Narrative Report on Denmark

PART 1: NARRATIVE REPORT

Denmark is ranked 97th on the 2020 Financial Secrecy Index, based on a relatively low secrecy score of 45 combined with a small scale weighting of 0.14 per cent of the global market in offshore financial services.

Introduction

The image of Denmark as a front-runner against tax evasion and avoidance took a hit in 2018-19 due to a string of high-profile scandals. First, it became clear that Denmark had been subject to a years-long dividend fraud scheme that saw the Danish tax authorities pay out close to 2 billion euro in unwarranted dividend reclaims. Second, a number of high-profile money laundering scandals in the Danish financial sector dominated news headlines in 2018-19, and shocked politicians and the public alike. Combined with a number of other scandals, it has become crystal clear that something needed to be done. Most concretely, the scandals made it abundantly obvious that years of budget cuts to the tax administration, FIU, and financial crimes unit had gone too far, and a broad cross-party majority came together to strengthen these institutions in 2018-19.

Money laundering

Each year the Danish Language Council selects a 'word of the year' that has defined the past year. In 2018 their selection was a no-brainer; it was 'money laundering'.[1] Throughout the year, both news and politics in Denmark were dominated by a string of high-profile money laundering scandals.

None were bigger than the Danske Bank scandal, which the Guardian has described as "probably the largest ever money-laundering scandal in history".[2] Denmark's biggest lender was found to be facilitating suspicious transactions of as much as €200 billion in its Estonian branch from, among others, Russian oligarchs, the regime in Azerbaijan, North Korean arm's dealers and anonymous shell corporations based in secrecy jurisdictions across the globe.[3] Investigations revealed a break-down in AML-procedures at the bank, but also indications that the bank was actively involved in marketing themselves as a shelter for those that sought secrecy from their home-countries' authorities.[4]

Danske Bank was however not the only lender who came under scrutiny for their AML-failures. The so-called 'Troika Laundromat' leak also showed Swedish lender Nordea had facilitated suspicious transactions through its bank in Denmark in its department for non-resident high-net worth individuals.[5] Among others, the leak showed that more than 260 shell corporations based in secrecy jurisdictions had held accounts at the bank.

To top off the year of money laundering scandals, Danish lender Copenhagen Andelskasse was taken over by the state as the bank came into financial troubles on the back of allegations of numerous breaches of trust.[6] Following the take-over, investigations showed 'serious AML-breaches' that contributed to the state's decision to withdraw the banks license.[7] Reporting showed that among the customers that Copenhagen Andelskasse had taken in were an Italian-Nigerian billionaire who

Rank: 97 of 133

How Secretive? 45

Moderately secretive	0 to <25
	25 to <50
	50 to <75
Exceptionally secretive	75 to 100

How big? 0.14%

huge

large

small

tiny

huge: >5% large: >1% to 5% small: >0.1% to 1% tiny <0.1%

Denmark accounts for 0.14 per cent of the global market for offshore financial services. This makes it a tiny player compared to other secrecy jurisdictions.

The ranking is based on a combination of its secrecy score and scale weighting.

Full data is available here: http://www.financialsecrecyindex.com/database.

To find out more about the Financial Secrecy Index, please visit

http://www.financialsecrecyindex.com.

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If you have any feedback or comments on this report, contact us at info@taxjustice.net currently faces charges of money laundering and tax fraud, as well as a Russian individual who had financed Maria Butina who the American government has accused of being a spy.[8]

That the many money laundering scandals occurred in the same year that Transparency International ranked Denmark as the least corrupt country in the world[9] highlighted the dissonance between the public's perception of Denmark as a society of high integrity and the reality that the Danish financial sector had seemingly become highly integrated into some of the most murky corners of the global financial system.

As the scale of the scandals was exposed, the authorities' response has followed. In 2018, 10 former Danske Bank CEO's were charged with breaching anti-money rules and had their homes raided. The bank was also formally charged of breaching its anti-money laundering obligations in 2018.[10] In 2019, Nordea's Danish headquarter was raided as well by authorities.[11] The authorities' investigations into both Danske Bank and Nordea are likely to continue for years to come, and will no doubt cast off new details about the scandals.

