



UNLOCKING THE POTENTIAL OF eGOVERNMENT IN EUROPE

TAX

White Paper on the Digital Single Market, Digitization of Taxation in Denmark and KMD Deliverables.

FOREWORD



We live in a digital, connected and collaborative world. The internet and digital tools transform our everyday life. But citizens, businesses and governments cannot fully benefit from the digital opportunities due to existing barriers in Europe.

Europe is lacking behind. Therefore, it was timely when the Juncker-led Commission coined the Digital Single Market with an ambitious strategy to create the necessary regulatory and investment environment in Europe. It allows European-based companies in the digital sector to grow larger on a global scene.

A seamless Digital Single Market also calls upon seamless public administration and cross-border eGovernment solutions. We need to learn from best practices and success stories in the Member States.

One of the success stories is about Digital Denmark. Denmark has been at the forefront of using digital tools in the public sector to make the services accessible, better and efficient.

The aim of this White Paper is to show the potential of eGovernment in Europe and to put the experience of the Danish approach to digitization into play in a European context. Furthermore, the digitization of the public sector in Denmark has also created a few champions in Denmark. Among those champions is KMD A/S. It has been a key player for more than 40 years in developing and delivering Digital Denmark.

Léo Apotheker,

Chairman of the Board, KMD A/S and Member of the European Cloud Partnership

UNLOCKING THE POTENTIAL OF eGOVERNMENT

It's time to make the EU's single market fit for the digital age – tearing down regulatory walls and moving from 28 national markets to a single one. This could contribute €415 billion per year to our economy and create hundreds of thousands of new jobs.

**Andrus Ansip,
Vice-President in the European Commission**

In today's Europe, citizens are free to work in and re-locate to any country within the European Union, and enterprises are similarly free to trade and carry out business. Operating across borders, citizens or businesses frequently have to interact with Member States' administrations. However, 28 different regulations and lack of interoperability of eGovernment solutions give rise to electronic barriers.

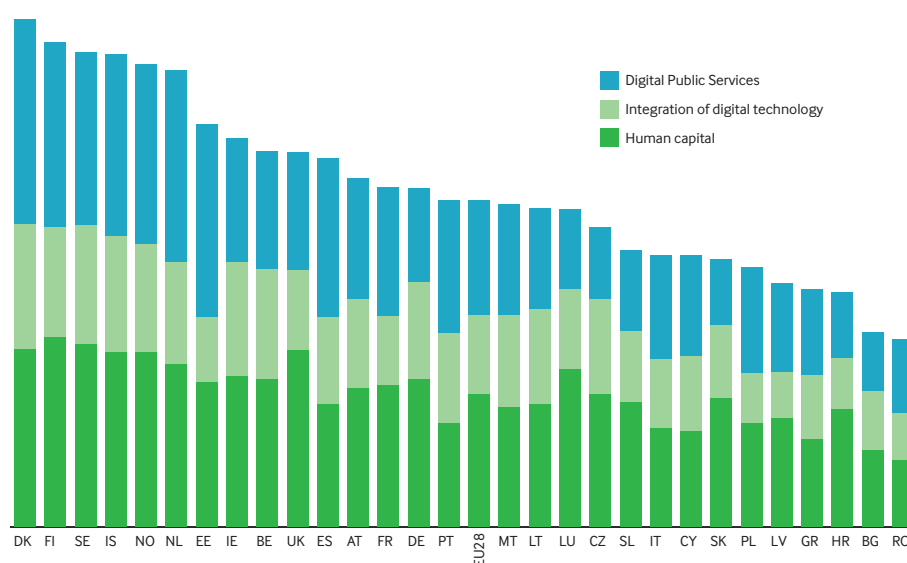
A Digital Single Market is necessary for Europe to realize its potential to lead in the global digital economy. As of now, fragmentation and barriers that do not exist in the physical Single Market are holding digital Europe back.

According to the newest calculations, bringing down the digital barriers within Europe could contribute an additional €415 billion to the European GDP by expanding markets, fostering better services at better prices, offer more choice and create new sources of employment.

