Council of the European Union

Brussels, 12 December 2025
(OR. en)

16801/25
ADD 7

FISC 371
ECOFIN 1739

**COVER NOTE**

| | |
|---|---|
| From: | Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director |
| date of receipt: | 11 December 2025 |
| To: | Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union |
| No. Cion doc.: | SWD(2025) 421 annex |
| Subject: | COMMISSION STAFF WORKING DOCUMENT Mind the Gap Report Challenges and opportunities for tax compliance and tax expenditure in the EU - Denmark |

Delegations will find attached document SWD(2025) 421 annex.

Encl.: SWD(2025) 421 annex

EUROPEAN
COMMISSION

Brussels, 11.12.2025
SWD(2025) 421 final

PART 8/29

# COMMISSION STAFF WORKING DOCUMENT

## Mind the Gap Report
## Challenges and opportunities for tax compliance and tax expenditure in the EU

## Denmark

# Country fiche: Denmark

## Summary box: Areas of Strength and Areas for Improvement

### Areas of Strength

- **According to the European Commission's estimates, Denmark has the lowest corporate income tax (CIT) gap among Member States for which estimates are available.** Denmark has a comprehensive tax gap program in place and estimates CIT and personal income tax (PIT) gaps using a bottom-up approach. However, results are not published, limiting transparency on the matter.
- **Denmark is well advanced in the digitalisation processes of its tax administration,** with e-filing rates at or close to 100% across all tax types since 2018 and a digital transformation strategy in place. The Danish tax administration also uses AI systems to detect risk and encourage compliance. This allows for more effective resource allocation within the tax administration and appears to have increased levels of voluntary tax compliance. Moreover, Denmark relies on machine learning and the use of algorithms for a wide range of functions, including for the risk assessment of taxpayers and property value evaluations.
- **At 40%, Denmark's VAT policy gap was significantly lower than the EU average of 51% in 2023.** Moreover, Denmark has the lowest VAT rate gap in the EU which is the portion of the VAT policy gap resulting from revenues lost due to reduced VAT rates (at less than 1% compared to 12% EU average). Very few exceptions aside, Denmark does not have reduced rates in place, greatly simplifying the VAT system and minimising the related policy gap.
- **The fiscal impact of tax expenditures is relatively limited.** A total of 122 tax expenditures represented approximately 2.4% of GDP. While many underlying tax provisions are evaluated and occasional reports examine the effectiveness of specific tax expenditures, a formal and standardised process for regular tax expenditure evaluations is not in place.

### Areas for Improvement

- **While tax arrears are below the EU average, recoverable tax arrears in Denmark have only slightly increased by 4.9 percentage points between 2018 and 2023 to 29%.** There is also a significant delay in settling tax disputes for corporate tax assessments, with an average time of 326 days (no change between 2021 and 2024) which likely has a negative impact on tax recovery.
- **The PIT gap is highly concentrated in self-reported income in Denmark.** 62.8% of undeclared work comes from self-employed. There is scope for Denmark to tackle this issue by developing a coordinated national approach, continuing to conduct inspections on sectors prone to undeclared work e.g. construction, agriculture and home repairs, and providing more incentives to make declared work easier, especially for sectors where self-reported income is common.

## 1. Snapshot of Tax System: Tax Revenues and their Sources

**In Denmark, total tax revenues as a percentage of GDP are the second highest in the EU, amounting to 43.4% in 2023, compared to the EU-27 average of 39.0% ([1]).** The largest source of tax revenues were labour taxes (54.5 % of total tax revenues vs. EU average of 51.2%), followed by consumption taxes (27.1% of total tax revenues vs. EU average of 26.9%) and capital taxes (18.3% of total tax revenues vs. EU average of 21.9%). Among the different tax types, VAT revenue was 9.1% of GDP (compared to the EU average of 7.1%).

**The Danish tax-benefit system reduces inequality significantly more than the EU average.** In 2023, the tax-benefit system reduced income inequality (as measured by the Gini Index) by 10.3 percentage points (compared to 7.7 percentage points in the EU-27) ([2]), resulting in a Gini Index for equivalised total disposable income of 28.2%, slightly below the EU average of 29.3% ([3]). The at-risk-of-poverty rate in Denmark is, at 19.0%, 3.0 percentage points below the EU average ([4]). Labour taxation is progressive: the difference in the tax wedge ([5]) between high-income earners (167% of the average wage) and low-income earners (67% of the average wage) is, at 8.3 percentage points, slightly above the EU average (7.8 percentage points).

**Denmark uses several tax measures to support the green transition.** Denmark's recovery and resilience plan (RRP) includes tax measures to support a fair transition to green energy and digitalisation. It introduced accelerated depreciation for green investments starting in 2020. New $CO_2$ taxes are being implemented across sectors from 2025 onwards. Independent of the RRP, political parties in 2024 committed to establishing a tax on livestock's emissions in agriculture. The tax will be introduced in 2030 at DKK 300 (equivalent to EUR 40) per tonne of $CO_2e$ and will gradually increase to DKK 750 (equivalent to EUR 100) by 2035. Farmers receive a 60% deduction initially. This deduction will be gradually phased out by 2035.

---

[1] Data on tax revenues are based on European Commission: Data on Taxation Trends, edition 2025 (reference year 2023). The 2026 edition (reference year 2024) will be published in the first quarter of 2026. Preliminary data point to an upward revision of tax revenue data for 2023 (to 44.0% of GDP), followed by an increase of total tax revenues to 45.2% of GDP in 2024: https://doi.org/10.2908/GOV_10A_TAXAG.

[2] European Commission, DG EMPL calculations based on EU-SILC survey data.