Dividend fraud (CumEx) and the hollowed-out tax administration

In 2015, the Danish tax authorities halted all dividend reclaims on the suspicion of fraud. In the subsequent years it has become clear that the damage had already been done at that point, as Denmark had lost almost 2 bn. Euro of tax revnue.[12] The scheme – also uncovered in other European countries under the cum-ex files project[13] - hit Denmark particularly hard as a decade of budget cuts to the tax administrations had resulted in a 40% reduction of staff, with the compliance department particularly hard hit.[14] By 2015, only five staff were left in charge of handling the billions worth of dividend reclaims. The scandals' most immediate effect was to create a new political consensus against the budget cuts, and from 2018 onwards the tax administration is finally expanding its compliance efforts. For example, the five staff in charge of ensuring compliance for dividend refunds in 2015 has as of 2019 been expanded to 100 compliance officers.[15]

Tax fraud involving Danish Limited Liability Companies (IVS and K/S companies)

In 2015, Denmark added a new form of limited liability company to its corporate regime, the so-called IVS. The main selling point of the IVS was a 1 krone (±13 Euro cents) fee for incorporation. The IVS was meant to spur entrepreneurship, but unfortunately also brought a rising problem of tax fraud and misuse, and a tax debt from this corporate form that reached close to 100 mio. Euro within a few years of enacting the new corporate regime.[16] As a result of the fraud and high costs of the debt left for other taxpayers to cover, the Danish government in 2019 decided to scrap the IVS corporate form.[17]

Similar challenges of misuse and fraud has been associated with the so-called Kommandit company form (abbreviated K/S). Due to the ease of avoiding tax residence in Denmark for non-resident creators of K/S companies this incorporation model was for some years associated with tax evasion, as it allowed non-residents to use this corporate form to shield their income from taxation. Research from the Danish tax authority showed in 2016 that 56% of K/S-companies owned by non-residents were at risk of being misused for tax evasion.[18] In 2017 the government tightened the regulation around K/S companies, but it yet unclear whether this has solved the challenges associated with them completely.[19]

FATF & OECD peer review

In their mutual evaluation report of 2017, FATF concluded that "implementation of AML/CFT [anti money laundering and combatting the financing of terrorism] measures, including with respect to beneficial ownership, is generally weak", and that Denmark "needs to improve the implementation of measures to mitigate the risks".[20] On 19 out of the 40 evaluation criteria, Denmark only received the second lowest rating ('partical compliant'), indicating much room for improvement.[21] In October 2018, Denmark received an update to its ratings in which 10 of the 'partial compliant' scores were raised to 'largely compliant', indicating some progress over the last few years. [22]

Denmark also underwent a peer-review in 2017 of its ability to exchange information with other countries under the Global Forum on Transaparency and Exchange of Information for Tax Purposes. The review exposed some of the same challenges on beneficial ownership information as the FATF report, but as a forewarning of the many banking scandals that were about to hit in 2018 the report also pointed out that "supervision of banks [on AML] has been extremely weak, despite the size and importance of the Danish banking sector".[23]

Transparency

The Danish government has championed corporate and tax transparency for some years, although the governments commitment has been uneven.

On beneficial ownership transparency, Denmark was one of the first adopters of a publicly accessible register of beneficial owners which was adopted in 2016 and enacted in 2017.[24] Under the regulation, Denmark went beyond the requirements in the EU's anti-money laundering directive by making the names, addresses and details of ownership publicly available for all beneficial owners. In a set-back for transparency, in December 2017 the government introduced an option for beneficial owners to get their address removed from the register, and also shortened the number of years that the beneficial owners would appear in the register from 10 to 3 years.[25] Since Denmark introduced its public register all EU countries have agreed to introduce similar public registers that are more comprehensive in terms of what information they make public (also covering date of birth and nationality of beneficial owners). Despite calls from civil society, the Danish government insists the new requirements from the EU does not entail a need to expand the scope of the information on beneficial owners that is made public in Denmark.[26] This implies that Denmark has gone from a front runner on transparency around beneficial ownership information to a laggard in the matter of few years.

