



SKAT

Tax in Denmark

An introduction – for new citizens

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Tax in Denmark

This booklet is intended as a guide for new Danish citizens who want to learn about the Danish tax system. The Danish tax system contains many rules and laws, and even though you do not need to know all of them, you will inevitably have to know something about the tax system.

Almost all young people and adults living in Denmark pay tax, irrespective of whether they have a job, are students, unemployed or receive money from the state or a municipality. Twice a year, everybody receives letters from the Danish tax authorities – SKAT – asking them to check and approve figures. It is therefore a good idea to know a little bit about the tax system and what you have to do yourself.

We hope that this booklet will answer many of your questions about tax. You can use the booklet as a source of information that you can always consult if you want to know more about the tax system.

You can also use the glossary at the back of the booklet to get a quick explanation of words and terms or to see where in the booklet you can find information about a particular topic of interest.

For more information, please visit www.skat.dk. You can also contact your municipality or a tax centre to get advice.

Why do we pay tax?

The Danish society is known as a so-called welfare society where politicians make efforts to ensure the welfare of citizens, financed by taxes.

The Danish welfare society is, among other things, based on the concept of citizens having equal access to the different services paid for by taxes.

Everybody must be able to get help in difficult situations, for example in case of unemployment or serious illness. In these situations, citizens must be able to obtain financial assistance, medical help, hospital treatment etc. All children must attend school and have the possibility of completing an education, and all citizens must have access to information and guidance (for example from libraries and media) and much more.

The tax rate in Denmark is one of the highest in the world, as Denmark has a very large public sector. The public sector looks after many things that people in other countries often have to pay for themselves or that may not even be available to the public. Danish society is expensive to run and thus requires a lot of tax funds.

The tax system changes regularly. New taxes are introduced, some are changed and rates and amount limits are changed from year to year. The members of the Danish parliament are constantly trying

to fine-tune the taxes to suit their political ideas so that they have enough tax funds to cover the expenses.

By voting for a certain politician or a certain political party at an election, Danish citizens can help decide how the tax system should be.

Who pays tax?

All citizens living in Denmark must pay tax if they have an income.

This also applies if you, for example:

- run your own business
- are unemployed or receive money from the state (cash benefits) or from your unemployment fund (unemployment benefits)
- are a student and receive state educational grants (SU)
- are a senior citizen or receive national pension
- work abroad or receive an income from abroad, but live in Denmark.

All citizens use the public sector in one way or another and as a general principle, all citizens must thus help pay for it. However, the tax burden is not equal for all as the Danish tax system is progressive, meaning that the higher your income, the higher the amount of tax that you have to pay. The reasoning behind this system is that “the broadest shoulders must bear the heaviest burden”.

How are the tax funds spent?

The tax funds are used to pay for the different expenses that Danish society has such as cash benefits, national

pension, family income supplement and for public institutions such as schools, hospitals and the police.

The tasks undertaken by the public sector are very expensive. Take, for example, a kindergarten: The available funds must cover rent, heating, electricity, cleaning, nappies, food, toys, furniture, educators and assistants etc.

An average child at kindergarten costs Danish society approx. DKK 62,000 a year. The parents of the child pay part of this expense themselves, but their contribution depends on their income. However, they will never have to pay more than a third of the full amount. In recent years, approx. DKK 700 to 760 billion has been spent to cover public expenses in Denmark.

State, counties and municipalities

The public sector in Denmark is divided into state, counties and municipalities, each with their own separate tasks.

Denmark has 271 municipalities and 13 counties, but from 2007 this system will be changed into 98 municipalities and 5 regions. The division of work will also be changed somewhat.

The tasks of the municipalities include:

- Primary and lower secondary schools (children aged 5-15)
- Kindertgartens, day nurseries and after-school clubs
- Home care for the elderly and ill
- Nursing homes
- Cultural and sports institutions
- Libraries

- Water supply and treatment.

The tasks of the counties include:

- Hospitals
- Major road development and public transport
- Nature and environmental protection

The tasks of the state include:

- Tax collection
- Aid to developing countries and co-operation with the EU
- The national defence and the police
- Higher education, for example, universities and teacher training colleges
- State educational grant (SU)
- Receiving asylum seekers.

The tax that we pay ensures that the above tasks can be undertaken.

The popularly elected politicians in each municipality and county decide how large a percentage of their income citizens in the municipality must pay in tax and how the tax funds are to be spent. However, the Danish parliament determines a number of principles and requirements that will have to be followed.

Therefore, your tax will depend on the municipality that you live in.

What do the Danish tax authorities know about you?

SKAT will automatically receive most of the information required to determine the tax for most taxpayers. Employers will provide information about your pay,

banks will provide information about any interest income and expenses, and unemployment funds and unions will provide information about your membership payments etc.

Therefore, you have to provide SKAT with very little information yourself. Often you just have to check the correctness of the information stated in the statements that you receive from SKAT.

Have you recently moved to Denmark?

If you have recently moved to Denmark, you must register with your local National Registration Office. At the local branch of the National Registration Office you will be given a civil registration number (CPR number). You will need your CPR number in many situations, for example, at the bank, when making an appointment with your doctor or your dentist.

You must report any change of address to your National Registration Office. This ensures that you will receive mail and other messages from the public authorities and private persons.