[3] European Commission, Eurostat [ilc_di12]

[4] European Commission, Eurostat [ilc_peps01n]

[5] The tax wedge is defined as the sum of personal income taxes and employee and employer social-security contributions net of family allowances, expressed as a percentage of total labour costs (the sum of the gross wage and social-security contributions paid by the employer). Data are based on European Commission, DG ECFIN: Tax and Benefits Database.

## 2. Monitoring of Compliance Gaps

### 2.1. Overview

**Denmark's tax gap estimation activities are well-developed.** Denmark set up a team dedicated to tax gap estimation in 2005, becoming the second EU Member State to do so ([6]). Since 2018, the Danish Tax Authority ("Skattestyrelsen") participated in the EU FISCALIS project on tax gap estimation ([7]) but it officially withdrew from the project in April 2024. Although Denmark continues to estimate tax gaps, it does not disclose any data or methodologies.

**The Danish Tax Administration uses a bottom-up approach for its tax gap estimation.** To optimize both tax revenue recovery and insights into the overall taxpayer population, larger samples are drawn from higher-risk groups than from low-risk ones. The results of random audits are then used as input for new legislation and to improve risk assessments aimed at enhancing tax compliance ([8]).

### 2.2. Monitoring VAT Compliance Gap

**Denmark performs slightly better than the EU average in terms of VAT compliance with a VAT compliance gap ([9]) of around DKK 25 billion (ca. EUR 3.3 billion), or almost 9% of the VAT Total Tax Liability (VTTL) ([10]) in 2023, compared with an EU average of 9.5%.** Denmark's estimated VAT compliance gap was the 16th lowest among EU Member States. The VAT compliance gap increased by about 1 percentage point since 2022. While it still remains below the 2019 level of 11%, the gap has risen consistently since 2020, with figures around 7% and 8% in 2020 and 2021 ([11]).

**The decline in the share of services in GDP (-3 percentage points) as well as relatively slow growth in recreational services, restaurants, and accommodation services (by 2%), are likely to have mitigated the increase in the VAT compliance gap observed on average.** As services are typically harder to tax effectively compared to traditional goods, a relatively lower share of services can be expected to lead to a lower risk of non-compliance. Likewise, lower growth in tourism demand as measured by nights spent in tourist accommodations (33 percentage points lower than in 2022) is

---

[6] Source: OECD Tax Administration 2024, https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/tax-administration-2024_5c4606e4/2d5fba9c-en.pdf

[7] European Commission (2025), Directorate-General for Taxation and Customs Union, *Towards a common approach to tax gap estimation in the EU – Fiscalis Project Group 008 – Final report*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/3068071

[8] Source: OECD Tax Administration 2024, https://www.oecd.org/content/dam/oecd/en/publications/reports/2024/11/tax-administration-2024_5c4606e4/2d5fba9c-en.pdf

[9] The VAT compliance gap is an estimate of revenues lost due to VAT fraud, evasion and avoidance, bankruptcies and financial insolvencies, or miscalculations.

[10] The VAT Total Tax Liability (VTTL) is the theoretical tax revenue that would be collected in a situation of perfect taxpayer compliance, assuming an unchanged net VAT base.

[11] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

likely to have had a positive effect on compliance. As bankruptcy declarations declined (-11%), the positive effect on VAT collection can also have contributed to a downward pressure on the VAT compliance gap.

**Denmark's VAT system is notable for its uniform rate applied to nearly all goods and services, which has remained constant since 1992.** Accordingly, the VAT compliance gap in Denmark also remained stable in the years up to 2020, indicating that the tax administration was already efficient with respect to VAT collection. The theory that recent fluctuations can be attributed to policy measures or temporary improvements in VAT collection is therefore unlikely. A possible explanation could be that an increase in the scale of reporting inaccuracies and miscalculations in tax filings have caused fluctuations in the VAT compliance gap between 2019 and 2023 ([12]).

**In Denmark, VAT losses due to Missing Trader Intra-Community (MTIC) fraud ([13]) were estimated at around EUR 700 million in 2023, displaying an overall increasing trend ([14]).** Between 2010 and 2023, they have increased approximately by EUR 50 million.

## 2.3. Corporate and Personal Income Compliance Tax Gaps, and Measures of the Shadow Economy

**Denmark measures the CIT and PIT gap, although estimation results are not publicly disclosed.** According to the OECD 2024 Tax Administration Report, Denmark estimates the personal income tax (PIT) gap using both top-down (two methods) and bottom-up approaches (five methods), with the bottom-up method based on random audit data. Denmark also breaks down the tax gap into several components, including taxpayer behaviour and error types. Denmark is recognized for sophisticated tax gap estimation methods, but recent compliance gap figures for PIT and CIT are not published online.

**Denmark measures the corporate income tax (CIT) compliance gap using a bottom-up approach.** The approach includes risk-based audits and extrapolates the results to the entire population of taxpayers, as well as random audits ([15]).

**European Commission estimates suggest a small CIT compliance gap in Denmark**. According to a methodology developed by the Joint Research Centre, which relies on a top-down approach, the CIT compliance gap in Denmark was around 2% of collected CIT revenues in 2017 — the lowest figure

---

[12] Ibid.

[13] Missing Trader Intra-Community (MTIC) fraud is a form of VAT fraud that exploits VAT-free cross-border trade within the EU. Fraudsters purchase goods VAT-free from another Member State, sell them domestically, charge VAT to their customers, and disappear before paying this VAT to the tax authorities.

[14] European Commission, CASE, Poniatowski, G., Śmietanka, A., and Skowronek, A., *VAT compliance gap due to Missing Trader IntraCommunity (MTIC) Fraud – Final Report Phase II*, Publications Office of the European Union, Luxembourg, 2024, https://data.europa.eu/doi/10.2778/6433841.

