paid the tax, it is not levied.

Basis for taxation

The vast majority of environmental taxes are calculated per unit, e.g. per piece, kg. m^3 and kWh. However, the tax on pesticides and insecticides is made up ad valorem. This is because the most environmentally harmful substances are concentrated and therefore sold in small amounts. They are also relatively expensive. A tax per litre would be inappropriate as the very concentrated forms would get away with a small tax. The tax has been created ad valorem to tax these substances hardest.

10.7. Other excise duties

In Denmark, duties are paid on certain stimulants. These include tobacco products, beer, wine, spirits, ice cream, chocolate, confectionary and mineral water. Mineral water includes fizzy drinks and juice and concentrate products.

These goods are taxed because of health considerations.

Who pays the tax?

In the same way as environmental taxes, the manufacturer and importers pay the tax. The tax is then passed on to the consumer. In this case, the aim is not to encourage companies to develop alternatives but to encourage consumers to reduce their consumption of these unhealthy products. In the same way as the environmental taxes, the tax is lifted on exports to enable Danish companies to compete abroad.

Tax basis

Mineral water tax is DKK 1.15 per litre. The tax on ice cream is DKK 3.40 per litre. The tax on chocolate, confectionary and chewing gum is DKK 14.20 per kg.

The tax on spirits is DKK 150 per litre 100% spirit. The tax is then adapted to suit the alcohol percent in the bottle of the spirit (e.g. 1 litre or 75 cl.)

For ready-to-drink beverages there is in addition a supplementary tax of 2.90 DKK per litre. If the alcohol comes from yeasting, an additional supplementary tax is paid, that means that the tax on ready-to-drink beverages is the same regardless of the alcohol base (yeasting or distilling). The total alcohol is herby approx. 3 DKK for a 27.5 cl. bottle with an alcohol content of 5.5 % vol.

Beer tax is calculated according to a sliding alcohol scale based on the beer’s content of 100% pure alcohol (ethanol content). The tax is DKK 50.90 per litre of pure alcohol. This corresponds to a tax of about 77 øre for a normal lager. Beer with an alcohol content of under 2.8% is exempt from tax.

A normal table wine with an alcohol percent of between 6 and 15% is subject to a tax of DKK 4.60 per bottle.

Tobacco tax depends on whether the tobacco product is cigarettes or fine or roughly cut tobacco. The tax on cigarettes is 63.66 øre per cigarette plus 13.61% of the retail price. The tax is thereby DKK 17 on a pack of 20 cigarettes costing DKK 31. For cheaper brands, the tax is DKK 16.25 for a pack costing DKK 26 in the shops.

For finely cut tobacco, which is typically used for rolled cigarettes, the tax is DKK 452.50 per kg. For rough cut, which is typically used for pipe tobacco, the tax is DKK 402.50 per kg. Furthermore, there is a tax on cigarette papers used for rolling cigarettes of 4 øre per paper.

For fuel lamps there is a tax of 3.75 DKK each. For tea and coffee there is a tax of 6.25 DKK pr. kilogram and 5.45 DKK pr. kilogram respectively.

When travelling from a Danish airport, the airline pays 75 DKK per passenger in 2005. This tax will be halved in 2006 and fully abolished January 1st, 2007.

Section 11: The tax authorities - who, what, where?

11.1. The tax authorities - who, what, where?

The tax authorities can easily appear to be a large and complicated institution with many departments. However in practice, a person normally only deals with a small part of the tax authorities.

The general rule is that citizens should contact the municipal service department (*borgerservice*) or a tax centre.

The municipal service department deals with simple and general enquiries while more complicated matters are dealt with by the tax centres.

If the municipal service department is contacted but the case needs to be dealt with by a tax centre, the municipal service department will help to contact the tax centre and ensure that the case is transferred properly.

Citizens can decide themselves which municipal service department or tax centre they want to contact. If a citizen lives in Næstved but works in Roskilde, he or she can contact the tax centre in Roskilde if this is easiest.

11.2. Preliminary income assessment forms, income tax returns and annual tax statements

SKAT sends out the preliminary income assessment forms, income tax returns and the annual tax statements.

