

Denmark

Denmark		2004			
The tax/benefit position of single persons					
	Wage level (per cent of APW)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		218128	327192	545320	218128
2. Standard tax allowances					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		18344	27069	44520	18344
Work-related expenses		7560	7560	7560	7560
Other					
	Total	25904	34629	52080	25904
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		186771	285563	486240	186771
5. Central government income tax liability (exclusive of tax credits)		10988	19274	71556	10988
6. Tax credits					
Basic credit		2024	2024	2024	2024
Married or head of family					
Children					
Other					
	Total	2024	2024	2024	2024
7. Central government income tax finally paid (5-6)		8964	17250	69532	8964
8. State and local taxes		49940	82838	149664	49940
9. Employees' compulsory social security contributions					
Gross earnings		25904	34629	52080	25904
Taxable income					
	Total	25904	34629	52080	25904
10. Total payments to general government (7 + 8 + 9)		84809	134717	271275	84809
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	55076
	Total	0	0	0	55076
12. Take-home pay (1-10+11)		133319	192475	274045	188395
13. Employer's compulsory social security contributions		1789	1789	1789	1789
14. Average rates					
Income tax		27.0%	30.6%	40.2%	27.0%
Employees' social security contributions		11.9%	10.6%	9.6%	11.9%
Total payments less cash transfers		38.9%	41.2%	49.7%	13.6%
Total tax wedge including employer's social security contributions		39.4%	41.5%	49.9%	14.3%
15. Marginal rates					
Total payments less cash transfers: Principal earner		42.9%	49.2%	62.9%	42.9%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		42.9%	49.2%	62.9%	42.9%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Denmark		2004			
		The tax/benefit position of married couples			
Wage level (per cent of APW)		100-0	100-33	100-67	100-33
Number of children		2	2	2	none
1. Gross wage earnings		327192	436256	545320	436256
2. Standard tax allowances					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		27069	36688	45414	36688
Work-related expenses		7560	15120	15120	15120
Other					
	Total	34629	51808	60534	51808
3. Tax credits or cash transfers included in taxable income		0	0	0	0
4. Central government taxable income (1 - 2 + 3)		285563	374721	472333	374721
5. Central government income tax liability (exclusive of tax credits)		16507	21976	27495	21976
6. Tax credits					
Basic credit		6072	4048	4048	4048
Married or head of family					
Children					
Other					
	Total	6072	4048	4048	4048
7. Central government income tax finally paid (5-6)		12459	17928	23447	17928
8. State and local taxes		70584	100273	132778	100273
9. Employees' compulsory social security contributions					
Gross earnings		34629	51808	60534	51808
Taxable income					
	Total	34629	51808	60534	51808
10. Total payments to general government (7 + 8 + 9)		117672	170010	216759	170010
11. Cash transfers from general government					
For head of family					
For two children		21320	21320	21320	0
	Total	21320	21320	21320	0
12. Take-home pay (1-10+11)		230840	287566	349881	266246
13. Employer's compulsory social security contributions		1789	3578	3578	3578
14. Average rates					
Income tax		25.4%	27.1%	28.6%	27.1%
Employees' social security contributions		10.6%	11.9%	11.1%	11.9%
Total payments less cash transfers		29.4%	34.1%	35.8%	39.0%
Total tax wedge including employer's social security contributions		29.8%	34.6%	36.3%	39.5%
15. Marginal rates					
Total payments less cash transfers: Principal earner		43.7%	43.7%	43.7%	43.7%
Total payments less cash transfers: Spouse		48.0%	42.9%	42.9%	42.9%
Total tax wedge: Principal earner		43.7%	43.7%	43.7%	43.7%
Total tax wedge: Spouse		48.8%	42.9%	42.9%	42.9%

The national currency is the kroner (DKK). In 2004, DKK 6.0281 was equal to USD 1 (average of eleven months daily exchange rates). In that year, the Average Production Worker earned DKK 327 192 (Secretariat estimate).

1. Personal income tax systems

In the Danish personal income tax system, the income of the individual taxpayer is split into three categories:

- *Personal income* – which consists of employment income, business income, pensions, unemployment benefits etc.
- *Capital income* (e.g. interest payments and dividends received, imputed rent of owner-occupied dwellings); calculated as a net amount.
- *Taxable income* – the aggregate of personal income and capital income less deductions (e.g. work-related expenses etc.).

All three categories are relevant for various tax rates, see Sections 1.121 and 1.122.