[15] European Commission: Directorate-General for Taxation and Customs Union, FISCALIS Tax Gap Project Group, Van Mierlo, A., Pütsep, T. and Nicodème, G., *The concept of tax gaps. Report II, Corporate income tax gap estimation methodologies*, Van Mierlo, A.(editor), Pütsep, T.(editor) and Nicodème, G.(editor), Publications Office, 2018, https://data.europa.eu/doi/10.2778/83206

among available estimates from Member States ([16]). Based on the same methodology, the (unweighted) average for the CIT compliance gap is 10.9% of collected CIT revenues based on available estimates for 23 Member States.

**The Danish Tax Administration estimates the PIT gap for private individuals and the self-employed through random audits.** Additionally, the labour input method compares data from the Danish Labour Force Survey with Danish tax records. Undeclared work is identified by the difference between self-reported working hours in the Labour Force Survey and the officially recorded hours in tax data. This discrepancy is used to estimate the prevalence and value of undeclared work, and thus the associated PIT gap.

**Estimates suggest that 20% of Danish individuals had engaged in undeclared work in the years 2017 and 2021, with a total cost to the treasury of DKK 13.7 billion annually (ca. EUR 1.83 billion), equating to approximately 1% of total tax revenues ([17]).** The Danish tax administration employs extensive digital checks and data-matching systems to detect tax evasion and fraud among self-employed individuals, as well as penalties and fines. The main driver of the PIT gap in Denmark is self-employment, 62.8% of undeclared labour input in Denmark comes from self-employment (vs 36% from employment relationships), compared to 36.3% in the EU (vs 62.9% from employment relationships) ([18]). The two most prevalent types of undeclared work are work done in return (helping each other with work) (11.8%) and undeclared work for cash (7%), which are more difficult to detect ([19]). As of 2022, there was no national strategy to tackle undeclared work, although certain authorities may have objectives to reduce the portion of undeclared work, the holistic approach recommended by the European Platform tackling undeclared work includes transforming this into declared work ([20]). While there are incentives to make declared work easier and more beneficial in Denmark (e.g. reductions in marginal tax rates for low-income earners, wage subsidies for craftsmen services from private firms), there is scope to further target self-reported income streams.

**The size of the shadow economy in Denmark is well below the EU average.** In 2022, the shadow economy in Denmark was estimated at about 9.7% of GDP (Schneider and Asllani 2023, for the European Parliament) ([21]). While still having considerable economic weight, the shadow economy has been constantly shrinking for the past 20 years from 17.4% of GDP in 2003. The shadow economy in

---

[16] European Commission: Directorate-General for Taxation and Customs Union (2025), *The Corporate Income Tax Gap, A European approach to measuring losses in corporate tax revenues*, Publications Office of the European Union, https://data.europa.eu/doi/10.2778/0541549. The JRC has recently developed a novel approach to estimate the CIT gap based on National Accounts and existing data on the undeclared economy, providing approximations of the CIT gap for a majority of EU Member States including the Netherlands. JRC's estimations are based on the ratio of the exhaustiveness adjustments over the declared part of the Gross Operating Surplus (GOS), that national statistical offices perform to account for non-observed economy in order to obtain the gross national income (GNI). The JRC approach does not capture CIT gaps associated with tax avoidance and (international) profit shifting, which would require other estimation methods.

[17] Undocumented work in Denmark 2021, ROCKWOOL Foundation Research Unit, 2025 (in Danish). Estimates are similar to earlier years: Undeclared work is carried out by one in five Danes and costs the state billions - ROCKWOOL Foundation

[18] DK-UDW_factsheet-2023-fin.pdf

[19] Undeclared work is carried out by one in five Danes and costs the state billions - ROCKWOOL Foundation

[20] UDW_Study_report_on_progress towards holistic approach_2022-EN_1.pdf

[21] European Parliament (2022), Taxation of the informal economy in the EU

Denmark is among the smallest in the EU, 7.9 percentage points below the EU-27 unweighted average. According to the report, PIT, indirect taxes, tax morale, unemployment, self-employment, GDP-growth and business freedom are potential contributing factors. The analysis indicates that personal income taxation and indirect taxation are the relatively most important factors for the shadow economy in Denmark.

### 2.4. Other Compliance Gaps

**Denmark does not publish any information on possible other compliance tax gaps.** There are no official programmes or published figures for compliance gaps related to excise duties, environmental or energy taxes, or capital taxes.

## 3. Monitoring of Policy Gaps

### 3.1. Tax Expenditures

**The Danish Ministry for Taxation publishes detailed information on tax expenditures (TE).** Denmark published an official tax economic report (Skatteøkonomisk Redegørelse) approximately every two years. The report provides an in-depth analysis of the Danish tax system, its fiscal outcomes, and selected topical issues. The 2023 report provides systematically reporting of tax expenditures as part of fiscal transparency ([22]). A total of 122 tax expenditures is identified with a combined foregone revenues of about DKK 75.8 billion (ca. EUR 10 billion), equivalent to 2.7 % of GDP. More than half of this amount stemmed from personal income tax reliefs (ca. DKK 48.6 billion, or EUR 6.5 billion), including large deductions like the employment allowance and the personal allowance. The remainder is related to businesses and arises from provisions such as R&D incentives, the tonnage tax regime for shipping, and energy and green transition exemptions. The latest tax economic review from 2025 does not contain an overview of individual tax expenditures ([23]).

