

Income 2000

1. Background and purpose

The statistics of income are divided into tax-related income statistics, which include taxable incomes and deductions only, and more general income statistics of families and persons covering all income types, irrespective of how they are treated with respect to taxation.

The main purpose of the tax-related statistics is to analyse the compilation and distribution of incomes and deductions providing the basis for taxation of income. In addition to this, the tax-related income statistics may be used as interim income statistics, as the main results are available approx. 6 months before the results of the general statistics of families and persons.

The aim of the general statistics of families and persons is to analyse the significance of income for the distribution of living conditions in Denmark. Contrary to the tax-related statistics, the family and persons statistics endeavour to include all income types, irrespective of how incomes are treated with respect to taxation. The basis of the generalized statistics is the UNs provisional guidelines on statistics of income and wealth, (United Nations, Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households, Statistical Papers, Series M, no. 61, New York 1977).

2. The primary data

2.1 General remarks

The main basis for the statistics of income is the section on final tax assessment of the central taxpayers' register (CSR) and the salary information register (COR). The registers are operated by the Danish State Tax Directorate, and information from the registers is supplemented with information from other registers. The registers are further described in paragraphs 2.2-2.10.

The administrative registers have not been constructed with the object of serving statistical purposes. The statistical errors and the problems involved in the use of the administrative registers are discussed in paragraph 2.11.

2.2 The central taxpayers' register (CSR)

The section on final tax assessment of the central taxpayers' register contains, partly data on income, deduction and wealth, reported by the municipalities to the Danish State Tax Directorate on the basis of the income tax return forms, and partly a range of the data reported by employers, banks, municipalities to the tax authorities according to the Danish Tax Control Act. The register also contains information used in valuing social benefits, for example benefits under the Danish Social Assistance Act. Finally, the register contains various background information for administrative use, e.g., concerning pensions and joint taxation and various estimated amounts in connection with the income tax assessment.

The central taxpayers' register is continuously updated. The extracts intended for statistical use were derived at the end of October. Changes after this date are considered to be of minor importance for the statistics.

2.3 The salary information register (COR)

The salary information register is constructed on the basis of the annual pay declaration slips forwarded to the tax authorities by employers and others who pay out wages and salaries, remunerations, pensions, etc. For each employee the pay declaration slips contain information concerning, e.g., the size and type of income, the size of ATP contributions (labour market supplementary pension contributions) and types of amounts included in A-tax. Contrary to the central taxpayers' register, the salary information register makes it possible to classify the A-income according to various income types, e.g., wages and salaries, unemployment benefits and social pensions. The salary information register also contains information on some types of B-income, e.g., B-taxable maintenance allowances.

The data recorded on the register at the end of August, one year after the income year, are included in the income statistics. This results in a minor difference in the time references between information from the taxpayers' register and the salary information register. However, this is of no major significance for the statistics.

2.4 Registers concerning various public benefits

The registers of pensions, family allowances and rent subsidies are constructed on the basis of information derived from the registers of social statistics jointly operated by the municipalities, and from the corresponding registers of Copenhagen municipality, which are not included in the register system of the municipalities. The registers are supplemented with data reported manually by the municipalities administering the benefits, without using the common system of the municipalities.

The three above-mentioned registers form the basis of the calculation of various non-taxable benefits, cf. paragraphs 5.3.3-5.4.4.

2.5 The register of real property statistics

The register of real property statistics is based on the register of purchases and assessment of real property operated by the Danish State Tax Directorate. The register contains information intended for the assessment and taxation of real property as well as information on ownership.

In the income statistics, the register is used in assessing the rental value discussed in paragraphs 5.3.4-5.4.3.

2.6 The population statistics register

The population statistics register contains demographic information on the population of Denmark. The Central Population Register (CPR) forms the basis of the population statistics register.

2.7 The employment classification module

The employment classification module (AKM) contains information on economic and employment conditions of the population liable to pay tax. The register has been established by a computerized process, in which each person is allocated an economic

as well as an employment code based on information from a wide range of registers including, for example, the salary information register and the central taxpayers' register.

2.8 Education and employment of the population

Education and employment of the population (BUE) contains information on all persons participating in education and training and information on all persons, born after 1920, who have completed a general or vocational education. The information is based on reports submitted by the institutes of education and information from the population statistics register.

2.9 The register of dwellings

The register of dwellings is based on the Central Register of Buildings and Dwellings (BBR) and the Central Population Register (CPR) and contains for all dwellings information on residents, addresses, form of tenure and facilities.

