In Denmark, work-friendly taxation

When Italy's new Prime Minister, Mario Draghi, advocates a 'Danish-style' tax policy, is he referring to a reform process or to a tax regime that could be replicated in Italy? We will find out in due course. In the meantime, let us try to understand how the Tax Reform came about in the small EU country (less than 6 million inhabitants). Back in 2008, a panel of experts was set up to reconsider the tax system with a view to reducing the burden on taxpayers and preserving a strong welfare state, making Denmark one of the best countries to live in: one where families are protected and happy.

> **The experts consulted with the social partners and produced a widely supported measure. It envisaged a reduction in taxation equivalent to two points of the then GDP, a cut in the marginal income tax rate, and a rise in tax exemption thresholds**.

The focus was on simplification and on reducing the tax burden on average incomes. This is presumably the goal of the preparatory work for a revision of Italy's personal income tax (IRPEF), already the subject of hearings at our House and Senate Finance Committees conducting a fact-finding enquiry. The enquiry will be concluded in March and it could provide a good starting point. The Danish model, in effect for a while now, has better distributed - according to the Governments - an overall rate that is not low, given that the tax-to-GDP ratio is 46% as opposed to the European average of 40.2%.

> **Thus, taxes are paid to support social protection services and interventions tailored to the population.**

A detailed analysis shows that the progressive system - imposing a higher tax rate on higher-income brackets for the purpose of income redistribution - takes the tax burden on labour as its starting point. Employees and self-employed workers alike. It amounts to 8% of the overall tax contribution that goes, in different items, to employment and the labour market. This sum must then be excluded from the taxable amount that includes everything else. Deductions (in DKK) of up to EUR 5,000 are granted to employees, with benefits for single parents and dependent children. Danish residents pay taxes to the State and the municipality with two main brackets: a 35% income tax rate on earnings under the threshold of €77,000, then 43%, with capital gains from shares and dividends taxed at 27%, and 1% on real estate (most buildings), 3% on luxury properties. The system is based on land registry evaluations considered lower than market value. Just like in Italy. Lastly, a simplified tax return (with 6% adjustments) has been introduced, to the benefit of citizens and cash flow. Everything seems easier in the small country of Denmark.

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