**No standardised processes are in place for regularly reviewing impacts of TEs**. TEs are indirect subsidies delivered via the tax system. Their fiscal significance requires systematic effectiveness evaluations of whether these tax reliefs achieve their policy objectives. The Danish audit office (Rigsrevisionen) recommended in 2007 that TEs should be included in the budgetary process and reviewed regularly ([24]). For the purpose of this publication, it could not be established that Denmark has a structured process of TE evaluation and impact assessment in place. However, Denmark published detailed dedicated reports which often also consider the effectiveness of specific TEs. Some tax expenditures have been abolished in the context of the green tax reform ([25]). In a recent report,

[22] The Danish 2023 tax report: Skatteøkonomisk Redegørelse 2023
[23] The Danish 2025 tax report: Skatteøkonomisk Redegørelse 2025
[24] Danish audit office (Rigsrevisionen), 2007 Audit report related to tax expenditures
[25] The Expert Group for a Green Tax Reform, The Green Tax Reform, Final Report, 2025

Denmark has reviewed all business-related tax expenditures to assess whether, from an economic perspective, it makes sense to maintain them ([26]).

**Mortgage interest deductibility is seen to contribute to potential excessive indebtedness of households**. In the context of financial stability and relatively high levels of household debt, the IMF's Article IV review suggests that incentives for bigger mortgages should be reduced by lowering the tax deductibility of mortgage interest expenses ([27]).

**Microsimulation indicates that TEs related to PIT mostly focus on employment objectives but have a regressive effect**. According to a JRC simulation based on the EUROMOD tax-benefit microsimulation model, PIT-related tax expenditures in Denmark result in the fourth-lowest reduction in PIT revenue among EU countries (approximately 5%), with most tax relief linked to employment-related benefits ([28]). The impact of simulated PIT tax expenditures on average disposable household income amounts to a 3% increase. However, the simulation found a negative effect on the income distribution, with a roughly 1% increase in the Gini coefficient, indicating that these expenditures contribute to rising income inequality. This is driven by the analysed PIT tax expenditures being mostly beneficial to households in the 7th and 9th income deciles and least beneficial to those in the 2nd income decile.

## 3.2. VAT Policy Gap

**Denmark's VAT policy gap ([29]) was significantly lower than the EU average in 2023.** The level of the VAT policy gap in Denmark was estimated to be 40% of the notional ideal revenue (ca. DKK 190 billion or EUR 25 billion) ([30]), while the EU VAT policy gap was 51%. The 2023 VAT policy gap in Denmark shows an increase of around 2 percentage points compared to 2022 but has remained stable compared to 2019 ([31]).

**The VAT exemption gap was slightly higher in Denmark compared to the EU estimate in 2023 ([32]).** It amounted to around 40% of the notional ideal revenue (ca. DKK 180 billion or EUR 25 billion), while for the EU-27 overall it was 38%. The VAT exemption gap in Denmark saw an increase compared to 2022 (ca. +2 percentage points) but has remained stable compared to 2019.

---

[26] The report Fremtidens Erhvervsstøtte Kortlægning, Principper Og Sanering Afrapportering Fra Fase 1 discusses all business relates tax expenditures. The documentation for the calculations is provided on the website of the Danish Ministry for Taxation: Erhvervsstøtteordninger | Skatteministeriet.

[27] Discussed in IMF Article IV Report 2025.

[28] Turrini et al., 2024, Tax Expenditures in the EU: Recent Trends and New Policy Challenges

[29] The VAT policy gap refers to the revenue lost due to the application of VAT exemptions and reduced, super-reduced, and zero VAT rates on selected products.

[30] The notional ideal revenue is the benchmark VAT revenue that assumes perfect taxpayer compliance in a situation where the current standard VAT rate is applied to all final consumption and household, government, and NPISH investment.

[31] See European Commission, Syntesia, Poniatowski, G., Bonch-Osmolovsky, M., Śmietanka, A. et al., *VAT gap in Europe – Report 2025*, Publications Office of the European Union, Luxembourg, 2025, https://data.europa.eu/doi/10.2778/7868422.

[32] The VAT exemption gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of VAT exemptions on selected products.

**The VAT rate gap ([33]), which amounted to DKK 3 billion (ca. EUR 400 million), was estimated at less than 1% of the notional ideal revenue in 2023**, **while for the EU-27 overall it was 12%.** In Denmark, this indicator has remained unchanged when compared to 2022 and 2019. This extremely low and stable figure is a result of the uniform rate that is applied to nearly all goods and services in Denmark, with only a very narrow application of reduced VAT rates.

**As part of the 2026 finance bill, the government proposes to remove VAT from books ([34]).** This will see the standard rate of 25% replaced by a zero rate. The annual cost is estimated at DKK 330 million (ca. EUR 40.2 million). The Government is also taking steps to adapt IT systems to enable them to handle reduced rates if in future such a change will gain political support. Recent discussion around the introduction of reduced rates has in particular been driven by the pressure on food prices.

**The national policy-driven VAT exemption gap ([35]) of DKK 40 billion (EUR 5 billion), was estimated in 2023 at almost 9% of the notional ideal revenue**, while the overall EU estimate was 11%. It represents an increase compared to 2022 (+1 percentage point) and has remained stable compared to 2019.

# 4. Effectiveness of Tax Collection and Recovery Systems

## 4.1. VAT Collection

**Regarding the registration and identification of taxpayers for VAT purposes, Denmark has generally sound practice in place**. They provide online information about taxpayers' VAT registration obligations and online registration for VAT purposes is mandatory in Denmark, which is the case in only 9 Member States. Denmark has also followed relevant recommended practices to improve their overall VAT collection function ([36]).

