Business sector analysis

Compliance with tax and VAT rules by businesses in Denmark

Tax year 2006

Report

SKAT – Danish Tax and Customs Administration

Main Office

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FOREWORD

SKAT, the Danish Tax and Customs Administration, has set out over recent years systematically to map the extent of tax compliance in Denmark. The extent of both unintentional errors and deliberate tax evasion has been identified for the tax year 2006. The study is very comprehensive, being based on a rigorous audit of more than 22,000 individual taxpayers and businesses distributed across all geographical areas of Denmark.

Two reports based on the project were published in Danish in May 2009. These elucidated taxpayers' failures to comply with the tax regulations and calculated the tax gap for Denmark. One of these reports concerned only individual taxpayers. The other concentrated on businesses – both businesses structured as companies and those run by the self-employed. These compliance reports were later published in English and can be downloaded from the Danish section of the International Tax Dialogue website: www.itdweb.org

After the completion of these first analyses, SKAT set up three working groups with the task of producing more specific analyses of error types in tax declarations. One group focused on companies, one group concentrated on the self-employed and the third group dealt with VAT.

The error analysis is based on a re-examination of all the cases related to businesses in the compliance project where one or more errors were found in the tax declarations. The aim of this re-examination is to map both the frequency of the different types of error and what they mean in terms of lost revenue from tax on earnings and VAT.

In each case, all the errors have been recorded in terms of error type and the amount of money involved. On this basis, an overall account has been produced of how many times each error type occurred, and how large an amount of money was involved – both on a national level and for 16 groups of business sectors.

A completely new feature of this analysis is that, on the basis of the tax rates relevant for the different types of error and with reference to the adjustments in tax that were made in each case, an estimate of the tax gap has been made measured in terms of lost revenue. It has also been possible to subdivide the loss of revenue arising from each of the different types of error, and to make a breakdown of lost revenue for each of the 16 business sector groups.

In the area of tax on earnings, the account of typical errors is based on an examination of the 4,871 cases that gave rise to adjustments to taxable income, out of audits made in a total of 11,462 cases. As far as VAT is concerned, the error type analysis is based on a re-examination of 457 cases in which the VAT declared was incorrect, out of the total of 1,584 cases in which audits on VAT were made.

The results of this massive task are presented here. The report gives an account of the errors that were made by businesses, divided up into the areas of tax on earnings and VAT. As far as tax on earnings is concerned, the errors are further divided up between companies and the self-employed. Furthermore, the error types are broken down by the business sector groups used in the study.

These studies have provided us at SKAT with new knowledge which will contribute now and in the future to our ability to focus our resources in relevant areas and thus ensure a fair and effective financing of the public sector. The analysis is also available to all external interested parties, and is intended to give companies, business sector organisations, advisors, etc. important input in helping to prevent similar errors in the future.

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INTRODUCTION, AND GUIDANCE FOR THE READER

Before we move on to the error type analysis itself, we will make a brief presentation of the main results of the earlier work. A short account is given of some revised calculation principles and of the new calculations of the tax gap measured in terms of lost revenue. This section concludes with some guidance to the reader regarding the remainder of the report.

We also wish to draw attention to Appendix 2, entitled *Delimitations and definitions,* which presents a more detailed description of the concepts used, such as levels of compliance, error percentages, adjustment amounts, the tax and VAT gaps, etc. The appendix is largely identical with the corresponding definitions chapter in the compliance report of August 2009.

MAIN RESULTS FROM THE COMPLIANCE REPORT ON BUSINESSES

This section presents a brief summary of the main results of the compliance survey for businesses. The results were published in English in August 2009 in a report entitled *Compliance with the tax rules by businesses in Denmark. Tax year 2006.*

There was a 42% level of error occurrence among the businesses checked, excluding errors connected with VAT.

Companies were less prone to error than the self-employed, with percentages of 35% and 45% respectively.

The proportion of errors increased in relation to the size of turnover. This relationship was clearly statistically significant; the percentage of errors was almost twice as high for businesses that had a turnover of over DKK 10 million as it was for businesses with zero turnover, at 57% and 31% respectively.

Where VAT was also checked, errors related to VAT alone were found in 30% of cases.

The proportion errors also varied considerably between sectors. Errors occurred most frequently in the sectors Hotels and Restaurants, Education, Health Care and Social Services, and Building and Construction. In these sectors there were errors in more cases than were error-free. The Finance and Insurance sector had the best record, with errors in "only" just over every fourth case. Next came a large group of where the business sector was not stated, and where there were errors in every third instance.

When a case worker had completed a case, he or she had to assess the degree to which the regulations had been complied with. This evaluation of the case was expressed in a single figure – the *level of compliance* or *compliance rating*. This was a newly established method of grading on a scale from 0 to 6, where the higher the grade, the greater the degree of conformity with the regulations.

The average level of compliance for all businesses as stated in the August 2009 compliance report was 4.6.

The underlying distribution showed that fully 93% of all businesses could be viewed as *co-players*, while only 7% had to be regarded as *opponents*. A very large majority of businesses thus aim to follow the rules.

The average compliance rating for companies was 4.8, as opposed to 4.5 for the self-employed. The proportion of opponents was around fifty percent greater among the self-employed.

As previously noted there was a clear tendency for the level of compliance to decline with increased levels of turnover.

There was significant variation across sectors in levels of compliance. The worst ratings by far were in the Hotels and Restaurants sector, which, with a compliance level of 3.7, was the only sector to score under 4. The Transportation and the Building and Construction sectors were also low, at the level of 4.1, followed by four other sectors scoring 4.2. At the other end of the range, Finance and Insurance, together with the businesses where the sector was not stated, returned the best results, with compliance levels of 5.1 and 5.0 respectively.

At the sector level, there was a clear correlation between high percentages of error and low levels of compliance.

The tax gap for businesses was calculated in the compliance report to be DKK 26.5 billion. The calculation of the tax gap is extremely sensitive to the inclusion of very large increases and decreases. If seven extreme cases are ignored, the calculated tax gap shrinks to just over DKK 15 billion.

It is very important to emphasise that these are the figures calculated *before tax*.

The VAT gap for businesses was calculated to be DKK 3.7 billion. If the extremely large outlying adjustments are ignored, the gap is reduced to DKK 2.0 billion. The VAT gap is calculated in terms of lost revenue.

REVISED CALCULATIONS

For the analysis of error types, additional quality assurance measures were taken with respect to the data used in the reports of 2009. The comprehensive re-examination of the data, which was absolutely necessary for this study, led to an increase in the size of the calculated tax gap for businesses alone of around DKK 2 billion, so that the total tax gap (before tax) for the two types of business examined is now estimated to be between 17.0 and 28.8 billion Danish kroner.

As mentioned in the section "*The calculation of weighted averages*" in this report the sample has been stratified and thus the data has been weighted to calculate population totals. It has been necessary to correct the weightings used in the study. This is because the final population from which the sample was drawn is not known with complete certainty. For example, some people may have emigrated or died between the date when the sample was drawn and the date when the audits were carried out. This problem is greater in the case of businesses. Among the self-employed there are a number of people who still have a business tax assessment code, but are actually no longer actively operating businesses.

For both individual taxpayers and businesses, in cases where a person or a business no longer exists, a new business or person has been drawn from a similarly randomly selected reserve list in order to ensure that the number of audits made in each region remains equal. This ensures not only that the error percentage calculations are made on the basis of currently existing taxpayers and businesses, but also that the statistical level of uncertainty in the calculations of error percentages is the same for each tax centre. In the case of individual taxpayers, 1.6% of cases in the original sample drawn have been replaced by cases from the reserve list. The corresponding percentages for companies and for the self-employed are 1.3% and 6.5% respectively.

These changes, taken in isolation, have led to a reduction in the size of the calculated tax gap as published in the compliance reports.

Taken together, the correction of errors and the changes in weightings have resulted in the tax gap for individual taxpayers being calculated as around DKK 5 billion (DKK 4.98 billion, as opposed to DKK 5.03 billion stated in the compliance report on individual taxpayers), and the corresponding gap for businesses being calculated as DKK 15.9-27.8 billion, depending on whether or not the extreme outlying adjustments in the sample are included in the calculation (compared with the figure of DKK 15.3-26.5 billion stated in the compliance report).

THE TAX GAP CALCULATED "BEFORE TAX" OR AS LOST REVENUE

The tax gap can be calculated in terms of the tax base or the tax revenue, i.e. equivalent to an accounting before or after tax. In the compliance reports of 2009, the tax gap was calculated in terms of the tax base, in line with previous standard practice in Danish research. In this report, however, we have chosen to work with the tax gap after tax, i.e. in terms of lost tax revenue. This figure is easier to communicate and work with in the public debate than the tax gap described in terms of adjustments before tax.

The lost revenue has been calculated by separately applying the relevant tax rates for each error type, and it has been calculated for both companies and the self-employed. Appendix table 2 and appendix table 3 shows the tax rates for 2006 used for each of the error types identified for the tax year 2006, both for companies and for the self-employed.

GUIDANCE FOR THE READER

The report below begins with a summary of the main results of the error type analysis, in the section entitled "Analysis of error types: Main results". This is followed by a section entitled "Overview: All business sectors

", which contains a series of tables that provide an overview of the main results for each business sector with respect to tax on earnings and VAT. The section "Results for 16 principal sectors

" presents more detailed results, with error types for each business sector.

Despite the fact that audits were made of the tax affairs of a very large random sample, there are limits to the level of detail that can be used in presenting the results of an analysis of error types in separate business sectors, because of the statistical uncertainty involved in working with a sample of the whole population. We have therefore decided to indicate, or even not to report at all, results which are based on fewer than 30 observations. In the more detailed tables for each business sector, however, we have set the limit at 15 observations, in order not to exclude too many error types from the report. However, it must be remembered that results based on fewer than 30 observations carry a particularly high level of statistical uncertainty.

The error types are described in greater detail in the section entitled “Descriptions of error types”.

The calculations for all the figures presented in the tables exclude a small number of cases of extremely large adjustments to tax. The limits set for the exclusion of these large outlying amounts are described in the Compliance Report of August 2009 (pages 9 and 31).

No comments are provided on any of the tables apart from table 1 and table 2. The content of the tables is indicated by the table titles and rubrics.

ANALYSIS OF ERROR TYPES: MAIN RESULTS

The random sample of businesses used in the measurement of level of compliance with the regulations covers only a part of the total number of businesses in Denmark.

Consequently, the calculated tax gap, etc. and the account of the most frequently occurring errors in the areas of tax on earnings and VAT do not represent a complete picture of compliance with the rules by Danish businesses – only a part of that picture.

The businesses which are not included in the analysis are, first of all, companies which are handled by SKAT's Centre for Large Companies. Banks, savings institutions, insurance companies, power supply companies, etc. are also excluded. TP companies with annual turnovers of up to DKK 3 billion are included in the calculations, but any problems with regard to transfer pricing are not taken into account.

Unregistered companies and companies that are categorised as carrying out heavy economic crime under SKAT's internal system are not included in the calculations, since there are special procedures associated with these entities that are handled by other units within SKAT. Similarly, most forms of undeclared work are not taken into account.

Moreover, measurements of compliance do not cover foreign companies operating in Denmark but not fully taxable in Denmark.

Finally, voluntary organisations are not included, irrespective of whether or not these voluntary organisations regularly have dealings in which tax and VAT have to be taken into account.

CRITERIA USED IN THE ERROR TYPE ANALYSIS

The error type analysis consists of an examination of all the cases included in the compliance report in which errors were found that gave rise to adjustments in the amount of taxable earnings or VAT payable.

The criteria used as a basis for the error type analysis included the following:

- Identical errors should be recorded together as being of the same type, regardless of whether they fall under the same legislation. In consequence, certain error types cross boundaries with respect to sections of legislation involved. Error types are also defined in relation to selection possibilities and checking and guidance topics.
- Error types are to be defined as clearly and precisely as possible. Very broad categories of error are to be avoided as far as possible, since these will cause problems for the entire analysis and for presentations of the results of the analysis.
- No error type may be used as a mixed category for "other" errors.

These criteria mean, for example, that errors in earnings are subdivided into the following main categories:

1. Earnings not recorded in the accounts but the existence of which is directly evidenced by actual invoices.
2. Earnings not recorded in the accounts but the existence of which is indirectly evidenced on the basis of consumption of materials, consumption for private use, etc.
3. Work in progress on behalf of third parties.
4. General errors in relation to net turnover with regard to inclusion during the correct time period (periodisation).
5. The negotiation and fixing of payments between interested parties where the other party is a person.
6. The negotiation and fixing of payments between interested parties where the other party is a legal entity.

In the area of tax on earnings, the calculations regarding typical errors were based on an examination of 4,871 cases, out of a total of 11,462 cases checked. When the stratification of the sample is taken into account, this works out as being equivalent to errors occurring in over 42% of cases.

In the case of VAT, the calculations regarding the most common error types were based on an examination of 457 cases out of a total of 1,568, which means, when the stratification of the sample is taken into account, that there were errors in the equivalent of over 30% of cases.

The section entitled “Descriptions of error types” provides a more detailed description of the various error types.

THE MOST FREQUENTLY-OCCURRING ERRORS WITH REGARD TO TAX AND VAT

The list of the most typical and the most important errors in the areas of tax and VAT could be presented in many different ways. One would be to sequence the list according to the proportion of the overall tax gap accounted for by each type of error. Another approach would be to present error types on the basis of the proportion each type accounted for out of the total number of errors.

The first list would focus very strongly on errors typically found in a small number of specific types of business, while the second would tend to emphasise errors which involved generally rather small amounts of money.

A third possibility is to combine the two criteria so that the list of the most typical and most relevant errors focuses on errors which are significant in terms of revenue involved because they are so numerous. This has the effect of emphasising those error types which occur most frequently and have the greatest impact on revenue.

The self-employed

On this third basis, the list of the most common error types relating to tax on earnings for the self-employed is as follows:

1. Private expenses

   Expenses which are incorrectly deducted as being business-related, but which are actually for items which fairly obviously should be regarded as private expenses.

2. Various non-deductible expenses

   Expenses which do not meet the normal requirements for documentation, or which do not qualify as deductible because they have been attributed to the wrong bearer of the costs. This category also includes errors such as double deduction of expenses in declaring taxable earnings (though not through bookkeeping errors).

3. Private tax sphere

   Adjustments to taxable earnings as a result of errors concerning the private, non-business-related tax sphere of the self-employed person, though excluding the non-declaration of personal income.

4. Undeclared business earnings

   Undeclared net business earnings and public subsidies which should be included in net business earnings (this error type does not include periodisation errors with respect to net earnings).

5. Estimations

   Assessment of taxable business earnings on the basis of an estimate made because of the failure to submit a declaration.

Companies

For businesses run as companies the list of most common errors regarding tax on earnings is as follows:

1. Private expenses

   Expenses which are incorrectly deducted in the company accounts as being business-related, but which fairly obviously are actually for items which should be regarded as private expenses.

2. Various non-deductible expenses

   Expenses which do not meet the normal requirements for documentation, or which do not qualify as deductible because they have been attributed to the wrong bearer of the costs This category also includes errors such as double deduction of expenses in declaring taxable earnings (though not through bookkeeping errors).

3. Depreciation basis

   Reduction in the basis for the calculation of depreciation and thus in the calculated depreciation for the year on the grounds that all or some of the declared basis for depreciation cannot be accepted as qualifying for such a deduction.

4. Periodisation errors – operating costs

Errors in the periodisation of losses from bad debts and general periodisation errors with regard to business operating costs.

VAT

The following list presents the most important error types with respect to VAT for all business combined, both those run by the self-employed and those run as companies.

1. Private expenses

   Deduction of VAT on purchases of goods and services which were clearly purchased exclusively for private use.

2. Non-declared VAT on sales

   Non-declared VAT on sales, as evidenced by actual invoices.

3. VAT declared not in accordance with the accounts

   VAT due not declared despite being correctly recorded in the accounts, because of errors in the calculation and balancing of the VAT due.

4. Deductions omitted

   Failure of the business to make permissible deductions of VAT paid.

Summary

One of the main conclusions to be drawn from the analysis of error types is that the tax gap is caused by a relatively wide range of errors – and, just as important, that the errors typically occur in combination. It is in fact the exception to the norm that a business makes just one serious error.

Another of the main conclusions from the analysis is that there are three errors in particular which dominate the overall list of error types, whether measured in terms of their contribution to the tax gap or their overall frequency. These are:

1. Undeclared business earnings.
2. Incorrect deduction of private expenses.
3. Depreciation errors involving purchases being deducted fully in the year of purchase. However, the most frequently occurring error associated with depreciation is the deduction of depreciation on non-depreciable assets.

ERRORS AND ACCOUNTANTS

An analysis of the declarations of the self-employed shows that there are fewer errors among those who use accountants than among those who do not.

Among business run by the self-employed which made use of the services of an accountant, the proportion of businesses for which errors were found was approximately 37.8% (allowing for statistical uncertainty, it can be stated that the "true" percentage probably lies in the range 36.2-39.4%). The proportion of businesses making errors among businesses run by the self-employed which did not use accountants was approximately 48.2% (probably within the range 46.8-

49.6%, allowing for statistical uncertainty).[1] The difference is thus clearly statistically significant, as it is even when corrections are made for level of turnover, sector, age, and number of employees.

Overall, there is no statistically significant difference in the percentage of companies making errors between those where accountants are used to prepare or audit the accounts (error rate 35%) and those where accountants are not used (error rate 41%). The reason that the difference in error rate is not statistically significant is that there were relatively few companies in the compliance project which did not employ accountants.[2]

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[1] Information concerning assistance from accountants is taken from field 607 on the tax return for self-employed.

[2] The analyses did not determine whether there were more or fewer errors made by some types of accountant relative to other types. Nor did the analyses reveal whether differences in average error rates were affected by errors in the information declared about whether an accountant had been used – for example, whether some businesses had incorrectly entered on the declaration form that an accountant had been involved in the preparation of the accounts when in fact this was not the case.

OVERVIEW: ALL BUSINESS SECTORS

Table 1 shows the overall results from each main business sector in terms of rating, proportions of "co-players" and "opponents", the tax gap calculated in terms of lost revenue, and the number of businesses included in the sample. The business sector classifications are in accordance with the 21 standard groups identified by Statistics Denmark, except that some sectors have been combined because of the low number of observations in the study. The make-up of each sector group is given in "Appendix 1. Overview of business sectors".