The preliminary income assessment form

The preliminary income assessment form is sent out in November for the following calendar year. This form is the basis for calculating preliminary tax, *tax at source,* which has to be paid in a tax year. Regular wage earners receive a *tax card* with the preliminary income assessment form, which informs the employer of the amount that must be deducted in tax before the wage is paid.

For many wage earners, information on the preliminary income assessment form is transferred electronically directly to employers. This means that it is not necessary to give the tax card to an employer unless changes have been made to the preliminary income assessment form or unless the person changes employers at a later date.

If a person needs to make *changes to the preliminary income assessment form,* an amended form can be sent to the tax centre or the municipal service department. Alternatively changes can be made by telephone or on the internet.

There can be many reasons why it is necessary to make changes to a preliminary income assessment form. It may be that a person expects to earn either more or less than the amount stated on the preliminary income assessment form. It might also be that a person has bought or sold property which has caused changes in their mortgage interest payments.

If income, or allowances, changes greatly, it is a good idea to change the preliminary income assessment form. If this is not done, there is a risk that the tax paid in the course of the year does not correspond with the tax that is actually due.

If the wrong amount of provisional tax is paid, a person risks having to pay residual tax, if he or she has had a bigger income or fewer expenses that year than stated on the preliminary income assessment form. If a person has paid too much tax, the money is returned with a remuneration of 2%.

Income tax return

The income tax return is sent out in March-April in the year following the tax year. Most citizens receive the normal income tax return, which the tax authorities have completed in advance with figures received from employers, financial institutions etc. If there are *corrections* to be made or *extra information* to be added to the income tax return, the tax centre or the municipal service centre must be told about this either in writing, by telephone or via the internet in the same way as for changes to the preliminary income assessment form. Any changes must be made by 1st May at the latest.

Annual tax statement

Over 60% of all taxpayers receive the annual tax statement with their income tax return. The rest receive it when their income tax return has been filed. Married couples will not receive their annual tax statements until both parties have filed their income tax returns.

The annual tax statement is a statement showing how much a person has already paid in provisional tax and how much tax actually needs to be paid based on the income tax return. The annual tax statement shows whether a person will receive a tax refund or needs to pay residual tax.

Any questions or changes to the preliminary income assessment form, the income tax return or the annual tax statement should always be addressed to the tax centre or the municipal service department.

If a person provides new information for his or her income tax return, it will affect the annual tax statement. If the annual tax statement was received at the same time as the income tax return, any new information will mean that the person receives a new annual tax statement.

It is possible to reopen a tax assessment for a tax year, for example, if a person has forgotten an allowance. However, this should take place within 3 years following the end of the tax year in question.

11.3. Appeals

If a person disagrees with the tax calculations made by SKAT, or if a person receives a refusal to reopen a case despite new information, it is possible to appeal in writing to the local tax appeals tribunal or to the National Tax Tribunal stating in detail the reasons for disagreeing with the tax assessment.

Citizens can choose to lodge their appeal with the local tax appeals tribunal with the option of later appealing to the National Tax Tribunal, or they can appeal directly to the National Tax Tribunal.

Local tax appeals tribunal

Members of the local tax appeals tribunal are selected for service. They are not employed by the tax authorities and normally have another job or profession.

Appeals to the local tax appeals tribunal must be sent no later than one month after the decision or annual tax statement has been received. If the local tax appeals tribunal does not uphold the appeal, the local tax appeals tribunal must draw up a statement of claim, which the appellant is asked to comment on.

The local tax appeals tribunal can change the assessment completely, regardless of the content of the appeal. This means that the local tax appeals tribunal can increase the income assessment in instances where the appellant demands that the assessment is reduced. By appealing, a person can risk ending up paying more in tax than first calculated.

National Tax Tribunal

It is possible to appeal directly to the National Tax Tribunal. It is also possible to direct appeals to the National Tax Tribunal if an appellant disagrees with the decision of the local tax appeals tribunal. The National Tax Tribunal is Denmark’s highest administrative appeal body for questions of tax, VAT, duties, customs and property valuations. The National Tax Tribunal is not a court.

When the National Tax Tribunal has received an appeal on a decision, material of relevance to the case is obtained. When the case officer has prepared the case, it is forwarded to the members of the tribunal for written consideration.

When a decision has been reached, the National Tax Tribunal informs the appellant and his or her representative, if the appellant has one. During the process, the appellant or representatives of the appellant can meet the case officer to discuss the case in person.