**In Denmark, there is an extensive automatic exchange of information between tax administrations and all other national bodies in charge of registrations.** Furthermore, in the case of new VAT registrations, Denmark requires all relevant details on taxpayers, the information contained in its databases are well maintained and adequate for effective interaction with them ([37]). To screen new taxpayer registrations, Denmark performs identity verification and other preliminary checks, and the tax administration performs checks based on risk indicators specifically for new VAT registrations, as well as spot visits to premises. The Danish tax administration also keeps a register of taxpayers to

[33] The VAT rate gap refers to the portion of the VAT policy gap resulting from revenues lost due to the application of reduced, super-reduced, and zero VAT rates on selected products.
[34] See proposal for the 2026 Finance Bill (Forslag til finanslov for finansåret 2026), p. 39.
[35] The national policy-driven VAT exemption gap represents the part of the VAT policy gap that can in principle be influenced by national policies on VAT exemptions. In practice, it consists of revenue forgone from services falling under Article 137 (such as real estate and certain financial services), from the SME scheme, and from national exemptions applied under standstill clauses or derogations.
[36] Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, EUR-Lex - 52022DC0137 - EN - EUR-Lex. / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.
[37] https://taxation-customs.ec.europa.eu/taxation/vat/vat-and-administrative-cooperation/vat-administration-eu_en

whom a VAT registration has not been granted. They also perform large scale cross checks of VAT registration data against third party information. The existence of both mechanisms can be considered as good practice by the Danish tax administration.

**Denmark does not systematically perform follow up checks for the VAT Information and Exchange System (VIES) registrations and there is scope to invest in this practice.** Denmark however does remove VIES numbers in cases of fraud. With regards to e-commerce, the Danish tax administration does keep a record of VAT registered taxpayers who are selling online.

**For registration to the Mini One Stop Shop (MOSS) for VAT, Denmark performed comprehensive registration verifications.** Dedicated MOSS information channels were provided. Denmark was the Member State with the highest number of VAT audits carried out on MOSS taxable persons (14 audits as MSC on non-union scheme) in 2019. Denmark redeveloped its implementation of the VAT One Stop Shop (OSS).

**Like most Member States, Denmark automatically monitors timely filing of VAT returns.** Denmark uses risk criteria and profiling techniques (based on known circumstances and behaviour) to ensure that timely VAT filing is achieved. Denmark is proactive when it comes to late filing of VAT, issuing reminders, demand notices and automatically generating penalties for late filing. They also have a system to evaluate the effectiveness of late filing penalties.

**Denmark has a comprehensive VAT audit programme in place.** On foot of the recommended practices Denmark has implemented internal audit processes for their accounting systems, sector specific audit manuals, updated audit plans and monitoring of the quality of their audit function. They also perform every type of VAT audit except for record keeping audits. Since 2019, the Danish tax administration has adjusted the scope and intensity of their VAT audits to meet their needs ([38]).

**The Danish tax administration also performs a comprehensive review of VAT audit results.** Examples include engaging in advanced analytics of large data sets (e.g. predictive modelling) and estimating VAT losses caused by inaccurate reporting based on random audit program results. Denmark also has processes in place to identify sectors with a higher risk of non-compliance, but did not identify any sector with an increased number of unregistered businesses.

**Regarding payment and collection, Denmark's IT management systems for VAT arrears shows strong performance.** The system prioritises cases based on size and length of arrears, allows for phased repayments, sends reminders when payments are late, and determines the origin of the arrears. Furthermore, Denmark has implemented measures to ensure VAT refunds are paid promptly, while having procedures to prevent fraudulent claims based on certain risk criteria.

## 4.2. Tax Recovery

**Tax arrears in Denmark are below the EU average and have remained relatively consistent in recent years.** The level of outstanding year-end stock of tax arrears for the Denmark has increased

[38] Commission's Ninth Report on VAT registration, collection and control procedures following Article 12 of Council Regulation (EEC, EURATOM) No 1553/89, EUR-Lex - 52022DC0137 - EN - EUR-Lex. / Answers to the survey sent to the Member States in June 2025 in view of the Tenth Report on the same subject matter.

slightly between 2018-2023 and equalled 13.2% of total revenue collected in 2023, compared to 11.9% in 2018. The percentage suggests that the tax administration is remaining consistent at collecting taxes owed, but a further increase in this figure would be a cause for concern. Of the closing stock of arrears, Denmark considers only 29% to be collectible in 2023, a slight increase of 4.9 percentage points from 2018 ([39]).

**The Danish tax administration does have a tax recovery strategy and regularly publishes a tax recovery activity report**. Denmark has a practice of writing off tax claims. This is permitted under certain conditions when it is considered "obviously purposeless or associated with disproportionate costs to continue the recovery" based on specific individual criteria. They also write off claims below a certain threshold once per year. Danish law does also allow the Danish tax administration to exchange information with the administrator of insolvency proceedings concerning assets that could be used for the recovery of unpaid claims in the insolvency proceedings. There is however no specific legislation on cooperation between the administrator of insolvency proceedings and the tax administration.

**In Denmark, the average time required to settle tax disputes for corporate tax STS (TastSelv Selskabsskat) assessments were 326 days in 2024, no change to the 2021 figure.** This is a slow turnaround and implies that there is generally a relatively low chance for the tax authority to recover any unpaid CIT liabilities. There could be potential to reduce this turnaround time to achieve a higher percentage of taxes recovered.