Table 1. Key figures for errors and fraud in tax, broken down by business sector and listed in descending order of compliance rating

Business sector	Rating	Percentages of co-players/ opponents	Tax gap (revenue)	No. of businesses in the sample
	Average	*Percent*	*DKK millions*	*Number*
Finance and Insurance	5.13	96 / 4	61	345
Estate Agencies and Property Rental Agencies	4.82	95 / 5	341	709
Agriculture, Forestry, Fisheries and Commodities Production	4.72	97 / 3	475	1,604
Energy Supply	4.71	98 / 2	19	76
Water Supply and Refuse Collection[1)]	4.68	93 / 7	2	15
Consultancy	4.38	92 / 8	522	795
Manufacturing	4.35	91 / 9	424	433
Other Services	4.31	93 / 7	78	276
Information and Communication	4.27	88 / 12	275	337
Education	4.25	93 / 7	26	109
Travel Agencies, Cleaning and Other Business Services	4.23	88 / 12	338	376
Trade	4.19	89 / 11	846	1,427
Health Care and Social Services	4.18	92 / 8	233	424
Transportation	4.18	89 / 12	280	409
Leisure and Culture	4.16	93 / 7	25	97
Building and Construction	4.12	86 / 14	772	809
Hotels and Restaurants	3.74	80 / 20	239	272
Not Stated	4.98	96 / 4	822	3.047
Total	**4.55**	**93 / 7**	**5,776**	**11,462**

Notes: [1)] Note that there were only 15 businesses in the sample, so these results must be regarded as statistically very uncertain.

The Hotel and Restaurant sector has, as mentioned previously, by far the worst rating and the largest proportion of "opponents". The tax gap calculated in terms of lost revenue is largest for the Trade sector, where it amounts to DKK 846 million. In total, the tax gap for businesses is calculated to be DKK 5.8 billion in lost revenue, if a few extremely large outlying adjustments are excluded from the calculations.

Table 2. Key figures for errors and fraud in VAT, broken down by business sector and listed in descending order of compliance rating

Business sector	Rating	Percentages of co-players/ opponents	VAT gap (revenue)	No. of businesses in the sample
	Average	*Percent*	*DKK millions*	*Number*
Finance and Insurance[1)]	5.28	100 / 0	0	18
Energy Supply[1)]	5.09	100 / 0	0	11
Estate Agencies and Property Rental Agencies	4.65	95 / 5	84	139
Agriculture, Forestry, Fisheries and Commodities Production	4.63	97 / 3	156	338
Education[1)]	4.35	89 / 11	0	14
Consultancy	4.25	91 / 9	269	160
Manufacturing	4.17	89 / 11	112	90
Other Services	4.16	89 / 11	41	54
Travel Agencies, Cleaning and Other Business Services	4.10	87 / 13	108	80
Information and Communication	4.03	89 / 11	79	70
Health Care and Social Services	4.01	89 / 11	0	35
Water Supply and Refuse Collection[1)]	4.00	100 / 0	0	1
Transportation	3.95	87 / 13	211	52
Trade	3.93	87 / 13	303	269
Building and Construction	3.92	85 / 15	218	150
Hotels and Restaurants	3.83	86 / 14	181	49
Not Stated	3.75	82 / 18	83	43
Leisure and Culture[1)]	3.62	83 / 18	0	11
Total	**4.22**	**90 / 10**	**1,846**	**1,584**

Notes: Note that the average compliance rating for all businesses reported here is lower than in Table 1. This is because the businesses in this analysis are those that were checked both for ordinary tax and for VAT, rather than just for tax. In other words, for these businesses there are more areas where fraud or error may be found, and consequently the average rating is lower. Similarly, the number of businesses categorised as “opponents” is also greater. The 1,584 businesses checked that make up the sample are an actual subset of the 11,462 businesses checked in the analysis of tax, and therefore are included in the calculation of both average ratings and proportions of co-players/opponents in table 1. Since the rating for a business is a joint assessment based on all its tax affairs, it is not possible to separate the ratings for VAT and tax on earnings in those cases where a audit was made on both. However, the tax gap and the VAT gap in the two tables are calculated separately for tax on earnings and VAT, since it is possible to allocate the adjustment amounts to the appropriate categories.

[1)] Note that there were fewer than 30 businesses in the sample, so these results must be regarded as statistically very uncertain.

Table 2 shows the overall results from each main business sector for VAT in terms of rating, proportions of “co-players” and “opponents”, the tax gap calculated in terms of lost revenue, and the number of businesses included in the sample. If we ignore the Leisure and Culture sector, where there were fewer than 30 observations in the sample, the poorest ratings are for the Hotel and Restaurant sector and the Not Stated sector. The VAT revenue gap is largest for the Trade sector, where it is DKK 303 million. In total, the VAT gap for businesses is calculated to be DKK 1.8 billion, if a few extremely large outlying adjustments are excluded from the calculations.

ERROR PERCENTAGES AND RATINGS

Table 3. Levels of compliance (rating), proportions of co-players/opponents and error percentages for companies, broken down by business sector

Companies Business sector	Rating	Percentages of co-players/ opponents	Percentages without/with errors
	Average	*— Percentages —*	
Water Supply and Refuse Collection[1)]	4.68	93 / 7	100 / 0
Finance and Insurance	5.15	96 / 4	74 / 26
Energy Supply[1)]	5.01	100 / 0	60 / 40
Agriculture, Forestry, Fisheries and Commodities Production	4.94	99 / 1	75 / 25
Estate Agencies and Property Rental Agencies	4.85	95 / 5	66 / 34
Education[1)]	4.68	90 / 10	81 / 19
Leisure and Culture[1)]	4.60	96 / 4	57 / 43
Travel Agencies, Cleaning and Other Business Services	4.46	92 / 8	63 / 37
Consultancy	4.46	92 / 8	54 / 46
Information and Communication	4.44	92 / 8	58 / 42
Trade	4.42	93 / 7	55 / 45
Manufacturing	4.42	93 / 7	51 / 49
Health Care and Social Services	4.40	92 / 8	52 / 48
Transportation	4.40	98 / 3	45 / 55
Other Services	4.29	90 / 10	60 / 40
Building and Construction	4.26	90 / 10	49 / 51
Hotels and Restaurants	4.15	89 / 11	55 / 45
Not Stated	5.38	97 / 3	82 / 18
Total	**4.79**	**94 / 6**	**65 / 35**

Notes: [1)] Figures are based on fewer than 30 observations.

Table 4. Levels of compliance (rating), proportions of co-players/opponents and error percentages for the self-employed, broken down by business sector

The self-employed Business sector	Rating	Percentages of co-players/ opponents	Percentages without/with errors
	Average	*— Percentages —*	
Finance and Insurance[1)]	4.86	100 / 0	48 / 52
Estate Agencies and Property Rental Agencies	4.79	95 / 5	60 / 40
Agriculture, Forestry, Fisheries and Commodities Production	4.72	97 / 3	62 / 38
Energy Supply	4.67	98 / 2	59 / 41
Water Supply and Refuse Collection[1)]	4.49	92 / 8	45 / 55
Consultancy	4.34	91 / 9	50 / 50
Other Services	4.32	94 / 6	59 / 41
Manufacturing	4.30	90 / 10	55 / 45
Information and Communication	4.19	86 / 14	51 / 50
Education	4.19	94 / 6	42 / 58
Health Care and Social Services	4.14	92 / 8	44 / 56
Travel Agencies, Cleaning and Other Business Services	4.12	86 / 14	49 / 51
Transportation	4.12	86 / 14	53 / 47
Building and Construction	4.05	84 / 16	46 / 54
Trade	4.05	87 / 13	48 / 52
Leisure and Culture	4.05	92 / 8	52 / 48
Hotels and Restaurants	3.66	79 / 21	41 / 59
Not Stated	4.82	95 / 5	61 / 39
Total	**4.46**	**92 / 8**	**55 / 45**

Notes: [1)] Figures are based on fewer than 30 observations.

THE TAX/VAT GAPS AND ADJUSTMENT AMOUNTS

Table 5. The tax gap and VAT gap for companies, broken down by business sector and listed in ascending order of size of the tax gap calculated in lost revenue

Companies **Business sector**	**Tax gap in revenue**[1)]	**"Gross" tax gap**[2)]	**Adjustments down/up**	**Median adjustment amount**
	DKK millions		*Percent*	*DKK '000*
Education[4)]	0	13	36 / 64	33
Energy Supply[4)]	1	16	67 / 33	-80
Other services[4)]	9	50	4 / 97	28
Leisure and Culture[4)]	12	38	17 / 83	24
Agriculture, Forestry and Fishing[4)]	14	106	24 / 76	14
Hotels and restaurants[4)]	39	141	3 / 97	80
Travel Agencies, Cleaning and Other Business Services	52	284	10 / 90	23
Finance and Insurance	58	1,157	23 / 78	18
Health Care and Social Services	64	247	5 / 95	20
Transportation	67	254	13 / 87	40
Information and Communication	145	513	11 / 89	35
Estate Agencies and Property Rental Agencies	213	1,166	13 / 87	31
Consultancy	230	824	10 / 90	40
Manufacturing	231	1,000	4 / 96	50
Building and Construction	329	1,278	9 / 92	44
Trade	418	1,870	10 / 90	34
Not Stated	362	1,364	16 / 84	13
Total	**2,245**	**10,319**	**12 / 88**	**32**

Notes:
1) The *tax gap in revenue* is the sum of upward and downward adjustments, with the plus or minus sign being taken into the calculation.
2) The *"gross" tax gap* is the numerical total of upward and downward adjustments, before tax and ignoring the plus or minus sign in the calculation.
3) The proportions of the total numbers of adjustments which were downward and upward respectively.
4) Figures are based on fewer than 30 observations.

Table 6. The tax gap and VAT gap for the self-employed, broken down by business sector and listed in ascending order of size of the tax gap calculated in lost revenue

The self-employed **Business sector**	**Tax gap, lost revenue** [1]	**"Gross" tax gap**[2]	**Adjustments down/up**	**Median adjustment amount**
	DKK millions		*Percent*	*DKK '000*
Water Supply and Refuse Collection[4]	2	9	27 / 73	9
Finance and Insurance[4]	3	15	4 / 96	9
Leisure and Culture	13	104	15 / 85	10
Energy Supply[4]	18	64	13 / 87	16
Education	26	87	13 / 88	14
Other Services	68	247	17 / 83	16
Estate Agencies and Property Rental Agencies	128	655	10 / 90	17
Information and Communication	130	367	7 / 93	16
Health Care and Social Services	169	509	6 / 94	16
Manufacturing	193	833	8 / 92	22
Hotels and Restaurants	199	513	11 / 89	31
Transportation	213	539	5 / 95	21
Travel Agencies, Cleaning and Other Business Services	286	716	11 / 89	19
Consultancy	292	934	12 / 88	13
Trade	428	1,442	11 / 89	15
Building and Construction	443	1,160	5 / 95	23
Agriculture, Forestry, Fisheries and Commodities Production	462	2,299	13 / 87	12
Not Stated	460	2,194	18 / 82	10
Total	**3,531**	**12,687**	**12 / 88**	**14**

Notes:
[1] The *tax gap in revenue* is the sum of upward and downward adjustments, with the plus or minus sign being taken into the calculation.
[2] The *"gross" tax gap* is the numerical total of upward and downward adjustments, before tax and ignoring the plus or minus sign in the calculation.
[3] The proportions of the total numbers of adjustments which were downward and upward respectively.
[4] Figures are based on fewer than 30 observations.

Table 7. The VAT gap and adjustment amounts for companies and the self-employed taken together, broken down by business sector and listed in ascending order of size of the VAT gap calculated in lost revenue

VAT **Business sector**	**VAT gap in revenue**[1)]	**"Gross" VAT gap**[2)]	**Adjustments down/up**	**Median adjustment amount**
	DKK millions		*Percent*	*DKK '000*
Other services[4)]	41	45	28 / 72	4
Information and Communication[4)]	79	105	9 / 91	8
Not Stated[4)]	83	94	15 / 85	2
Estate Agencies and Property Rental Agencies[4)]	84	89	8 / 92	8
Travel Agencies, Cleaning and Other Business Services[4)]	108	109	6 / 94	7
Manufacturing[4)]	112	145	25 / 75	1
Agriculture, Forestry, Fisheries and Commodities Production	156	193	12 / 88	3
Hotels and restaurants[4)]	181	185	5 / 95	14
Transportation[4)]	211	211	0 / 100	15
Building and Construction	218	339	11 / 89	7
Consultancy	269	322	9 / 91	4
Trade	303	396	10 / 91	9
Total	**1,846**	**2,232**	**11 / 89**	**6**

Notes:
[1)] The *VAT gap in revenue* is the sum of upward and downward adjustments, with the plus or minus sign being taken into the calculation.
[2)] The *"gross" VAT gap* is the numerical total of upward and downward adjustments, before tax and ignoring the plus or minus sign in the calculation.
[3)] The proportions of the total numbers of adjustments which were downward and upward respectively.
[4)] Figures are based on fewer than 30 observations.

TYPES OF ERROR

Table 8, table 9 and table 10 show the types of error for companies, the self-employed and for VAT (all businesses) respectively. Each table lists error type numbers and short descriptions of the errors. The actual errors covered by the error types are described for each error type code in the section "Descriptions of error types".

Table 8. Error types for companies, listed in descending order of number of errors

No.	*Companies* Error type	No. of errors (unweighted)	Proportion of the total no. of errors	Proportion of Tax gap (revenue)
		Number	*— Percentages —*	
2	Additional dividend income to principal shareholder – private expenses	257	8.2	3.5
12	Various non-deductible expenses	235	7.5	5.5
28	Rents and interest rates for principal shareholder fixed at non-market prices	235	7.5	6.5
5	Additional dividend income to the principal shareholder	181	5.8	10.2
20	Additional salary income for principal shareholder – private expenses	170	5.4	-1.7
8	Entertainment expenses	131	4.2	1.0
18	Incorrect deductions for VAT and duties	126	4.0	-1.2
11	Additional salary income to principal shareholder	124	3.9	3.5
21	Incorrect depreciation of assets	111	3.5	-0.6
19	Company car	105	3.3	5.2
34	Deductions and allowances for travel	98	3.1	2.8
23	Bad debts, etc. – periodisation	93	3.0	6.1
17	Assets incorrectly written off with immediate effect	78	2.5	2.6
41	Company telephone	77	2.4	0.2
38	Calculation and transfer errors	75	2.4	-1.7
27	Company earnings not declared	72	2.3	2.3
13	Reduction in the basis for depreciation and thus in the depreciation for the year	70	2.2	6.1
53	Rents and interest rates for companies fixed at non-market prices	55	1.7	1.3
35	Payments in kind to employees, etc.	54	1.7	0.6
31	Costs of improvements incorrectly deducted as maintenance costs	53	1.7	4.8
32	Undeclared personal income	53	1.7	1.7
47	Permissible deductions not declared	49	1.6	-1.0
33	Assessment on the basis of an estimate – taxable income	45	1.4	5.9
14	Expenditures on fines	43	1.4	0.2
50	Non-deductible commitment commissions, etc.	43	1.4	0.7
4	Profits – periodisation – contracts	39	1.2	14.4
48	Addition – acquisition costs	31	1.0	0.6
22	Fitting-out costs – rented premises	30	1.0	0.5
	Other (<30 errors per error type)	415	13.2	20.1
	Total	**3,148**	**100.0**	**100.0**

Notes: The error types are described in greater detail in the section “Descriptions of error types”.

Table 9. Error types for the self-employed, listed in descending order of number of errors

No.	*The self-employed* Error type	No. of errors (unweighted)	Proportion of the total no. of errors	Proportion of Tax gap (revenue)
		Number	*— Percentages —*	
1	Various private expenses	1,728	15.5	6.8
25	Proportion of private use	1,184	10.6	4.9
30	Various non-deductible expenses	1,024	9.2	3.9
27	Private sphere – third party data entry, etc.	858	7.7	3.7
6	Undeclared business earnings	664	6.0	14.7
8	Missing deductions/income related to VAT and duty	346	3.1	-0.6
45	Bookkeeping errors	319	2.9	0.5
28	Calculation and transfer errors	286	2.6	0.7
42	Additional deductions – operating costs	270	2.4	-0.9
51	Classification errors	214	1.9	0.1
26	Business-related travel	211	1.9	1.0
14	Estimations	198	1.8	23.8
46	Depreciation of installations	195	1.7	0.5
20	Improvements vs. maintenance – real estate	191	1.7	1.5
23	Entertainment costs	175	1.6	0.2
7	Interest – business	172	1.5	0.5
9	Incorrect depreciation of assets	155	1.4	-0.3
16	Assessment by estimation	148	1.3	6.7
33	Reduction in the basis for depreciation and thus in the depreciation for the year	145	1.3	2.8
36	Errors in use of business taxation scheme	145	1.3	1.7
55	Periodisation of expenses and losses from bad debts	134	1.2	0.8
17	Valuation of goods in stock	133	1.2	1.0
48	Bank charges and loan costs	119	1.1	0.1
49	Adjustments to property value tax	116	1.0	0.1
22	Expenditures on fines	110	1.0	0.1
31	Periodisation of earnings/profits	109	1.0	0.7
35	Assets incorrectly written off with immediate effect	102	0.9	0.7
70	Establishment costs and capital levies	100	0.9	0.4
50	Deductions for work area and rent in own home	94	0.8	0.5
39	Errors in annual depreciation	93	0.8	0.1
24	Errors in declaration of profits on property	92	0.8	0.9

34	Business not engaged in commercial activity	92	0.8	1.8
38	Mixed use of operating equipment	91	0.8	0.3
47	Too much income included	90	0.8	-0.5
29	Undeclared personal income	85	0.8	3.8
59	Education expenses	81	0.7	0.7
13	Company car	78	0.7	1.4
37	Rents fixed at non-market prices	76	0.7	0.7
41	Sleeping partner – joint leasing activity	72	0.6	1.0
19	Closure of company	69	0.6	0.6
4	Non-declaration of profit/loss – real estate	52	0.5	4.0
57	Failures to make adjustments among employees, etc.	47	0.4	1.1
62	Salary income/business income delimitation	46	0.4	0.6
11	Assessment by estimation – specific expense items	44	0.4	-0.9
53	Addition to the purchase price for real property	37	0.3	0.1
	Other (<30 errors per error type)	366	3.3	7.4
	Total	**11,156**	**100.0**	**100.0**

Notes: The error types are described in greater detail in the section "Descriptions of error types".