2.10 The register of motor vehicles

The register of motor vehicles contains for all registered motor vehicles information on who is the owner and user of the vehicle. Intended for the income statistics the register is supplemented with information on persons, who according to the salary information register (COR) have a car at their disposal, but not recorded as user of a car in the register of motor vehicles.

2.11 Special problems concerning registers

The statistics of income are based on a linkage of a large number of registers originally established with a view to serving administrative and non-statistical purposes. This gives rise to a number of problems in relation to the statistics.

It implies that information, which is of direct importance for the object of the administrative authority concerned, will be more reliable than information which is of no direct importance. For example, it must be assumed that the tax authorities consider it vital that the taxable income is accurately calculated, whereas it is of minor importance whether an income deduction is correctly placed on the income tax form, if it is of no importance for the tax assessment.

To this is added that many of the registers are continuously updated, and can never, or not until a very late point-in-time, be considered as finally updated. The extracts from the registers used in the statistics will then comprise information which is changed at a later date on the administrative registers, from where the extracts are obtained.

Finally, there may be inconsistencies between the registers attributable to, e.g., the circumstance that data are not derived at the same point-in-time. In most cases, problems concerning these registers are of no or only of secondary importance for the compilation of statistics. However, information compiled on the basis of very small groups of persons or families must be treated with caution. For this reason as well as the non-disclosure practice, information on groups of less than 10 enumeration units is not published. Tables comprising such groups are marked with .. instead of figures.

3. Taxable population and units of analysis

3.1 The tax-related income statistics

According to the Danish Tax at Source Act the following persons are fully liable to pay tax:

1. Persons with a permanent address in Denmark.
2. Persons who within the last 4 years had a permanent address in Denmark, unless they are liable to pay income tax in a foreign country, Greenland or the Faroe Islands.
3. Persons who have no permanent address in Denmark, but who have lived in Denmark for at least 6 months.
4. Danish citizens who are doing permanent service with a Danish ship, unless they have a permanent address in Denmark or have never lived in Denmark.
5. Danish citizens who have been in the service of the Danish state abroad.

Persons who have no permanent address in Denmark and, to a certain extent, foreign diplomatic or consular representations are not fully liable to pay tax, i.e., they are liable to pay tax on some of the incomes earned in Denmark.

The tax-related income statistics only include persons liable to pay tax, and who were 15 years or older by the end of the year and who had a permanent address in Denmark throughout the year, or who served with a Danish ship. Persons, who during the year reached the age of 15, but did not have any taxable income are excluded.

3.2 Income statistics for families and persons

The general income statistics are compiled for persons as well as families.

The persons-related tables include persons who were 15 years at the end of the year and who comply with the same requirements concerning liability to pay tax, etc. as the population in the tax-related tables, except that the persons, who during the year reached the age of 15, but did not have any taxable income, are excluded here. The population in the person-related tables in the general income statistics of persons and families is therefore slightly larger than in the tax-oriented tables, where persons aged 15 years at the beginning of the year are included.

The Danish population statistics define a family as one or several persons who live at the same address and who are related in specific ways by marriage, descent, etc. A family consists of one single adult, a couple or a child not living with the parents under the age of 18 years. Children under the age of 18 years living with their parents are included in the families of their parents. (A more detailed definition is given below in paragraph 4.3). This family definition is also used in the family-related tables of the income statistics. However, income statistics only cover families, where at least one of the adults fulfills the criteria for inclusion in the tax-related statistics.

4. Characteristics of persons and families

4.1 Municipality of residence

In the tax-related income statistics, the municipality of residence is responsible for making the final tax assessment for the income year in question. This is normally the municipality of residence at 17 November of the income year.

In the general income statistics, the municipality of residence is determined by the address of the person or family at the end of the year.

4.2 Economic characteristics

4.2.1 General remarks

The Income Statistics comprise information on economic characteristics derived from the employment classification module (AKM) described in paragraph 2.7. The classification describes the most important economic activity status during the year. From 1996 Statistics Denmark classifies the *economic characteristics* for the population into *socio-economic* categories and within these further by *occupational codes* according to the DISCO-88 norm, which is a Danish version of the International Standard Classification of Occupations (ISCO). See further below.