A person can also request that his or her case is presented orally for the members of the tribunal at a court sitting. This normally only takes place in special cases. The National Tax Tribunal can refuse to grant a request for a sitting, if the tribunal considers this type of meeting to be obviously unnecessary.

All citizens have the right to present their own case. The case does not have to be led by, for example, an accountant or a lawyer. The system has been created to allow appeals to be conducted without professional assistance.

Expenses for expert advice are fully refunded in tax cases which the taxpayer either wins fully, or in which the taxpayer's claims are predominantly upheld by the tribunal. If the taxpayer loses the case, 50% of his or her expenses are refunded.

Should a person wish to appeal against a decision to the National Tax Tribunal, the following conditions apply:

- The appeal must be in writing.
- The appeal must be reasoned.
- All points to be appealed must be included.
- A copy of the decision to be appealed against must be attached.
- A copy of the statement of claim, if one has been made, must be attached.
- Copies of all documents that support and substantiate the appeal must be attached.
- A cheque for DKK 700, or a copy of a bank transfer receipt for the same amount, must be attached.

Once these documents have been received, a receipt will be issued that the case has been received by the National Tax Tribunal. If it is necessary to obtain further information from the appellant, his or her representative or from other people or authorities, the National Tax Tribunal informs the appellant of this and gives the appellant the opportunity to discuss the new information.

The fee of DKK 700 is refunded if the appeal is fully or partially upheld. On average, *case processing time* by the National Tax Tribunal is just under 14 months.

The courts

The decisions of the National Tax Tribunal can be brought before the *courts*. These types of cases must in the first instance be brought before the Danish High Court. Even if the National Tax Tribunal has not reached a decision on a case, it is always possible to bring a case to court 6 months after the case has been presented to the National Tax Tribunal. Cases must be brought to court no later than 3 months after the final administrative body has either reached a decision or has refused to deal with the appeal.

In the High Courts and in the Supreme Court, half of all cases are decided 1-1½ years after they are filed.

Refunding of costs

In appeals to the local tax appeals tribunal and the National Tax Tribunal, the appellant can have 50% of his or her costs for expert advice, such as an accountant or a lawyer, reimbursed by the state. If the local tax appeals tribunal or the National Tax Tribunal fully or predominantly uphold the appeal, expenses are fully reimbursed.

Similarly, it is possible to receive a reimbursement of 50% or 100% for expenses if the case is brought before the courts.

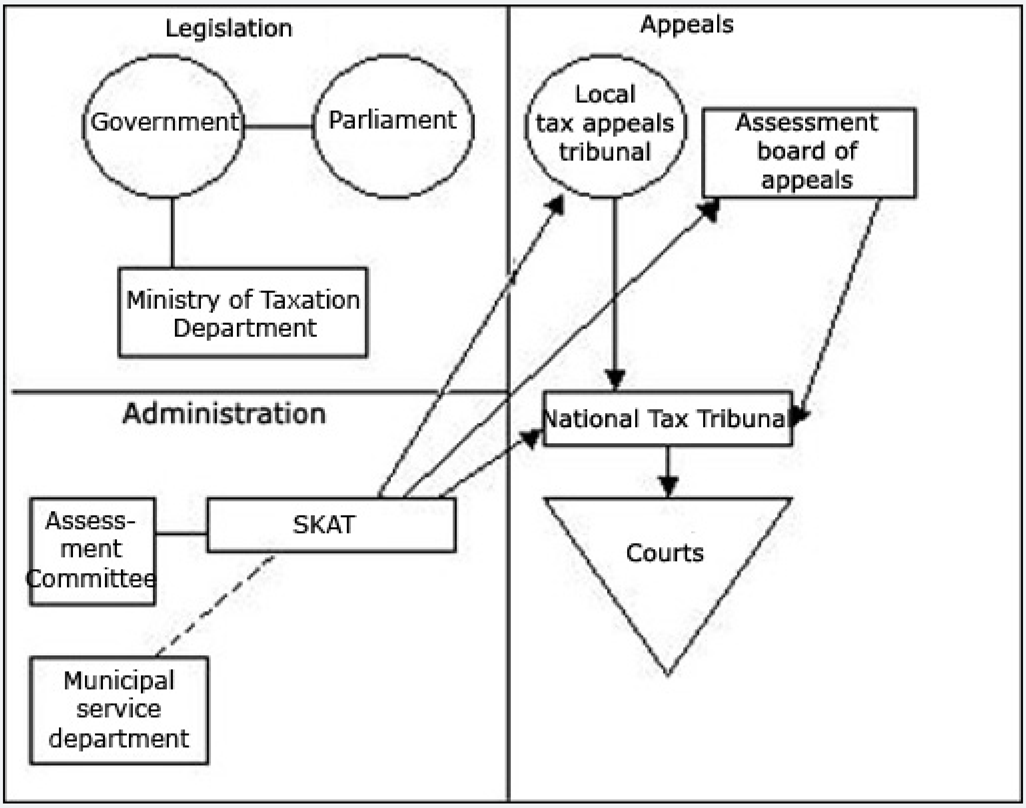
Reimbursement is given on application to the regional tax authorities.

