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The Ministry of Taxation's efforts to prevent companies from going bankrupt with debt to the state

1. Introduction

1.1. Purpose and conclusion

1. This report concerns the Ministry of Taxation's efforts to ensure that the state avoids losses when companies go bankrupt. The state risks a loss if companies have debt to the public sector when they go bankrupt due to a lack of assets in the bankruptcy estate.

2. Approximately 15,000 companies went bankrupt with debt relating to VAT and/or A-tax (hereinafter VAT and A-tax) in the period June 2021 - December 2024. For many of these companies, the Ministry of Taxation has had few or no options to limit the state's losses. In this study, we have examined the roughly 6,000 companies where the Ministry of Taxation had the possibility to prevent the build-up of debt. Three particular efforts are relevant in this context.

First, the Danish Tax Agency must check whether new companies applying for registration for VAT and A-tax are potential bad payers or potential fraud companies. These companies have a higher risk of going bankrupt. For potential bad payers, the agency may require the company to submit VAT more frequently than other companies or to provide financial security. For potential fraud companies, the agency may refuse registration, preventing them from operating legally. The agency may also refuse registration based on other parameters, including the use of straw men or fictitious addresses.

Second, the Danish Tax Agency must check whether companies continuously submit and pay the required VAT and A-tax, so that debt does not accumulate. If companies repeatedly fail to submit VAT and A-tax returns, the agency may revoke their registration.

Third, the Danish Debt Collection Agency must ensure swift and effective collection of debt in order to minimise losses to the state.

3. The purpose of the study is to assess whether the Ministry of Taxation's efforts to prevent companies from going bankrupt with debt to the state are satisfactory. We answer the following questions in the report:

- Has the Danish Tax Agency justified its approval of high-risk businesses applying for registration for VAT and A-tax?
- Has the Danish Tax Agency responded to companies that repeatedly fail to submit VAT and A-tax returns?
- Has the Danish Debt Collection Agency initiated a debt-collection effort towards indebted companies before they go bankrupt?

Rigsrevisionen initiated the study in October 2024.



Conclusion

The Ministry of Taxation's efforts to prevent companies from going bankrupt with debt to the state are not satisfactory. Approximately 15,000 companies went bankrupt between June 2021 and December 2024. In many cases, the ministry has had few or no options to limit the state's losses. However, among the roughly 6,000 companies where it was possible to prevent the build-up of debt, there were minor or major shortcomings in the efforts concerning about 2,200 companies. These 2,200 companies ended up with a total debt of approximately DKK 1.9 billion. The consequence of these shortcomings may be that the loss to the state has been unnecessarily large.

The Danish Tax Agency has in several cases not justified the approval of high-risk companies applying for registration for VAT and A-tax

Companies applying for registration for VAT and A-tax undergo a digital risk assessment so that the Danish Tax Agency can conduct further checks on whether the companies are potential bad payers or potential fraud companies. In such cases, the agency must decide whether to refuse registration or impose special measures such as financial security. Rigsrevisionen's review of more than 500 cases shows that the agency in a number of instances has failed to justify why companies were approved without imposing special requirements. In particular, justifications are missing in cases where there is suspicion that companies are potential bad payers.

The Danish Tax Agency has not responded or has responded late to a smaller number of companies that repeatedly fail to submit VAT and A-tax returns

A total of 228 companies repeatedly failed to submit VAT and A-tax before going bankrupt and could have been deregistered by the Danish Tax Agency. The agency did not deregister about 46% of the companies within four to six months.

The Danish Debt Collection Agency has in several cases been more than two months in initiating debt collection towards companies with debt before they go bankrupt

Between June 2021 and December 2024, the Danish Debt Collection Agency applied an internal threshold for prioritising debt recovery, which is a guideline threshold indicating when collection should be initiated. The threshold has varied over time but was DKK 100,000 at the end of 2024. For around 45% of the roughly 4,400 relevant companies that reached the threshold, the agency did not initiate collection within two months.