Table 10. Error types for VAT (for both companies and the self-employed), listed in descending order of number of errors

No.	*VAT* Error type	No. of errors (unweighted)	Proportion of the total no. of errors	Proportion of Tax gap (revenue)
		Number	*— Percentages —*	
161	Various private expenses	151	13.2	8.8
526	The account for VAT on purchases should include only deductible amounts invoiced to the company	94	8.2	5.9
308	Proportion for private use	93	8.1	2.9
460	Bookkeeping errors in calculation of liability for duty	87	7.6	3.6
499	Declared VAT liability too low in relation to the accounts	76	6.6	19.7
12	VAT on sales not declared	71	6.2	27.4
540	Missing documentation for VAT deducted on purchases	47	4.1	3.2
162	Deductible purchases	45	3.9	-8.8
164	Non-deductible purchases	39	3.4	1.6
389	Purchase and maintenance of cars	34	3.0	2.4
	Other (<30 errors per error type)	409	35.7	33.1
	Total	**1,146**	**100.0**	**100.0**

Notes: The error types are described in greater detail in the section "Descriptions of error types".

RESULTS FOR 16 PRINCIPAL SECTORS

The tables below present the error types separately for 16 principal business sectors. The compliance report of August 2009 listed 18 principal business sectors, but the sectors *Water supply and refuse collection* and *Energy supply* have been excluded from this report because the number of businesses is too small to be able to report anything of interest with sufficient statistical certainty when error types are separated out.

Statistical uncertainty also means that there are limits to the degree of detail that can be presented in the results for individual business sectors. In the tables above, special note has been made of results based on fewer than 30 observations. In the more detailed sector tables below, however, we have set the limit at 15 observations, in order not to exclude too many error types from the individual sectors. However, it must be remembered that results based on fewer than 30 observations carry a particularly high level of statistical uncertainty.

It should also be noted that figures for errors with VAT cover companies and the self-employed jointly, since otherwise the numbers of errors would be too few to be statistically significant. This is because VAT audits were only carried out on 1,584 businesses.

The business sector classifications are in accordance with the 21 standard groups listed by Statistics Denmark (*Dansk Branchekode 2007*), except that some sectors have been combined because of the low number of observations in the study. The make-up of each sector group is given in "Appendix 1. Overview of business sectors".

OTHER SERVICES

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
	Total	7	18	100.0	38	9	40
The self-employed							
1	Various private expenses	5	7	7.9	13	6	38
30	Various non-deductible expenses	5	8	9.0	14	4	35
25	Proportion of private use	4	10	11.3	18	9	38
27	Private sphere – third party data entry, etc.	2	5	4.0	6	2	21
45	Bookkeeping errors	2	-10	-3.6	-6	-2	15
	Other (<15 errors per error type)	5	18	71.4	113	49	144
	Total	4	12	100.0	158	68	291
VAT							
	Total	1	5	100.0	41	41	40

Building and Construction

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
4	Non-declaration of profit/loss – real estate	111	546	53.4	562	157	19
19	Company car	40	54	4.1	43	22	18
5	Additional dividend income to the principal shareholder	25	48	5.6	59	24	31
17	Assets incorrectly written off with immediate effect	16	31	2.1	22	6	18
12	Various non-deductible expenses	13	24	4.4	46	13	38
2	Improvements vs. maintenance – operating equipment	12	24	4.5	47	13	44
28	Rents and interest rates for principal shareholder fixed at non-market prices	9	13	2.3	24	12	39
8	Entertainment expenses	6	6	0.4	4	1	18
11	Assessment by estimation – specific expense items	4	10	0.7	7	4	17
20	Additional salary income for principal shareholder – private expenses	4	11	1.0	11	-3	23
41	Company telephone	3	3	0.2	2	1	15
21	Incorrect depreciation of assets	-6	-12	-1.0	-10	-3	21
18	Incorrect deductions for VAT and duties	-6	-33	-2.9	-31	-9	21
	Other (<15 errors per error type)	15	38	25.2	266	90	158
	Total	10	49	100.0	1.053	329	480
The self-employed							
14	Estimations	275	271	39.8	393	196	31
31	Periodisation of income/profits	24	38	4.0	40	11	27
6	Undeclared business income	20	65	19.5	192	96	67
30	Various non-deductible expenses	4	17	5.3	53	15	94
1	Various private expenses	4	8	5.6	55	28	169
25	Proportion of private use	4	6	2.3	22	11	96
28	Calculation and transfer errors	4	9	0.6	6	2	17
45	Bookkeeping errors	3	7	1.1	11	3	38
27	Private sphere – third party data entry, etc.	2	19	2.4	24	8	32
23	Entertainment costs	1	2	0.2	2	1	23
8	Missing deductions/income related to VAT and duty	-2	-2	-0.2	-2	-1	19
9	Incorrect depreciation of assets	-3	-3	-0.2	-2	-1	15
42	Additional deductions – operating costs	-4	-7	-0.4	-4	-1	16
	Other (<15 errors per error type)	8	20	20.0	197	75	244

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
	Total	5	28	100.0	986	443	888
VAT							
161	Various private expenses	2	4	11.7	26	26	27
	Other (<15 errors per error type)	3	9	88.3	192	192	98
	Total	2	8	100.0	218	218	125

ESTATE AGENCIES AND PROPERTY RENTAL AGENCIES

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
28	Rents and interest rates for principal shareholder fixed at non-market prices	33	69	5.6	40	20	18
2	Improvements vs. maintenance – operating equipment	9	9	0.8	6	2	15
12	Various non-deductible expenses	3	10	1.4	10	3	16
	Other (<15 errors per error type)	14	68	92.2	660	189	197
	Total	12	61	100.0	716	213	246
The self-employed							
20	Improvements vs. maintenance – real estate	20	66	14.0	55	15	21
6	Undeclared business income	9	22	3.8	15	7	15
25	Proportion of private use	4	7	3.7	14	7	55
1	Various private expenses	4	5	3.9	15	8	78
30	Various non-deductible expenses	3	11	5.2	20	6	46
27	Private sphere – third party data entry, etc.	3	12	4.8	19	6	34
28	Calculation and transfer errors	3	17	5.8	22	6	29
8	Missing deductions/income related to VAT and duty	-4	-7	-1.1	-4	-1	20
	Other (<15 errors per error type)	5	25	60.0	234	74	201
	Total	4	18	100.0	390	128	499
VAT							
	Total	3	7	100.0	84	84	57

Finance and Insurance

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
12	Various non-deductible expenses	11	34	18.1	24	7	20
28	Rents and interest rates for principal shareholder fixed at non-market prices	9	37	36.0	48	24	28
2	Improvements vs. maintenance – operating equipment	7	22	10.8	14	4	21
	Other (<15 errors per error type)	7	6	35.1	47	23	197
	Total	8	13	100.0	134	58	266
The self-employed							
	Total	9	7	100.0	6	3	18
VAT							
	Total	2	2	100.0	1	1	2

TRADE

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
19	Company car	48	56	6.4	87	43	32
23	Bad debts, etc. – periodisation	31	82	10.8	147	41	32
17	Assets incorrectly written off with immediate effect	23	80	5.3	73	20	18
27	Company earnings not declared	21	79	5.7	77	22	23
5	Additional dividend income to the principal shareholder	20	48	4.5	61	25	31
2	Improvements vs. maintenance – operating equipment	13	20	2.9	40	11	46
11	Assessment by estimation – specific expense items	12	24	3.7	50	25	43
34	Deductions and allowances for travel	12	20	1.4	19	10	22
28	Rents and interest rates for principal shareholder fixed at non-market prices	11	15	2.7	36	18	52
12	Various non-deductible expenses	10	37	5.6	76	21	46
35	Payments in kind to employees, etc.	10	14	0.7	10	5	20
8	Entertainment expenses	7	10	1.2	16	5	32
20	Additional salary income for principal shareholder – private expenses	7	15	3.3	44	-12	62
41	Company telephone	3	3	0.2	2	1	20
21	Incorrect depreciation of assets	-5	-7	-0.6	-8	-2	23
18	Incorrect deductions for VAT and duties	-5	-13	-1.6	-21	-6	32
	Other (<15 errors per error type)	15	87	47.9	651	191	150
	Total	10	42	100.0	1,361	418	684
The self-employed							
14	Estimations	100	178	27.3	263	131	31
13	Company car	40	26	2.2	22	11	18
34	Business not engaged in commercial activity	23	30	2.6	25	13	20
16	Assessment by estimation	22	40	6.0	57	29	33
6	Undeclared business income	12	41	19.1	184	92	104
26	Business-related travel	11	13	1.5	14	7	28
17	Valuation of goods in stock	7	20	2.5	24	7	30
30	Various non-deductible expenses	5	16	8.6	83	23	125
55	Periodisation of expenses and losses from bad debts	5	10	1.7	16	4	29
23	Entertainment costs	4	5	0.8	7	2	31
51	Classification errors	4	0	0.0	0	0	16
28	Calculation and transfer errors	4	4	0.8	8	2	44

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
25	Proportion of private use	3	6	3.2	31	16	129
1	Various private expenses	3	6	5.5	53	26	216
27	Private sphere – third party data entry, etc.	3	6	2.3	22	7	87
11	Assessment by estimation – specific expense items	2	40	5.4	52	15	17
45	Bookkeeping errors	2	5	1.5	14	4	60
48	Bank charges and loan costs	2	2	0.2	2	1	24
7	Interest – business	1	0	0.0	0	0	28
8	Missing deductions/income related to VAT and duty	-3	-7	-2.3	-22	-6	64
9	Incorrect depreciation of assets	-3	-6	-0.6	-6	-2	22
42	Additional deductions – operating costs	-8	-16	-2.4	-23	-6	31
	Other (<15 errors per error type)	4	15	14.0	135	52	214
	Total	4	16	100.0	963	428	1,401
VAT							
12	VAT on sales not declared	8	19	27.3	83	83	19
308	Proportion for private use	2	2	2.6	8	8	16
526	The account for VAT on purchases should include only deductible amounts invoiced to the company	2	5	7.9	24	24	22
161	Various private expenses	1	2	4.2	13	13	27
460	Bookkeeping errors in calculation of liability for duty	1	-5	-6.7	-20	-20	20
	Other (<15 errors per error type)	3	6	64.7	196	196	149
	Total	2	5	100.0	304	304	253

HOTELS AND RESTAURANTS

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
	Total	18	43	100.0	120	39	56
The self-employed							
6	Undeclared business earnings	30	53	21.1	91	45	35
27	Private sphere – third party data entry, etc.	7	7	1.5	6	2	15
25	Proportion of private use	6	9	6.4	28	14	67
30	Various non-deductible expenses	4	10	10.2	44	12	73
1	Various private expenses	3	4	3.8	16	8	81
8	Missing deductions/income related to VAT and duty	-5	-7	-2.0	-9	-2	25
	Other (<15 errors per error type)	6	27	59.0	254	120	188
	Total	5	18	100.0	431	199	484
VAT							
	Total	3	11	100.0	181	181	65

MANUFACTURING

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
12	Various non-deductible expenses	22	97	10.1	77	22	17
8	Entertainment expenses	15	22	2.2	17	5	19
21	Incorrect depreciation of assets	-4	-12	-0.9	-7	-2	16
	Other (<15 errors per error type)	14	75	88.6	676	206	216
	Total	13	68	100.0	763	231	268
The self-employed							
6	Undeclared business earnings	12	226	53.5	221	110	25
25	Proportion of private use	4	6	2.3	10	5	38
30	Various non-deductible expenses	3	7	2.4	10	3	33
1	Various private expenses	2	5	3.6	15	8	68
27	Private sphere – third party data entry, etc.	2	2	0.8	3	1	27
8	Missing deductions/income related to VAT and duty	-2	-7	-1.5	-6	-2	18
	Other (<15 errors per error type)	6	25	38.8	160	68	165
	Total	4	27	100.0	413	193	374
VAT							
	Total	1	7	100.0	112	112	72

INFORMATION AND COMMUNICATION

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
2	Improvements vs. maintenance – operating equipment	11	26	6.2	27	8	19
	Other (<15 errors per error type)	11	58	93.8	414	138	114
	Total	11	54	100.0	441	145	133
The self-employed							
45	Bookkeeping errors	5	7	2.4	7	2	15
25	Proportion of private use	5	8	7.1	20	10	37
6	Undeclared business earnings	4	27	9.0	25	13	16
1	Various private expenses	4	7	9.5	26	13	63
30	Various non-deductible expenses	3	9	4.1	12	3	26
27	Private sphere – third party data entry, etc.	2	3	1.6	5	2	28
	Other (<15 errors per error type)	5	22	66.3	184	87	133
	Total	5	14	100.0	277	130	318
VAT							
	Total	2	5	100.0	79	79	59

LEISURE AND CULTURE

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
	Total	7	22	100.0	35	12	33
The self-employed							
25	Proportion of private use	4	4	13.3	3	2	15
	Other (<15 errors per error type)	4	6	86.7	23	11	84
	Total	4	5	100.0	26	13	99
VAT							
	Total	1	2	100.0	7	7	14

AGRICULTURE, FORESTRY, FISHERIES AND COMMODITIES PRODUCTION

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
	Total	13	17	100.0	29	14	38
The self-employed							
33	Reduction in the basis for depreciation and thus in the depreciation for the year	25	103	15.2	194	54	44
34	Business not engaged in commercial activity	17	31	3.5	44	22	32
35	Assets incorrectly written off with immediate effect	16	30	2.7	34	9	31
20	Improvements vs. maintenance – real estate	12	18	1.5	19	5	31
70	Establishment costs and capital levies	12	16	0.9	11	3	16
31	Periodisation of earnings/profits	9	23	1.0	13	4	24
24	Errors in declaration of profits on property	9	11	0.6	8	2	18
55	Periodisation of expenses and losses from bad debts	7	14	0.7	10	3	18
26	Business-related travel	6	7	0.5	6	3	25
6	Undeclared business earnings	6	22	4.9	62	31	78
30	Various non-deductible expenses	5	10	3.1	39	11	114
17	Valuation of goods in stock	5	17	2.6	33	9	52
1	Various private expenses	4	6	4.8	61	31	293
38	Mixed use of operating equipment	3	4	0.2	2	1	16
25	Proportion of private use	3	7	6.3	80	40	307
46	Depreciation of installations	3	12	2.0	26	7	59
49	Adjustments to property value tax	3	1	0.1	1	1	20
51	Classification errors	3	3	0.3	4	1	33
39	Errors in annual depreciation	2	11	0.9	11	3	27
48	Bank charges and loan costs	2	3	0.2	2	1	15
27	Private sphere – third party data entry, etc.	2	21	6.4	81	28	89
45	Bookkeeping errors	2	3	0.3	4	1	46
28	Calculation and transfer errors	0	1	0.1	1	0	30
7	Interest – business	0	16	0.9	12	3	17
8	Missing deductions/income related to VAT and duty	-3	-3	-0.7	-9	-2	92
9	Incorrect depreciation of assets	-3	-7	-0.9	-12	-3	45
42	Additional deductions – operating costs	-4	-15	-1.5	-19	-5	31

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
	Other (<15 errors per error type)	7	61	43.3	550	198	224
	Total	4	19	100.0	1.272	462	1,827
VAT							
161	Various private expenses	1	1	3.9	6	6	20
308	Proportion for private use	1	1	4.8	8	8	25
	Other (<15 errors per error type)	2	5	91.3	142	142	133
	Total	2	4	100.0	156	156	178

Travel Agencies, Cleaning and Other Business Services

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
2	Improvements vs. maintenance – operating equipment	17	28	10.6	17	5	15
	Other (<15 errors per error type)	8	27	89.4	145	47	94
	Total	10	27	100.0	162	52	109
The self-employed							
26	Business-related travel	9	12	1.6	10	5	19
6	Undeclared business earnings	5	19	2.9	18	9	22
27	Private sphere – third party data entry, etc.	4	11	2.5	16	5	33
30	Various non-deductible expenses	3	7	1.8	11	3	41
25	Proportion of private use	3	8	3.1	20	10	58
1	Various private expenses	3	5	2.4	15	7	79
45	Bookkeeping errors	2	4	0.5	3	1	19
	Other (<15 errors per error type)	4	63	85.2	537	245	195
	Total	3	32	100.0	630	286	466
VAT							
	Total	3	11	100.0	108	108	44

HEALTH CARE AND SOCIAL SERVICES

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
	Total	6	39	100.0	190	64	97
The self-employed							
6	Undeclared business earnings	9	25	10.7	43	22	37
59	Education expenses	9	11	2.8	11	6	31
26	Business-related travel	5	9	1.7	7	3	19
1	Various private expenses	4	7	12.4	50	25	130
30	Various non-deductible expenses	3	6	4.9	20	6	68
27	Private sphere – third party data entry, etc.	2	15	10.8	44	15	55
25	Proportion of private use	2	5	4.3	18	9	65
8	Missing deductions/income related to VAT and duty	-1	-3	-0.7	-3	-1	23
	Other (<15 errors per error type)	3	18	53.1	215	84	208
	Total	3	12	100.0	406	169	636
VAT							
	Total	4	19	100.0	43	43	11

TRANSPORTATION

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
	Total	11	47	100.0	219	67	98
The self-employed							
14	Estimations	300	331	52.0	242	121	17
6	Undeclared business earnings	9	38	11.1	52	26	31
30	Various non-deductible expenses	8	24	7.2	33	9	37
25	Proportion of private use	5	11	2.8	13	6	32
1	Various private expenses	3	4	3.7	17	9	98
42	Additional deductions – operating costs	-12	-20	-2.6	-12	-3	17
	Other (<15 errors per error type)	6	18	25.8	120	45	165
	Total	5	29	100.0	466	213	397
VAT							
	Total	5	19	100.0	211	211	47

EDUCATION

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
	Total	6	1	100.0	1	0	16
The self-employed							
1	Various private expenses	3	4	12.2	7	3	40
25	Proportion of private use	3	4	10.9	6	3	31
30	Various non-deductible expenses	1	3	2.4	1	0	15
	Other (<15 errors per error type)	3	8	74.5	42	19	105
	Total	3	6	100.0	57	26	191
VAT							
	Total	2	6	100.0	27	27	19