If you have just moved to Denmark, you also have to report to a tax centre to provide your personal data so that your tax can be calculated. The tax centre will also issue your tax card.

You can see the address of your nearest tax centre at www.skat.dk

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Tax around the world

Denmark has its own Minister of Taxation and Ministry of Taxation and its own taxation laws, and tax is thus Denmark's biggest source of income. Almost all adults living in Denmark pay tax to the country, and everybody receives money or services in return in some form. In this way, tax is something which affects us all.

In many countries the tax system is arranged differently. Many countries choose to let their citizens pay less tax than in Denmark, but in return they have to pay to go to school, to the hospital, the doctor's etc. This means that people are forced to take out expensive insurance against adverse situations.

In many third-world countries the state's main source of income is based on foreign aid or the sale of raw products such as oil, copper, diamonds, cocoa etc. and ordinary citizens pay little or no tax.

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Example of municipal tax

Municipality A chooses to allocate more money to the operation of day-care centres than neighbouring municipality B. It will therefore be less expensive for citizens in municipality A to send their children to a day nursery or a kindergarten than in municipality B.

However, the municipal tax in municipality A is slightly higher than in municipality B.

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Different types of tax

The taxes consist of “direct” taxes and “indirect” taxes. In this section, we will explain the most common types of taxes.

Direct taxes

Taxes deducted directly from your income are called direct taxes. This is, for example, the tax that your employer deducts from your pay, and property tax.

State tax

Part of the tax that you pay out of your income goes to the state. The state tax rates are the same irrespective of where you live in the country, but they depend on your income. The state tax is divided into three categories:

- Bottom-bracket tax
- Middle-bracket tax
- Top-bracket tax

If your annual income is lower than a certain amount you only have to pay bottom-bracket tax, but if you make more than this amount, you have to pay middle-bracket tax in addition to bottom-bracket tax, and if you make even more, you have to pay top-bracket tax in addition to the bottom-bracket and middle-bracket tax.

The principle behind this division is that those who make the most must also proportionately pay most money to the state. This is called a “progressive” tax system.

Municipal tax

All citizens must also pay tax to the municipality that they live in. The tax is calculated as a percentage of their income.

Each municipality determines the tax percentage that its citizens must pay. Your total tax contribution will therefore depend on the municipality that you live in.

Labour market contribution

All working citizens must pay a labour market contribution (LM contribution). You do not have to pay LM contribution out of any cash benefit, state educational grant or the like.

The LM contribution is 8 per cent of your income. Your employer will deduct this contribution from your monthly pay.

The LM contribution can be compared to the social security contributions known in other countries. Labour market contributions are used for the Government's labour market expenses, for example to cover cash benefits, further training and leave of absence.

Church tax

Approx. 83 per cent of the Danish population are members of the Danish National Evangelical Lutheran Church (Folkekirken), and the members pay church tax. This tax covers the running

and maintenance of the churches in the municipality.

The size of the church tax varies from municipality to municipality, and it is collected together with the other direct taxes.

Normally, Danish citizens become members of the Danish National Evangelical Lutheran Church when baptised. A person who is not baptised in Denmark is therefore not a member of the Danish National Evangelical Lutheran Church and does not pay church tax. At your local parish office, you can become a member of or deregister from the National Evangelical Lutheran Church.

If you are a member of another church or religious association and you pay a contribution to this, your contribution may be tax deductible.

Property value tax

If you own a house or a flat, you must pay property value tax. The tax is 1 per cent of the property value. The property value is determined by the public authorities every other year.

People living in Denmark must also pay property value tax on any foreign property that they own, and persons living abroad must pay property value tax on any property that they own in Denmark.

The property value tax is included in the total tax paid over the year. SKAT will usually obtain the required information, but if you have recently bought a house, the tax is not included in your

preliminary income assessment and your tax card. You should then contact your local tax centre to obtain a new tax card.

Property tax

If you own a house, a flat or a plot you must also pay a so-called “property tax” to the municipality based on the actual property value. The property tax is assessed and collected directly by each municipality and will differ from municipality to municipality.

Indirect taxes

Indirect taxes are taxes and duties that you pay via the goods and services you buy. Indirect taxes are VAT, customs, green taxes and excise duties.

You pay indirect taxes to the state every time to buy an article or every time you, for example, open your water tap.

The indirect taxes are included in the price that you pay for the goods/services. The seller is responsible for paying, for example, VAT, customs and excise duties to the state.

VAT

In Denmark, VAT is included in the price of nearly all purchasable goods. How much you pay in VAT thus depends on how many goods you buy. The VAT is 20 per cent of the price that you as a customer pay for an article.

VAT is also levied on services, for example, having your bicycle or car repaired, a visit to the hairdresser’s etc.

Green taxes

Green taxes are taxes that you pay for spending society's resources. The more resources you spend, the more green taxes you must pay.

The idea behind this is to make citizens try to limit their consumption and thus conserve the natural resources.

For example, green taxes are levied on petrol, oil, electricity, water and waste. This means that the price of these resources increase, which is the intention. If the price of petrol increases, people will do less driving which will limit the impact on the environment.

Lower green taxes are imposed on environmentally friendly cars that pollute less and are more fuel-efficient.