## 4.3. Use of Directive on Administrative Cooperation (DAC) ([40]) Instruments and Data ([41])

**Denmark comprehensively uses DAC1 ([42]) and DAC2 ([43]) data for assessing taxation on individuals.** DAC1 (categories of income) ([44]) and DAC2 (financial accounts) data is currently used for domestic risk assessment analysis ([45]), general audits and audits limited to specific categories of income or capital, and tax coding of estimation of future income. Data is mainly used in the field of personal income tax, leading to significant increases of the tax base and, subsequently, to increased

---

[39] Source: ADB, CIAT, IOTA, IMF, OECD, International Survey on Revenue Administration, Indicators: "Closing stock of arrears at year end as percentage of total revenue collected." and "Closing stock of collectable arrears as percentage of closing stock of arrears", http://isoradata.org.
[40] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC, as subsequently amended.
[41] Source: Yearly Assessment 2025, EU AIAC Statistics 2024 – Subject to confidentiality clause on DAC art. 23a
[42] Council Directive 2011/16/EU of 15 February 2011 on administrative cooperation in the field of taxation and repealing Directive 77/799/EEC.
[43] Council Directive 2014/107/EU of 9 December 2014 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.
[44] Income from employment, Director's fees, Pensions, Immovable properties.
[45] Risk assessment: tax risk assessment is a key element of modern tax administration. It allows tax authorities to identify indicators that suggest specific taxpayers or arrangements may pose an increased risk to their jurisdiction and require further actions in terms of compliance. In general, EU tax authorities use automated methods based on domestic data and information received from other jurisdictions. Yet, a manual element may remain, as (i) tax authorities vary in terms of whether tax risk assessment is conducted centrally by a specialist risk assessment team incorporating input from the compliance function, or locally by the compliance team (or tax inspector); (ii) some data types remain challenging to be automatically processed, e.g. literal summaries.

tax revenues. Denmark also uses the information from DAC1 and DAC2 for tax recovery purposes, which is particularly relevant to reduce the tax gap.

**DAC data matching rates concerning individuals ([46]) are above the EU average since Denmark has developed a new matching process to improve identification of taxpayers.** For the year 2024, the average matching rate measuring success in identifying taxpayers with DAC data is close to 87% for DAC1 ([47]), and 93% for DAC2, the EU-average being at 84% and 87% respectively.

**Denmark uses DAC3 ([48]) data (rulings) and DAC4 ([49]) (country-by-country report) data for risk-analysis purposes in the field of corporate income taxation.** In 2024, 100% of report for DAC3 and for DAC4 have been identified successfully, allowing systematic use of information where relevant. In accordance with the goals of DAC3, notifications of an existing advanced pricing agreement or a ruling are included in the case handling system used by auditors. Similarly, DAC4 reports are systematically processed to make the information available for the tax auditors. The reports including DAC3 and DAC4 data are used for assessing risks on transfer pricing, base erosion and profit shifting matters, economic and statistical analysis, general audits and audits limited to specific categories of transactions (e.g. transfer pricing).

**While the use of DAC6 ([50]) data follows a similar approach as DAC3 and DAC4, data is not matched systematically**. DAC6 data is mainly used for risk assessment, including assessing high-level risk of tax-harmfulness of arrangements reported, notification to generate disclosure, general audit, or audit limited to specific categories of transactions (e.g. transfer pricing).

**Denmark is a regular user of advanced instruments provided for in DAC to facilitate cooperation on specific cross-border issues, such as simultaneous audits.** The synergies between participating Member States derived from these coordinated activities lead to an increase of the tax assessed and therefore contribute to reducing the tax gap. In 2024, Denmark was involved in 12 cases initiated by other Member States, being a relatively active player in the expansion of the use of these tools among the Member States.

**In conclusion, Denmark uses the data obtained from the automatic exchange of information in coherence with the objectives of the DAC, based on a thorough approach in terms of risk analysis, for data related to both individuals and companies.** The systematic approach chosen for DAC1 and DAC2 data, which led to significant tax adjustments, could be extended to the DAC3, DAC4 and DAC6 data to maximise the revenue potentially generated by more extensive use of data.

---

[46] The matching rate indicates to what extent a Member State has been able to identify their taxpayers in their national tax databases with information received from other Member States under the DAC. Such matching is necessary to ensure that the data can be used for tax compliance purposes. The matching rates mentioned in this report are based on the metrics approved by the tax authorities in the TADEUS meeting of December 2024.
[47] Average rate for Income from employment, Director’s fees, Pensions, Immovable properties.
[48] Council Directive (EU) 2015/2376 of 8 December 2015 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.
[49] Council Directive (EU) 2016/881 of 25 May 2016 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation.
[50] Council Directive (EU) 2018/822 of 25 May 2018 amending Directive 2011/16/EU as regards mandatory automatic exchange of information in the field of taxation in relation to reportable cross-border arrangements.

# 5. Digitalisation and Compliance

**Denmark is among the EU leaders in digitalisation of tax administration.** It demonstrates excellent performance with respect to the digitalisation of their tax administration, with full adaption rates for e-filing of each tax type and the existence of a digital transformation strategy, it also appears that the digital advancement of the tax administration has improved voluntary taxpayer compliance. The Danish tax administration uses technology such as AI for risk analysis and nudging to their advantage, allowing for a more optimal allocation of staff. They also provide many additional online services to help taxpayers voluntarily comply with their tax obligations. There is some room for further improvement, notably with regards to the provision of pre-filling facilities for VAT, with the goal of decreasing the burden of compliance on the taxpayers. According to a recent Eurobarometer survey, 57% of citizens in Denmark find it very easy or fairly easy to complete their tax return, placing them 8th among EU countries ([51]).

## 5.1. Digital Transformation, Skills, and Culture

**Denmark has developed a comprehensive strategy for digital transformation.** Besides laying out a long-term plan for digitalisation, Denmark has identified the future skills required by the administration for a successful digital transformation (for parts of the administration) and developed a strategy to build a digital culture within the administration ([52]). These three pillars are mutually reinforcing and can be seen as making Denmark more likely to design and put into practice processes which allow taxpayers to meet their tax responsibilities in a seamless way.