This White Paper looks into and analyzes the potential of interoperable and digital tax solutions in Europe and puts the experiences of the Danish approach into play in a European context. EU estimates that Member State tax institutions lose out on €1 trillion every year due to tax fraud.

DIGITAL DENMARK

According to the recent EU-study DESI (The Digital Economy and Society Index), Denmark is the most digital country in the union.



¹ COMMUNICATION FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT, THE COUNCIL, THE EUROPEAN ECONOMIC AND SOCIAL COMMITTEE AND THE COMMITTEE OF THE REGIONS – A Digital Single Market Strategy for Europe

² http://ec.europa.eu/taxation_customs/taxation/tax_fraud_evasion/a_huge_problem/index_en.html

³ The Digital Economy and Society Index - <https://ec.europa.eu/digital-agenda/en/desi>

Denmark has a long tradition of digitization and has been ranked as world-leading and trendsetting in several international surveys⁴. Denmark's position as a digital frontrunner comes from a dedicated strategy to create Digital End-to-End Services, One Stop Shops and transparency, as well as the deployment of the Once-Only-Principle and the utilization of Open Data. Furthermore, the Danish model for digitization has succeeded due to a long tradition of public-private partnerships and a high level of trust and regulation.

We do not believe that EU or any of the 28 Member States could just copy the Danish approach. Different political cultures, local regulations, trust in the public sector and data privacy etc. across the different Member States all has an effect on the digitization strategies and the actual levels of digitization.

In the following, this White Paper will focus on the Danish approach to interoperable and digitized tax solutions and how KMD can play a part in Unlocking the Digital Single Market of EU.

THE FIGHT AGAINST FRAUD AND TAX EVASION

One of the benefits of the Internal Market is that citizens and businesses are free to move, operate and invest across Member States borders, but a lack of harmonization on direct taxation across EU means that taxpayers can manage to actually avoid taxes. Collecting taxes and combating tax fraud and evasion are competences of EU Member States. However, in an increasingly globalized world EU needs to provide a framework and offer instruments to effectively handle cross-border tax issues.

In late 2014, "Lux Leaks" pushed the issue of corporate tax avoidance and evasion on the political agenda in EU and accelerated the steps that need to be taken in order to allow tax policy to play a positive role in promoting economic prosperity in EU.

"Lux Leaks" presents an example of how multinational companies have exploited national corporate tax ruling within EU. Nearly 350 secret deals between multinational companies and the Luxembourg authorities were revealed. The deals between companies and authorities enabled many of the companies to have effective tax rates as low as 1% of their profits.

In addition to "Lux Leaks", Europe has seen several cases of tax fraud with dividend taxes. Corporate entities have filed claims for dividend taxes to abuse the double taxations regulations in the EU Member States.

A major problem today is that the national rules and bilateral tracts regulating how much tax companies owe and to whom is made for the manufacturing age. With the increasing amount of digital, service-based businesses driven by intangible assets it is much easier to shuffle assets around from subsidiaries in high-tax countries to low-tax countries.

⁴OECD – Value for Money in Government – Building on Basics – 2015

EXCHANGE OF INFORMATION ON CROSS-BORDER TAX RULINGS

For these reasons the Commission has both accelerated the process on some existing initiatives and introduced a number of additional actions, where one of the key priorities for the relevant branches of the Commission is to present a proposal for a new Directive for introducing a compulsory exchange of information on cross-border tax rulings between Member States.

President of the European Commission, Jean-Claude Juncker made these comments regarding the need for and potential in an Automatic Exchange of Information within the European Union in September 2015:

“The automatic exchange of information on tax rulings will provide national authorities with insight on aggressive tax planning. It marks a leap forward in our efforts to advance on tax coordination and tax harmonization. The current system of corporate tax rules is unjust and unfit for purpose. There is a plethora of national rules that allows some companies to win while others lose out. This unfair competition is anathema to the principles of fair competition within our internal market,”

***Jean Claude Juncker,
President of the European Commission***

One of the main priorities of EU is to minimize tax fraud and evasion by achieving a high level of digitization and making data available across borders.