4.2.2 Socio-economic status

The socio-economic categories of economic activity status in this publication are made in agreement with the Danish Socio-economic Classification: SOCIOⁱ. The main classification is shown here:

- 1 Persons with occupation
 - 11 Self-employed
 - 12 Assisting spouses
 - 13 Employees
- 2 Unemployed persons
- 3 Persons outside the labour force
 - 31 Under education
 - 32 Pensioners etc.
 - Public non-oldage pensioners
 - Public oldage pensioners
 - Early retirement pensioners etc.
 - 33 Other grown-up persons outside the labour force

The classification into socio-economic categories are obtained primarily from the income informations in the taxpayers' central register and the salary information register (paragraphs 2.2-2.3). The principles are described here:

A person is classified as self-employed, provided that at least one of the five criteria below is fulfilled:

1. The person is sole proprietor of a business liable to withhold tax and to pay VAT and has a surplus on self-employment, which is higher than the sum of incomes from any wages or salaries and public pensions payments.
2. The person is sole proprietor of a business liable to withhold tax and to pay VAT and has a surplus on self-employment, which is higher than incomes from public pensions payments, and that the ATP contributions paid are lower or correspond to the ATP contributions payable for a full-time employee.
3. The person is co-owner of a business liable to withhold tax and to pay VAT and has a surplus on self-employment, which is higher than or corresponds to DKK 100.000 and higher than incomes from any wages or salaries.
4. The person is liable to keep account books as self-employed and has an earned incomes lower than a threshold of DKK 43.251, and does not receive any public pensions payments
5. The person is not unemployed, see below.

ⁱ Danmarks Statistik: SOCIO, Danmarks Statistiks Socioøkonomiske Klassifikation, Copenhagen 1997.

A person is classified as assisting spouse if the incomes as assisting spouse is higher than any earned incomes.

Persons, who *cannot* be classified as self-employed or assisting spouses according to the above criteria, are classified as employees, provided that the wages and salaries *either* exceed or correspond to a threshold of DKK 43.251 and that they exceed any public pensions payments, *or* if the sum of wages and salaries and unemployment benefits is lower than the threshold and that the person does not receive any public pensions payments and is under 67 years. Further, the person must not classify as unemployed.

Within the employees a further distinction depending on whether the person is a top manager or the work demands a certain level of skills.

- *Top managers* in companies, organisations and the public sector
- Employees, whose work demands skills at *higher level*
- Employees, whose work demands skills at *medium level*
- Employees, whose work demands skills at *basic level*
- Other employees
- Employees without sufficient classification information

Persons, who could otherwise have been classified as self-employed, assisting spouses or employees according to the above criteria, but who during 1997 have received unemployment benefits and have had an average unemployment rate on more than 50 percent, are classified as *unemployed*.

Persons, who *cannot* be classified as self-employed, assisting spouses, employees or as unemployed according to the above criteria, are classified as *persons outside the labour force*.

Persons outside the labour force, who according to the education and training classification module (see paragraph 2.8) are *under education*, are classified as such.

Persons outside the labour force, who is 67 years or older at the end of the year, are classified as *oldage pensioners*. Persons younger than 67 years, who receives public pension, are classified as *public non-oldage pensioners*, unless they receive early retirement pensions, part-time pensions and some other special benefits related to withdrawal from the labour market. In the latter case they are classified as *early retirement pensioners etc.*

Persons, who at the end of the year is younger than 15 years old, are classified as *children* (no relevance in this publication), while the rest of the population is classified as *other persons outside the labour force*.

The socio-economic status of the family equalises the status of the adult person within the family, who accounts for the highest personal income.

The complete SOCIO classification is shown in annex 4 (in Danish).

4.2.3 Occupational groups

Within the socio-economic groups (see paragraph 4.2.2) the economically active persons (self-employed, assisting spouses and employees) are further classified after their economic activity according to the Danish version of ISCO. The main and upper levels of this classification is shown in annex 5 (in Danish), while reader interested in the full description are shown in annex 6 and 7.

The main classification in DISCO-88 is identical with the persons with occupation from SOCIO, as described above:

- 11 Self-employed
- 12 Assisting spouses
- 13 Employees

Within the group of assisting spouses, the number of persons is specified within three areas:

- agriculture etc.
- office-like work
- whole and resale trade

The employees are classified within the main and upper levels from DISCO-88 (annex 5).

For the self-employed and the employees the more commonly appearing occupational descriptions from the DISCO-88 are specified in the tables. In annex 6 and 7 the connection between the occupational descriptions used in Statistics Denmark and the DISCO-88 classification codes are listed in alphabetic, respectively numeric order.