Excise duties

Excise duties are levied on the import, manufacture and sale of certain goods. When you purchase an article at a shop, the excise duty has already been paid, so as an ordinary customer you do not have to worry about this.

Goods on which excise duty is imposed include wine and beer, batteries, chocolate, sweets and soft drinks.

If you buy a car or a motorcycle, you will furthermore have to pay an additional registration tax.

Customs

Customs is a duty which you pay to the state. If you have travelled to a non-EU country and purchased goods that you are bringing back to Denmark, you may have

to pay customs. This depends on the goods that you have purchased and the volume of goods purchased.

If you bring in goods from a non-EU country worth more than DKK 1,350, you will have to pay customs. A special set of rules applies to spirits and tobacco for which you must pay customs if you purchase a certain volume.

You must report what goods you have bought and pay customs upon arrival to Denmark (for example, at the airport or the border crossing).

Important terms

In order to understand how your pay and your tax are calculated there are a number of terms that you should know.

Trækprocent / Withholding rate

The withholding rate is the percentage of your income which is deducted from your pay for tax purposes. Your withholding rate is stated on your tax card/“no tax” card.

The total withholding rate is the sum of:

- Municipal tax
- County tax
- State tax
- Church tax (if you are a member of the Danish National Evangelical Lutheran Church)

The LM contribution is not included in the withholding rate, but is deducted separately from your pay before the tax is calculated.

Skattefradrag / Tax allowances and deductions

All citizens with an income also have a number of tax allowances and deductions. These allowances and deductions determine the amount of tax that you have to pay.

This means that you can have a certain income without paying tax. If, for example, your withholding rate is 40 per cent, tax is only deducted from the part of

your income which exceeds your tax allowances and deductions.

Your employer will deduct the allowances and deductions from your pay and calculate your tax before you receive your pay

If you are married and are not able to use all of your deductions yourself, the allowances and deductions, or what is left, are transferred to your spouse.

This is relevant if, for example, one spouse does not have an income.

Personal allowance

All persons aged 18 or more have a personal allowance. The size of the allowance usually increases slightly every year – in 2006 it will be DKK 38,500. For young people under the age of 18 the personal allowance is DKK 28,600.

You could say that you do not have to pay tax on the first DKK 38,500 (or DKK 28,600) that you make in a year (except the LM contribution which you must pay on your full income).

Other allowances and deductions

There are also some deductions that depend on certain expenses. You will only be allowed these types of deductions if you have certain expenses.

For example, you will be allowed deductions if you:

- pay a membership fee to a union or an unemployment fund
- contribute to a pension scheme
- make child maintenance payments (for your own children with whom you do not live)
- pay interest on a loan
- travel more than 12 kilometres from your home to your place of work (transport allowance).

One of the political ideas behind the above allowances and deductions is that you only have to pay tax on the money that you are free to spend.

But allowances and deductions are also used to adjust the tax burden on different taxpayers.

SKAT will probably have the relevant information about most of your deductions, but some you must state on the income tax return and preliminary income assessment form.

Kapitalindkomst / Capital income

Capital income is the income that you have in the form of interest and return on investments. If you have interest-bearing bank savings, or if you have acquired securities or the like, any proceeds that you have are taxable income.

Your capital income may be positive or negative depending on whether you are making a profit or a loss on your investments.

Depending on this, your capital income must either be deducted from or added to

your income before your tax is calculated.

ATP / Labour Market Supplementary Pension Fund

ATP is a pension scheme which all employees pay to from the age of 16 until their retirement.

You must also pay ATP on your unemployment benefits, cash benefits and some social pensions.

Every time your employer calculates your pay, he withholds an amount for your ATP savings. In addition to the money that you pay to ATP, your employer will pay even more into your ATP savings account. If you pay one third, your employer will pay two thirds. You will normally have to pay approx. DKK 75 a month (own share) if you have a full-time job.

Your ATP savings will be paid to you when you retire – together with the national pension.

SP / Special pension savings

For the past many years, all employees, receivers of cash benefits etc. have contributed to a “special pensions savings” scheme (called SP). The contribution is 1 per cent of your pay and is deducted from your pay by your employer.

However, from 2004 to 2007 the contribution has been put on hold so that no SP contribution will have to be paid in this period.

When you become a pensioner, you will be paid the special pension savings as a supplement to the national pension.

Limited tax liability

Persons who are not permanently resident in Denmark, but have an income from Denmark, are normally subject to limited tax liability to Denmark.

If you are subject to limited tax liability, you are only taxed on certain income according to a special set of rules.

You must report to a tax centre if you think that you are subject to a limited tax liability.

The payslip

When your pay, cash benefits, social security is/are paid, you will receive a payslip.

Payslips may vary in appearance, but will usually always contain the same information: How much you have to pay in tax, different pension contributions and how much you will be paid.

