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Extract from Rigsrevisionen's report on

# the Danish Customs and Tax Administration's (SKAT) customs controls and guidance on customs clearance

submitted to the Public Accounts Committee

STATSREVISORERNE  
RIGSREVISIONEN



1849  
147.281  
237  
1976  
114.6  
22.480  
908

# 1. Introduction and conclusion

## 1.1. PURPOSE AND CONCLUSION

1. This report concerns the Danish Customs and Tax Administration's (SKAT) customs controls and guidance to citizens and businesses on customs clearance of goods imported from countries outside the European Community (EU). The Ministry of Taxation is responsible for ensuring that SKAT's administration, including customs, is performed in a satisfactory manner. SKAT administers the tax legislation in respect to citizens and businesses and thus has legal authority to check the citizens and businesses' payment of customs duties and make decisions concerning customs clearance.

The European Commission is proposing and enforcing the customs legislation in the EU. It is imperative that SKAT's controls and guidance are effective, because customs clearance of goods takes place in accordance with a complex set of rules that offers ample opportunity for misinterpretation and circumvention of the rules.

SKAT is responsible for the control of goods imported from countries outside the EU and for collection of customs duties, VAT and excise duties. In addition to specific controls on imports, it is also SKAT's responsibility to provide the citizens and businesses with guidance on the customs regulations. The customs duties collected by SKAT are transferred to the EU, but 20 per cent of the amount collected is used to cover administration costs in Denmark. SKAT is also responsible for the control of illegal goods that are imported into the EU such as, for example, narcotics, performance-enhancing drugs and weapons.

2. The purpose of the study is to assess whether SKAT's controls and guidance contribute adequately to ensuring that the citizens and businesses are paying the required customs duties on legal imports reported to SKAT. The study is not covering SKAT's control of illegal imports. The report answers the following questions:

- Is SKAT's organisation and implementation of customs controls on legal imports as effective as possible?
- Is SKAT providing adequate guidance on customs clearance?

Rigsrevisionen initiated the study in April 2017.

### CUSTOMS

SKAT collects customs duties on imports on behalf of the EU.

Customs duties are a tax levied on goods imported from countries outside the EU. The tax varies according to country of origin and product.

## CONCLUSION

Rigsrevisionen assesses that SKAT is not organising and implementing customs controls on legal imports as effectively as possible, and the guidance provided by SKAT is inadequate in significant areas. This means that the EU and Denmark are losing income, either because the custom rules are circumvented, or because the citizens and businesses make errors in the declarations. It is not possible to determine the amount of taxes lost, because SKAT lacks knowledge of the custom gap.

SKAT's controls on imports are designed based on an assessment of risk and materiality, and SKAT is prioritising post-release controls in individual significant risk areas with good results. However, SKAT could become more focused in its efforts and improve the effectiveness of its controls. For instance, by using evidence on the outcome and effectiveness of specific controls, including, particularly, pre-release controls.

The level of control carried out by SKAT in 2016 was very low, which is considered unsatisfactory by Rigsrevisionen. The level of control carried out by SKAT is the lowest in the EU and significantly below the average for all EU member states. In 2016, SKAT checked less than 0.2 per cent of all imports, before the goods were released to the importers, which is half the number of imports that were checked in 2010, when the European Commission criticized SKAT for a level of control of 0.4 per cent. The calculation of the level of control includes controls on illegal as well as legal imports, since SKAT is unable to calculate these individually.

In 2010, the European Commission also criticized that more than half of the subjects selected for control based on a risk assessment were not checked. The Commission went on to note that SKAT did not carry out random checks, meaning that not all citizens and businesses risk being selected for control. Rigsrevisionen notes that SKAT still has not acted on the issues raised by the Commission.

SKAT's risk system selects items for pre-release controls. It is Rigsrevisionen's assessment that the risk system is not functioning appropriately, since SKAT manually sorts out half of the controls selected by the system. The risk system comprises all commercial imports, but not all consignments for private citizens who import goods from countries outside the EU. Rigsrevisionen finds it particularly important that SKAT's pre-release customs controls are effective, since SKAT's risk assessment, as opposed to the post-release controls, comprise all items of goods for which customs declarations have been submitted to SKAT.

Additionally, it is Rigsrevisionen's assessment that there is a risk that Denmark fails to fulfil several of its obligations to the EU. SKAT is not using its statutory authority to impose sanctions on businesses and is only carrying out risk assessments of 0.8 per cent of the imports that potentially pose a security and health risk. This in spite of EU requirements to assess the risk associated with all imports in this category.

### CUSTOMS CONTROLS

SKAT can carry out customs controls of goods before as well as after the goods have been released to the importers.

Pre-release: SKAT has direct access to the goods as well as to relevant documents. In 2016, all the 4.6 million different types of goods were risk assessed. Post-release: SKAT has no access to the goods.

SKAT's guidance should aim to ensure that the users understand the customs duties regulations and find it easy to file correct customs declarations. It is Rigsrevisionen's assessment that SKAT's guidance is insufficient in significant areas. It follows that the guidance provided on SKAT's website should be improved. The study has identified two key areas on the website where the guidance provided to businesses is inadequate and not immediately intelligible. The guidance requires extensive prior knowledge of customs clearance of the relevant goods. Consequently, the businesses spend excessive time trying to understand the rules, which entails a risk of errors in the declarations, or the businesses need to contact SKAT for an explanation of the rules, which takes up resources at SKAT.

SKAT's measurements of user satisfaction show that the users are generally happy with SKAT's telephone service, whereas SKAT's website, in respect to providing easy access to relevant guidance, receives a low rating.