NOT STATED

Types of error

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
5	Additional dividend income to the principal shareholder	29	91	5.4	63	26	15
2	Improvements vs. maintenance – operating equipment	11	13	0.7	8	2	17
53	Rents and interest rates for companies fixed at non-market prices	8	40	2.5	29	8	15
12	Various non-deductible expenses	6	42	4.5	53	15	19
28	Rents and interest rates for principal shareholder fixed at non-market prices	6	38	5.2	61	31	39
38	Calculation and transfer errors	-3	12	0.7	9	2	15
	Other (<15 errors per error type)	14	122	81.0	952	278	167
	Total	10	87	100.0	1,176	362	287
The self-employed							
4	Non-declaration of profit/loss – real estate	100	94	8.2	102	29	27
14	Estimations	61	101	13.2	163	82	42
37	Rents fixed at non-market prices	14	17	2.5	31	15	42
24	Errors in declaration of profits on property	13	12	1.5	19	5	43
41	Sleeping partner – joint leasing activity	11	39	6.2	76	21	38
16	Assessment by estimation	9	20	2.0	24	12	20
20	Improvements vs. maintenance – real estate	8	18	5.9	73	20	89
33	Reduction in the basis for depreciation and thus in the depreciation for the year	7	17	1.7	21	6	24
29	Undeclared personal income	7	61	9.4	116	58	36
6	Undeclared business earnings	6	11	5.7	71	35	148
7	Interest – business	5	7	1.5	18	5	54
46	Depreciation of installations	5	6	1.7	20	6	90
30	Various non-deductible expenses	4	9	6.7	82	23	207
36	Errors in use of business taxation scheme	4	43	11.3	140	31	77
25	Proportion of private use	4	6	2.4	30	15	106
1	Various private expenses	3	6	3.2	40	20	140
45	Bookkeeping errors	3	4	0.7	9	2	45
70	Establishment costs and capital levies	3	5	0.7	8	2	28

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK ’000	*DKK ’000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
27	Private sphere – third party data entry, etc.	3	8	9.8	121	41	320
28	Calculation and transfer errors	2	7	2.2	28	8	82
31	Periodisation of earnings/profits	1	-7	-0.5	-7	-2	16
51	Classification errors	0	2	0.7	9	2	93
49	Adjustments to property value tax	-1	0	0.1	1	1	60
26	Business-related travel	-1	3	0.3	3	2	26
42	Additional deductions – operating costs	-1	-3	-0.8	-10	-3	75
47	Too much income included	-2	-5	-0.6	-7	-2	29
	Other (<15 errors per error type)	3	6	4.4	54	25	197
	Total	4	12	100.0	1,235	459	2,154
VAT							
	Total	2	2	100.0	4	4	11

CONSULTANCY

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK ’000	*DKK ’000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
Companies							
5	Additional dividend income to the principal shareholder	30	44	8.7	63	26	21
11	Assessment by estimation – specific expense items	22	27	4.5	32	16	21
2	Improvements vs. maintenance – operating equipment	16	29	9.3	68	19	35
20	Additional salary income for principal shareholder – private expenses	11	17	4.1	30	-8	29
12	Various non-deductible expenses	11	41	12.6	91	26	36
28	Rents and interest rates for principal shareholder fixed at non-market prices	6	61	8.5	62	31	23
18	Incorrect deductions for VAT and duties	-3	6	1.1	8	2	17
	Other (<15 errors per error type)	11	43	51.2	371	119	148
	Total	12	37	100.0	725	230	330
The self-employed							
14	Estimations	200	275	24.3	162	81	15
16	Assessment by estimation	37	48	7.8	52	26	19
59	Education expenses	14	20	1.8	12	6	15
6	Undeclared business earnings	7	21	5.6	38	19	42
26	Business-related travel	6	10	1.9	13	6	28
28	Calculation and transfer errors	6	5	0.7	5	1	17
50	Deductions for work area and rent in own home	5	8	1.1	8	4	21
30	Various non-deductible expenses	3	12	7.7	51	14	84
25	Proportion of private use	3	7	4.9	33	16	101
27	Private sphere – third party data entry, etc.	3	3	2.0	14	5	78
1	Various private expenses	2	9	13.5	90	45	215
23	Entertainment costs	2	3	0.7	4	1	32
38	Mixed use of operating equipment	2	0	0.0	0	0	16
45	Bookkeeping errors	1	3	0.5	3	1	24
7	Interest – business	0	-4	-0.6	-4	-1	16
8	Missing deductions/income related to VAT and duty	-5	-11	-1.8	-12	-3	21
42	Additional deductions – operating costs	-6	-20	-3.7	-25	-7	30
	Other (<15 errors per error type)	6	23	33.7	225	78	192
	Total	3	14	100.0	668	292	966
VAT							
308	Proportion for private use	1	2	2.8	7	7	16
161	Various private expenses	1	12	27.7	75	75	25

No.	Text	Median	Average	Adjust-ments	Adjust-ments	Reve-nue	Errors
		DKK '000	*DKK '000*	*% of total*	*DKK millions*	*DKK millions*	*Number*
	Other (<15 errors per error type)	1	7	69.5	187	187	104
	Total	1	7	100.0	269	269	145

DESCRIPTIONS OF ERROR TYPES

The error types referred to in the tables above are described more fully below. It is hoped that these brief descriptions will provide an adequate idea of the nature of the various issues.

The categorisation of error types is based on the many thousands of individual errors that the compliance audits revealed. The aim was to make it possible for each and every error to be categorised unequivocally as belonging to a specific error type, and thus to make it possible to gain an overview of errors from a reasonably easily comprehensible catalogue of error types. At the same time, the error types should not be so general as to include errors that were widely different.

The numbers allocated to the various error types are purely for identification purposes: they do *not* relate to the frequency of occurrence of the error in the detailed analysis.

The lists below are of the error types found for companies, the self-employed and VAT respectively.

ERROR TYPES: COMPANIES

No.	Error type (Rubric and *description*)
01	**Additional dividend income to principal shareholder – life insurance** *Covers life insurance policies and joint life insurance policies which do not fulfil the requirements for being treated as joint life insurance policies, etc. with respect to tax, but must instead be regarded as additional dividend income to the principal shareholder.*
02	**Additional dividend income to principal shareholder – private expenses** *Covers expenses which are incorrectly deducted in the company accounts as being business-related, but which fairly obviously are actually for items which should be regarded as private expenses. (However, the error type does not include private assets which are incorrectly depreciated as business assets – cf. error type 13.)*
03	**Additional dividend income to principal shareholder – health costs** *Covers health-related expenses which do not fulfil the requirements for being treated as health expenses with respect to tax, but must instead be regarded as additional dividend income to the principal shareholder.*
04	**Profits – periodisation – contracts** *Covers errors regarding the treatment of income and deductions for expenses with respect to work in progress on behalf of third parties.*
05	**Additional dividend income to the principal shareholder** *Covers all forms of masked dividend payments to the principal shareholder which should be taxed as dividends – in other words, tax not paid by the principal shareholder, cf. error types 1, 2, 3, 6, 10, 27, 28, 33, etc.* *Also errors related to the disposition of financial assets in the company which when corrected led to the additional taxation of dividends for the principal shareholder.*

06	**Additional dividend income to the principal shareholder – pension contributions** *Covers pension contributions which do not fulfil the requirements for being treated as pension contributions with respect to tax, but must instead be regarded as additional dividend income to the principal shareholder.*
07	**Expenses in taxation cases** *Covers expenses in taxation cases where credit has already been given for the expenses, so that they should not be deductible in the company accounts.* **Effects of the recent tax reform:** The possibility of tax credit being given for these expenses was abolished with effect from 12 June 2009, which means that the problem has been solved for 2010.
08	**Entertainment expenses** *Covers errors with respect to deductions of entertainment expenses in general.* **The recent tax reform:** Changes with respect to overseas business connections.
09	**Profits – shares – ownership for at least 3 years** *Covers profit and loss on the sale of shares not correctly declared because account has not been taken of the requirement that they should have been owned for three years.* **Effects of the recent tax reform:** *Important* changes with respect to shares.
10	**Estimations** Covers estimations of a company's taxable earnings as a result of failure to submit a correct declaration; Tax Audit Act §5.
11	**Additional salary income to principal shareholder** *Covers all forms of masked payments of dividends to the principal shareholder which should be taxed as additional salary, although excluding error types 32 and 34 – in other words, tax not paid by the principal shareholder, cf. error type 20.*
12	**Various non-deductible expenses** *Covers various forms of expenses which cannot reasonably be considered deductible because they do not fulfil the requirements for documentation, because they are not expenses which should be borne by the company, or because the same expenses have been deducted more than once. Also errors in cases of expenses where the recipient of a benefit or gift is not taxed, in accordance with an agreement with SKAT that the expenses are not deducted as salary expenses.* **Effects of the recent tax reform:** Significant alterations with regard to group internal transfers which resolve some problems as to the correct bearer of expenses.
13	**Reduction in the basis for depreciation and thus in the depreciation for the year** *Covers disallowed deductions for depreciation and reductions in the basis for depreciation because all or some of the declared basis for depreciation cannot be accepted as qualifying for such a deduction. This error type also covers fittings in single and dual family houses which are not deductible from tax and thus cannot be deducted for depreciation.*
14	**Expenditures on fines** *Covers penalties and fines, which are not tax deductible.*
15	**Incorrect salary payments** *Covers payments of salary which have not been registered, and from which tax at source has not been deducted in accordance with the Danish Withholding Tax Act.*

16	**Dividends – investment funds – capital income**	

16 **Dividends – investment funds – capital income**

Covers dividend payments which have been incorrectly taxed on the basis of 66% of the payment, but which should have been taxed on 100% of the payment.

Effects of the recent tax reform: Changes have been made concerning payments from investment funds, which in future will always be taxed on the basis of 100% of the payment, so that the problem is resolved as from 2010.

17 **Assets incorrectly written off with immediate effect**

Covers operating equipment which cannot – according to §6 of the Danish Depreciation Tax Act – be written off with immediate effect, since the value is above the limit for such writing off, including the joint value of assets which should be taken in combination.

18 **Incorrect deductions for VAT and duties**

Covers additional tax deductions for operating costs resulting from adjustments in VAT and duties. Also covers additional taxable earnings resulting from adjustments to VAT and duties.

19 **Company car**

Covers full or partial failure to pay tax on the value of the use of a company car.

20 **Additional salary income for principal shareholder – private expenses**

Covers expenses which are incorrectly deducted in the company accounts as being business-related, but which fairly obviously are actually for items which should be regarded as private expenses. (However, the error type does not include private assets which are incorrectly depreciated as business assets – cf. error type 13.)

21 **Incorrect depreciation of assets**

Covers omissions in the depreciation of operating equipment, buildings etc. as a result of disallowed writing off of assets with immediate effect. Cf. error types 17, 24 and 31.

22 **Fitting-out costs – rented premises**

Covers general errors in deductions for fitting-out costs of leased premises in accordance with §39 of the Danish Depreciation Tax Act.

23 **Bad debts, etc. – periodisation**

Covers periodisation errors with respect to deductions for bad debts, and errors in the periodisation of operating costs and earnings in general.

24 **Depreciation – rights**

Covers general errors related to the depreciation of the value of rights.

25 **Unsuccessful expenditure of development costs**

Covers the incorrect deduction of expenses for accountants and lawyers in connection with the establishment or extension of a business which was not finally realised. §8J of the Danish Tax Assessment Act.

Effects of the recent tax reform: §8J of the Danish Tax Assessment Act has been tightened up. Cf. also error type 70.

26 **Sponsorship expenditures – additional payments**

Covers additional payments which are incorrectly treated for tax purposes in the same way as the concurrent purchase of advertising. Cf. SKM 2006, 398 HR [Announcement from The Danish Ministry of Taxation, 2006, High Court of Justice no. 398].

27 **Company earnings not declared**

Covers lack of declaration of company earnings other than periodisation errors, and lack of declaration of state subsidies and of compensation payments, etc. from insurance companies.

28	**Rents and interest rates for principal shareholder fixed at non-market prices** *Covers the negotiation and setting of interest payments, rents, etc. that are not at normal market prices between the company and the principal shareholder.*
29	**Adjustments to joint taxation income** *Covers errors in the calculation of joint taxable income for companies which are taxed jointly.*
30	**Write-down of goods in stock** *Covers incorrect writing down of value of goods in stock and general incorrect valuations of stock at the end of the accounting period.*
31	**Costs of improvements incorrectly deducted as maintenance costs** *Covers incorrect deduction as maintenance costs of costs of improvements to operating equipment and real estate.*
32	**Undeclared personal income** *Covers undeclared personal income of the principal shareholder, though excluding errors of types 37 and 45.*
33	**Assessment on the basis of an estimate – taxable earnings** *Covers calculation of the taxable earnings of the company through estimates as a result of non-submission of supplementary material.*
34	**Deductions and allowances for travel** *Covers incorrect payments of tax-free travel allowances and incorrect deduction of expenses for travel that are already covered because a company car has been made available.*
35	**Payments in kind to employees, etc.** *Covers various types of payment in kind to employees who have not been taxed correctly on the value of the goods. This error type does not include benefits in the form of a company car, company telephone, etc. – cf. error types 19, 40, 41, 42 and 72.*
36	**Losses on accounts receivable – group** *Concerns incorrect deductions for losses on accounts receivable between companies in the same group.*
37	**Private sphere – third party data entry and alterations to these** *Covers errors concerned with the principal shareholder's personal tax declaration, though excluding error types 32 and 45.*
38	**Calculation and transfer errors** *Covers errors in transfers of figures and conversion errors in connection with the statement of taxable earnings of the company which do not relate to any specific legislation.*
39	**Taxable subsidies and grants** *Covers various types of subsidy/grant which have been incorrectly handled with respect to tax.* **Effects of the recent tax reform:** Significant alterations with regard to group internal transfers which resolve some problems as to the correct bearer of expenses.
40	**Company living accommodation** *Covers errors regarding partial or complete failure to pay tax on the value of residential accommodation provided by the company and costs of electricity, water, heating, property tax and refuse collection paid by the company, Danish Tax Assessment Act, §16.*

41	**Company telephone** *Covers failure to pay tax on the value of a company telephone.*
42	**Company holiday home** *Covers complete or partial failure to pay tax on the value of use of company holiday homes.*
43	**Changes to taxation as a result of changes to calculations of tax for previous years** *Covers changes to taxable income as a result of changes to assessments for previous tax years.*
44	**Company motorcycle** *Covers complete or partial failure to pay tax on the value of a company motorcycle placed at the disposal of the principal shareholder.*
45	**Self-employment – principal shareholder** *Covers errors in taxable income from a separate independent business run by the principal shareholder*
46	**Additional dividend income – salary paid to the children of the principal shareholder** *Covers salary paid to the children of the principal shareholder which is disproportionate to the work they have done, so that the salary paid should be viewed as an additional dividend to the principal shareholder.*
47	**Permissible deductions not declared** *Covers various forms of permissible deductions from the earnings of the business which have incorrectly not been declared.*
48	**Addition – acquisition costs** *Covers expenses connected with the purchase of assets which have been incorrectly deducted as operating costs. These costs are a part of the cost of the assets which cannot properly be deducted until the time when the asset is sold.*
49	**Immediate write-off – buildings** *Covers incorrectly calculated immediate write-offs related to depreciable costs of buildings.*
50	**Non-deductible commitment commissions, etc.** *Covers commitment commissions, one-off payments, etc. in connection with the establishment of loans which have been incorrectly deducted at the time of the setting up of the loan.*
51	**Depreciation – leased assets** *Covers leased assets which are incorrectly written off in the year in which they are acquired.*
52	**Forward contracts – warehouse principle** *Covers incorrectly declared profits and losses on forward contracts declared,*
53	**Rents and interest rates for companies fixed at non-market prices** *Covers the setting of rents, interest rates, etc. negotiated between interested parties which are legal entities that are not at normal market prices.* **Effects of the recent tax reform:** Significant alterations with regard to group internal transfers which should resolve a large part of the problem.
54	**Write-offs – development costs** *Covers incorrect treatment for tax purposes of development costs.*

55	**Dividends from subsidiary companies** *Covers incorrect treatment for tax purposes of dividends from subsidiary companies.* **Effects of the recent tax reform:** Significant simplification of regulations regarding dividends. Nevertheless, there is a risk that significant errors will arise during the transitional years.
56	**Territorial principle** *Covers incorrect declaration of earnings from operating bases overseas.*
57	**Dividends from companies which are not subsidiaries** *Covers incorrect declaration of dividends from companies which are not subsidiary companies.* **Effects of the recent tax reform:** Changes with respect to dividends from companies which are not subsidiary companies. In future, yields from non-subsidiary companies will always be taxed on the basis of 100% of the yield, with the result that the problem will be resolved as from 2010.
58	**Losses to be carried forward** *Covers incorrect calculations in general regarding losses which can be carried forward.*
59	**Profit/loss – operating equipment** *Covers incorrect calculation of profit/loss in connection with the sale of operating equipment.*
60	**Profit/loss – real estate** *Covers incorrect calculation of profit/loss in connection with the sale of real estate.*
61	**Profit/loss – investments** *Covers incorrect treatment for tax purposes of investment holdings.*
62	**Profit/loss – accounts receivable** *Covers incorrect treatment for tax purposes of profits and losses on accounts receivable.*
63	**Association activities** *Covers disallowed deductions of expenses for the non-commercial activities of an association.*
64	**Profit/loss – shares** *Covers the company's declaration of profits and losses on shares.* **Effects of the recent tax reform:** Significant changes concerning the treatment for taxation purposes of shares belonging to a company.
65	**Additional salary income – salary paid to the children of the principal shareholder** *Covers salary paid to the children of the principal shareholder which is disproportionate to the work they have done, so that the salary paid should be viewed as additional salary for the principal shareholder.*
66	**Company yacht** *Covers full or partial failure to pay tax on the value of use of a company yacht.*
67	**Additional salary income to principal shareholder – health costs** *Covers health-related expenses which do not fulfil the requirements for being treated as health expenses with respect to tax, but must instead be regarded as additional salary to the principal shareholder.*
68	**Classification errors – real estate** *Covers depreciation errors with respect to real estate as a result of errors in classification.*

69	**Company art** *Covers full or partial failure to pay tax on the value of use of company-owned art.*
70	**Establishment costs and capital levies** *Covers the incorrect deduction from the taxable earnings of the company of establishment costs and capital levies in general.* **Effects of the recent tax reform:** Significant tightening of the regulations on deduction of establishment and development costs under §8J of the Danish Tax Assessment Act.
71	**Thin capitalisation** *Covers the disallowed deduction of interest payments resulting from thin capitalisation.*
72	**Company movable goods** *Covers full or partial failure to pay tax on the value of use of company movable goods.*
73	**Bribes** *Covers disallowed deductions of costs of bribes.*
74	**Non-declared dividends from shares** *Covers declared dividends from shares in the principal shareholder's company where the company has not submitted information on the payment to the principal shareholder, and where the principal shareholder has not declared the dividends received as personal income.*