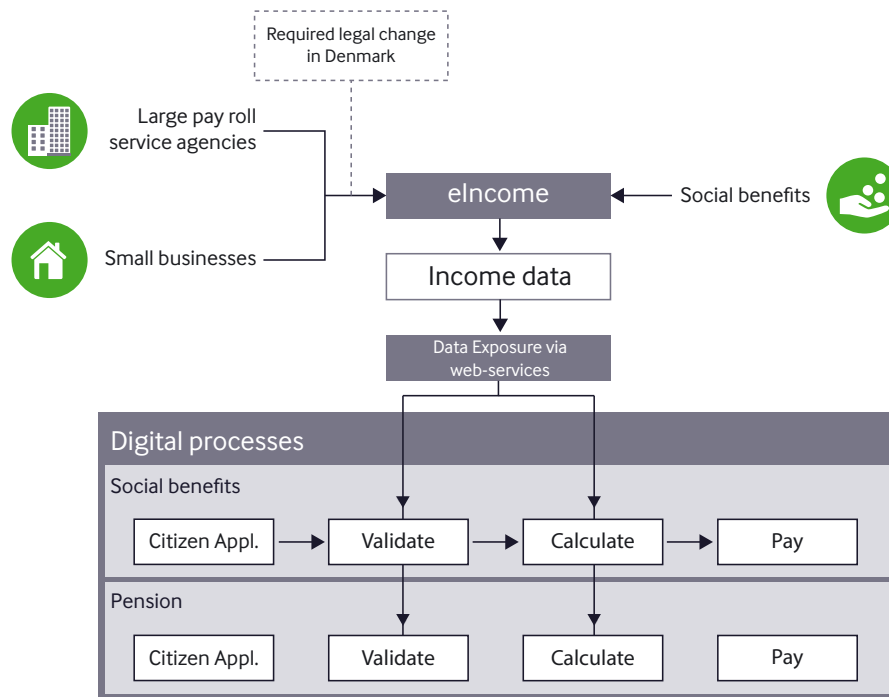
THE DANISH MODEL ON AUTOMATED TAX SYSTEMS

Denmark has throughout the years been taking advantage of the technological development and digitized the Danish Customs and Tax Administration gradually and continually. Especially during the 90's and 00's the Danish Customs and Tax Administration were frontrunners for the digitization of the public sector in Denmark.

As of now digitization and the use of IT systems and technology has automated most processes in the Danish tax system. An example is that Danes doesn't have to file their own taxes, as this process is automated along with filing of preliminary income. The Danish Customs and Tax Administration automatically receive most of the information on which the tax calculation of the majority of individuals is based. Employers provide information on salary and pay, banks on income and expenses, while unemployment funds and unions provide information on things as benefits and membership fees.

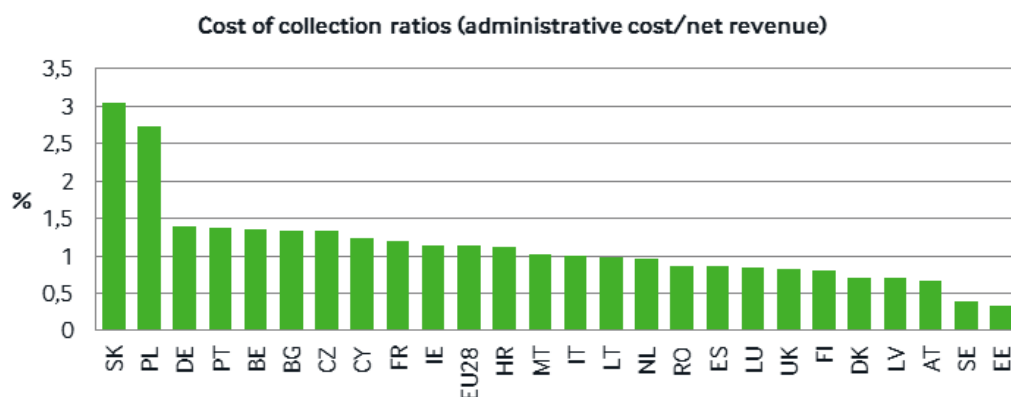


The automated processes in the Danish tax system are largely based on the availability of usable Master Data and IT systems that can translate this data:



The Danish tax system is unique in an international context, because reporting almost all is automatic. The successful transformation of the Danish tax system, to a degree where the automated system makes correct tax returns 99,7% of the times.