Some of the terms on the payslip may include:

- **Løn / Pay:** Could also be stated as “honorar” (fee), “indtægt” (income) etc. Your pay is usually stated at the top of the payslip, and the amount is your full pay before tax is deducted. At the bottom of the calculation the following is usually stated: “Løn til udbetaling” (Pay for disbursement), showing the actual amount that you will be paid.
- **(ATP) Arbejdsmarkedets tillægspension / Labour Market Supplementary Pension Fund:** All employees between the age of 16 and 66 will pay to this pension scheme. You can read more about this on page 11. The amount is deducted from your full pay (gross pay) before your tax is calculated.
- **Arbejdsmarkedsbidrag / Labour market contribution:** All working citizens must contribute a labour market contribution at a rate of 8 per cent. You can read more about this on page 7. The contribution is deducted from your gross pay after ATP has been deducted and before other allowances are deducted. Your tax is then calculated.
- **SP (Særlig Pensionsopsparing / Special pension savings):** All employees must usually pay an SP contribution of 1 per cent. You can read more about this on page 11.
- **Fradrag / Allowances and deductions:** The allowance corresponding to the pay period is deducted before the tax is calculated. From your tax card, your employer can see what your allowances and deductions are. You can read more about allowances and deductions on page 10.
- **A-skat / A tax:** The tax which is charged on A income, i.e. your ordinary income. Your employer will calculate your A tax based on your withholding rate (see page 10). For information about A and B income, see the glossary.
- **Ferie / Holiday:** All employees will usually be entitled to holiday. This means that in addition to your pay, you will receive 12.5 per cent which is deposited into a holiday account

and paid to you when you go on holiday.

Every time you receive your payslip, you should check that the figures are correct. You should also save your payslips until the end of the tax year and until your tax for the year has been calculated (on the annual tax statement). Your payslips are proof that you have paid tax.

The tax year

The **preliminary income assessment** (*forskudsopgørelsen*) and the **annual tax statement** (*årsopgørelsen*) are the two statements that you receive from SKAT every year.

These statements contain the information that SKAT has about you as well as a calculation of how much tax you have to pay. The difference between them is that the preliminary income assessment shows how much tax you have to pay in the *coming* tax year, whereas the annual tax statement shows the tax you have paid in the tax year *that has just ended*.

Preliminary income assessment

Every year, in November, you will receive a preliminary income assessment. The preliminary income assessment includes the figures which SKAT believes will apply for you in the coming tax year, and your tax for the coming tax year will be calculated on the basis of these figures.

You should read the assessment and check that the figures are more or less correct. If, for example, you have a new job that pays considerably more than your previous job, or if you have new allowances compared to the preceding year, SKAT may not have included this information in the assessment, and you can then choose to add or correct the figures.

You correct figures in your preliminary income assessment by entering the correct figures in the form that you receive together with the preliminary income assessment.

You then have to sign the form and send it to SKAT. You may also correct the figures via the TastSelv (Self-Key) system or online (www.skat.dk). You can correct the figures of your preliminary income assessment throughout the year of taxation.

If you do not correct the wrong figures, the tax that you pay throughout the next year may be too high or too low. If this is the case, this may not be a big problem, because you will then either be asked to pay any outstanding tax or any overpaid tax will be returned to you at the end of the tax year.

Tax card

Together with your preliminary income assessment, you will receive a tax card for the coming tax year.

The tax card is divided into a tax rate and deduction card and a secondary card. The tax rate and deduction card shows your withholding rate and your allowances and deductions in the coming tax year. The secondary card only shows your withholding rate.

Your employer needs to have your tax card in order to be able to calculate how

much of your pay should be withheld as tax.

If you correct/add something to your preliminary income assessment, you will receive a new tax card where the new figures are taken into account. You can then discard your old tax card.

Tax rate and deduction card

You should always give your tax rate and deduction card to the employer who pays your primary income (highest income).

On your preliminary income assessment, it will often say that the tax rate and deduction card has already been sent to your employer, and in that case you do not need to do anything yourself.

Secondary card

The secondary card is a sort of extra tax card that you need if you have two jobs – with two different employers. You must give the secondary card to the employer who pays your secondary income. Your secondary card states your withholding rate, but it does not say anything about allowances and deductions as your secondary income is subject to full taxation.

“No tax” card

If your income is less than the value of your allowances, you will receive a “no tax” card instead of a tax card. When you have a “no tax” card, no tax is payable on your pay as long as it is less than the amount corresponding to the value of your allowances. This amount is stated on your “no tax” card.

Your employer does not have to withhold tax on your pay as long as it is less than the tax-free amount mentioned. Should your pay exceed this amount, the rest of your pay will be subject to full taxation.

Labour market contributions and labour market supplementary pension fund contributions will be deducted from your pay even though you have a “no tax” card.

Annual tax statement and income tax return

Every year in March/April, you will receive an income tax return and in most cases also an annual tax statement (otherwise you will receive it later). The income tax return is a form showing all the figures known to SKAT for the preceding tax year concerning your income, allowances etc.

You have to check yourself that the income tax return contains the correct information. It is a good idea to keep payslips, bank statements etc. for the entire tax year, so that you can check the information.

If you want to correct or add information, you should enter the figures in the relevant fields and return the income tax return to SKAT by 1 May at the latest.

You can also enter your corrections/additions via the Self-Key (TastSelv) telephone or online (www.skat.dk).

Your annual tax statement is computed on the basis of the figures in the income tax return and it shows your total income,

allowances, taxes etc. for the preceding tax year.

From the annual tax statement, it will also appear whether you have paid too much or too little provisional tax. If you have paid too little, you must pay the outstanding tax. If your outstanding tax does not exceed DKK 16,800 (for 2006), it will be included in the tax for the coming year, unless you choose to pay it before 1 July.

