

# CAKI miniguide

## tax

# CAKI's Miniguide to Tax

Source: Skat.dk

**When you are operating a professional practice and/or business, you should familiarize yourself with the tax rules that exist in Denmark. When you work as self-employed, you are likely to have both A-income and B-income, you will probably have to pay A-tax as well as B-tax, and you may also pay corporate tax or dividend tax. In this miniguide, we give you an update on the various tax terms. If you need to know more about the tax rules regarding value added tax (VAT), you can read about it in *CAKI's Miniguide to the VAT Rules*.**

We start by defining a set of terms you need to know to understand how your taxable income is calculated as well as what you can and should do to make sure the calculations accurately reflect your situation.

## **A-income (A-indkomst)**

A-income is the term used for the most significant portion of your income, from which you will pay the so-called A-tax. The income that is subject to A-tax includes salary income, unemployment benefits, study stipend (SU), pension, interest income, rental income, capital income and the like. This type of income is thus paid by employers, pension funds, public authorities or other so-called employers. In connection with the payment of A-income, the tax card deduction percentage and tax card deduction are used to calculate the tax which must be paid on the amount.

The A-income is reported annually to SKAT so that it can be printed on the tax return.

In the Danish tax system, the higher your income, the higher the deduction percentage will be. A-tax therefore depends on your income per year.

## **A-tax (A-skat)**

A-tax is the tax paid on primary income. A provisional tax is withheld from payment of for example labor wages. This is called the A-tax. A-tax is paid on a regular basis by the employer or another entity responsible for withholding tax. They are then responsible for reporting the A-income to the tax authorities.

## **B-income (B-indkomst)**

B-income is income where no tax or labor market contributions (AM-bidrag) have been deducted before the amount is paid to you. E.g. if you have received a fee for a concert, for a teaching job or for giving a presentation. It is your responsibility to declare the income so you can be taxed correctly as well as pay the correct labor market contributions of your B-income.

### **B-tax (B-skat)**

You have to pay your B-tax yourself by using payment cards issued by SKAT together with the advance statement. The B-tax is usually paid in up to ten instalments during the income year. These are calculated on the basis of the advance statement.

If the B-income is of a certain size, it may mean that the calculated advance tax is too large for it to be charged with the given deduction percentage of the portion of the income that is A-income. If that is the case, you will receive a deposit card on the remaining amount. Taxpayers who only have B-income will not receive a tax card, only a deposit card.

### **Exemption card (Frikort)**

Your exemption card is used if your expected income for the year is under the limit of how much you can earn without paying taxes. This is typically the case when you are young and finding your first job or receiving a study stipend as a resident at home without a student job. You only have to start paying taxes when your total annual salary exceeds that amount. In 2021 the amount is 46,700 kr. However, if you receive a salary, you will have to pay 8% in labor market contribution (AM-bidrag) of your entire salary - even if you are using your exemption card.

Your exemption card can be used by multiple employers. When used, the employer will deduct tax using the deduction percentage that is on your tax return, which they will automatically receive from the Danish Tax Authority. You will usually automatically receive a new exemption card each year.

### **How much you can earn without paying income tax**

The amount you can earn without having to pay income tax varies from person to person. It depends on your deduction, which also depends on a series of personal specifications. You can see this amount at the top of your advance statement. If you have an exemption card, it is reflected as a so-called exemption amount, which shows how much you can earn in one year without paying tax. If you have a main card (hovedkort), the amount appears as a deduction which shows the monthly or bi-weekly amount you can earn without paying tax.

Regardless of the amounts on your advance statement, you must always pay 8% of your earnings in labor market contribution (with the exception of study stipend, unemployment and retirement benefits). If your earnings exceed your exemption amount, you will receive a main card and a secondary card in place of an exemption card. You must tell your employers if they should use your main card or secondary card.

### **Main card (hovedkort)**

Your main card is used where you earn most (such as employment or study stipend). You should only use your main card in one place. Your tax withholding percent and the deduction (the amount you do not need to pay taxes on) are shown on your main card. When an employer uses your main card, the employer only withholds tax on the amount exceeding your deduction. If multiple employers use your main card, you may therefore end up paying too little in tax.

### **Secondary card (bikort)**

Your secondary card is used only if you receive payments from more than one source such as study stipend and an employer. In that case, you would use your main card for your stipend and your secondary card for your job. You can use your secondary card in more than one place, for example if you have more than one job aside from your studies. Only your tax percent is shown on your secondary card. When an institution pays you using your secondary card, they withhold the full tax. That is because your deduction is deducted through your main card.