The digitization of the Danish tax system has allowed for a significant reduction in the amount of resources used in the Customs and Tax Administration and has at the same time reduced the administrative burden for citizens and companies. Compared to the OECD-countries the cost of collecting taxes in Denmark is low⁵:



In the same OECD-report about "Tax Administrations", OECD highlights the Danish process for digitization of the tax return and the electronic tax payment. So does IMF, the International Monetary Fund when they highlight Denmark as a country that has made huge strides in tackling tax evasion and tax fraud by, for example digitizing tax returns and ensuring that the authorities always know who the true owner of a company is.

⁵ "Tax Administration 2013" OECD (2014)

DENMARK: THE EVOLUTION OF PRE-FILLED TAX RETURNS:

- _ 1988: Limited pre-filling of tax returns: System of limited prefilling of personal tax returns (on paper) commences. Taxpayers are required to complete their return and send it to the revenue body. Notices of assessment are sent after processing.
- _ 1992: First fully completed tax returns: Refinement of pre-filling system with fully-completed tax returns (on paper) sent to many taxpayers for their review to be confirmed or adjusted. Notice of assessment sent after processing.
- _ 1992: System of silent acceptance introduced: Taxpayer receiving pre-filled returns are freed of the obligation to confirm their completeness, if correct. Taxpayers must advise any adjustments to the revenue body. Notices of assessment are sent after processing.
- _ 1995: First electronic filling application: Tax-returns (not pre-filled) are available online. Taxpayers are obliged to fill in all relevant data.
- _ 1999: Pre-filled returns available online: Pre-filled returns are available online for review by taxpayers and their notification of changes or confirmation of acceptance. Notices of assessment are sent after processing.
- _ 2004: Online assessment notices: Taxpayers with fully completed pre-filled returns receive assessment notice online, when confirming the completeness of the pre-filled return.
- _ 2005: Centralization Tax Assignments:
- _ 2006: Pre-filled returns and notice together: Taxpayers with fully completed pre-filled returns also receive an assessment notice alongside their tax returns.
- _ 2008 to present time: Total automation: Pre-filled returns are no longer sent to taxpayers. Taxpayers receive an assessment notice (with provision to access on-line the detailed tax return data that has been used to establish their tax liabilities). Taxpayers remain obliged to advise the revenue body any necessary adjustments.

KMD UNLOCKS THE DIGITAL SINGLE MARKET ON TAX

In order to prevent tax fraud and evasion the European Commission has launched the Fiscalis 2020-programme. Fiscalis 2020 is a cooperation program enabling the European Union's national tax administrations to create and exchange information and expertise. Fiscalis 2020 will support the cooperation between tax authorities in EU to help maximize their efficiency and avoid mismatches in their work, which would hinder the functioning of the Internal Market.

The work programme will facilitate networking, joint actions and training amongst tax personnel, while also funding IT systems to support the exchange of information between tax administrations.

KMD will play an active part in realizing and execution of these plans. Since the early 1970's we have played a major part in the creation of the effective Danish tax system.

Today KMD supplies a number of socially critical solutions to the Danish Customs and Tax Authorities. With more than 40 years of domain knowledge and corporation with the Danish Ministry of Taxation, KMD has delivered solutions for recovery handling, tax assessment, property tax, preliminary income declaration including tax calculation and E-tax. KMD is also responsible for operating the Data Warehouse Solution for the Danish Customs and Tax Authorities as well as the operation and maintenance of the Property Valuation System.

In our experience minimizing tax evasion and tax fraud takes a high level of digitization, the use of cross-border data and IT-systems to make complex risk analysis.

With our extensive domain knowledge from the taxation area, KMD can serve as consultants on reports, strategies and development of systems, as well as actual developers of systems and components.

COMMON CONSOLIDATED CORPORATE TAX BASE (CCCTB)

As a part of EU's efforts on interoperability in the area of taxation they relaunched the Common Consolidated Corporate Tax Base (CCCTB) in June 2015.

