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The Ministry of Taxation's control of excise duties

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Ministry of Taxation's inspection of whether companies accurately declare excise duties. Excise duties are levied on a variety of goods and services including but not limited to alcohol, tobacco and energy products. Excise duties are levied in order to generate income for the state and to influence, for instance, the health and environmental behaviour of citizens and companies. For example, environmental excise duties are levied to reduce the use of substances that put a strain on the environment.

We decided to examine this area, because excise duties are a significant source of income for the state that generated government net revenues of DKK 56.3 billion in 2023. If companies fail to declare excise duties, it will have a negative impact on government's revenues.

The Danish Tax Agency is responsible for ensuring that companies manufacturing or importing goods that are subject to excise duties, declare and pay the appropriate tax to the state. Approx. 16,000 companies are registered as being liable to pay excise duties. The payment is based on the companies' own declarations, as is the case in other areas of the tax administration system as well.

Towards the end of 2023, the Danish tax system operated with 77 different excise duties distributed across 35 legal domains. According to the Danish Tax Agency, it is an area where the companies make many mistakes when declaring taxes. The agency's latest examination of compliance from 2020 found that 44% of the declarations submitted by the companies contained errors. The agency also found that the number of errors had increased compared to the results of the agency's previous examination of compliance. To mitigate the escalating error rate, it is imperative that the Danish Tax Agency systematically assesses the risk associated with the various excise duties and companies and targets its inspections accordingly.

2. The purpose of the study is to assess whether the Ministry of Taxation's excise duties control is adequate. The report answers the following questions:

- Is the Danish Tax Agency's assessment of risk and materiality in the area of excise duties adequate?
- Is the Danish Tax Agency's excise duties control adequate?

Excise duties

If a chocolate bar contains more than 0.5 grammes of sugar per 100 grammes, an excise duty of DKK 25,97 will be added per kilo. This means that a duty of approx. DKK 1,30 will be added to a chocolate bar weighing 50 grammes.

If a pack of 20 cigarettes costs DKK 60,00, the excise duty makes up DKK 39,31 and VAT DKK 12,00.

The concept of risk and materiality refers in part to the risk that excise duties are not being declared to the Danish Tax Agency in accordance with the rules, and in part to the financial significance of the duties that should be declared.

3. The study covers the period from 2019 to 2023. The year 2019 was selected as the commencement date of the study, because it was during this year that the Danish Tax Agency became aware that its excise duties control had been inadequate for several years.

Rigsrevisionen initiated the study in November 2023.



Conclusion

The Ministry of Taxation's control of excise duties is not satisfactory. Beginning in 2021, the ministry has strengthened its control effort. Certain areas, however, still require enhancement such as selection of companies for inspection, which is not adequately risk based. Loss of government revenue is the consequence of inadequate control measures.

The Danish Tax Agency's assessment of excise duties risk and materiality is not entirely adequate

Since 2021, the Danish Tax Agency has selected excise duties for checking based on annual risk and materiality assessments that focus on the financial significance of the duties and the potential for errors due to the complexity of the rules. In the opinion of Rigsrevisionen believes that these are relevant assessments. However, this model does not take into consideration the agency's knowledge of the typical errors found across the domains of excise duties. Therefore, the agency is unable to concentrate its checks on the excise duties most affected by errors.

When the Danish Tax Agency selects companies for scrutiny, it relies on its expertise in the significance of the companies, specifically the amount of excise duties declared by the companies. However, the agency is not conducting a systematic risk assessment of the companies. This entails a risk that the agency's checks are not fully focused on the high-risk companies.

The Danish Tax Agency's excise duties inspection is not adequate

The Danish Tax Agency has increased the number of checks carried out since 2021 and has particular focus on areas where excise tax receipts are large and on companies that declare high amounts of excise duties. However, in the years 2019-2023, the checks of 21 out of 80 excise duties were limited or non-existent. Therefore, 14 out of the 21 excise duties were not examined during these years. The agency has informed Rigsrevisionen that the 21 excise duties will be fully checked by 2027.

Regarding the remaining excise duties, the way in which the Danish Tax Agency has organized its control entails a risk of detection for the companies that are registered as liable to pay excise duties. However, the agency's effort to obtain knowledge of companies that are not registered as liable but are nevertheless importing or manufacturing liable products is not adequate.

Lastly, the Danish Tax Agency is not conducting a thorough examination of companies that have been granted an exemption from paying excise duties for a specific reason. By the end of 2023, approx. 2,600 companies were exempted from paying one or several excise duties. Nor is the Danish Tax Agency following up whether the companies are still entitled to the exemption. This in spite of the fact that exemptions are granted without an expiration date. Close to every 10th exemption has been granted more than 20 years ago, but the agency has not checked whether the companies still meet the exemption conditions.