The employees' social security contributions and their payments to labour market supplementary pension schemes (see Section 2.1) are not included in personal income (or taxable income).

Regarding the tax unit the earned income of each spouse is taxed separately. However, as it is mentioned in Sections 1.121 and 1.122 some unutilised personal allowances can be transferred between them.

1.1. Tax allowances and tax credits

1.11. Standard reliefs

If a wage or salary earner has expenses related to earning his income (e.g. transport, trade union membership dues, unemployment premiums) these expenses are fully deductible against taxable income. In this Report contributions to unemployment insurance are considered as a standard tax allowance (and as a social security contribution).

From 2004 and on there is a tax credit scheme whereby the taxpayer can deduct 2.5 per cent of earned income to a maximum of DKK 7 000 in the calculation of taxable income. The effective value of the credit is equal to the local income tax rate (33.3 per cent on average) multiplied by the value of the deduction

1.12. Main non-standard tax reliefs applicable to an APW

- Interest payments are fully deductible against capital income.
- The non-standard deduction for wage and salary earners: Actual costs related to the acquisition of income are deductible from taxable income. The main items are:
 - ❖ Contributions paid to trade unions.

- ❖ Transportation costs: Up to 24 km per day: No deduction. 25-100 km: DKK 1.62 per km. Above 100 km: DKK 0.81 per km as a standard, but transport from municipalities placed in the outskirts of the country gives a credit of DKK 1.62 also above 100 km.
- ❖ Other costs above DKK 4 900.
- Contributions/premiums paid to *private pension saving plans* are in general deductible from personal income. Contributions/premiums paid to private pension saving plans with sum payments are from 1999 on no longer deductible from income subject to the top bracket tax.
- Other reliefs:
 - ❖ Alimonies, if according to contract, are deductible from taxable income.
 - ❖ Contributions to certain non-profit institutions are deductible from taxable income (limit DKK 5 000).
 - ❖ Losses incurred from unincorporated business in earlier years are as a principal rule deductible from personal income.

1.13. Tax credits

Each person is granted a personal allowance, which is converted into a wastable tax credit by applying the marginal tax rate of the first bracket of the income tax schedule. For a person 18 years of age and older the tax credit amounts to:

For central government income tax	5.5 per cent of DKK 36 800 = DKK 2 024
For local government income tax and church tax (average rate)	33.3 per cent of DKK 36 800 = DKK 12 254

Special personal allowance for an individual younger than 18 years: DKK 27 300.

If a married person cannot utilise the personal allowance, the unutilised part is transferred to the spouse.

1.2. Central government income taxes

1.21. Tax schedule

Low bracket tax to the central government is assessed on the aggregate of personal income and positive net capital income at the rate of 5.50 per cent.

Medium bracket tax to the central government is assessed on the part of the aggregate of personal income and positive net capital income above DKK 254 000, at the rate of 6 per cent. If a married individual cannot utilise the total allowance of DKK 254 000, the unutilised part is transferred to the spouse.

Top bracket tax to the central government is assessed on the excess of DKK 304 800 of the aggregate of personal income and positive net capital income at the rate of 15 per cent. If a married individual cannot utilise the total allowance of DKK 304 800, the unutilised part is not transferred to the spouse.

If the marginal tax rate including local tax but excluding church tax exceeds 59 per cent the top bracket tax rate is reduced by the difference between the marginal tax rate and 59 per cent. At the average local tax rate, this reduction equals 0.1 per cent in 2004.

1.3. State and local income taxes

1.31. General description

Local income taxes are levied by the counties and the municipalities (and the church). They are flat-rate taxes levied by the local authorities (the rate varies by jurisdiction).

1.32. Tax base

The tax base is taxable income (see Section 1). Tax credit varies with tax rates. The average amount is given below.

1.33. Tax rates

Lowest rate: 29.50 per cent.

Highest rate: 36.70 per cent.

Average rate: 33.3 per cent (municipalities: 22.129; counties: 10.450; church: 0.733).

The average rate is used in this study. It is applied to the tax base less personal allowances (see Section 1.1).

2. Compulsory social security contributions to schemes operated within the government sector

2.1. Employees' contributions

Employees are required to make a fixed contribution of DKK 7 560 for unemployment insurance. From 1999 and on the contribution to unemployment insurance is split into two: One part consisting of the contribution to unemployment insurance (DKK 3 072), while the other part is a voluntary contribution to an early retirement scheme (DKK 4 488).

