

Executive summary

SKAT's annual report 2015

About SKAT

The Danish Customs and Tax Administration (SKAT) is the national revenue collection agency of the Danish government, in particular, serving the Minister of Taxation.

Our responsibility

Our responsibility is to effectively administer and enforce the tax rules, including:

- Collecting revenue of direct and indirect taxes
- Administering and shaping the customs system
- Collecting debt and tax arrears arising from nonpayment of taxes, loans or bills for public services
- Achieving taxpayer confidence by facilitating compliance
- Understanding and addressing evasion and noncompliance

We commit ourselves to the protection of taxpayers' rights by incorporating procedural justice into every aspect of our tax administration. In addition to the specific tax legislation, we operate under the following fundamental legal framework:

- The Public Administration Act (*Forvaltningsloven*)
- The Public Records Act (*Offentlighedsloven*)
- The Personal Data Protection Act (*Persondataloven*)
- The Tax Administration Act (*Skatteforvaltningsloven*)

Our strategic direction and milestones

We are committed to furthering our strategic focus and milestones.

Our fundamental strategic focus is taxpayer-centric, which captures our efforts to engage with individual and corporate taxpayers as well as our many partners and stakeholders. We strive to make it simple for taxpayers to find their way around tax, duty and customs rules and to make it easy to comply.

At the same time, we must continue being an efficient and effective public authority that manages, develops and improves working processes in a more cost-effective direction. In particular, our strategic milestones emphasize that:

- SKAT makes it easy to comply
- SKAT takes targeted action in the case of non-payment of taxes
- SKAT collects public taxes efficiently and effectively
- SKAT is a professional organization

Our organization and general targets

We employ approximately 6,200 staff members and operate an annual budget of approximately DKK 5 billion.

SKAT has four general targets:

- To restrain the tax gap
- To improve customer satisfaction
- To decrease arrears
- To reduce the use of resources

Our management framework is intended to optimize SKAT's performance by maintaining the focus on efficient operation and results. The framework is designed to engage and involve the entire organization in the delivery of the four general targets.

Restraining the tax gap

We aim at restraining the overall tax gap. The target figure only pertains to the aggregate tax gap, which means that increases in the tax gap in one area may be counterbalanced by corresponding decreases elsewhere.

Every second year, SKAT conducts an investigation of taxpayer compliance using random audits, which renders a significant input to the estimation of the overall tax gap (cf. the section on compliance-gap estimation below).

Improving customer satisfaction

Every year, SKAT conducts a study on taxpayers' views and perceptions of the tax system, the tax morale and SKAT, the latter focusing on experiences with customer services and rule of law. The annual taxpayer-view studies constitute up-to-date empirical evidence, which is crucial to the business development of our organization and the development of strategies relevant to our customer segments.

The participating individual and corporate taxpayers answer a number of questions concerning their trust and confidence in SKAT, their satisfaction with SKAT's administration, their chances of and view on being compliant, as well as their view on the risk and consequence of authorities disclosing tax avoidance and preventing evasive behaviour.

Decreasing arrears

The debt collection of arrears comprises not only of unpaid taxes due to government. Other arrears in receipts could arise from non-payment of loans by government or nonpayment of bills for government services.

In September 2013, SKAT initiated the launch of the so-called Central Debt Collection System (EFI) replacing a number of older systems. Due to its size and complexity, the full deployment of EFI never proved a success causing serious implications for SKAT's collection of public arrears. The collection revenue is falling, the development in arrears is increasing and, at the same time, SKAT is facing a challenge in terms of quality assurance of data and interruption of limitation periods for claims.

Reducing the use of resources

Our financial management should facilitate an efficient and effective resource allocation with improvements in productivity enabling us to meet our responsibilities and restrain the overall tax gap.

Performance in 2015

Our annual report 2015 reviews the operational and financial results for the year and presents the financial statements regarding SKAT's total appropriations.

The annual report shows the total resource consumption of the organization and the actual target achievement concerning SKAT's performance, including the four general targets outlined in the Danish Finance and Appropriation Act (cf. section 9) as well as the specific operational targets (measured by means of seven key performance indicators).

General targets

General target achievement in 2015 comprises of the tax gap, taxpayer views and debt collection.

- The tax gap is measured as % of tax potential (target 2 %).
- The index of individual taxpayers' views on SKAT rated on scale going from 1 to 5, where 5 reflects the most satisfied view (target 3.8).
- The index of corporate taxpayers' views on SKAT rated on scale going from 1 to 5, where 5 reflects the most satisfied view (target 3.8).
- Collection percentage concerning remaining arrears (target 110 %).

In 2015, SKAT's actual performance did neither produce target achievement on the tax gap (2.7 %), the individual taxpayer-view index (3.7), nor the corporate taxpayer-view index (3.6), while the target achievement on debt collection was unavailable due to legal restrictions imposed by the Legal Adviser to the Danish Government (*Kammeradvokaten*) on SKAT's data collection of remaining arrears.

Operational targets

The general targets outlined above are complemented by a number of specific operational targets established under SKAT's performance contract.

In particular, SKAT's performance contract specifies requirements for obtaining a total number of 112 points: 56 points pertain to targets under the Finance and Appropriation Act (see the previous section) and 56 points pertain to operational targets (see the following section).

In 2015, SKAT obtained 49 points, distributed onto targets under the Finance and Appropriation Act (14 points) and operational targets (35 points). The target achievement is calculated at 43.75 % (49/112 points), which is considered unsatisfactory.