On corporate transparency for multinational companies, the Danish government has welcomed EU regulation that would require public country by country reporting (pCBCR). In 2019, the government pushed its position for pCBCR that would cover all jurisdictions in the Council discussion on the matter.

Anti-avoidance rules

Denmark has long had a number of effective anti-avoidance rules that seek to limit the profit shifting and base erosion from multinational companies. One of these – the so-called Controlled Foreign Company (CFC) rules – were to be updated with the transposition of the EU's Anti-Tax Avoidance Directive (ATAD). Due to vocal opposition from the private sector, the government missed the transposition deadline for the CFC-rules in 2019[27], and have sinced struggled to get the rules updated. It remains to be seen whether Denmarks relatively strong CFC rules will be retained, or whether they will be watered down in order to get a parliamentary majority behind them.

With thanks to Christian Hallum, Senior Tax & Extractives Specialist, Oxfam IBIS.

Endnotes

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Denmark

PART 2: SECRECY SCORE

OWNERSHIP REGISTRATION

54	1. Banking Secrecy
75	2. Trust and Foundations Register
50	3. Recorded Company Ownership
50	4. Other Wealth Ownership
70	5. Limited Partnership Transparency

LEGAL ENTITY TRANSPARENCY

50	6. Public Company Ownership
100	7. Public Company Accounts
50	8. Country-by-Country Reporting
88	9. Corporate Tax Disclosure
75	10. Legal Entity Identifier

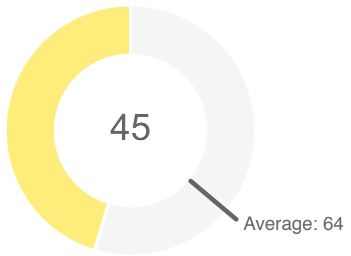
INTEGRITY OF TAX AND FINANCIAL REGULATION

53	11. Tax Administration Capacity
0	12. Consistent Personal Income Tax
30	13. Avoids Promoting Tax Evasion
50	14. Tax Court Secrecy
25	15. Harmful Structures
30	16. Public Statistics

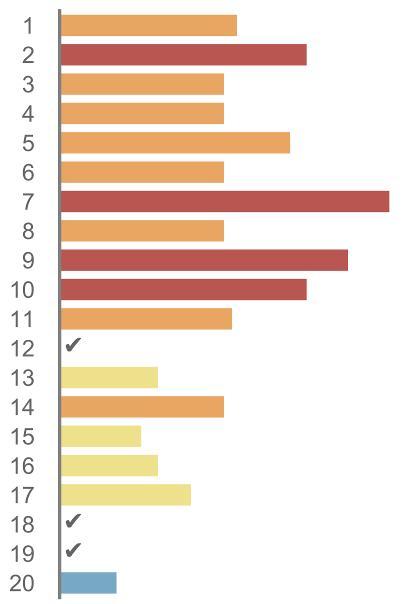
INTERNATIONAL STANDARDS AND COOPERATION

40	17. Anti-Money Laundering
0	18. Automatic Information Exchange
0	19. Bilateral Treaties
18	20. International Legal Cooperation

Secrecy Score



Key Financial Secrecy Indicators



Notes and Sources

The FSI ranking is based on a combination of a country's secrecy score and global scale weighting (click here to see our full methodology).

The secrecy score is calculated as an arithmetic average of the 20 Key Financial Secrecy Indicators (KFSI), listed on the right. Each indicator is explained in more detail in the links accessible by clicking on the name of the KFSI.

A grey tick in the chart above indicates full compliance with the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); colours in between partial compliance.

This report draws on data sources that include regulatory reports, legislation, regulation and news available as of 30 September 2019 (or later in some cases).

Full data is available here: http://www.financialsecrecyindex.com/database.

To find out more about the Financial Secrecy Index, please visit http://www.financialsecrecyindex.com.