In this Report both contributions are included. What is not included is an administration charge paid to the unemployment fund. It varies between the funds from just above DKK 600 to above DKK 2 500. The mean for all 33 funds in Denmark is approximately DKK 1 400. The typical charge for an industrial worker is DKK 1 602.

Additional social security contributions are assessed on the basis of employees' gross earnings at the rate of 8.0 per cent.* Social security contributions are not assessed on social transfers nor on capital income.

Normally a compulsory contribution of 1 per cent of employee's gross earnings is paid to an individual Labour Market Supplementary Pension Scheme established for the employee – this contribution is not considered as a social security contribution rather it is savings being made by the individual. However, in 2004 and 2005 this contribution is suspended (see Section 4). In addition, there is a compulsory fixed contribution to a general Labour Market Supplementary Pension Scheme of DKK 894 for workers with at least 117 hours of work each month and their employer makes a corresponding contribution that is double this amount (for workers who work less than 117 hours and at least 78 hours, the rate is DKK 596 while for those workers whose hours amount to at least 39 hours but less than 78, the rate is DKK 298). Under this scheme, each employee has a plan and it should be noted that the contribution that is ascribed to this plan is determined by the level of employment and does not necessarily relate to the actual amount described above. For the purposes of this Report, only the fixed contribution amount is considered as a social security contribution.

* In the Revenue Statistics this payment is not reported as a social security contribution, but as a separate type of personal income tax. For presentational reasons it is included here as a social security contribution.

2.2. Employers' contributions

From 2000 and on the social security contribution is zero. The employer only contributes to a Labour Market Supplementary Pension scheme, which for a full-time employee corresponds to a fixed amount of DKK 1 789 (Twice the fixed amount of DKK 894 mentioned in Section 2.1).

3. Universal cash transfers

The transfers for each dependent child are as follows:

Age group	Quarterly amount (DKK) for each child
0-2	3 301
3-6	2 983
7-17	2 347

The transfer is independent of the parents' income. There are additional special amounts for single parents: the transfer for each dependent child is DKK 4 156 per year and a yearly transfer of DKK 4 228 regardless of the number of children. In addition there is a state transfer of DKK 10 608 per year for each dependent child in case an "absent parent" does not contribute (this amount) to the family. This transfer has been included in the calculations for single parents.

4. Main changes in tax/benefit systems

From 2000 to 2002, the low bracket tax rate has been reduced from 7 per cent to 5.5 per cent. The low bracket tax is assessed on the aggregate of personal income and positive net capital income.

After parliamentary elections in 2001 the Conservative/Liberal government adopted a tax freeze policy, which means essentially that no tax rates can be increased, either in nominal or relative terms, during the current term of the government. Therefore there were no changes from 2002 to 2003.

In the spring of 2003 the government agreed with one of the opposition parties to implement a tax package. The aim of this package is to decrease the level of labour taxation in Denmark, and thereby reduce the distortions in the labour market and improve incentives to work. The package contains two main elements: An increase of the threshold for the medium tax bracket of nearly DKK 50 000 and the introduction of a tax credit scheme whereby the taxpayer can deduct 2.5 per cent of earned income to a maximum of DKK 7 000 in the calculation of taxable income. The effective value of the credit is equal to the local income tax rate (33.3 per cent on average) multiplied by the value of the deduction.

It was originally planned to implement the tax reductions gradually from 2004 to 2007, but in order to stimulate the economy the government decided in the spring 2004 to implement the reductions fully from 2004 as a part of the "Spring Package". Another element in the "Spring Package" is a temporary suspension in 2004 and 2005 of the employees 1 per cent contribution to their *individual* Labour Market Supplementary Pension Schemes. The Aim hereby is to stimulate private consumption.

5. Memorandum items

5.1. *Identification of an APW*

The APW is identified as a production worker employed at firms in the manufacturing sector which are members of the Danish Employers' Confederation.

5.2. *Employers' contribution to private schemes*

The employer must provide his employees with work injuries' insurance.

Employees typically participate in a private occupational (labour market) pension scheme to which both the employee and the employer make contributions. The employee's contribution is deductible for income tax purposes and treated here as a non-standard tax relief. The employer's contribution is not included in the gross wage income of the employee. For an average production worker the combined employer contribution to the occupational pension scheme plus the labour market supplementary pension scheme described in Section 2.2 amounts to DKK 1 789.