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## **Your tax calculation**

### **Advance tax**

The advance statement is a kind of continuous budget of your income and tax for the year. It looks ahead and shows your expected income and deduction as well as the percentage an employer would withhold from you in tax.

The advance statement comes out every year in November and shows the tax authority's estimate of your taxes in the coming year. If your financial situation changes, you should adjust your advance statement to make sure you will pay the right amount in tax. When you adjust your advance statement, you also adjust your tax card which is automatically sent to your employer, the educational institution where you receive your stipend, or retirement company for example.

Generally, a regular taxpayer does not file their own tax return. The Danish Tax Authority sends an electronic return with the information from the employer or financial institution already printed. If there are errors or reasons to change the information, the taxpayer is obligated to contact the Danish Tax Authority.

Advance tax can be charged in one of two ways: through A-tax or B-tax. A-tax is calculated through your main card, while you yourself must report your expected B-income, including any profit or losses from your own personally owned business.

In practical terms, when you report your expected B-income on your advance statement, the Danish Tax Authority calculates how much tax you will pay and your B-income during the year. This amount is then divided into ten payments to be paid each month with the exception of January and July. The amounts of the payments represent the advance tax based on your expected B-income.

In a situation where you have limited financial resources and you know that you will not receive payment of your B-income in the form of B-honorariums or profits from your own business until the end of the year, it can make sense to wait to report expected B income until you have the

money in your account. Let us say for example that you expect to receive 100,000 DKK in B-income in October. You report this on your advance statement at the beginning of the year, and you receive ten tax collections for paying advance tax throughout the year. In that case, you must have adequate funds to pay your advance tax even though you have not yet received the money you are paying taxes on. Therefore, it can be wise to wait to register your expected B-income on your advance statement until you have the funds to pay it.

The advance statement is the Danish Tax Authority's calculation of your income for the coming year and the calculation of what you will pay in tax. The advance statement is thus a budget for the coming year which can be continuously adjusted.

### **Annual tax return (Årsopgørelsen)**

The annual tax return is the statement of your tax for the year that has passed. It comes out in March and shows your income and what you paid in tax the previous year. If your annual tax return shows that you are owed money back, the tax authority in most cases automatically deposits the tax refund directly into your bank account.

The annual tax return is a record which always shows exactly how much you have respectively earned and paid in tax. The annual tax return for the previous year is calculated once per year.

If you run an independent business, you must file an expanded tax return using the self-entry (Tast-Selv) service on the Danish Tax Authority website [skat.dk](https://www.skat.dk). Instead of an annual tax return, you will receive a service letter from the Danish Tax Authority where you can enter changes. If you submit the expanded tax return before March 31, you will receive your annual tax return after that. As self-employed, you can enter changes until July 1, and the annual tax return will usually arrive immediately after. If your spouse is self-employed, your tax return deadline is automatically also July 1.

### **Personally owned business**

You pay taxes on your business by entering the expected amount of profit or losses from your personally owned business on your advance statement. This is also the amount you will confirm or change the annual tax return.

You can continually adjust your advance statement if your profit or deficit changes.

In March, you report the profit or deficit of your business for the previous year in an information form (previously called the self tax return). You will subsequently receive your annual tax return which will show you whether you owe money or can expect a refund.

If you run an independent business operating in Denmark, you will pay VAT (value added tax) and Danish personal income tax, labor market contribution and B-Tax. You will receive payment instructions for the personal tax with the advance statement.

## **Company**

A company is taxed separately on its profit or deficit, and you are considered an employed salary recipient and therefore pay standard A-taxes on your salary from the company. If you wish to withdraw a portion of the company profits for yourself, you will pay what is called dividend tax. The tax rates for dividend tax can vary yearly. This is important to be aware of even though it is a matter of small percentages. In 2021, stock income is taxed at 27% of amounts up to 56,500 DKK and 42% of income (profit) remaining.

You pay corporate tax on the profit you choose to leave in your company as part of the company's equity. Always check the Danish Tax Authority website for the latest corporate tax rates.

Keep in mind this only applies to companies and not personally owned businesses such as sole proprietorships, personally owned small businesses or partnerships (I/S).

## **Taxes for Artists**

The Danish Artists' Council publishes a detailed guide to taxes for artists each year. You can find it on their website: <http://dansk-kunstnerraad.dk/kunstnerne-beskatning/>.

In general, you should always monitor your personal tax folder on skat.dk and become familiar with the rules and regulations regarding your specific situation. If you are unsure about something, call the Danish Tax Authority and speak to a representative -- they are there to help you.