ERROR TYPES: THE SELF-EMPLOYED

No.	Error type (Rubric and *description*)
01	**Various private expenses** *Covers expenses which are incorrectly deducted in the business accounts as being business-related, but which fairly obviously are actually for items which should be regarded as private expenses. (However, the error type does not include private assets which are incorrectly depreciated as business assets – cf. error type 33.)*
02	**Improvements vs. maintenance – operating equipment** *Covers incorrect deduction as maintenance costs of costs of improvements to operating equipment.*
03	**Depreciation – time of starting to use operating equipment** *Covers disallowed depreciation of operating equipment and buildings for which deduction is refused purely because the equipment was not taken into commercial use during the tax year.*
04	**Non-declaration of profit/loss on real estate** *Covers non-declaration of profits or losses on the sale of real estate. (This error type does not include profits/losses which are declared but where the profits have been incorrectly calculated. Cf. error type 24.)*
05	**Depreciation – year of sale** *Covers assets which are incorrectly depreciated in the tax year in which they were sold, including sales in connection with the closure of the business, cf. error type 19.*

06	**Undeclared business earnings** *Covers business income which is not declared, including income that is assessed on the basis of an estimate and state subsidies and grants that should be counted as business income. Also includes business operating income and insurance payments, including repaid insurance premiums resulting from the sale of operating equipment which have not been counted as income. (This error type does not include bookkeeping errors, cf. error type 45.)*
07	**Interest – business** *This error type only covers errors concerning business-related interest payments and earnings. (The error type does not include interest income and costs related to the private sphere, cf. error type 27.)*
08	**Missing deductions/earnings related to VAT and duty adjustments** *Covers additional tax deductions for operating costs resulting from adjustments in VAT and duties. Also covers additional taxable earnings resulting from adjustments to VAT and duties, for example in the case of earnings which are not liable to VAT, but where the earnings are mistakenly entered in the accounts as being subject to VAT.*
09	**Incorrect depreciation of assets** *Covers omissions in the depreciation of operating equipment, buildings etc. as a result of disallowed writing off of assets with immediate effect, etc. Cf. error types 2, 20, 21 and 35.*
10	**Undeclared salary subsidies** *Covers salary subsidies from public funds which are not registered as earnings (or offset against the business salary costs).*
11	**Assessment by estimation – specific expense items** *Covers assessment by estimation of specific expenses, excluding travel expenses – cf. error type 26.*
12	**Undeclared profits on real estate – reinvestment** *Covers errors related to the reinvestment of profits from real estate in general.* **Effects of the recent tax reform:** The regulations concerning reinvestment have been tightened up.
13	**Company car** *Covers full or partial failure to pay tax on the value of the use of a company car.*
14	**Estimations** *Covers estimations of the taxable earnings of a business as a result of the failure to submit a correct declaration. (In addition to the estimation of the earnings of the business, this involves errors connected with accounts set up for business profits under the business taxation scheme, since the failure to submit a tax declaration can be interpreted as a decision not to opt for taxation under that scheme.) This error type does not include estimations of amounts required because of the failure to submit annexes to the declaration, cf. error type 16. Tax Control Act, §5.*
15	**Spouse – principal operator** *Covers errors in the declaration of income from the business in the name of a spouse who has not in reality been the person predominantly involved in running the business.*
16	**Assessment by estimation** *Covers the estimation of the taxable earnings of a company as a result of the failure to submit adequate annexes to the tax declaration, Tax Control Act § 6, and the estimation of the earnings of the business as a result of the rejection of the entire accounts basis for the business.*

17	**Valuation of goods in stock** *Covers incorrect writing down of value of goods in stock and general incorrect valuations of stock at the end of the accounting period.*
18	**Assisting/salaried spouse** *Covers the incorrect treatment for tax purposes of payments to a spouse assisting in the business.*
19	**Closure of company** *Covers undeclared profit or loss in connection with the closure of a company, including transfer of assets to private use.*
20	**Improvements vs. maintenance – real estate** *Covers incorrect deduction as maintenance costs of costs of improvements to real estate.*
21	**Fitting-out costs – rented premises** *Covers fitting-out costs for rented premises in general under §39 of the Danish Depreciation Tax Act.*
22	**Expenditures on fines** *Covers penalties and fines, which are not tax deductible.*
23	**Entertainment costs** *Covers errors with respect to deductions for entertainment expenses in general.* **Effects of the recent tax reform:** Changes with respect to overseas business connections.
24	**Errors in declaration of profits on property** *Covers profits/losses which have been declared but which have been incorrectly calculated. (The error type does not include non-declaration of profits or losses on the sale of real estate, cf. error type 04.)*
25	**Proportion of private use** *Covers changes by estimation in the sharing of operating costs between private and business use. Contrast with error type 38, which covers a change by estimation in the sharing of acquisition costs of operational assets for mixed private and business use, and error type 44, which covers running costs, extension construction and other utilisation of real estate for mixed private and business use.* *In addition, the error type covers the value of private consumption of goods, etc. (calculated according to standard rates).*
26	**Business-related travel** *Covers the use of a company car under §9B of the Danish Tax Assessment Act, though cf. error type 25, which covers changes in the proportion allocated to private use and error type 30, which covers non-documented expenses for car use.*
27	**Private sphere: data entry, etc. by third parties** Private sphere – third-party data entry and associated alterations *Covers changes regarding the private sphere of the owner of the business, though not including personal income which has not been correctly declared by the owner of the business, and where it is not possible to make a comparison with data entries made by third parties, cf. error type 29.*
28	**Calculation and transfer errors** *Covers transfer errors and conversion errors that do not fall under any specific legal category.*

29	**Undeclared personal income** *Covers personal income other than salary which is incorrectly not declared. Cf. error types 27 and 71.*
30	**Miscellaneous non-deductible expenses** *Covers expenses which do not meet the normal requirements for documentation or which otherwise are clearly not deductible because they are attributed to the wrong person or entity. Also covers errors concerning expenses in cases where an employee, etc. is by agreement between SKAT and the business not subject to tax, on condition that the business does not claim deduction for expenses (such as salary costs). Finally, this error type also covers errors resulting from double deductions in connection with the calculation of taxable earnings, but which are not attributable to pure accounting errors, cf. error type 45.*
31	**Periodisation of earnings/profits** *Covers periodisation errors with respect to net turnover, including work in progress on behalf of third parties.*
32	**Salary paid to children** *Covers salary paid to the children of the owner of the business which is disproportionate to the work they have done, so that owner is actually liable to tax on the salary paid.*
33	**Reduction in the basis for depreciation and thus in the depreciation for the year** *Covers over-estimates of the basis for depreciation in general, resulting in a reduction in the basis for depreciation and hence in the depreciation for the year.*
34	**Business not engaged in commercial activity** *Covers a refusal of the right to deduct losses on the grounds that the business cannot be viewed as being run as a commercial enterprise (a hobby enterprise).*
35	**Assets incorrectly written off with immediate effect** *Covers operating assets which, according to §6 of the Danish Depreciation Tax Act, cannot be written off with immediate effect, since their value is above the limit for such writing off, including values of assets which should be taken in combination. L.V. E.C.2.4.6.2. [Danish Tax Assessment Guidance, Businesses, part C 2.4.6.2]*
36	**Errors in use of business taxation scheme** *Covers only errors directly related to the use of the business taxation scheme, and not adjustments concerned with the business taxation scheme deriving from other errors, such as a change in the amount saved up under the terms of the business taxation scheme as a result of other errors.*
37	**Rents fixed at non-market prices** *Covers the negotiation and setting of rents, etc. between interested parties that are not at normal market prices.*
38	**Mixed use of operating equipment** *Covers adjustments based on estimates of the sharing of the purchase sum – and hence depreciation for the year – between private and business use for newly acquired equipment with mixed use. Contrast with error type 25 (general operating expenses with mixed business and private use) and error type 44 (operating costs of and extensions to real property with mixed private and business use).*
39	**Errors in annual depreciation**
40	**Health expenses** *Covers expenses paid by an employer for medical treatment for employees in accordance with the provisions of §30 of the Danish Tax Assessment Act. The error type only covers expenses for employees; otherwise, it would be a matter of private costs for the owner of the business, cf. error type 01.*

41	**Sleeping partner – joint leasing activity** *Covers errors related in general to investment partnership projects with not more than ten shareholders.*
42	**Additional deductions – operating costs** *Covers reductions in the taxable income of the owner of the business, other than reductions resulting from bookkeeping errors (error type 45), additional depreciation (error type 43) and the estimated amounts of specific expenses items (error type 11).*
43	**Additional depreciation** *Covers reduction in taxable earnings as a result of unclaimed deductions for depreciation, though not changes to annual depreciation because of incorrectly made deductions for immediate write-off (error type 9) and for small assets that have been incorrectly depreciated when they are approved for immediate write-off (error type 35).*
44	**Mixed use of real estate** *Covers adjustments based on estimates of the sharing of the maintenance costs, running costs and costs of extensions of property between private and business use for real property with mixed use. Contrast with error type 25 (general operating expenses with mixed business and private use) and error type 38 (newly acquired operating equipment with mixed private and business use).*
45	**Bookkeeping errors** *Covers actual bookkeeping errors. Does not cover calculation errors with respect to taxable earnings, cf. error type 28.*
46	**Depreciation of installations** *Covers installations which are incorrectly written off with immediate effect, but which should be capitalised and depreciated over time in accordance with the provisions of §17 of the Danish Depreciation Tax Act. Also covers installations in private houses which do not qualify to be either written off immediately or depreciated over time – Danish Depreciation Tax Act, §15.*
47	**Too much income included** *Covers general errors of declaration of too much income from the business. Does not cover declaration of too much salary income or income entered by third parties (error type 27) or bookkeeping errors (error type 45).*
48	**Bank charges and loan costs** *Covers commitment commissions, one-off payments, and other similar charges related to loans where the loan period is for more than two years and which are consequently not deductible, Danish Tax Assessment Act, §8, Section 3.*
49	**Adjustments to property value tax** *Covers adjustments to property value tax in relation to the proportion of business use of the real property. Does not cover adjustments to property value tax in the private sphere, cf. error type 27.*
50	**Deductions for work area and rent in own home** *Covers disallowed deductions for a work room in the home, on the grounds that the conditions for such deduction are not fulfilled.*
51	**Classification errors** *Covers earnings and expenses which are incorrectly classified, so that the error results in both an increase and a reduction in taxable earnings, though not including problems surrounding the issue of being a salaried employee vs. being self-employed (cf. error type 62).*
52	**Sponsorship expenses** *Covers deductions for sponsorship expenses disallowed on the grounds of the personal interest of the self-employed person.*

53	**Addition to the purchase price for real property** *Covers expenses which cannot be deducted as operating costs but which must instead be capitalised as part of the cost of acquiring real property.*
54	**Profits/losses on various items of operating equipment** *Covers declaration of profits/losses concerning various kinds of operating equipment in general.*
55	**Periodisation of expenses and losses from bad debts** *Covers expenses which are incorrectly deducted in the tax year before or after the tax year in which the expenses were incurred and were thus deductible. Also includes losses from bad debts that are deducted before the loss has been finally established.*
56	**Craftsman's salary – value of own skilled work** *Covers the taxable value of the taxpayer's own work in connection with construction of real property.*
57	**Failures to declare income in kind for employees and/or spouse** *Covers the loss of taxation on payments taken in kind by employees and the spouse of the self-employed person.*
58	**Empty field**
59	**Education expenses** *Covers disallowed deductions for education expenses as a result of the incorrect or lacking delimitation of expenses for supplementary education and training in relation to expenses for higher education.*
60	**Renting of rooms** *Covers incorrect accounting of profit from renting out of rooms for habitation in accordance with §15P of the Danish Tax Assessment Act.*
61	**Business related profit/loss on exchange rates**
62	**Salary income/business income delimitation** *Covers errors in the tax declaration as a result of incorrect delineation between earnings from self-employment and salaried income.*
63	**Reclaimed depreciation – real property** *Covers calculation and declaration of reclaimed depreciation in general.* **The recent tax reform:** Full taxation of reclaimed depreciation on real property.
64	**Empty field**
65	**Empty field**
66	**Use of establishment account**
67	**Rights: profit/loss** *Covers errors in the declaration of profits/losses from the sale of rights in general.*
68	**Immediate write-off – buildings** *Covers the immediate write-off of the value of buildings in general.*
69	**Changes to taxation as a result of changes to calculations of tax for previous years** *Covers changes to taxable income as a result of changes to assessments for previous tax years.*

70	**Establishment costs and capital levies** *Covers the incorrect deduction from taxable income of establishment costs and capital levies in general.* **The recent tax reform:** Tightening of the rules for deductions under §8J of the Danish Tax Assessment Act.
71	**Incorrect salary payments** *Covers payments of salary which have not been registered, and from which tax at source has not been deducted in accordance with the Danish Withholding Tax Act.*
72	**Food and lodging** *Covers incorrect application of the rules concerning deductions for food and lodging as a self-employed business person in accordance with §9A, Section 8 of the Danish Tax Assessment Act.*

ERROR TYPES RELATING TO VAT

No.	§	Error type (Rubric and *description*)
10	3	**Hobby business** *Covers disallowed deduction of VAT, on the grounds that the business is not involved in commercial activity.*
12	4	**VAT on sales not declared** *Covers non-declared VAT on sales, as evidenced by actual invoices. In addition, covers sales activities which are subject to VAT on which no VAT has been invoiced or declared.*
13		**Estimated amount of VAT on sales** *Covers sales subject to VAT where an estimate of the value has been made on the basis of use of raw materials, gross mark-up, negative private use, etc.*
58	5	**Transfer to private use** *Covers VAT not declared in connection with the transfer of assets from business to private use.*
59		**Use of own products.** *Covers VAT not declared in connection with private use of products from the business.*
75	6	**Construction with a view to sale** *Covers building with sale in mind.*
77	7	**Building at own expense for business use** *Covers errors concerning construction of buildings at own expense for the use of the business.*
81	8	**Sale of assets** *Covers VAT payable on the sale of assets which is – incorrectly – not charged.*
95	11	**VAT on business services purchased in the EU** *Covers VAT on purchases from other EU countries on which VAT has – incorrectly – not been calculated.*

108	12	**VAT on goods imported from outside the EU** *Covers import VAT on purchases made from countries outside the EU where the VAT –incorrectly – has not been calculated.*
110	13	**Sales of VAT-exempt goods** *Covers sale of various VAT-exempt goods and services on which VAT has been incorrectly charged.*
126	14	**Place of delivery of goods** *Covers incorrect treatment with respect to VAT of international sales and purchases where account has not been correctly taken of the place of delivery of the goods.*
127	15	**Place of delivery for services** *Covers incorrect treatment with respect to VAT of international sales and purchases where account has not been correctly taken of the place of delivery of the services.*
136	23	**Commencement of obligation to charge VAT** *Covers periodisation errors with respect to VAT on sales.*
142	27	**Losses on bad debts** *Covers deduction of VAT with respect to bad debts before the loss has been finally established.*
143		**Basis for VAT calculation** *Covers errors concerning the supply of goods and services on which VAT has not been calculated on the full cost basis.*
153	30	**Sale of cars that have been leased or used as driving school cars** *Covers errors in the calculation of VAT on the sale of cars that have been used as driving school cars, etc.*
155	33	**VAT rate** *Covers incorrect rate of VAT as a consequence of errors in setting up the bookkeeping system.*
161	37	**Various private expenses** *Covers the incorrect deduction of VAT on purchases of goods and services which were clearly purchased exclusively for private use by the owner of the business.*
162		**Deductible purchases** *Covers failure of the business to make permissible deductions of VAT paid.*
163		**Rent** *Covers deduction of VAT on rent for housing which has been incorrectly omitted because no voluntary registration has been made. Also covers deduction of VAT on rent for housing which has incorrectly been omitted despite voluntary registration having been made.*
164		**Non-deductible purchases** *Covers the incorrect deduction of VAT on costs to which VAT was not applied, or where the expenditures are not related to the activities of the business that fall within the VAT regime.*
307	38	**Partial entitlement to deduction** *Covers the incorrect delineation of VAT-applicable and non-VAT-applicable activities, with consequential incorrect deduction of VAT on purchases.*

308		**Proportion for private use** *Covers an adjustment based on an estimate of the sharing of operating costs between private and business use whereby some deduction of VAT on purchases is disallowed.*
309		**Partial deduction: too little deducted** *Covers an adjustment based on an estimate of the sharing of operating costs between VAT-applicable and non-VAT-applicable activities whereby further deduction of VAT on purchases is approved.*
365	39	**Partial deduction: buildings** *Covers an adjustment based on an estimate of the sharing of costs of buildings used for mixed purposes.*
367	40	**Company telephone for employees** *Covers VAT on costs for the purchase and operation of telephones for employees in general.*
375	41	**Leasing of goods vehicles** *Covers an adjustment based on an estimate of the sharing of costs of leasing of goods vehicles used for mixed purposes.*
376		**Purchase of goods vehicles for mixed private and business use** *Covers an adjustment based on an estimate of the sharing of costs of purchasing goods vehicles used for mixed purposes.*
377		**Operating costs of goods vehicles used for mixed private and business use** *Covers an adjustment based on an estimate of the sharing of operating costs of goods vehicles used for mixed purposes.*
386	42	**Payment of employees in kind** *Covers incorrect deduction of VAT on purchases of goods for payment in kind of employees.*
387		**Costs of gifts** *Covers incorrect deduction of VAT on purchases of gifts.*
388		**Restaurant expenses** *Covers incorrect deduction of VAT on restaurant expenses in general.*
389		**Purchase and maintenance of cars** *Covers incorrect deduction of VAT on purchase and operating costs of cars registered as non-commercial vehicles.*
390		**Costs of courses** *Covers incorrect deduction of VAT on costs of courses in general.*
391		**Leasing of cars** *Covers incorrect deduction of VAT on costs of leasing cars in general.*
392		**Purchase and operating costs of housing for business owner and staff** *Covers incorrect deduction of VAT on the purchase and running costs of housing for the business owner and staff in general.*
437	52	**Incorrectly deducted purchase VAT: requirements for invoices** *Covers disallowed deduction of VAT on purchases where the normal requirements for invoices are not met.*

460	56	**Bookkeeping errors in calculation of liability for duty** *Covers incorrect calculation of liability for duty as a result of errors in bookkeeping.*
499	57	**Declared VAT liability too low in relation to the accounts** *Covers failure to declare VAT due despite it being correctly recorded in the accounts, because of errors in the calculation and balancing of the VAT due.*
500		**Declared VAT liability too high in relation to the accounts** *Covers declared VAT due being too high in relation to the amounts shown in the accounts.*
522	69	**VAT on used goods** *Covers errors in the treatment of VAT on used goods that are covered by the used goods VAT regulations.*
EXECUTIVE ORDER, VAT		
526	56	**The account for VAT on purchases should include only deductible amounts invoiced to the company** *Covers VAT incorrectly charged on purchases that have correctly not been invoiced with VAT. Also covers incorrect deductions of VAT on items which should not be charged to the business.*
540	58	**Missing documentation for VAT deducted on purchases** *Covers disallowed deduction of VAT on purchases because of lack of documentation for the expenditure.*

