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The Danish Tax Agency's compliance checks of large company corporation tax

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Danish Tax Agency's compliance checks of large company corporation tax. In Denmark, the corporation tax liability is 22% of a company's profit, and in 2020 the Danish Tax Agency collected approx. DKK 67 billion in corporation taxes. Large companies account for a substantial part of the total yield from corporation tax.

Large companies
According to the Ministry of Taxation, there are approx. 10,000 large companies in Denmark, which are affiliated with approx. 1,000 different corporate groups. A large company is defined by having an annual turnover of more than DKK 500 million.

The tax affairs of large companies are often complex, and tax legislation is extensive and complicated. Due to the economic significance of the large companies, a single error in the tax returns of a few or just one large company, may result in considerably reduced tax revenue for the government or losses for the companies. The complexity of the tax affairs of large companies put pressure on the Danish Tax Agency to ensure that compliance checks are planned and conducted in a manner that appropriately address risk.

The taxation of large companies is also affected by the fact that these companies often operate in several countries. The Danish Tax Agency relies on data obtained from other countries to ensure correct tax returns for such companies.

2. The purpose of the study is to assess whether the Danish Tax Agency is checking the tax returns of large corporations in a satisfactory manner.

Rigsrevisionen initiated the study in October 2021.

Main conclusion

The Danish Tax Agency's tax compliance checking of large corporations has not been entirely satisfactory. The consequence is a risk that not all errors with a potentially significant economic impact on the government and the companies are detected by the Danish Tax Agency.

The Danish Tax Agency has provided a satisfactory basis for selecting large companies for control
Since 2015, the Danish Tax Agency has regularly carried out risk assessments of all major corporate groups and affiliated companies. Based on the outcome of the risk assessments, corporate groups are placed in either a high-, medium- or low-risk category. All corporate groups in the high-risk category are checked, whereas control of corporate groups placed in the medium-risk category is determined following an individual assessment. Corporate groups in the low-risk category are not checked.

The Danish Tax Agency selects corporate groups in the medium-risk category for control based on a qualitative assessment that does not comprise a structured evaluation of the economic significance of the risk to tax revenues posed by the individual corporate group. The consequence is a risk that not all corporate groups and companies are consistently selected for control although they pose a high economic risk.

Rigsrevisionen finds that the Danish Tax Agency would benefit from considering whether and how a more structured approach can be applied to assess economic significance before selecting medium-risk corporate groups for control.

The study also found that the Danish Tax Agency neither quality assures nor states the reason why some companies are not considered to pose a risk to tax revenues and are, therefore, not checked. Rigsrevisionen assesses that the Danish Tax Agency should follow up on whether decisions not to check the tax returns of individual companies in corporate groups in the medium- or high-risk category are made on a correct basis.

The Danish Tax Agency's control of large companies' corporation tax liability has not been entirely satisfactory
According to the guidelines of the Danish Tax Agency, the agency must check all corporate groups in the high-risk category. Yet, the study shows that approx. 6% of these corporate groups, which include high-risk groups that have not paid any corporate tax, are not checked. The risk assessments of corporate groups that are not checked include areas of risk that are often a source of error in the tax returns submitted by the groups. Errors that may lead to significant losses of revenue for either the government or the companies. Rigsrevisionen's review of cases shows that the Danish Tax Agency generally addresses all identified risks in accordance with the guidelines of the agency. However, Rigsrevisionen found examples of identified risks that were not addressed without any reason being given.

Every year, the Danish Tax Agency receives data on financial accounts and international tax information that the agency should use to ensure that companies operating across borders pay the correct tax. The study shows that the agency has made risk assessments of the information and data but only to a minor extent has used relevant information to check compliance. According to the Ministry of Taxation, the Danish Tax Agency will consider whether the agency can make better use of the tax information to check compliance.

Some of the Danish Tax Agency's tax liability decisions are appealed. However, the agency does not consistently follow up how many of its decisions that are appealed or which of the decisions that are upheld or overturned. Therefore, the agency has no overview of the outcome of the appeals process, including whether its decisions are generally upheld or overturned.

Neither the targets set by the Danish Tax Agency for the control nor its assessment of the outcome of the control is satisfactory

The Danish Tax Agency has set relevant targets for the number of compliance checks to be conducted. The agency has also set tax revenue targets for the outcome of the control. Until mid-2022, the agency's estimate of net tax revenue generated as a result of its control was affected by errors due to a system failure. Moreover, the net tax revenue estimated by the agency includes the outcome of tax liability decisions that were subsequently appealed by the affected companies. Additionally, the tax revenue is affected by tax regulations and factors in the companies, and therefore the outcome of the control is not directly reflected in the tax revenues. Overall, this means that the Danish Tax Agency has no overview of the outcome of its control, nor has it set relevant targets for the tax revenue. It follows that the agency's performance management does not provide a sound basis for determining whether the agency achieves the intended results or needs to adjust its overall effort.