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# **SKAT's refunding of registration tax when used vehicles are exported**

# 1. Introduction and conclusion

## 1.1. Purpose and conclusion

1. This report concerns how the Ministry of Taxation manages refunds of registration tax when used vehicles are exported.

Since January 2002 – and pursuant to the Danish vehicle tax act – companies and private individuals have been entitled to a refund for remaining tax on vehicles exported out of Denmark (export refund). The system was introduced to avoid that companies trading used vehicles in the European market and citizens moving abroad were subjected to double taxation. Export refunds paid by SKAT (the Danish Customs and Tax Administration) total approximately DKK 1 billion annually.

2. As from April 2008, companies that have obtained a so-called self-registration right have been entitled to make their own assessments of the value of exported vehicles and apply for export refunds on the basis hereof. Since the Digital Register of Motor Vehicles was put into operation in June 2012, companies have been allowed to submit their claims for tax refunds online to the Digital Register of Motor Vehicles, in accordance with their self-registration right.

3. The purpose of the study is to assess whether the Ministry of Taxation has ensured satisfactory management of export refunds payable to self-registrants. Rigsrevisionen initiated the study in April 2018.

### Registration tax

Registration tax is an excise duty payable when a new vehicle is registered for the first time, or when a used vehicle is first used on the road after being imported into Denmark or having been deregistered from the Danish Register of Motor Vehicles.

### Self-registration right

To obtain a self-registration right, companies must meet a number of conditions. A company obtains status as self-registrant when it has registered for registration tax, which means that the company will be allowed to enter registration fees and submit requests for export refunds online.



## Conclusion

It is Rigsrevisionen's assessment that the Ministry of Taxation is managing and checking export refunds payable to self-registrants in an unsatisfactory manner.

The study shows that the Ministry of Taxation has been aware of possible abuse of the system since a law amendment was implemented in 2008, and that several internal reports worked since 2015 have confirmed this. Additionally, the results of SKAT's compliance study in the area show that a considerable number of payments have been made based on ineligible refund claims. The Ministry of Taxation has yet to determine how many of these claims that are fraudulent. The Ministry of Taxation has informed Rigsrevisionen that additional analyses will be carried out to clarify whether the fraud is systematic or concentrated upon a few companies attempting to abuse the system. It should be noted, that SKAT's anti-fraud unit already in the beginning of 2017 concluded that the risk of export refund fraud was high.

SKAT has expanded the scope of some of its controls in the area since 2016. However, it is Rigsrevisionen's assessment that only few of the issues identified have been resolved. It is Rigsrevisionen's overall assessment that SKAT's control measures in the period under examination were not organised in a manner that reflected SKAT's knowledge of the abuse of the system.

In 2008, SKAT introduced statutory customs inspection in connection with claims for export refunds for vehicles that were more than 10 years old. According to the Ministry of Taxation, the statutory customs inspection was intended to address the implications of a random check at a single tax centre, which showed that 15 to 20% of the claims for export refunds that SKAT had received did not meet the eligibility requirements. The reason being that the vehicles in question were not in a condition that would allow them to pass the mandatory vehicle inspection. However, the study shows that SKAT still receives claims for export refunds for this type of vehicles. This information appeared from two reports published by the department in 2015 and 2017, as well as from the results of a compliance study. Rigsrevisionen finds it unsatisfactory that the department has not made a greater effort to resolve this issue.

SKAT has checked 5% of the valuations made by self-registrants since 2014 and 10% of all valuations made by self-registrants since 2016. However, SKAT has in general performed its checks independently of the results of the customs inspections of the same vehicles made by the inspection bodies. This means that SKAT's assessment of the correctness of the valuation of the vehicles made by the self-registrants has not taken into consideration the inspection bodies' findings concerning the commercial value of the very same vehicles. SKAT has failed to do so in spite of the fact that the vehicle tax act prescribes this as one of the purposes of the customs inspection.

Furthermore, it is Rigsrevisionen's assessment that SKAT has not organised the checks in a manner that ensures that the self-registrants perceive a real and continuous risk of being detected and sanctioned if they abuse the system. For instance, SKAT has informed the self-registrants in advance of the timing of the customs inspections. The self-registrants have therefore been more cautious about submitting claims for export refunds during these periods. Additionally, there are considerable variations in the number of vehicle valuation checks made from one month to the next, independently of the number of claims received; some months none were checked, and other months SKAT made 859 checks of valuations.

Overall, SKAT has not exercised its statutory powers to refuse or cancel the registration of a company as a self-registrant, if the company or its owner has acted in a manner that suggests fraudulent intentions. Nor has SKAT taken advantage of the opportunity to issue fines to companies that intentionally or with gross negligence submit incorrect or misleading information. On this basis, Rigsrevisionen concludes that self-registrants that abuse the system are not at risk of being sanctioned. The Ministry of Taxation recognises that questionable behaviour by self-registrants has not been adequately checked and sanctioned.

The Ministry of Taxation has informed Rigsrevisionen that the ministry has noted Rigsrevisionen's critical comments and in the autumn 2018, the ministry has taken steps that will contribute to alleviate the problems. Rigsrevisionen considers these initiatives necessary. For instance, the ministry has presented a bill that will make it easier for the Motor Vehicle Agency to refuse registration of a company as self-registrant based on the company's actions in the past. The ministry has also informed Rigsrevisionen that the Motor Vehicle Agency will continue to work on various initiatives in connection with the development of a new guidance and control concept.