No.	**Error type (Rubric and *description*)**
ELECTRICITY DUTY	
600	**Electricity duty: space heating** *Covers the incorrect deduction in general of electricity duty with regard to space heating.*
601	**Electricity duty: camping** *Covers the incorrect deduction in general of electricity duty with regard to camping.*
602	**Electricity duty: not deducted** *Covers additional deductions allowable for electricity duty which were incorrectly not deducted by the business.*
603	**Electricity duty: private use** *Covers the proportion of the electricity duty which should have been calculated for private use, but which was not.*
604	**Electricity duty: missing documentation** *Covers disallowed deduction of electricity duty because of lack of documentation for the expenditure.*
605	**Electricity distribution charge** *Covers the incorrect deduction in general of the electricity distribution charge.*
606	**Declared electricity duty too great in relation to the accounts** *Covers the deduction of amounts for electricity duty which are too great in relation to the amounts shown in the accounts.*

607	**Electricity duty: not deductible** *Covers disallowed deductions of electricity duty on the grounds that the electricity was not used by the business or that the activities of the business do not give entitlement to the deduction of the electricity duty.*
608	**Electricity duty: partially deductible** *Covers the partial deduction of the electricity duty because the activities of the business are partially in areas that fall within the VAT regime and partly in areas that fall outside it.*
FUEL TAX	
611	**Dyed diesel oil** *Covers disallowed deductions of expenses related to dyed diesel oil because the fuel was not used for purposes for which deduction is allowable.*
612	**Fuel tax: accounting errors** *Covers accounting errors related to fuel tax.*
613	**Fuel tax: heating** *Covers the incorrect crediting of fuel tax because the fuel was used for heating (purpose not approved for credit).*
615	**Fuel tax: no entitlement to credit** *Covers the incorrect crediting of fuel tax because the fuel was used for other purposes not approved for credit.* *The business deducted the fuel tax in connection with snow clearance and operation of goods vehicles.*
WATER DUTY	
621	**Water duty: not deductible** *Covers disallowed deduction of water duty because the water was not used in the business.*
622	**Water duty: deductible** *Covers failure of the business to make permissible deduction of water duty.*
CO_2 DUTY	
631	**CO_2 duty** *Covers the incorrect deduction in general of CO_2 duty.*
636	**Gas duty: partially deductible** *Covers an adjustment by estimation of the sharing of gas duty in the case of mixed use (both VAT-applicable and non-VAT-applicable activities).*
637	**Gas duty: space heating** *Covers the incorrect deduction in general of gas duty.*
PAYROLL TAX	
700	**Payroll tax** *Covers VAT-exempt turnover which the business has incorrectly failed to record as subject to payroll tax.*

701	**Changes to the payroll tax base** *Covers repayment of payroll tax as a result of an alteration in the base for calculating the tax.*
702	**Declared payroll tax liability not in accordance with accounts** *Declared payroll tax is not in accordance with payroll tax according to accounts.*

APPENDIX 1. OVERVIEW OF BUSINESS SECTORS

The following indicates the areas covered by the various business sector categories.

Sector code	Description
010000-039999, 060000-099999	Agriculture, Forestry, Fisheries and Commodities Production
100000-339999	Manufacturing
350000-359999	Energy Supply
360000-399999	Water supply and Waste disposal
410000-439999	Building and Construction
450000-479999	Trade
490000-539999	Transportation
550000-569999	Hotels and Restaurants
580000-639999	Information and Communication
640000-669999	Finance and Insurance
680000-689999	Estate Agencies and Property Rental Agencies
690000-759999	Consultancy
770000-829999	Travel Agencies, Cleaning and Other Business Services
840000-849999	Public administration, Defence and Policing
850000-859999	Education
860000-889999	Health Care and Social Services
900000-939999	Leisure and Culture
940000-969999, 970000, 981000, 982000	Other Services
0, 980000, 999999	Not Stated

The business sector classifications are in accordance with the 21 standard groups listed by Statistics Denmark (*Dansk Branchekode 2007*), except that some sectors have been combined because of the low number of observations in the study. The details of what is included in each sector can be downloaded (in Danish with translation into English) from the Statistics Denmark website at:

http://www.dst.dk/Vejviser/dokumentation/Nomenklaturer/DB/Branchebogen_DB07.aspx

APPENDIX 2. DELIMITATIONS AND DEFINITIONS

This section introduces much of the special terminology used in this report. We also explain here some of the decisions made in relation to the delimitation of what was measured. Finally, we outline some of the methods used in calculating the various results.

First, we describe the basic division between individual taxpayers and businesses. Then the term *adjustment amount* is introduced, with an explanation of the distinction between the *net* amount and the *numerical* amount or *gross* amount. As an extension to this, we discuss the significance of outlying extreme values among the observations in the sample, and explain how we have decided to deal with the issue. Next, there is a description of the extent of the audits carried out and of the general uncertainty with regard to the results. Then we give a definition of the *error percentage*, and describe its relationship to the traditionally calculated *percentage of adjustments made after audits*. We then present the *compliance scale* which has been developed by SKAT in order to rank taxpayers' ability to follow the regulations. Next follows a brief explanation of the principle for the distribution of the results between tax on earnings and VAT, and then a description of how the weighted averages are calculated. The section concludes with a definition of the *tax gap for businesses* and an outline of the process of calculating the gap on the basis of the adjustment amounts.

THE DISTINCTION BETWEEN INDIVIDUAL TAXPAYERS AND BUSINESSES

When the plans were being drawn up for the study of compliance with the regulations, priority was given to elucidating all aspects of the tax situation of individual taxpayers and businesses. In the audits made and the subsequent calculations for these two groups it was thus important not only that nothing was omitted, but also that nothing was counted twice, either for individual taxpayers or for businesses.

The auditing of the self-employed involved both their private and their business spheres, since the two cannot be separated in terms of tax in any meaningful way. Consequently, the self-employed – people with their own businesses – were not investigated together with individual taxpayers, as it was taken that there was no separation between the individual and the business.[3] The auditing of businesses registered as companies covered only the affairs of the company. The principal shareholder in the company was only covered by the audit to the extent that there were tax relationships between the company and the shareholder, for

[3] Spouses of the self-employed, on the other hand, were covered in the individual taxpayer section of the compliance project, since they were regarded in the same way as other individuals. This means in effect that a spouse who assists in the business of a self-employed person is regarded as being an employee of the firm – though with certain differences from normal employees. In connection with the auditing of a self-employed person, checks were made of the tax relationship between the business and the spouse, to the extent that this was considered relevant from the point of view of the probability of its being of significance. All other factors in relation to the spouse's tax declaration were dealt with through any check made of the spouse as an individual taxpayer.

example in the form of free use of a company car, intercompany accounts, disguised dividend payments, etc.

All other factors in relation to the principal shareholder's tax declaration were dealt with through any audit made of the shareholder as an individual taxpayer. In other words, people who were principal shareholders in companies could be checked in the section of the study connected with individual taxpayers, since a company and its principal shareholder were regarded as two independent tax payers.

In the case of jointly taxed concerns, only the specific company that was selected for compliance auditing was included in the study.

With respect to the obligations of a business to provide information concerning payments to employees in the form of salaries and other benefits, these were checked as a natural part of the audit of the business, regardless of whether it was organised as a company or as a business run by a self-employed person.

These delimitations were intended to ensure that all aspects of taxation were covered. In the survey of individual taxpayers, it was assumed that information concerning payments of salaries and other benefits were declared correctly by their employers. It was thus only the taxpayer's own actions that were checked.

In the survey of businesses, audits were made of the payments of salaries and other benefits, including payments to principal shareholders, to ensure that these were correct; it was thus an important part of the compliance audit of businesses to ensure that such payments were accounted for correctly. Moreover, the actions of the firm itself were naturally checked with respect to taxation issues. If any errors were discovered in the accounting of salaries or other benefits paid out, these errors were ascribed to the business, since it was here that they originated.

Appendix table 1 shows that, on the basis of the definitions of self-employed persons and companies which were used, there were 157,706 companies and 390,695 self-employed persons in Denmark at the time of the study. Companies thus made up 29% of the total of 548,401 businesses. As stated on page 2 it was subsequently necessary to correct the weights used so that the number of companies (157,706) was reduced by 1.3% (to 155,610), and the number of self-employed owners of businesses was reduced by 6.5% (to 365,438).

NET AND NUMERICAL ADJUSTMENT AMOUNTS

When an error is detected in a tax declaration as a result of a check, SKAT amends the amount of taxable income. The difference between the original and the revised amounts is called an *adjustment*. When the adjustment is positive, i.e. in favour of the tax authority, then this is referred to as an *increase*; conversely, a negative adjustment is referred to as a *reduction*.

When all the adjustment amounts for all taxpayers are combined, the sum is either a *numerical* or a *net* amount. Increases minus reductions produces a *net* adjustment. This is of interest in the context of tax revenue effects. However, when we are interested in calculating the extent of lack of conformity with the regulations, the *numerical* adjustment is the one which is relevant.

This numerical adjustment amount is arrived at by calculating the total of increases *plus* reductions. Thus, whereas an increase of DKK 10,000 and a reduction of DKK 10,000 would be combined to produce a net adjustment of zero, the calculation of a numerical adjustment shows a total amount of error of DKK 20,000. In the tables in this report we generally use the term *gross* in referring to the numerical adjustment amount. Both gross and net adjustments are stated before tax, and thus do not provide any indication of the amounts of tax involved in the adjustments. The actual amount of tax resulting from the adjustment is termed the *revenue*; for additional details, see the section below on the tax gap.

OUTLYING OBSERVATIONS

When averages and totals for an entire population are calculated on the basis of a sample of that population, there is always a danger that a small number of extremely high or low observations will weigh too heavily in the picture. If the business which is guilty of the greatest level of tax fraud in the country should chance to have been included in the sample, this will produce too high an average for the sample in relation to the true average for the country as a whole.

In order to avoid this effect it is normal procedure to cleanse data of extreme outlying observations. However, there is no generally accepted standard method of selecting the observations to be excluded. Given that the actual distribution of values in the whole population is, clearly, unknown, the problem is that it is difficult to assess whether the largest and smallest values in the sample are actually extreme values in the context of the range for the whole country.

Provided that the numbers of observed values arranged in order of magnitude form a pattern of a “string of pearls” type, there is no need for any concern over this issue. If, however, there is a sudden break in the pattern – for example, if one has observed values of 351, 357, 360, 372, 379, 391, 1,485 – great care needs to be taken over how the last value is allowed to affect the results. Another way of looking at the problem is to say that as soon as the total or average result is greatly changed if one or a few extreme observations are excluded, it is necessary to consider whether these values should indeed be omitted from the calculations, and at the very least to draw attention to the effect of including them.

In our data material there are a small number of businesses which had very large adjustment amounts – either upward or downward. In the light of SKAT’s many years of experience in making audits, we are aware that every year there are cases where very large adjustments are made, and it is therefore difficult to state with certainty whether these extremes are “abnormal” and should be excluded, or whether the observations should be included.

The larger the size of the sample, the smaller the problem generally is. In the case of this study the sample is relatively large, but when the results are subdivided on a sector level, the size of the samples is significantly reduced. It is thus to be expected that if the extreme values are included, a future study may bring about some significant shifts in the results reported at the sector level.

In order to obtain more robust results, and because the focus of the present report is on results for the various business sectors, we have chosen to exclude from the results presented here the small number of adjustments which were extreme outliers in the sample as a whole.

The compliance report of August 2009 explains how these extreme observations are defined on pages 9 and 31.

THE EXTENT OF AUDITS AND STATISTICAL UNCERTAINTY

SKAT's compliance project mapped conformity with the regulations for businesses in Denmark for the tax year 2006. The results were based on audits made of a total of 11,462 businesses distributed across the entire country, with between 373 and 385 businesses checked at each of the thirty tax centres.[4] The businesses section of the compliance survey includes both businesses that are organised on a personal level, i.e. run by self-employed people, and those that are registered as companies; but it excludes firms with more than 250 employees.[5]

The selected businesses were checked with respect to all aspects of taxation of earnings – meaning that neither transfer pricing nor customs and excise duties are covered by the analysis. Of the unweighted total number of audits made, 8,415 involved the self-employed and 3,047 were of companies. Thus, companies made up 27% of the businesses in the sample, corresponding very well to the actual proportion of such businesses in the whole population. Further, an attempt was made to select businesses for checking in the same proportions of companies and the self-employed as existed in each separate tax centre.

Businesses were selected entirely randomly, with an almost identical number of audits being made at each tax centre. This procedure ensured that representative pictures could be obtained for the whole of Denmark, for each region, and for each tax centre. Since the total sample was very large in size, the majority of broad sector categories should be sufficiently well represented to make it possible to extract separate results for each category, even though the sample was not stratified by sectors. In general, the fewer businesses there are in the sample for a given category, the greater will be the level of statistical uncertainty associated with the results for the category.

[4] At several tax centres a small number of cases had to be left out of the study, since some people who were listed in SKAT's records as self-employed turned out no longer to be so. As a result, the final number of completed cases was between 373 and 385 per tax centre; Appendix Table 1 shows how these cases were distributed across the regions.

[5] The largest companies were not included in the survey because of the scale of the resources that would have been required to audit them. In the long run it would naturally be useful to carry out a compliance study for this group, too.

The degree of uncertainty is generally smaller for error percentages and levels of compliance than it is for the amounts of money involved. This is because the variance in the observed values for amounts of money is significantly greater.

In addition to the audits on taxation of earnings, in the cases of approximately one business in seven – 1,584 businesses out of the total of 11,462 – coordinated audits were made of VAT returns. These VAT audits were carried out on businesses selected randomly within each region, in contrast to the audits on taxation of earnings, where the selection was made at the tax centre level.

With respect to VAT calculations the level of statistical uncertainty is higher, in that the number of businesses checked for VAT was only one seventh of the number checked for tax on earnings. In the case of audits on both tax and VAT, it is necessary to take great care in basing firm conclusions on those results that are based on fewer than 30 observations.

ERROR PERCENTAGE VS. PERCENTAGE OF ADJUSTMENTS AFTER AUDITS

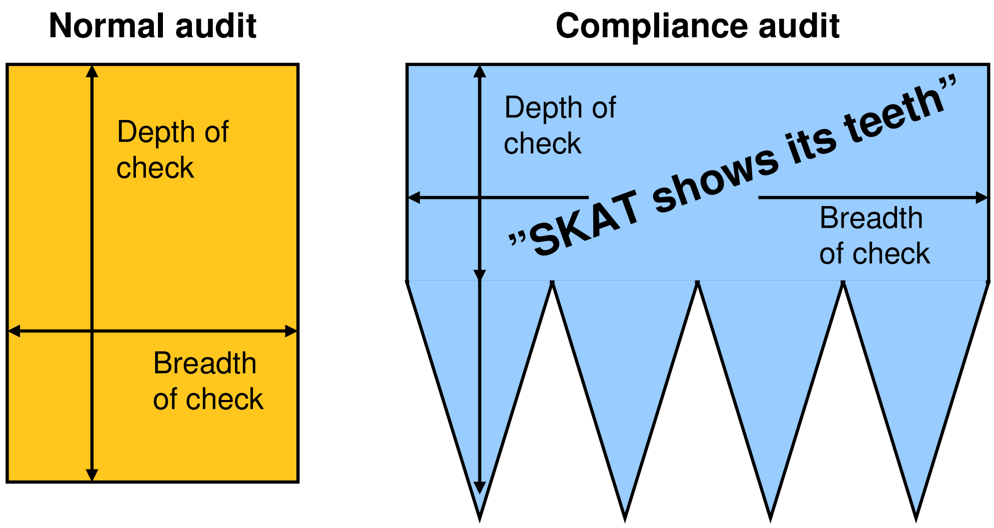
This section introduces the concept of the *error percentage*. It is important that everyone who uses the results from the compliance project is aware of the distinction between the concept of the "error percentage" and the concept traditionally used in Danish tax administration, namely the "percentage of adjustments made after audits".

If an adjustment is made to the amount declared, whether positive or negative, in this document we say that an *error* has been made. The *error percentage* is the proportion of cases in which there were errors. The error percentage is calculated in relation to the total tax base. The decision not to use the term *percentage of adjustments made after audits*, which is conventionally used at SKAT, was made because the two concepts differ in several significant respects. The use of the same term in this presentation could therefore easily lead to misinterpretation.

The percentage of adjustments made after audits is not directly comparable with the error percentage. There are several reasons for this. First, the entity used in calculations for the compliance project with respect to audits of self-employed people is the person (as listed at the Central Office of Civil Registration) and not the business (the Central Business Register). In the normal calculations of the percentage of adjustments after audits, the unit of calculation is the number audits carried out. If a self-employed person has more than one registered business, and there are errors found in the accounts of one business but not in a second, then in SKAT's normal calculations of percentage of adjustments after audits this is recorded as a percentage of 50%, whereas in the compliance study this would represent a 100% level of error.

The second reason is that many more areas of legislation were included in the compliance project audits. In the normal audits, the audit is typically limited to one specific area, such as VAT or employment. In contrast, the compliance audit was a full-scale audit. The audit on tax covered tax of the earnings of the business, employment aspects, and all subordinate areas within the field of taxation, including relationships to the principal shareholders and investments in other businesses, for example as a sleeping partner. In the case of the self-employed, the compliance audit included both tax on the earnings of the business and a audit of private taxation.

Figure 1. Breadth and depth of the audits in normal audits and the compliance audit



The third reason is that the compliance audit was broader in scope than the normal type of check. In this context, the breadth of the audit refers to the number of principal entries and sub-entries that are included in the audit of the business concerned. In the compliance audit, there was no option – as there is in the ordinary audits – of ignoring some entries and sub-entries on the grounds that there was less likelihood of significant error with them. The compliance audit was thus an all-round audit, where every aspect of a business's balance sheet and statement of profit and loss was checked.

The greater breadth of the compliance audit thus inclines towards the detection of a larger number of cases where there are errors than are revealed by the regular check. On the other hand, there is also a tendency for a greater number of minor errors to be detected.

While the compliance audit has greater breadth, the degree of depth used is generally less than with the regular audits. This means that every aspect of the affairs of the business is checked through a number of samples. If an error is found within a particular area, the depth of the audit is increased for that specific area, but this does not normally have any effect on the other audits made on the business. If errors are discovered in other areas, these too will be subjected to a fuller audit. Figure 1 is an attempt to represent this procedure graphically. The depth of checking in the compliance study may thus be either less or greater than is the case for the regular audits, but it cannot be predicted before the audit begins.