**Denmark requires individuals and businesses to use an approved digital identity to access secure digital services ([53])**. For example, it helps increase the accuracy of taxpayer identification, thereby reducing the potential of identity fraud, duplication of records and administrative errors.

## 5.2. Front-end Digitalisation

### 5.2.1 Pre-filling

**As regards pre-filling for PIT, Denmark is one of the EU countries that did provide pre-filling facilities in 2022 ([54])**. Such facilities reduce the burden of tax compliance and provide greater tax certainty for individual taxpayers and the tax administration. Taxpayers in Denmark may thus find it easier to complete their PIT returns. The availability of pre-filling services also decreases the likelihood of errors and lowers the administrative burden for both the taxpayer and the tax administration. From the tax administration’s perspective, this can allow them to allocate more resources to other areas of importance.

---

[51] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713.
[52] OECD Inventory of Tax Technology Initiatives 2024. https://data-explorer.oecd.org/, Note that data is self-reported by tax administrations and therefore not 100 % objective or comparable.
[53] Ibidem.
[54] Ibidem.

**Denmark does not provide pre-filling facilities for VAT.** Denmark was one of the 19 Member States that did not pre-fill VAT returns in 2022. It must be noted that the "VAT in the Digital age" (ViDA) was adopted in March 2025 and will be rolled out progressively until 2035. This initiative will lead to the introduction of digital reporting and e-invoicing across the EU, thereby providing the conditions to introduce pre-filled VAT returns.

**Denmark does not offer pre-filling for CIT returns**. However, only very few Member States reported (partial) pre-filling for CIT in 2022.

**Accordingly, Denmark is putting measures in place to facilitate greater levels of pre-filling in the future.** The Danish bookkeeping act was introduced in 2025 and requires all registered companies in Denmark to employ a digital bookkeeping system capable of receiving electronic invoices, storing these and other relevant documents electronically, and supporting the exchange of the company's bookkeeping data via a SAF-T standard file. In instances of non-compliance with the act, it allows for penalties to be applied up to the value of DKK 1.5 million ([55]). The increased levels of data accessibility and standardization of returns should allow for pre-filling for VAT and CIT (partially) in the future.

### 5.2.2 E-filing

**Denmark has e-filing rates for CIT returns above the EU average**. In 2023, Denmark reported an e-filing rate of 100% for CIT, higher than the EU average of 97.1% ([56]). This indicates that all companies in Denmark file their taxes electronically. This figure was also 100% in 2018**,** indicating that the e-filing facilities in Denmark have been straightforward and easy to use for a number of years**.**

**The e-filing rates for PIT returns is also 100% and above the EU average (87.1%) ([57]).** This was also the case in 2018 in Denmark. The overall situation highlights that the Denmark has been ahead of the curve in the EU with respect to e-filing of PIT for some time. As outlined above, these figures indicate that the systems are easy to use in terms of navigation and instructions. Full e-filing rates for PIT contributes to reducing the burden of tax compliance for individual taxpayers which also encourages voluntary compliance.

**Similarly, Denmark had 100% e-filing rates for VAT returns.** E-filing rates in Denmark are above the EU average (99.2%) in 2023. This was also the case in 2018 (vs 94.7% EU average) ([58]). Such high rates of e-filing should give Denmark a better ability to analyse trends and detect VAT fraud, as well as aforementioned accuracy, efficiency and encouragement of voluntary compliance.

**The excellent uptake of e-filing in Denmark is an indication of the fact that Denmark is well advanced in the digitalisation process, compared to other EU Member States**. Advanced digitalisation of tax processes likely implies lower compliance burdens for Danish taxpayers compared to the EU average for all tax types examined. it is also beneficial to the tax administration, as e-filing

[55] Digital bookkeeping requirements in Denmark.

[56] International Survey on Revenue Administration data. https://data.imf.org/en/datasets/ISORA:ISORA_LATEST_DATA_PUB

[57] Ibidem

[58] Ibid.

reduces manual work and administrative costs, frees up resources to allocate to other functions and should allow for quicker or automatic detection of potential fraud or tax evasion.

### 5.2.3 Provision of other online services

**In Denmark, the tax administration provides many additional online tools and services to taxpayers to reduce compliance costs**. These include online tax calculators, facilities to request payment arrangements and secure communication messaging services. Taxpayers can also upload files onto the administrations system, access a personalised taxpayer portal, use a mobile application for taxpayer services and view taxpayer information collected by third parties ([59]). All these facilities can foster tax-compliant behaviour, as well as allowing administration resources to be allocated more effectively indicating that the tax administration in Denmark is using digital services to their advantage. According to a recent Eurobarometer survey however, only 46% of citizens in Denmark believe that support for filing tax returns provided by the tax administration is either fully adequate or mostly adequate, placing them 13th among EU countries ([60]).

## 5.3. Back-end Digitalisation

### 5.3.1 Use of Artificial Intelligence by the Tax Administration

**Denmark relies on machine learning and the use of algorithms for a wide range of functions.** The machine-learning systems of the Danish Tax Administration perform a wide range of functions, and they have been using algorithms for taxpayer control since 2001 ([61]). These tools are used for the collection of contextual information on taxpayers, risk assessment and property value evaluation.

**The Danish Administration makes use of open-source web scraping tools to automatically collect data from online websites, commercial platforms, social media and e-sharing/gig economy platform**. Prior to open-source tools, sources indicate that the Danish Tax Administration leveraged XENON, similarly to Austria, the Netherlands, Sweden and the UK.

**Their machine-learning systems segment taxpayers into categories of risks and select taxpayers with predicted high risk of fraud or non-compliance to devise an audit plan for the tax administration**. The Danish Tax Administration uses supervised learning to attribute a score to taxpayers and determine precise treatment strategies in all areas of taxation, including VAT, personal income taxation, corporate income tax and customs.