If you have paid too much tax, the overpaid tax will be refunded.

If you make corrections to your income tax return, you will get a new annual tax statement later that includes your new figures.

You should know that you must provide SKAT with the correct information with respect to your annual tax statement.

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Important note:

If you have moved to Denmark recently, you should contact a tax centre to get a preliminary income assessment and a tax card.

You should check the figures in your preliminary income assessment and your annual tax statement when you receive them, and if you have any changes to the information, you can correct/add figures in the enclosed form.

If your income or allowances/deductions have changed considerably during the year, you can

have your tax card changed to avoid having to pay too much or too little tax for the rest of the year. You can have your tax card changed at a tax centre or you can do it yourself online (Self-Key service at www.skat.dk).

You do not need to correct minor changes to your preliminary income assessment. It will appear from your annual tax statement whether you have paid too much or too little provisional tax.

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Black and white economy

In Denmark, people talk a lot about the black and the white economy – moonlighting and official jobs. As a newcomer to the labour market, it is important for you to know what the difference is – otherwise it may have serious consequences.

An official job is a legal job. This means that tax, VAT, duties, insurance, holiday allowance etc. are paid as required by Danish legislation.

Moonlighting is when you are offered and accept a job where neither you nor your employer informs SKAT about the employment and the pay you receive.

In these cases, neither your employer nor your pay tax or VAT, and you can then share the “money saved”, so that the price of the job performed is below the market price or the price in the “white economy”.

Moonlighting has many drawbacks

Moonlighting is illegal! But in addition to that, moonlighting may have serious consequences, so it does indeed have many drawbacks.

If you are injured while moonlighting on scaffolding or by a hot oven in a restaurant kitchen, no insurance will cover your injury. No insurance has been taken out for moonlighting!

You are not guaranteed any holiday allowance, sickness benefits or pension savings. You are not guaranteed any period of notice, either.

If SKAT finds out that you are moonlighting, for example in connection with an inspection at your workplace, there is no escape from punishment: Moonlighting is illegal, and you will either be fined or, in more serious cases, go to prison.

Purchasing goods on the “black market”

When purchasing goods or services, you can also buy goods on the black market. This means that the seller does not pay VAT or duties on the goods.

One way of making sure that you have not bought goods on the black market is to always ask the seller for a receipt or an invoice.

If you get a receipt, you can always return to the shop and complain and maybe get your money back or get a replacement if the bicycle or the TV set you bought does not work, or if the paint job you had ordered was not done properly. And at the same time, you prevent the seller from cheating the state.

Moonlighting is a risk not only to yourself, but also to our welfare society as such. When people moonlight, the activities in question will never become

jobs for the unemployed. If only a third of all moonlighting could be moved back to the normal labour market – and research indicates that this is possible – an additional 40,000 full-time jobs would be created.

In addition – as long as some people evade their taxes – society has to tax law-abiding citizens harder or leave some of the social tasks undone, for example within education or care for the elderly.

Even though, in the short term, moonlighting – or saving money by paying for a computer repair job without getting an invoice – may seem beneficial to a person, we will all lose out in the long run when work is done or goods are sold without paying VAT, taxes etc.

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If all tax evasion was stopped, public revenue could increase by DKK 15-20 billion.

Source for figures on this page: The Rockwool Foundation Research Unit.

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Running your own business

A number of new citizens in Denmark want to run their own business. And society needs new businesses that in many ways can contribute to society. If you want to start your own business, there are, however, a number of rules you need to know.

First of all, your business must be registered, so that the relevant authorities know what type of business you have and to ensure that you follow the rules and pay the relevant taxes and duties.

Because as a business owner, you have a number of obligations. You must pay tax on the profits from your business and VAT and duties on the goods that you sell. It is your responsibility to keep accounts of income, expenses, VAT etc. and to pay taxes, VAT and duties.

If you have employees, you must also keep accounts of their pay, A tax withheld, labour market contributions, pension schemes etc., and you must ensure that the money is paid to the right authorities. Many business owners do, however, hire an accountant to look after all this.

On the other hand, you are also entitled to a number of allowances and deductions which may have a large impact on the finances of your business. A large proportion of the expenses you have in connection with starting and running your own business are tax and

VAT-deductible, meaning that you will pay less taxes and VAT.

Therefore, it is also very beneficial for you to keep your accounts carefully.

More information?

You can read more about starting and running your own business on the page “*Iværksætter*” at www.skat.dk – you will find it under the menu item “*Virksomhed*”.

Most tax centres hold information meetings for new businesses. If you are interested, contact your local tax centre. (See addresses at www.skat.dk under *Kontakt*)

About SKAT

As of 1 November 2005, all legislation, administration and collection of taxes, VAT etc. in Denmark came under one authority called SKAT.

SKAT handles everything in relation to tax, labour market contributions, tax assessment of property, VAT, duties, customs duty, and collection of debts to the public authorities.

SKAT

SKAT is the generic term for one main centre and 30 local tax centres. You can find the relevant addresses and telephone numbers of the tax centres at www.skat.dk under the menu item “*Kontakt*”.

There is one common telephone number: 7222 1818 and one common mail address: skat@skat.dk.