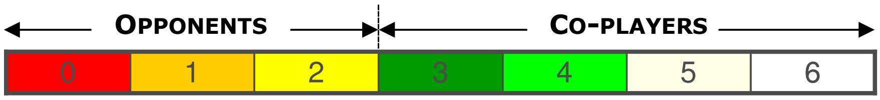
For all these reasons, the traditional measure of percentage of adjustments after audits cannot be used to make comparisons with the error percentages reported in the compliance study. It is thus quite deliberate that we use the term *error percentage* in this document to indicate the proportion of cases where adjustments have to be made to taxable income. We also use the expression

Proportion without/with errors in order to make it possible to focus both on those businesses which do not make errors and on those that do. The *proportion with errors* is thus identical to the error percentage, and the proportions *with* and *without* errors by definition add up to 100 percent.

SKAT'S SCALE OF COMPLIANCE – THE RATING

In compliance audits, when a case worker has completed a case, he or she must assess the degree to which the regulations have been complied with. This evaluation of the case was expressed in a single figure – the *level of compliance* or *compliance rating*. This is a newly established method of grading on a scale from 0 to 6, where the higher the grade, the greater the degree of conformity with the regulations (figure 2).

Figure 2. SKAT's scale of compliance for the ability of the taxpayer to abide by the rules.



An overarching distinction is made between taxpayers who are *opponents* and those who are *co-players*. *Opponents* include all those who have consciously sought to evade taxes, irrespective of whether or not they understood the rules. The other group, the *co-players*, have the will to make a correct declaration, but are not necessarily able to do so. In the case of the latter group, then, an incorrect declaration is assessed as being the result of an unconscious error and not deliberate fraud. The compliance scale is then further nuanced through the use of seven different levels. Thus, it is possible to be an opponent or a co-player in varying degrees: opponents are given a compliance scale grade between 0 and 2, while co-players are categorised with a value between 3 and 6. Actual placement on the scale is made primarily according to objective criteria.

An important aim of the scale is thus to provide an explicit measurement of the degree to which an individual taxpayer is an opponent or a co-player. This is something which cannot be seen from the adjustment amount alone. Comparison of the levels of compliance and the adjustment amounts for the various types of error can highlight areas where the problems are greatest, and thus provide a good starting point for planning future initiatives.

If the errors are mainly the result of misunderstanding or ignorance of the rules – i.e. are connected with a high level of willingness to comply – then there may be a need for more information and guidance, or even a simplification of the rules in the area. If on the other hand the errors come from a deliberate attempt to cheat – i.e. are connected with low levels of willingness to comply – then the need may be for targeted audits and the use of sanctions, or the tax evasion behaviour may be discouraged by restricting or removing the opportunities for fraudulent declaration. This could be done, for example, by legally requiring more information to be entered by third parties.

Appendix figure 1 presents a flow chart used by all case workers to place businesses on the scale of compliance after each audit had been completed. Appendix figure 2 gives a more detailed description of the various categories on the scale of compliance.

When in the following we compare regions or business sectors, for example, we often refer to average levels of compliance. Such averages offer the great advantage of expressing the degree of conformity to the regulations in a single figure. It is important, however, to remember that there is variation in the figures that are expressed through such averages. For example, in an instance where half the taxpayers are assessed as dark green and the other half as off-white, the average level of 4.0 is the same as at a tax centre where all the taxpayers were categorised as pale green. In other words, identical average degrees of compliance are not necessarily the same in their underlying composition.

Note also that an average level of compliance which is just 0.2 points lower for sector A than sector B, for example, is the equivalent of a full 20% of all businesses in A being one category lower on the scale of compliance than the businesses in sector B, or 10% of the businesses being two whole categories lower, while the remainder of the businesses are distributed in exactly the same way. Thus, even small differences in the average levels of compliance can be significant.

It is also important to view error percentages, adjustment amounts and levels of compliance in context. High percentages of error may not be very worrying if they occur in combination with high degrees of compliance and/or small adjustment amounts. Such cases may simply indicate that more information and guidance is required.

For businesses where audits were made for both tax on earnings and VAT, only one rating is given, and it is not possible to divide up the level of compliance according to the two different types of taxation. Conformity with the regulations is calculated in such cases as an overall assessment of the situation of the business with regard to tax on earnings and VAT.

Note that we often use the term *rating* as a synonym for *level of compliance*, simply on grounds of brevity.

TAX ON EARNINGS AND VAT

All the tables in this report indicate whether or not VAT is included in the amounts. Unless VAT is specifically mentioned, the results given for adjustments relating to businesses cover income of the self-employed (including their private taxable income), the taxable earnings of registered companies, the taxable incomes of principal shareholders, the taxable incomes of employees and spouses of the self-employed, and the taxable incomes of other partners.

In those tables where VAT is specifically mentioned, the figures refer to VAT alone.

With respect to level of compliance, however, the situation is rather different. As mentioned previously, it is not possible to separate out the levels of compliance according to tax on earnings and to VAT for those businesses which were checked with respect to both.

Our calculations of average levels of compliance for tax include assessments of the VAT situation in 14% of the businesses checked, i.e. 1,584 businesses of the 11,462 in the total sample. This percentage is not representative of the number of VAT registered businesses in the population, since such businesses make up 65% of the total, i.e. 359,129 out of a total of 548,401 businesses.[6]
The levels of compliance reported in the *with VAT audit* tables thus provide a "truer" account, since both tax on earnings and VAT are contained in the assessment of the businesses included in the averages.

THE CALCULATION OF WEIGHTED AVERAGES

The method used for selecting taxpayers for inclusion in the random sample is known as *stratified random sampling*. As mentioned previously, this involved selecting an equal number of businesses for checking from each tax centre, thus ensuring that the level of accuracy was the same for all centres. The businesses in the sample were selected randomly from each tax centre separately, not from the total national population of businesses.

However, when results are to be presented for each of SKAT's six regions, for a given business sector, or for the country as a whole, it is not possible simply to sum or average the figures for each tax centre, since these tax centres vary greatly in size. In order to obtain an accurate picture of the situation at regional, national or sector level, results from the tax centres have to be weighted. The weights used are the proportions of the population of businesses at regional or national level represented by the population served by each tax centre.

This means that the conformity with regulations of a business in, for example, Copenhagen, weighs more heavily in the results for the entire country than the corresponding behaviour of a business in a provincial town such as Hjørring, since the number of businesses in Hjørring is much smaller than the number in Copenhagen. The weighted averages are thus representative of the overall national behaviour pattern.

All tables in this report and the comments upon them relate to the **weighted** numbers, averages or totals, unless explicitly stated otherwise. The actual numbers of audits on which the results are based are presented in appendix table 1, shown by tax centre and by type of business ownership.

THE TAX GAP

There are many individual taxpayers and businesses that follow the tax regulations in every respect, but there are also taxpayers who are not sufficiently familiar with the rules, and still others who are either unable or unwilling to

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[6] Ideally, VAT would not be included in the compliance ratings of any of the businesses that were used to calculate the averages. However, in planning the checks great emphasis was placed on the considerable savings that could be achieved by checking both tax on earnings and VAT simultaneously for businesses. In the light of this, it is felt that giving up the ability to state the average ratings 100% correctly for tax on earnings and VAT separately was a small price to pay.

follow those rules. As a result, there is a difference – or gap – between what people actually declare and pay tax on, and what they should have declared. This difference is often referred to as the tax gap; however, this is not particularly precise definition of it.

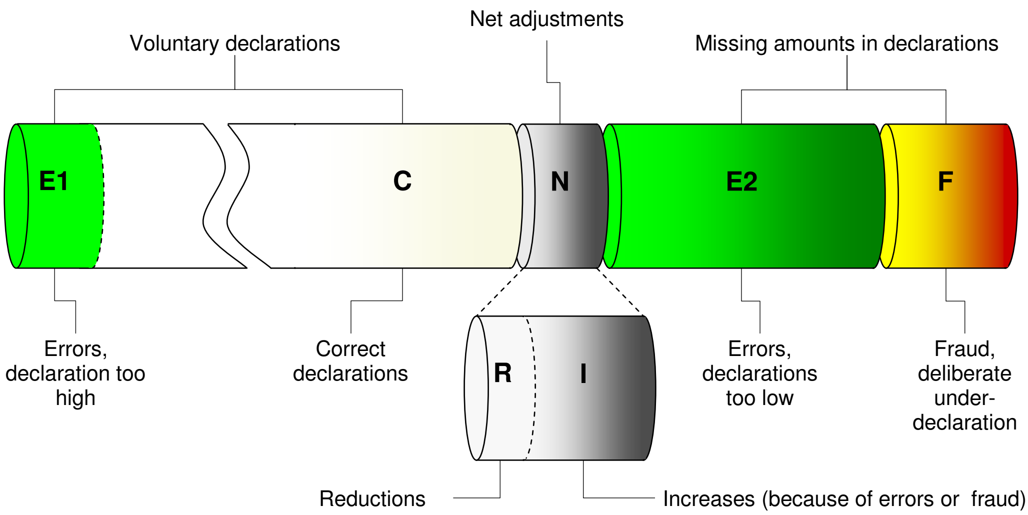
THE TOTAL TAX AND DUTIES GAP

The gap can be calculated in terms of the tax base or the tax revenue, i.e. equivalent to an accounting before or after tax. In the compliance reports of August 2009, the tax gap was calculated in terms of the tax base, in line with previous standard practice in Danish research. In this report, however, we have chosen to work with the tax gap after tax, i.e. in terms of lost tax revenue.

The calculation of the lost revenue has been made by separately applying the relevant tax rates for each error type and for both companies and the self-employed. Appendix table 2 and 3 show the tax rates for 2006 used for each error type and for companies and the self- employed.

Tax declarations in Denmark consist of automated entries from third parties concerning the individual taxpayer's income and deductions, plus the taxpayer's own amendments and additions to these. Figure 3 below provides an illustration of how declared taxable income is divided into voluntarily declared income, adjustments implemented as a result of audits by SKAT, and income which should have been declared but was not, and which was not discovered later through audits by SKAT.

Figure 3. Declarations of taxpayers' income and deductions

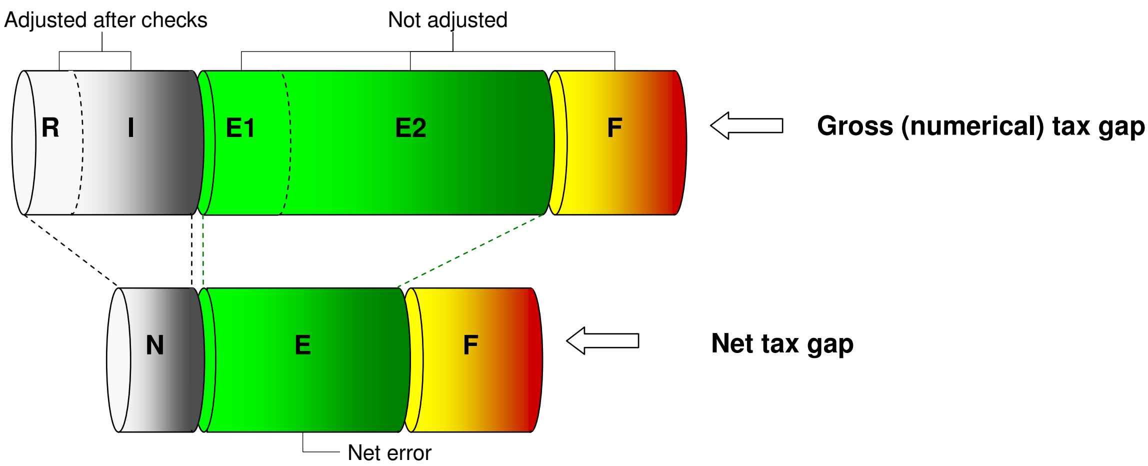


Voluntarily declared income makes up by far the largest part of the total amount, and consists almost entirely of a very large block of correctly declared income (**C**). In accordance with the scale of compliance, this section of the diagram is coloured white. Note the break in the block, which indicates that this part of the tax base is much larger than can be physically represented in the diagram here. The diagram is in any case not to scale. The voluntarily declared income also includes a number of entries which increase the size of the tax base beyond what it should be, either because income is incorrectly declared to be larger than it really is, or because certain legitimate deductions are not used (**E1**).

These entries are regarded entirely as errors, since they can hardly be an indication of taxpayers deliberately “cheating” themselves.

A portion of the amount declared includes adjustments made on the initiative of SKAT. Increases (**I**) minus reductions (**R**) gives a *net* adjustment (**N**). A greyscale is used here, since adjustments can concern both opponents and co-players. Finally, we have the income which in contravention to the regulations is not declared, and which furthermore is not discovered by SKAT. These missing amounts are the result in part of errors (E2) and in part of actual fraud (F). Figure 4 shows the tax gap on the basis of the elements defined in figure 3.

Figure 4. The tax gap in gross and net terms



The tax gap is a theoretical sum of the adjustments actually made plus errors and fraud that are not discovered. The gap can be presented in either *gross* (numerical) or *net* terms. In the net calculation, the amount of over-declaration is deducted from the amount of under-declaration. The gross tax gap focuses on the overall value of lack of conformity with the regulations, and consequently adds together the increases and reductions. Thus, instead of calculating DKK 1 billion of over-declaration and DKK 1 billion of under-declaration as a total of zero, the calculation of the numerical tax gap results in a total amount of error of DKK 2 billion.

It is difficult to calculate the size of the tax gap, and in practice it is impossible to measure it exactly. In the nature of things, the information which SKAT possesses is incomplete with respect to the amount of under-declaration, and it is not possible to audit the declarations of all taxpayers in the county every year.

There are several different methods of calculating the tax gap, but common to them all is the fact that it is inevitably necessary to make compromises between what the measure should ideally encompass and what is possible in practice. Discussion of the tax gap therefore necessitates that the definition and delineation of the calculation be expressed very precisely. What types of taxpayer and of taxes are involved in the calculation of the gap, and which are not?

We define the *total tax and duties gap as follows*.

> The ***total tax and duties gap*** is the difference between the amount for a given tax year which is declared by all taxpayers and firms for the payment of tax, VAT, customs duties and excise duties and the amount which should have been declared if all taxpayers had provided precisely the information and amounts that they were obliged to in accordance with the rules, neither more nor less.

As stated previously, the total tax and duties gap is presented in this report in terms of lost revenue, whereas in the compliance report of August 2009 it was calculated before tax. This delineation is the broadest conceivable, and the total tax and duties gap covers all types of taxpayer and all forms of taxes and duties. This is also the total amount that SKAT seeks to reduce through new initiatives. The total tax and duties gap can be calculated in net or gross/numerical terms; unless stated otherwise, it is the net amount that is referred to in this paper.

BREAKDOWN OF THE TOTAL TAX AND DUTIES GAP

Taxpayers can be divided into three broad categories:

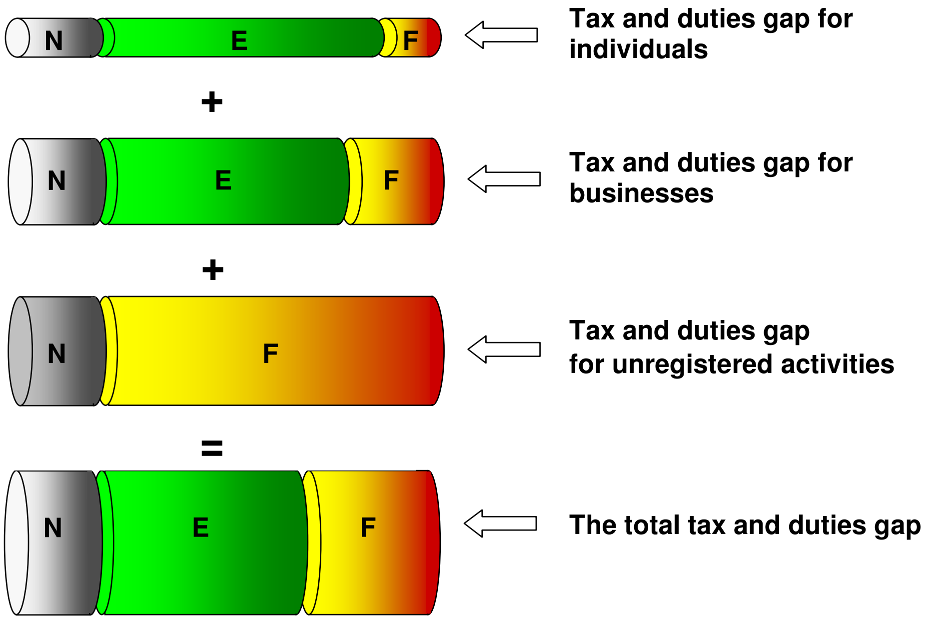
1. Individual taxpayers, comprising waged employees and people receiving transfer incomes
2. Businesses, including both companies and the self-employed
3. The unregistered, comprising people who live and work in Denmark without the knowledge of the authorities, and people who run what are in effect unregistered businesses by doing undeclared work.

We use the term *individual taxpayers* for the first group. The self-employed are of course also individual taxpayers, but for the purposes of this paper we do not include them in this category of taxpayer. Instead, the self-employed are included in group 2, which includes all types of *business*. This distinction between individual taxpayers and businesses is used in this way throughout this paper.

The third taxable group consists of all those who are *unregistered*. A waged employee or someone receiving a transfer income who also carries out undeclared work in his or her spare time is by definition running an independent business and as such is not regarded as an individual taxpayer even though he or she may have a wage or transfer income in addition to the income from undeclared work.

This means that the categories above cover all taxpayers without overlap between them. It is thus possible to divide up the tax gap in terms of the amount attributable to each of these categories, as shown in figure 5. The total tax and duties gap is thus the sum of the tax and duties gaps related to individual taxpayers, businesses and the unregistered.

Figure 5. The composition of the total tax and duties gap in terms of different types of taxpayer



As the figure indicates, the proportions of errors and fraud differ somewhat for the three groups. In particular, it is important to note that all the irregularities connected with unregistered work are naturally regarded as consciously fraudulent.

As mentioned in the definition of the total tax and duties gap, the gap is made up of income tax, VAT, and customs and excise duties. The gap can thus be broken down further, as is shown in table 11.

Table 11. The components of the total tax and duties gap. Taxpayers and tax types.

	Individual		Businesses				Unregistered	
	Straightforward taxpayers	Complex taxpayers	Companies >250 employees	Companies, 0-250 employees	Self-employed	Other businesses	Unregistered businesses	Illegal residents
Income								
VAT								
Excise								
Customs								

Notes: The term *companies* covers both publicly quoted and private limited companies (of various types). It also includes cooperatives. *Other businesses* in this context includes state-owned companies, etc.

