



**FOLKETINGET
STATSREVISORERNE**



**FOLKETINGET
RIGSREVISIONEN**

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submitted to the Public Accounts Committee**

The Danish Ministry of Taxation's monitoring of the vehicle leasing area

1. Introduction and conclusion

1.1. Purpose and conclusion

1. This report concerns the Danish Ministry of Taxation's monitoring of leasing companies' settlement of registration tax on leased vehicles. The number of leased vehicles has grown considerably over the past ten years, and the government's overall revenue generated from leasing makes up approx. DKK 5 billion annually.

2. Lease vehicles are subject to specific rules on the settlement of registration tax, stating that the leasing companies need not pay the registration tax in full at once but can choose to pay the registration fee related to each leasing contract in small instalments. This is referred to as comparative registration tax. The tax is calculated based on information on the length of the leasing contract and the value and age of the vehicle. Additionally, the leasing companies are entitled to reclaim part of or the entire comparative registration tax, if the value of the leased vehicle during the leasing period has decreased less than anticipated.

It is the task of the Danish Motor Vehicle Agency (under the Ministry of Taxation) to ensure that the basis for the registration of the value of the vehicle and the calculation of the tax is correct. This means that the agency must prevent the leasing companies from reporting incorrect data and subsequently check that the reported data are accurate. The agency is also responsible for sanctioning leasing companies that violate the rules on registration tax on motor vehicles (in the following referred to as the Registration Tax Act).

In performing its tasks concerning lease vehicles, the Motor Vehicle Agency is faced with the following three risks: 1. A leasing company may be granted access to register data in the Digital Register of Motor Vehicles that determine the amount of tax the company should pay or can reclaim. 2. A leasing company that registers data is not required to provide any documentation for the data registered. 3. It is not possible to compare the registered data with data from third parties as such data do not exist, which entails a risk of a subsequent government revenue loss if some leasing companies register incorrect data either by mistake or deliberately.

Digital Register of Motor Vehicles

This register contains data on all motor vehicles registered in Denmark, the dutiable value of the vehicles and registration tax. The register also includes data of a more general nature: ownership, registration number, date of the first registration and technical information on the vehicle (mark, model and year). The Digital Register of Motor Vehicles was implemented in June 2012 and replaced the former partly paper-based process for the registration of vehicles.

3. Rigsrevisionen launched the study in June 2022 at the request of the Danish Public Accounts Committee. The purpose of the study is to assess whether the Ministry of Taxation's monitoring of registration tax in the leasing area is satisfactory. The report answers the following questions.

- Has the Motor Vehicle Agency ensured a satisfactory basis for risk-based control in the leasing area?
- Has the Motor Vehicle Agency taken measures to prevent incorrect settlement of registration tax by the leasing companies?
- Has the ex-post control in the leasing area conducted by the Motor Vehicle Agency's been adequate?
- Has the Motor Vehicle Agency imposed the sanctions available to the agency pursuant to the Registration Tax Act?



Main conclusion

The Ministry of Taxation has not monitored the settlement of registration tax on leased vehicles in a satisfactory manner in the years 2018 to 2022. The ministry has carried out a limited number of checks and did not implement risk-based control in full until November 2021. As a consequence, the government risks losing tax revenue.

The Motor Vehicle Agency's basis for risk-based control has not been satisfactory, but it has improved towards the end of the period of investigation

The study shows that before 2020 the Motor Vehicle Agency did not assess the risk of error and fraud in the leasing area, and the agency was, therefore, not able to conduct risk-based control in the area. The agency began work to establish a basis for risk-based control early in 2020, and since November 2021, the agency has used a new tool for selecting high-risk leasing companies for control.

The Motor Vehicle Agency has not estimated the total potential loss of revenue in the leasing area, as it has done for other sources of revenue. It follows that that the agency's knowledge of the size of the potential loss of revenue has been incomplete, and thus the basis upon which the agency organised risk-based control has also been incomplete.

The degree to which the Motor Vehicle Agency has taken measures to prevent the leasing companies from settling incorrect registration tax has not been entirely satisfactory

The Motor Vehicle Agency has updated its internal guidelines and guidance for the car leasing business to mitigate the risk of error when the leasing companies register data in the Digital Register of Motor Vehicles. The agency has also developed process descriptions to support leasing companies applying for access to self-registration in meeting the statutory requirements.

However, the Motor Vehicle Agency has not conducted any checks to prevent errors at the time when the leasing companies register data in the Register of Motor Vehicles. The purpose of these checks is to avoid incorrect settlement of tax or refunds made on a false basis.

The ex-post control in the leasing area conducted by the Motor Vehicle Agency has been inadequate.

The Motor Vehicle Agency increased the frequency of control in the leasing area from 2018 to 2022. In 2022, the agency checked approx. 13% of the leasing companies, but only 0.2% of the leasing contracts entered by the leasing companies. In 2022, the agency collected approx. DKK 0.6 million from each company in the ex-post control, not including an extraordinary case that resulted in the collection of approx. DKK 26 million. Checking leasing companies and leasing contracts is essential because the individual amounts collected following these checks are usually the highest in the leasing area.

Self-registration service

This service gives the leasing companies access to create a leasing contract on comparative registration tax, and report other leasing-related data to the Register of Motor Vehicles.

This type of access is granted only to leasing companies that have previously been approved as self-registrants.

Self-registrants

Leasing companies that have been approved as self-registrants have access to report the value of vehicles subject to full taxation to the Register of Motor Vehicles.

The focus and scope of the ex-post control

The ex-post control of the activities of a leasing company can be more or less thorough. Basically, the Motor Vehicle Agency carries out two types of ex-post control in the leasing area:

The initial and most detailed check takes place when the Motor Vehicle Agency checks a leasing company and selected leasing contracts. This check includes bookkeeping and the profitability of the business model and whether the company has a right to settle comparative registration tax. Additionally, the agency can check the valuation of several lease vehicles.

The second type of ex-post control involves only checks of selected lease vehicles across the leasing companies to determine whether the valuation of the individual vehicle is correct and ensures correct subsequent settlement or refunding of tax.

The Motor Vehicle Agency also carries out ex-post control of the leasing companies' valuation of selected leasing vehicles. From 2018 to 2022, the frequency of checks was halved. In 2022, the agency checked 0.9% of all valuations. The specific valuations that provide the basis for full or partial refunding of the comparative registration tax to the leasing companies have only to a very limited extent been checked. The agency checks valuations less frequently than it checks other aspects of the motor vehicle area. For the sake of comparison, the agency checked approx. 15% of the valuations relating to the import of used vehicles.

The Ministry of Taxation has informed Rigsrevisionen that the Motor Vehicle Agency will strengthen ex-post control in the leasing area.

The sanctions available to the agency pursuant to the Registration Tax Act have to a limited extent been imposed by the Motor Vehicle Agency

Under the Registration Tax Act and Consolidation Act on Leasing, the Motor Vehicle Agency has access to nine different types of sanctions that the agency can impose on leasing companies that fail to comply with the rules governing the area. Before 2021, the agency only imposed one type of sanction: a system supported feature of the Register of Motor Vehicles that allows the agency to request that the police impound number plates. As from 2021, the agency has imposed several of the available sanctions but only on a few leasing companies.

Rigsrevisionen has not assessed whether the Motor Vehicle Agency has applied the options of sanctioning to the degree intended by the legislation. The reason is that several of the sanctions can only be imposed following an overall professional assessment of the leasing company's track record as a taxpayer.