2004 Parameter values

	Ave_earn	327 192
Central taxes	Low_rate	0.055
	Medium_thrsh	254 000
	Medium_rate	0.06
	Top_thrsh	304 800
	Top_rate	0.15
	Marg_rate_ceil	0.59
	Adj_top_rate	0.149
	Temp_tax_rate	0.00
	Temp_tax_thrsh	0
	Personal_al	36 800
Local taxes	gener_rate	0.326
	church_rate	0.007
Total local tax rate	Local_rates	0.333
Earned income tax credit scheme	earncredit_rate	0.025
	earncredit_max	7 000
Child transfers	Child_3 to 6	11 932
	Child_7 to 17	9 388
for single parents	Sing_par_basic	4 228
	Sing_par_ch	14 764
Individual Labour Market Pension Scheme	Pension_rate	0
Employees soc. security:		
suppl. pension scheme	Pension	894
unempl. insurance	Unemp	7 560
SSC rate	SSC_rate	0.08
Employer soc. security:		
suppl. pension scheme	Pension_empr	1 789
refunded by government	Pension_ref	0.00
SSC rate	SSC_empr	0.0000

2004 Tax equations

The equations for the Danish system in 2004 are mostly on an individual basis. But there is an interaction in the calculation of Central Government tax between spouses and child benefit is calculated only once. This is shown by the Range indicator in the table below.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables “married” and “children”. A reference to a variable with the affix “_total” indicates the sum of the relevant variable values for the principal and spouse. And the affixes “_princ” and “_spouse” indicate the value for the principal and spouse, respectively. Equations for a single person are as shown for the principal, with “_spouse” values taken as 0.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings	Earn		
2. Allowances:	tax_al	B	SSC+Pension_rate*earn
	Earncredit	B	Min(earn*earncredit_rate, earncredit_max)
3. Credits in taxable income	taxbl_cr	B	0
4. CG taxable income	tax_inc	B	Positive(earn-tax_al-earncredit+taxbl_cr)
Personal income	pers_inc	B	Positive(earn-pension-pension_rate*earn-ssc_rate*earn)
5. CG tax before credits	CG_tax_excl_princ	P	Low_rate*tax_inc_princ+Medium_rate*Positive(tax_inc_princ-Medium_thrsh-Married*Positive(Medium_thrsh-pers_inc_spouse))+Adj_top_rate*Positive(tax_inc_princ-Top_thrsh)
	CG_tax_excl_spouse	S	Low_rate*tax_inc_spouse+Medium_rate*Positive(tax_inc_spouse-Medium_thrsh)+Adj_top_rate*Positive(tax_inc_spouse-Top_thrsh)
6. Tax credits	tax_cr_princ	P	Personal_al*Low_rate+Married*Positive(Personal_al-pers_inc_spouse)*Low_rate
	tax_cr_spouse	S	Personal_al*Low_rate
7. CG tax	CG_tax	B	CG_tax_excl-tax_cr
8. State and local taxes	local_tax_princ	P	Positive(Local_rates*(tax_inc_princ-Personal_al-Married*Positive(Personal_al-tax_inc_spouse)))
	local_tax_spouse	S	Local_rates*Positive(tax_inc_spouse-Personal_al)
9. Employees' soc security			
relevant earnings	SSC_earn	B	earn
contribution	SSC	B	(earn>0)*(Pension+Unemp+SSC_rate*SSC_earn)
10. Total payments	tot_payments	J	Positive(CG_tax_total+local_tax_total+SSC_total)
11. Cash transfers	cash_trans	J	(Children>0)*(Child_3to6+(Children>1)*(Children-1)*Child_7to17+(Married=0)*(Sing_par_basic+Children*Sing_par_ch))
13. Employer's soc security	SSC_empr	B	SSC_empr*earn+(earn>0)*(Pension_empr-Pension_ref)

Key to range of equation:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only on a joint basis.

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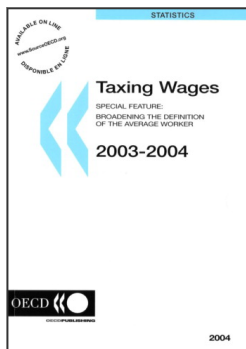
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From:
Taxing Wages 2004

Access the complete publication at:
https://doi.org/10.1787/tax_wages-2004-en

Please cite this chapter as:

OECD (2006), "Denmark", in *Taxing Wages 2004*, OECD Publishing, Paris.

DOI: https://doi.org/10.1787/tax_wages-2004-11-en

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