11.4. Organisation and division of work within the tax authorities

A typical citizen only comes in contact with a small part of the tax authorities – typically the municipal service department and SKAT.

The diagram below shows how the tax authorities are organised into four different functions: *Legislation, administration, appeals and assessment.*

Organisation of the tax authorities



Legislation

The Department in the Ministry of Taxation functions as a secretariat for the Minister of Taxation. The Department draws up legislation proposals for the minister on behalf of the government. It has no influence on specific individual cases and therefore has no authority regarding specific tax assessments.

Administration

The administrative function comes under SKAT and the municipal service centre. SKAT comprises one main centre, 30 tax centres, a Customer centre and a Payment centre. The various municipalities deal with citizens' tax queries alongside the municipality's general service functions for citizens. Each citizen can decide individually which tax centre or municipal service department to contact.

All citizens can obtain a legally binding response regarding the tax consequences of a transaction, for example in connection with sale of property or shares. A request for this service must be sent to SKAT with a fee of DKK 300.

Appeals

The appeal function covers the local tax appeals tribunal, the National Tax Tribunal and the courts. Citizens can choose to either appeal to the local tax appeals tribunal or directly to the National Tax Tribunal.

The local tax appeals tribunals dealt with almost 11,200 cases in 2003. This figure shows that only a small minority of all taxpayers appeal against tax assessments.

On average, taxpayers had their appeals fully or partially upheld in almost 40% of all cases considered by the local tax appeals tribunals in 2003.

The National Tax Tribunal accepts appeals against decisions made by the local tax appeals tribunals, SKAT and the Assessment Committee. It is possible to appeal directly to the National Tax Tribunal.

The National Tax Tribunal decided on around 3,700 tax cases and cases regarding property assessment in 2004. In connection with the municipal reform, the National Tax Tribunal has taken over a number of new case areas. These include a number of appeal cases regarding tax collection, appeal cases from the Board of Assessment and a number of administrative appeal cases from the customs and tax authorities. Therefore, the number of cases is expected to rise to between 7,000 and 7,500. In 2003, taxpayers had their appeals in income cases upheld by the National Tax Tribunal either fully or partially in 40% of all cases.

Property assessment

The property assessment function comes under SKAT. Every other year, a property value and plot value is assessed for all properties and this forms the basis of property tax. In the years when a property assessment is not carried out, an annual adjustment takes place.

Assessment appeals

The appeal function covers the assessment board of appeals, the National Tax Tribunal and the courts. The first instance of appeal is the assessment board of appeals.

11.5. Where can I find more information?

Further information regarding tax administration, the tax system or current tax policies can be found on the Ministry of Taxation's website.

On the Ministry of Taxation's website, www.skm.dk, there are recent press releases, legislative material, publications, articles by the Minister of Tax, information on current issues and more.

On SKAT's website, www.SKAT.dk, it is possible to change the preliminary income assessment form and income tax return (TastSelv). This is also the place to find information about the specific boxes on the income tax return, and to calculate tax.

It is not possible to make changes to the preliminary income assessment form or the income tax return on the internet or by telephone throughout the year. To make changes at the time of year when these services are unavailable, it is necessary to contact a tax centre or the local municipal service department.

On the website of the National Tax Tribunal, www.lsr.dk, you can read more about how appeals are conducted at the National Tax Tribunal.