SKAT produces a number of brochures and information materials and also has a website (www.skat.dk) with information for citizens and businesses.

Tax centres

There are a total of 30 local tax centres. They assist and advise citizens and businesses residing in the area and check that citizens and businesses comply with applicable rules.

The tax centres will provide answers to any question you may have with regard to your income tax return and other tax-

related matters. Businesses can get assistance with accounts, payroll accounting for employees of the enterprise, VAT, excise duties, corporation tax, customs duty etc. The tax centres handle all aspects of your tax affairs.

As SKAT is one large nationwide authority, you can apply in person at any tax centre in the country.

The Danish Ministry of Taxation

This is where the Minister for Taxation works and where the tax laws are drafted (they are passed by the Danish Parliament). You can access the website of the Danish Ministry of Taxation via www.skat.dk.

Municipalities

Each municipality has a Citizen Service (*Borgerbetjening*) where you can get assistance and guidance on how to handle your tax matters. However, the municipality does not get involved in the detailed administration of your tax affairs.

Further information

SKAT has published a number of brochures that may be relevant for new Danish citizens who would like more detailed information about tax matters.

See, for example:

- *Taxation – when moving to Denmark (Skatten – når du flytter til Danmark)* – published in Danish, English and German
- *Preliminary Income Assessment 2006 (Forskud 2006)* (primarily about the preliminary income assessment) – published in Danish and English
- *Skat for unge* (booklet on tax for pupils with folder for teachers)
- *På vej – mod egen virksomhed.* Information for entrepreneurs about running your own business.

See the brochures and other information at www.skat.dk under the menu items “*Borger*” and “*Virksomhed*”. Some of these publications are available in hard copy from the tax centres and from many libraries.

Glossary

A-kasse / Unemployment fund:

Abbreviation for *Arbejdsløshedskasse* (unemployment fund). If you have a job or if you have just finished your education, you can become a member of an unemployment fund. You will then have to make a quarterly payment to the unemployment fund and in return for this, the unemployment fund will provide you with unemployment insurance. This means that the unemployment fund will pay you a sum of money during your unemployment period. The money you pay to your unemployment fund is tax-deductible.

A-indkomst/A-skat / A income/A tax:

A income is income such as pay, unemployment benefits, state education grants (SU) etc. on which A tax is withheld.

Afgifter / Duties:

There are several types of duties, for example green taxes and excise duties. The duties are indirect taxes imposed on certain goods and resources. See page 8.

Arbejdsmarkedsbidrag (AM-bidrag) / Labour market contribution (LM contribution)

The labour market contribution is a direct tax to the state which is deducted separately from your income. The contribution is 8 per cent and is deducted from your gross pay, i.e. before any allowances etc. are calculated. No labour market contribution is paid on state

education grants, social security etc. See page 7.

Arbejdsmarkedets tillægspension (ATP) / Labour Market Supplementary Pension Fund

ATP is a pension scheme to which all employees contribute from the age of 16 until their retirement. As a rule, you do not pay ATP if you are unemployed. See page 11.

B-indkomst/B-skat / B income/B tax:

B income is income which has not been taxed when paid to you. B income may be fees or profits from self-employed business activities and interest receivable. Such income is subject to B tax. B taxes are normally paid in up to 10 instalments by means giro transfer forms received from SKAT. For a number of taxpayers, however, the B tax is included in the calculation of the withholding rate.

Begrænset skattepligt / Limited tax liability:

If you are not permanently resident in Denmark, but still have an income from Denmark, you are subject to limited tax liability. Special rules apply for limited tax liability. Contact a tax centre for further information. See page 12.

Bikort / Secondary card:

Together with your tax card, which all taxpayers receive every year in November, you also get a secondary card. You must use the secondary card if you

have more than one employer/workplace. The secondary card shows the withholding rate which your employer needs to calculate your tax. See page 16.

Bundskat/mellemskat/topskat / bottom-bracket tax/middle-bracket tax/top-bracket tax:

The tax to the state is divided into bottom-bracket, middle-bracket and top-bracket tax which all taxpayers must pay, depending on the size of their income. All taxpayers pay bottom-bracket tax, whereas middle-bracket and top-bracket tax is paid by taxpayers whose income exceeds a certain limit. See page 7.

Bruttoløn / Gross pay:

The concept of *gross pay* is used about your pay before the deduction of various contributions, allowances, deductions and tax.

Bruttoskat / Gross tax:

The concept of *gross tax* is used about the labour market contribution. It is called gross tax because the labour market contribution is calculated on the basis of your gross pay.

Børnebidrag / Child maintenance payment:

If you have children that do not live with you, you normally have to make child maintenance payments to the child until he or she reaches the age of 18. You can deduct the child maintenance payment paid on your income tax return under “*Ligningsmæssige fradrag*” (assessment-oriented deductions). Child maintenance payments to children who have reached the age of 18 are not deductible.

Børnefamilieydelse / Family income supplement:

In Denmark, all families with children receive a family income supplement for each child under 18. The supplement is paid automatically every third month, and you do not have to apply for it. The family income supplement is tax-free. The annual sum received is between DKK 9,500 and DKK 13,500 per child (2005), depending on the child’s age.

CPR-nummer / Personal identification number:

All citizens in Denmark have a CPR no. which is used for registering them in the public sector system. See page 5.