Financial results

The results of the year are outlined in the table below.

Results for 2015

Million, DKK	
Expenditure limit	
Appropriation	4,852.5
Supplementary appropriation	264.0
Total	5,116.5
Released savings	268.3
Total	5,384.8
Consumption	
Expenditure	5,349.0
Income	-45.4
Net consumption	5,303.6

SKAT's 2015 budget was based on compliance with the requirements under the so-called budget ceiling and therefore balancing expenditure and income.

SKAT's expenditure limit of DKK 5,384.8 million in total is calculated as an appropriation under the Finance and Appropriation Act of DKK 4,852.5 million, which has later been increased by DKK 264.0 million under the Supplementary Appropriation Act (*Tillægsbevillingsloven*) to a total of DKK 5,116.5 million, income of DKK 45.4 million and later released savings of DKK 268.3 million. Expenditure for 2015 totals DKK 5,349.0 million.

When recognizing exempted consumption of carryforwards, SKAT's operating profit totals DKK 81.2 million, while before recognition of exempted consumption of savings, a deficit for the year totals DKK 187.2 million.

Outlook for 2016

Throughout the year 2015, a number of circumstances proved a challenge in maintaining our credibility, including refund of Danish dividend tax, public debt-collection and public property assessments. In September 2015, the government adopted a plan of action to solve the current crisis of SKAT.

Customers first

Taxpayers' trust and confidence in the tax system take priority over any other matter. A new project is based on the assumption that we need to take responsibility for the customer experience with SKAT by adapting our processes and services to customers' expectations, needs and behaviours rather than leaving our customers to adapt to SKAT's internal outlook.

We inquire into customer needs and motivations for tax compliance by conducting a major survey based on 5,000 individual as well as 5,000 corporate taxpayers. This investigation has identified a whole range of customer segments enabling an action plan which outlines relevant themes and targeted initiatives to induce taxpayer compliance by meeting the significant needs in each segment.

Implementation centres

The recent attempts to implement a complex cross-governmental debt-collection it-system (the so-called EFI) proved a serious challenge including absent as well as inadequate functionalities, for instance, recovering expired claims. An investigation conducted by leading consultants lead to the suspension of the system and a return to manual processes. With a view to facilitate the automatization of the debt-collection processes and achieve better delivery of desired outcomes, an Implementation Centre (the so-called ICI) was established in September 2015 enhancing the software development process in addition to simplifying the legislation concerning debt collection.

Likewise, the Property-Assessment Implementation Centre (the so-called ICE), which was established in October 2014, continues to focus our efforts on the successful implementation of a modern system for public assessment of property. The development of the new IT system began on 1 October 2015, and new public property assessment values should be ready for notice of homeowners during spring 2018 and business property owners the following year.

Global tax horizons

In the global context, SKAT has an outstanding approach to furthering voluntary compliance, while emphasizing the importance of revealing and preventing the many faces of intentional noncompliance. In particular, the availability of data and advanced analytical techniques enable us to develop more targeted and more effective approaches to securing high levels of taxpayer compliance.

Voluntary compliance

We strive to promote voluntary compliance and focus our efforts to improve and digitize customer service for taxpayers. Instruction is an appropriate tool for a number of reasons. Firstly, instruction contributes significantly to reducing the tax gap by providing taxpayers with information and guidance. Secondly, instruction carries the potential to increase customer satisfaction of individual and corporate taxpayers. Last, but not least, instruction addresses and may even prevent errors and evasive behaviour, which necessarily must be the subject of SKAT's inquiry and audits, subsequently.

Today, SKAT's approaches constitute an interaction of service and instruction, on the one hand, and audits, on the other hand. In particular, SKAT strives to target the choice of initiatives, which are the most appropriate for each group of taxpayers as well as being relevant in addressing the specific reasons for noncompliance. This form of intelligent approach avoids disturbing the many compliant taxpayers.

Intentional noncompliance

In Denmark, we enjoy a high level of tax compliance. However, our strategies are not just targeted at making compliance easier, we also seek to detect, address and prevent tax evasion by reducing the opportunities for deliberate noncompliant behavior. Therefore, our approaches to taxpayers are necessarily multifaceted considering various dimensions of promoting compliant behaviour and preventing (intentional) noncompliant behaviour, which contribute to bridging the tax gap.

A whole different range of approaches are at our disposal e.g. auditing, instruction, engaging stakeholders, collection of debt and system-wide approaches. System-wide approaches strive to furthering sustainable compliance improvement e.g. by means of enhancing the rules, information systems, working processes or communication underlying taxpayer compliance.

Estimation of compliance gaps

SKAT applies a bottom-up approach in estimating the tax gap based on the results of the random audits. Our tax-gap estimate is based on tax on income of individual and self-employed taxpayers, VAT and corporation taxes in companies employing less than 250 staff members. In other words, customs, excise duties and companies employing more than 250 staff members are not included, however, an ongoing process is devoted to the development of a more comprehensive tax-gap estimation.

Further information

Recent publications by the OECD have been focusing on relevant tax challenges and issues as well as pointing towards initiatives launched by SKAT:

- OECD (2015). Tax Administration 2015.
- OECD (2015). Taxation of SMEs in OECD and G20 Countries.
- OECD (2013). Together for better outcomes. Engaging and involving SME taxpayers and stakeholders.

The complete annual report is only available in Danish. However, further information in English are available at our websites www.skm.dk and www.skat.dk.