The CCCTB is part of the Action Plan for Fair and Efficient Corporate Taxation. The purpose of the CCCTB is to create a single set of rules that companies operating within the EU could use to calculate their taxable profits. In other words, a company would have to comply with just one EU system for computing its taxable income, rather than different rules in each Member State in which they operate.

The CCCTB addresses corporate tax, which is just one of many challenging areas within cross-border taxation. The CCCTB provides a solid foundation for a solution that can cope with tax fraud and evasion in other areas than just corporate taxation.

KMD recognizes the journey that EU is on and see similarities from the centralization of the Danish tax authorities into one single authority. Until 2005, Denmark was divided into 275 geographical tax-units, that could independently plan and carry tax collection and fiscal tasks. In 2005, the Danish state centralized taxation into one single entity. KMD played an active role in defining and developing the crucial IT-solutions for the new single entity. Mentionable are Skat/Ligning (Case Management), Skat Forskud (Preliminary) and all records, all of which are still in use today. The transformation into one single authority for taxation was therefore done in a close corporation between the Danish State and KMD and to this day KMD continues to contribute with new systems and innovative solutions.

All in all, tax databases across national tax authorities are the foundation that can handle tax fraud and evasion in a single EU market. KMD has concrete experience with building tax specific databases and has also taken part in further developing the taxation system into one of the most advanced systems of automated taxation.

In order to cope with tax fraud and evasion, the database should serve three key functionalities:

1. Exchange of data
2. Create transparency
3. Utilize fraud engines

Exchange of data between Member States is fundamental for a consolidated database. KMD has extensive experience with the exchange of data from the Data Distributor we have recently developed, our Input-Output management system and with many of our specific solutions for local and central government.

Transparency is not a given with the exchange of data alone. For transparency to happen, and for data to be understandable and comparable, standards must be created. KMD possess experience with databases holding standardized records of fundamental data for the Danish digital taxation. Examples of these are records such as CPR no. (Personal Identification number), BBR records (Building and Housing Register) and CVR no. (Central Business Register of Denmark).

Exchange of data and transparency can facilitate the avoidance of aggressive tax planning (tax evasion), but the creation of a fraud engine is inevitable for battling such behavior. KMDs Business Intelligence department is working towards the fight of social fraud, and have specific competencies within utilizing fraud engines.

All in all KMD has a strong domain knowledge, a great set of skills with digitization of taxation and many years of experiences creating one of the most advanced automated tax systems in the world. Because of this, and because of our experience and expertise within the three key functionality areas of the CCCTB we can contribute as both consultants and developers on the CCCTB system.



SUBJECT	EU'S AMBITION/PLAN	THE DANISH MODEL	KMD PROVIDES
Tax	System to effectively handle cross-border tax issues as tax fraud and evasion e.g. automatic exchange of tax information.	<p>Consolidated and centralized the Danish Tax Authorities into one unit – handling all tax issues.</p> <p>Automatization of the tax system and the exchange of information within the system.</p>	<p>CONSULTING</p> <ul style="list-style-type: none"> _ Project Management _ Development _ Management <p>PLATFORMS</p> <ul style="list-style-type: none"> _ Case Handling <p>BUSINESS APPLICATION</p> <ul style="list-style-type: none"> _ A&D (Distribution of Official Documents) _ EFI (Automatic Tax Collection) _ SkatForskud (Automatic Preliminary Income Report) _ TastSelv (SKAT self service facility) <p>SERVICES:</p> <ul style="list-style-type: none"> _ Cloud _ Security – Security Analytics Center _ Support 24/7/365





ABOUT KMD

IT WITH INSIGHT

KMD's position as one of Denmark's leading IT and software companies is founded on insight – insight rooted in Denmark's public sector but now also being applied in the private sector.

For more than 40 years, KMD has played a key role in digitizing the Danish welfare state, helping make Denmark's public sector one of the best run, most efficient and highly digitized in the world.

The majority of our business revolves around software development, as we create and deliver IT solutions for local government, central government and private markets. KMD is one of Denmark's largest IT companies. KMD employs more than 3,500 employees and generated revenues of approximately EUR 650 million in 2015. KMD is majority-owned by equity firm Advent International, while Danish pension fund Sampension and KMD's management hold the remainder of its stock.

**FOR MORE INFORMATION
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