CVR-nummer / CVR number:

Following the registration of a business, it gets a number, a CVR number.

Direkte skatter / Direct taxes:

Taxes deducted directly from your income, property etc. See page 7.

Dobbeltbeskatningsaftaler / Double taxation agreements:

If you live in Denmark and have an income from another country, you are in principle liable to pay Danish tax on this income, even though the income has also been taxed in the other country. But in order to avoid such double taxation, Denmark has concluded double taxation agreements with a number of countries that specify who has the right of taxation in which areas.

For further information, please refer to the brochure “Taxation – When moving

to Denmark” at www.skat.dk under the menu item “Borger”.

Ejendomsskat / Property tax:

If you own a house, a flat or a plot, you must pay property tax to the municipality. See page 8.

Ejendomsværdiskat / Property value tax:

If you own your house or flat, you must pay property value tax. This tax is calculated on the basis of a public tax assessment of real property taking place every second year. See page 8.

Frikort / “No tax” card:

Taxpayers whose earnings are less than or equal to their allowances and deductions will receive a “no tax” card instead of the normal tax card. In most cases, “no tax” cards are issued to children or young people with a spare-time job.

The “no tax” card does not exempt you from paying labour market contributions and special pension savings. See page 16.

Folkepension / National pension:

National pension is paid to people who cannot or do not want to work any longer because of their age. You can get national pension when you reach the age of 67. Everyone contributes to paying the national pension through their tax payments.

Folkeregistret / National Registration Office:

Each municipality has a National Registration Office where all citizens of the municipality are registered. If you

have just moved to Denmark or to a new municipality, you must contact the National Registration Office to register. If you have just moved to Denmark, this is also where you get a personal identification number (CPR number). See page 5.

Forskudsopgørelse / Preliminary income assessment:

The preliminary income assessment is SKAT’s assessment of your income and allowances and deductions for the coming year as well as an assessment of how much tax you will have to pay. All taxpayers receive a preliminary income assessment every year in November, together with a tax card. See page 15.

Provisional tax:

Provisional tax is the tax collected during the income year on the basis of the figures from the preliminary income assessment. See page 15.

Tax rate and deduction card:

Your tax card consists of a tax rate and deduction card and a secondary card. You should give the tax rate and deduction card to the workplace where you earn your principal income (pay). If you have more than one job, the secondary card is used by the workplace where your income is below that of your primary workplace.

The tax rate and deduction card shows your withholding rate and your allowances and deductions which your employer needs to calculate your tax and the pay you receive. See page 16.

Indirekte skatter / Indirect taxes:

Taxes levied on goods and services. Part of the price you pay for an article or a service is in this way paid to the state. VAT, customs duties, green taxes, excise duties etc. are indirect taxes. See page 8.

Information about tax:

At www.skat.dk, you can find a lot of information about tax. SKAT publishes a number of brochures about different tax matters, all to be found under the menu items “*Borger*” and “*Virksomhed*”. Some of these publications are also available in hard copy from the tax centres and from most libraries.

Kapitalindkomst / Capital income:

Income from shares, investments etc. is capital income or unearned income. You can have negative capital income (a loss on your investments) or positive capital income (a profit on your investments), and depending on this, your capital income will be added to or deducted from your earned income when your tax is calculated. Positive capital income is also subject to taxation. See page 11.

Kildeskat / Tax deducted at source:

The most common type of tax in Denmark is tax deducted at source or pay-as-you-earn (PAYE) tax. This tax is, as the concept implies, deducted at source, i.e. the place where your pay comes from: your employer.

Kirkeskatt / Church tax:

Your pay church tax (if you are a member of the Danish National Evangelical Lutheran Church) See page 7.

Kommune/amt / Municipality/County:

Denmark is divided into state, counties and municipalities. All three parties have a number of social tasks to carry out. State tax, county tax and municipal tax are levied. Each individual county and municipality fixes its own county and municipal tax. See page 4.

Kontanthjælp / Social security:

Refers to the financial benefit you receive from the state if you are unemployed and do not have any other income.

Kørselsfradrag (or befordringsfradrag) / Transport allowance:

If you travel more than 12 kilometres from your home to your place of work, you are eligible for a transport allowance. What can be deducted is not the actual travel expenses but a deduction based on fixed rates. The deduction is calculated on the basis of the distance between work and the number of working days you have in a year. You must enter the sum on your income tax return under “*Ligningsmæssige fradrag*” (assessment-oriented deductions). You can find the rates at www.skat.dk.

Ligningsmæssige fradrag / Assessment-oriented allowances and deductions:

A number of tax deduction are referred to as assessment-oriented deductions, and they relate to some fixed expenses which a taxpayer may have. Assessment-oriented allowances and deductions are, for example, transport allowance, unemployment fund/trade union fees, child maintenance payments etc.

Mellemskat / Middle-bracket tax:

Se under “Bundskat/mellemskat/topskat / bottom-bracket tax/middle-bracket tax/top-bracket tax”.

Moms / VAT:

VAT is an indirect tax added to the price of goods and services. Every time you buy an article, you pay VAT. The VAT is 20 per cent of the price that you as a customer pay for an article. See page 8.