The green colouring indicates the areas for which the compliance study provides information. There are thus no data shown relating to the tax gap for unregistered operations, but some of the most important aspects of the taxation of registered businesses are covered with respect to both taxable income and VAT for all self-employed persons and for companies employing up to 250 individuals.

Private individuals are fairly well covered, since tax evasion with respect to VAT, excise duties and customs duties is not very relevant for individual taxpayers – hence the shaded areas. In these fields, tax evasion by individuals is mainly related to the illegal import of goods for personal use. In cases where illegal importation is for the purposes of resale and thus capital gain which is not declared, this is automatically considered an unregistered business operation, and thus belongs to the unregistered operations section of the tax gap.

In this report we focus on the parts of the total tax and duties gap which concern the **tax on earnings** and the **VAT** payable by businesses. We refer to these two concepts respectively as *the tax gap for businesses* and *the VAT gap for businesses*. The first of these we define as follows.

> The ***tax gap for businesses*** is the difference between the amount of taxable earnings for a given tax year which is declared by all companies and self-employed persons with up to 250 employees and which are liable to Danish tax and the amount which should have been declared if all these businesses had provided precisely the information that they were obliged to in accordance with the rules, neither more nor less.

As mentioned previously, the tax gap is presented here in terms of lost revenue.

The *tax gap for businesses* is thus a part of the *total tax and duties gap for businesses.* In table 11 the *tax gap for businesses* comprises the two green areas on the top left, while the *tax and duties gap for businesses* includes the six shaded areas as well.

In the same way, we define the *VAT gap for businesses* as follows.

> The ***VAT gap for businesses*** is the difference between the amount for a given tax year which is paid in VAT by all companies and self-employed persons with up to 250 employees and which are liable to pay Danish VAT and the amount which should have been paid if all these businesses had provided precisely the information that they were obliged to in accordance with the rules, neither more nor less.

CALCULATION OF THE TAX AND VAT GAPS FOR BUSINESSES ON THE BASIS OF THE COMPLIANCE STUDY

The section above defines what is included in the tax gap and the VAT gap for businesses. In the following, we consider the methods of measuring the size of these gaps. There are several approaches to calculating the tax gap. In general, tax administrations worldwide differentiate between *top-down* and *bottom-up* approaches.[7]

One form of *top-down* approach is based on macro-data, the figures for the economy as a whole. The total of personal incomes shown in the national accounts is compared with the corresponding figure registered by the tax authorities. Any discrepancy can be used as a measure of the tax gap – in this case, the tax gap for individuals.

The *bottom-up* approach calculates the gap from figures at a lower level, as its name suggests. Errors and fraud are calculated at the single unit level for a representative sample of businesses, and the results are then scaled up to calculate a figure for the entire population. It is this second approach to calculating the tax and VAT gaps for businesses that has been used in this report.

In this study, separate average adjustment amounts are calculated for companies and the self-employed at each tax centre on the basis of the total of 11,462 audits carried out. These two averages for each tax centre are then multiplied by the size of the respective populations of companies and the self-employed covered by the tax centre. The amounts thus calculated can then be added together to produce a total for all the businesses covered by the tax centre, and the regional total can subsequently be calculated by summing the totals for all the tax centres in the region. Finally, a Danish national total tax gap for businesses can be calculated by adding together the figures for the six regions. This method produces a reliable picture of the size of the tax gap for the whole country, because the results for each tax centre can be relied on to be representative of the population covered by that centre, being based on a stratified random sample.

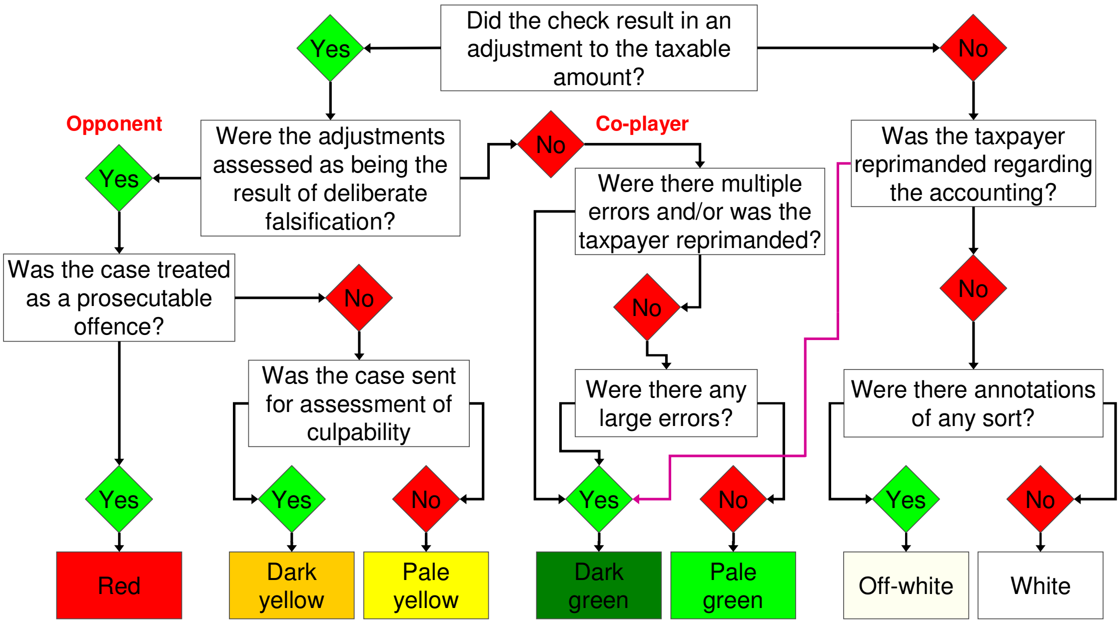
The VAT gap is calculated in an equivalent manner on the basis of the 1,584 VAT audits carried out, except that the average adjustment is calculated at the regional level rather than at the level of the tax centre.

The calculation presented here is based on a very large number of audits, which means that the level of accuracy is relatively high. In addition, this bottom-up method makes it possible to break down the results in many different ways – for example, by tax centre, turnover, age of the business, business sector, level of compliance, etc. This is not possible when a top-down approach is used. The final result of this process is a unique dataset in which the records of each type of error are linked to adjustments made to taxable amounts. This means that it is possible to subdivide the tax gap according to various types of error, which is a very useful thing to be able to do in relation to the planning of future initiatives and the use of resources.

[7] In research, a differentiation is often made between direct and indirect methods. The national accounts method would be considered an indirect method, while checking a randomly selected sample of individuals is counted as a direct method.

APPENDIX FIGURES

Appendix figure 1. Flow chart for establishing ratings



Appendix figure 2. Explanatory comments on compliance scale for businesses

Level 6 **Snow white**	The compliance audit has **not** given rise to adjustments of any kind. There were **no** reservations giving rise to annotations. *(The case is shelved after a simple audit or after a reassessment that does not result in any adjustment.)*
Level 5 **Off-white**	The compliance audit has **not** given rise to an adjustment to taxable income or to the amount of VAT the business shuld pay. Some guidance has been given though, for example in the form of a recommendation for changes in the future. The compliance audit has **not** led to a reprimand of the taxpayer with respect to the accounting. *(Reassessment does not lead to any change in the taxable amount.)*
Level 4 **Pale green**	The compliance audit has given rise to an adjustment to taxable income or to the amount of VAT the business should pay. There is only a single error, and this error is evaluated as having been unintentional, purely a mistake. Some guidance may have been given but the taxpayer has **not** been reprimanded – specifically the compliance audit has **not** led to a reprimand of the taxpayer with respect to the accounting.
Level 3 **Dark green**	The compliance audit has given rise to an adjustment to taxable income or to the amount of VAT the business should pay. There may be several errors, but they are not evaluated as being deliberate. Some guidance may have been given and the taxpayer may have been reprimanded. If the taxpayer has been reprimanded regarding the accounting specifically, this alone will be sufficient to trigger the evalutation *dark green* regardless of whether or not the compliance audit has uncovered any errors.
Level 2 **Pale yellow**	The compliance audit has given rise to an adjustment to taxable income or to the amount of VAT the business should pay. The error is evaluated as being deliberate or based on an improbable interpretation of the law and regulations. The case is **not** sent for assessment of culpability. *(Tax avoidance)*
Level 1 **Dark yellow**	The compliance audit has given rise to an adjustment to taxable income or to the amount of VAT the business should pay. The error is evaluated as being deliberate or based on an extremely dubious interpretation of the law and regulations – a serious error. The case is sent for assessment of culpability. *(Tax evasion.)*
Level 0 **Red**	The compliance audit has given rise to an adjustment to taxable income or to the amount of VAT the business should pay. The error is evaluated as having been a deliberate breach of the law – a serious error. The case is treated as a prosecutable offence.

APPENDIX TABLES

Appendix table 1. Number of businesses run by self-employed people and companies in the sample and in the whole of Denmark, by region

Form of ownership	Region	Number in sample			Number in the whole of Denmark	Proportion of businesses in total
		Unweighted	Unweighted per tax centre	Weighted		
Companies	Copenhagen	152	152	523	25.037	40 %
	Central and Southern Zealand	540	90	402	19.213	24 %
	Central Jutland	587	98	677	32.369	28 %
	Northern Jutland	345	86	347	16.618	23 %
	Northern Zealand	720	120	709	33.941	34 %
	Southern Denmark	703	100	638	30.528	26 %
	Total	3.047	102	3.296	157.706	29 %
Self-employed people	Copenhagen	222	222	794	37.967	60 %
	Central and Southern Zealand	1.762	294	1.300	62.180	76 %
	Central Jutland	1.713	286	1.769	84.635	72 %
	Northern Jutland	1.186	297	1.145	54.802	77 %
	Northern Zealand	1.559	260	1.355	64.845	66 %
	Southern Denmark	1.973	282	1.803	86.266	74 %
	Total	8.415	281	8.166	390.695	71 %
Businesses in total	Copenhagen	374	374	1.317	63.004	100 %
	Central and Southern Zealand	2.302	384	1.701	81.393	100 %
	Central Jutland	2.300	383	2.445	117.004	100 %
	Northern Jutland	1.531	383	1.493	71.420	100 %
	Northern Zealand	2.279	380	2.065	98.786	100 %
	Southern Denmark	2.676	382	2.441	116.794	100 %
	Total	11.462	382	11.462	548.401	100 %

Notes: As stated on page 2 it was subsequently necessary to correct the weights used so that the number of companies (157,706) was reduced by 1.3% (to 155,610), and the number of self-employed owners of businesses was reduced by 6.5% (to 365,438).

Appendix table 2. Tax percentage rates used for different error types in the calculation of lost revenue from companies, tax year 2006.

	Tax rate
1. Additional dividend income to principal shareholder – life insurance	*28
2. Additional dividend income to principal shareholder – various private expenses	28
3. Additional dividend income to principal shareholder – health costs	28
4. Profits – periodisation – contracts	28
5. Additional dividend income to principal shareholder – taxation of principal shareholder	**41
6. Additional dividend income to the principal shareholder – pension contributions	28
7. Expenses in taxation cases	28
8. Entertainment expenses	28
9. Profits – shares – ownership for 3 years	28
10. Estimations	28
11. Additional income to principal shareholder – taxation of principal shareholder	***50
12. Various non-deductible expenses	28
13. Reduction in the basis for depreciation and thus in the depreciation for the year	28
14. Expenditures on fines	28
15. Erroneous salary payments	50
16. Dividends – investment funds – capital income	28
17. Assets incorrectly written off with immediate effect	28
18. Incorrect deductions for VAT and duties	28
19. Company car	50
20. Additional salary for principal shareholder – private expenses	28
21. Incorrect depreciation of assets	28
22. Fitting-out costs – rented premises	28
23. Bad debts, etc. – periodisation	28
24. Depreciation – rights	28
25. Unsuccessful expenditure of development costs	28
26. Sponsorship expenditures – additional payments	28
27. Company earnings not declared	28
28. Rents and rates of interest for principal shareholder fixed at non-market prices	50
29. Adjustments to joint taxation income	28
30. Write-down of goods in stock	28
31. Costs of improvements incorrectly deducted as maintenance costs	28
32. Undeclared personal income	50
33. Assessment on the basis of an estimate – taxable income	28
34. Deductions and allowances for travel	50
35. Payments in kind to employees, etc.	50
36. Losses on accounts receivable – group	28
37. Private sphere – third party data entry and failure to make alterations	50
38. Calculation and transfer errors	28
39. Taxable subsidies and grants	28

	Tax rate
40. Company living accommodation	50
41. Company telephone	50
42. Company holiday home	50
43. Changes to taxation as a result of changes to calculations of tax for previous years	28
44. Company motorcycle	50
45. Self-employment – principal shareholder	28
46. Additional dividend income – salary paid to the children of the principal shareholder	28
47. Permissible deductions not declared	28
48. Addition – acquisition costs	28
49. Immediate write-off – buildings	28
50. Non-deductible commitment commissions, etc.	28
51. Depreciation – leased assets	28
52. Forward contracts – warehouse principle	28
53. Rents and interest rates for companies fixed at non-market prices	28
54. Write-offs – development costs	28
55. Dividends from subsidiary companies	28
56. Territorial principle	28
57. Dividends from companies which are not subsidiaries	28
58. Losses to be carried forward	****28
59. Profit/loss – operating equipment	28
60. Profit/loss – real estate	28
61. Profit/loss – investments	28
62. Profit/loss – accounts receivable	28
63. Association activities	28
64. Profit/loss – shares	28
65. Additional salary – salary paid to the children of the principal shareholder	28
66. Company yacht	50
67. Additional salary income to principal shareholder – health costs	28
68. Classification errors – real estate	28
69. Company art	50
70. Establishment costs and capital levies	28
71. Thin capitalisation	28
72. Company movable goods	50
73. Bribes	28
74. Non-declared dividends from shares	28
Other	28

Notes:
* Company tax in 2006 was 28% (http://www.skm.dk/tal_statistik/tidsserieoversigter/4639.html).

** Dividends of up to DKK 44,300 were taxed at 28% in 2006. Dividends over DKK 44,300 were taxed at 43% (http://www.skm.dk/tal_statistik/tidsserieoversigter/4639.html).
The rate used here, 41%, is an average tax for share income, based on actual observations in the compliance project. This is a minimum calculation, since it is based solely on the dividends

which were found to be taxable in the light of the compliance audits. No account was taken of the fact that a greater or lesser number of shareholders had received share income previous to the compliance check, so that the additional income revealed by the compliance audit should actually have been taxed at a rate of 43%.

*** The average marginal rate of tax on salary income was 50% (http://www.skm.dk/publikationer/udgivelser/skattenidanmark2008/afsnit4loenmodtagere/).

**** It is not possible at present to estimate the taxable value of deferrable losses more precisely. The figure of 28% is used here for want of a better estimate. However, it should be noted that this item does not represent revenue in the present, but in the long term.

Appendix table 3. Calculation of lost revenue and taxation rates used for error types for the self-employed, tax year 2006.

	Tax rate
1. Various private expenses	*50
2. Improvements vs. maintenance – operating equipment	**28
3. Depreciation – time of starting to use operating equipment	28
4. Non-declaration of profit/loss on real estate	28
5. Depreciation – year of sale	28
6. Undeclared business earnings	50
7. Interest – business	28
8. Incorrect deductions/income for VAT and duties	28
9. Incorrect depreciation of assets	28
10. Undeclared salary subsidies	28
11. Assessment by estimation – specific expense items	28
12. Undeclared profits on real estate – reinvestment	28
13. Company car	50
14. Estimations	50
15. Spouse – principal operator	28
16. Assessment by estimation	50
17. Valuation of goods in stock	28
18. Assisting/salaried spouse	50
19. Closure of company	50
20. Improvements vs. maintenance – real estate	28
21. Fitting-out costs – rented premises	28
22. Expenditures on fines	28
23. Entertainment expenses	28
24. Errors in declaration of profits on property	28
25. Proportion of private use	50
26. Business-related travel	50
27. Private sphere: data entry by third parties, etc.	34
28. Calculation and transfer errors	28
29. Undeclared personal income	50
30. Various non-deductible expenses	28
31. Periodisation of income/profits	28
32. Salary paid to children	50
33. Reduction in the basis for depreciation and thus in the depreciation for the year	28
34. Business not engaged in commercial activity	50
35. Assets incorrectly written off with immediate effect	28
36. Errors in use of business taxation scheme	****22
37. Rents fixed at non-market prices	50
38. Mixed use of operating equipment	50
39. Errors in annual depreciation	28

	Tax rate
40. Health expenses	50
41. Sleeping partner – joint leasing activity	28
42. Additional deductions – operating costs	28
43. Additional depreciation	28
44. Mixed use of real estate	50
45. Bookkeeping and accounting errors	28
46. Depreciation of installations	28
47. Too much income included	28
48. Bank charges and loan costs	28
49. Adjustments to property value tax	*****100
50. Deductions for work area and rent in own home	50
51. Classification errors	22
52. Sponsorship expenses	28
53. Addition to the purchase price for real property	28
54. Profits/losses on various items of operating equipment	50
55. Periodisation of expenses and losses from bad debts	28
56. Craftsman's salary – value of own skilled work	50
57. Failures to make adjustments among employees, etc.	50
59. Education expenses	50
60. Renting of rooms	50
61. Business related profit/loss on exchange rates	28
62. Salary income/business income delimitation	50
63. Reclaimed depreciation – real property	28
66. Use of establishment account	28
67. Rights: profit/loss	28
68. Immediate write-off – buildings	28
69. Changes to taxation as a result of changes to calculations of tax for previous years	28
70. Establishment costs and capital levies	28
71. Erroneous salary payments	50
72. Food and lodging	50
Other	28

Notes:
* The average marginal rate of tax was 50%
(http://www.skm.dk/publikationer/udgivelser/skattenidanmark2008/afsnit4loenmodtagere/).
NB. Adjustments that resulted in an increase under the business tax scheme were taxed as personal income (at 50%).

** Company tax in 2006 was 28%
(http://www.skm.dk/tal_statistik/tidsserieoversigter/4639.html).
NB. The calculations are made on the assumption that all the self-employed use the business tax scheme, despite the fact that some of the self-employed may have opted not to do so (conservative estimate).

*** The tax value of the assessed deduction was 34% in an average municipality in 2006 (http://www.skm.dk/tal_statistik/tidsserieoversigter/4639.html).
NB. The error type includes both errors with regard to the assessed deductions (34% tax) and various forms of non-declaration of personal income (50% tax). The tax value of the error type is calculated on the basis of 34% (conservative estimate).

**** The tax rate is calculated as the difference between average marginal tax at 50% and the rate of company tax at 28%.

***** The tax value of property value tax is 100%.