**The Danish tax administration also uses an algorithm that automatically calculates and/or verify pricing of real estate without any individual manual inputs from tax officials**. Reportedly, the model uses 19 variables, including proximity to facilities such as schools, parks, but also the level of pollution in the area. Algorithm Watch reports that the preparatory Committee in charge of the

---

[59] 7. Taxpayer service - ISORA – tabs “Online services 1” and “Online services 2”.

[60] European Commission: Directorate-General for Taxation and Customs Union and Directorate-General for Communication, *Citizens' attitudes towards taxation – Eurobarometer report*, European Commission, 2025, https://data.europa.eu/doi/10.2778/6066713.

[61] The use of AI by tax administrations in the EU and OECD.

implementation of the automated decision-making (ADM) system considered machine learning to be more objective than human assessments.

**Denmark also uses a real-time data matching system to flag suspicious VAT refund claims,** since 2014. The system detects errors in reports and improper payments from the state Treasury. Reportedly, the system's accuracy ranges around 70%. The system has now been updated and integrated to the Transaction Network Analysis system at the EU level (see EU Report).

**The Danish Tax Administrations makes use of AI to assist tax officials in making administrative decisions and recommendations for actions.**

**Denmark also has AI systems in place to aid with the practice of "nudging".** These systems adapt the language used on standard communication to taxpayers based on taxpayer historical data and underlying risk profiling. Concretely, it means that taxpayers may receive different types of communication based on underlying profiling and risk scores. For instance, notoriously non-compliant taxpayers might receive letters with a personalized 'stronger' language.

## 5.4. Compliance Risk Management

### 5.4.1 Compliance Risk Management Strategy

**Denmark has a formal compliance risk management strategy in place**, **allowing for identification, assessment and prioritisation of key compliance risks ([62]).** All possible areas are covered by this strategy including return filing, payment processing, collection enforcement, verification/audit and taxpayer service. Denmark does not make the risks public on a regular basis. Intuitively, a tax administration might do this to deter non-compliant taxpayer behaviour, but the Danish tax administration doesn't prioritise this practice. Denmark also does not publish the results of addressing these risks which would provide greater insights into the effectiveness of their compliance risk management strategy.

**The Danish tax administration performs desk audits, limited scope audits, single issue audits and comprehensive audits ([63])**. The moderate variety of intervention processes indicates the administration's capacity to target most aspects of potential non-compliance. According to the ISORA database, the Danish tax administration does not perform avoidance and evasion investigations, this could be a result of early and effective implementation of AI to provide risk rankings and personalised nudging leading to a drop in taxpayer's propensity to engage in tax avoidance and evasion.

### 5.4.2 Staff Dedicated to Audit, Investigation and Other Verification Functions

**The share of personal used for audit and control is relatively low in Denmark**. In Denmark, the percentage of full-time equivalents (FTEs) assigned to audit, investigation and other verification functions was 20.4% in 2018 (EU average of 32.1%). In 2023, this indicator remained below the EU

[62] ISORA Database – tab "CRM Strategy".
[63] ISORA Database – tab "Post filing enforcement actions" and "interventions after filing, intervention effectiveness".

average (23.9% ([64]), compared to 32.2% EU average). Although this figure is not a concrete indicator of the strategy of the tax administration, the moderate increase in Denmark from 2018 to 2023 indicates that Denmark has placed a greater focus on the importance of audits and that revenue generation from audits has become slightly more important to the tax administration. As previously outlined, Denmark were one of the first Member States to implement machine learning and AI technology to detect risk and encourage compliance. The lower levels of focus placed on audits may indicate that this has increased overall taxpayer compliance, leading to less revenue generated from audits and therefore less of a need for audits.

### 5.4.3 Additional Revenue from Audits as a Share of Total Revenue

**Additional revenues raised from audits are limited.** In Denmark, the additional revenues raised from audits was equal to 0.95% of total net revenue in 2018 and 1.16% of total net revenue in 2023 which is below the EU average for both years (respectively 2.8% and 1.6%), and the increase from 2018 to 2023 contrasts with the trend in the EU ([65]). There was an increased focus placed on audits between 2018 and 2023, which may have impacted the increase in this figure of 0.21 percentage points. Given the advanced use of technology in the Danish tax administration for risk analysis and nudging, it may be the case that specific audit targeting slightly improved over the same period.

## 5.5. Tax Complexity

**Denmark ranks 12th out of the 27 Member States in the Tax Complexity Index ('TCI') ([66]), where a higher rank corresponds to lower tax complexity.** The TCI is based on the Global MNC Tax Complexity Project, a joint research project of Deborah Schanz (LMU Munich) and Caren Sureth-Sloane (Paderborn University). The TCI measures tax complexity for CIT and in 2024 ranked Denmark 6th among the Member States with regards to Tax Framework Complexity, and 23rd with regards to Tax Code Complexity. This may indicate that whereas the tax processes carried out by the tax authorities are rather efficient (notably in the area of payment and filing, according to the authors of the TCI), there is room to improve the structure of the tax regulations (particularly in the area of general anti-avoidance, according to the authors of the TCI).

[64] Own elaboration based on ISORA Database.
[65] Ibidem.
[66] See: https://www.taxcomplexity.org/ The aim of the Global MNC Tax Complexity Project is to identify the determinants of tax complexity, to develop and maintain an index measuring the level of tax complexity across countries [Tax Complexity Index, TCI] and to examine the effects of tax complexity. The Tax Complexity Index measures the complexity of a country's corporate income tax system as faced by multinational corporations. The closer a country is to the first position of the ranking, the lower level of complexity it exhibits, and vice versa.