Overskydende skat / Overpaid tax:

If, during the year, you have paid too much tax, the excess amount will be refunded as overpaid tax. Any overpaid tax is refunded when you receive your annual tax statement. The amount due is transferred to your account. See page 16.

Pensionsopsparring / Pension savings:

Many citizens have pension savings to which they either contribute themselves every month or which their employer also pays into. As a starting point, the pension savings contributions paid by citizens are tax-deductible.

Personfradrag / Personal allowance:

All taxpayers have a personal allowance which is independent of income or expenses. See page 10.

If a married person cannot use his or her entire personal allowance, the balance is transferred to his or her spouse. This happens automatically.

Personlig indkomst / Personal income:

You will find this concept on your income tax return, annual tax statement etc. Personal income covers all income

that is not capital income or share income.

Progressivt skattesystem / Progressive tax system:

Denmark has a progressive tax system. This means that people with a high income pay a greater share of their income in tax than those with a lower income. The tax to the state is divided into bottom-bracket, middle-bracket and top-bracket tax. See page 7.

Restskat / Outstanding tax:

If, during the income year, you have paid too little tax, you are liable to pay outstanding tax. The outstanding tax is specified on your annual tax statement which you receive at the end of the income year. You have to pay your outstanding tax before a certain date. See page 16.

Selvangivelse / Income tax return:

The income tax return is a form which all taxpayers receive in March/April. It contains the figures known to SKAT concerning your income and allowances and deductions for the preceding year. In addition, you must enter any missing figures and correct any wrong figures. Based on the figures in your income tax return, SKAT prepares your annual tax statement. See page 16.

Selvstændig virksomhed / Your own business:

If you want to start your own business, there are a number of rules you need to know. Running your own business involves a number of obligations. See more on page 20.

Skattefradrag / Tax allowances and deductions:

To have a tax deduction means that you can make a certain amount without paying tax. There are several types of allowances and deductions. See page 10.

Skattekommune / Municipality for tax purposes:

Normally the place of residence on 5 September decides which tax municipality and therefore which tax rates are applicable to the forthcoming calendar year.

Skattekort / Tax card:

Every year, in November, all taxpayers receive a tax card showing their tax allowances and deductions and their withholding rate for the coming year. If you are a new taxpayer, you must contact a tax centre and ask them to issue a tax card for you. See page 15.

Skatteloft / Tax ceiling:

The Danish tax system has a “tax ceiling”. This means that there is a ceiling (a limit) to how much tax you will pay. The total income tax to the state, county and municipality cannot exceed 59 per cent. Church tax and labour market contributions and special pension savings are not included in the tax ceiling.

Særlig pensionsopsparring / Special pension savings (SP):

Employees, self-employed businessmen and recipients of unemployment and cash benefits must pay 1 per cent of their income into a special pension savings scheme from the year in which they reach

the age of 17 and until they become pensioners. See page 11. From 2004-2007, the special pension savings have, however, been temporarily suspended. See page 11.

TastSelv / Self-Key

You can take care of the majority of your tax matters via the digital Self-Key service solution on the Internet. You can, for example, make changes to your income tax return, calculate your transport allowance etc. For more information, see under “TastSelv Borger” at www.skat.dk

Told / Customs duty

Customs duty is an indirect tax payable on goods imported from countries outside the EU. See page 9.

Topskat / Top-bracket tax:

See “Bundskat/mellemskat/topskat / bottom-bracket tax/middle-bracket tax/top-bracket tax”.

Trækprocent / Withholding rate:

Refers to the percentage specified on your tax card which your employer needs in order to calculate your tax. See page 10.

Udenlandsk indkomst / Foreign income:

If you have foreign income, you must fill in a special income tax return for foreign income. The foreign income is taxed according to special rules; a tax centre can tell you about them.

Udvidet selvangivelse / Extended income tax return:

Some taxpayers must fill in an extended income tax return because they have information which cannot be included on the ordinary income tax return form, for example, if you have your own business, if you have rent income, foreign income etc.

You can get an extended income tax return from a tax centre or via www.skat.dk under the menu item "Borger".

Årsopgørelse / Annual tax statement:

You will receive your annual tax statement in the period from mid-March to the end of June. It shows how much tax you have paid in the past year and how much tax you actually have to pay. You will normally receive your annual tax statement together with your income tax return. If you correct/add something to your income tax return, you will subsequently receive a new annual tax statement. See page 16.

If you have filled in an extended income tax return, you will normally not receive your annual tax statement until after 1 July.

Tax in Denmark

This booklet is a short and simple introduction to the Danish tax system.

The booklet has been translated from Danish into English, Arabic, Farsi, Somali and Turkish. If you speak one of these languages, you can use the translated booklet together with the Danish booklet if you have difficulties reading Danish.

We do, however, recommend that you read and use the translated booklet together with the Danish version. In this way, you will learn the Danish concepts and will at the same time benefit from the drawings and illustrations etc. which are not included in the translated booklets.

It is therefore our wish that you start reading the Danish booklet and then refer to the translated booklet when there is something you do not quite understand. In this way, you will get the most out of the booklets.

The booklets are available from tax centres, municipalities and from some libraries.

We hope that "Tax in Denmark" will be helpful to you in the future when you need to know more about tax matters.

Dette er den engelske oversættelse af hæftet "Skat i Danmark".

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