4.2.4 Full-time employment

Some tables distinguish full-time employees. This group comprises employees whose amount of ATP contributions paid corresponds to at least 11 months of full-time employment.

4.3 Family type

As described in paragraph 3.2 a family consists of a group of persons who live at the same address and who are related in specific ways by marriage, descent, etc. The following family types are distinguished:

1. A couple
2. A single person
3. Adults living at the same address as that of their parents
4. Families living in institutional households

Except for the family type »Adults living at the same address as that of their parents« all family types may, in addition to adults, consist of 1 child or more (under the age of 18 years).

Couples comprise two adults living at the same address and are either

- a) married or
- b) registered as partners or
- c) have joint children
- d) of opposite sex and the age difference is smaller than 15 years.

As stated above, the family type »A couple« may comprise 1 child or more under the age of 18 years in addition to the two adults.

The group, which in the population statistics is generally considered single persons, is in the income statistics divided into two groups. The group »Adults living at the same address as that of their parents« is distinguished as an independent groups. »Adults living at the same address as that of their parents« comprise persons aged 18 years and over, who have the same address as (at least one) that of their parents.

Families living in institutional households comprise the persons who live in the household (addresses) with more than 6 families. This is a very heterogeneous family type and consists of, e.g., persons living in a community and of persons living in public institutions.

4.4 Education

Information on the educational background of a person is extracted directly from the Educational Classification Module (see paragraph 2.8), whereas the family is classified on the basis of the highest educational level attained by each individual adult person in the family.

4.5 Form of tenure

The form of tenure of the families is classified as *owner* provided that one member of the family according to the register of dwellings (paragraph 2.9) owns the real property in which the family lives and that the rental value of the owner-occupied dwelling differs from 0. All other families are classified as *tenants*.

Persons in a family are all classified to the same form of tenure as the family as a whole. Adults living at the same address as that of their parents and who are distinguished as an independent family in the tables (see paragraph 4.3) are classified to the same form of tenure as that of their parents.

5. Concepts of income and deduction.

5.1 General remarks

This chapter describes the contents of the income concepts of the statistics. Paragraphs 5.2-5.3 summarize the basic contents of the concepts, and a more detailed technical analysis of the construction of the concepts is given in paragraph 5.4.

The introduction of a new tax reform on 1 January 1994 implied that the level of public pensions payments for single persons was increased, concurrently with a reduction in the personal allowance. In this context, a number of incomes, which were previously exempted from taxation, e.g. some pension supplements and cash benefits, were subjected to taxation.

The new tax reform also implied that employees and self-employed persons are now liable to pay a special contribution to unemployment, job training and sickness funds. In 2000 the contribution was 8 pct. For wages and salaries, the contribution is calculated on the basis of fees, bonus on profits, commission, redundancy allowance, etc. A number of supplements paid by the employer to cover an employee's expenses in connection with performing the job, are included. For self-employed persons using the enterprise scheme, the basis of calculation is made up by the amount transferred from the personal income relating to self-employment. Self-employed persons using the capital-yield scheme, the basis is made up by the personal income relating to self-employment after deduction of yield on capital.

The labour-market contribution is not specifically compiled in these statistics, but is included in earned income and surplus from self-employment and thus also included in the incomes encompassed by these concepts. In the case of incomes after taxation, the labour-market contribution has been deducted together with other taxes.

5.2 The tax-related income statistics

5.2.1 Gross income and taxable income

The gross income comprises all income types subject to income taxation, including income as assisting spouse and labour market contributions. Deficit on self-employment, rental property and owner-occupied dwellings and deductions for assisting spouse are included in the gross income as negative income, although these amounts as regards taxation are considered to be income deductions.

Interest payments, including interest paid in connection with self-employment, are not deducted from the gross income, but are included in the statistics as income deductions. For example, this implies that the net surplus on self-employment, rental property and owner-occupied dwellings is estimated before deduction of interest payments.

Incomes, which are not subject to the general income taxation, for example, most capital gains, inheritance and certain gifts, various supplements to the public pensions, unemployment benefits and similar benefits under the Social Assistance Act, general rent subsidies, rent subsidies to pensioners, family and young persons' allowances, are not included in the gross income.

The taxable income is arrived at by deducting both income deductions and labour-market contribution from the gross income, see paragraph 5.2.3.

5.2.2 Components of gross income

The gross income is divided into the following income types:

A-income

Wages and salaries
Unemployment benefits
Early retirement pensions
Social security pension payments
Other A-income

B-income

Net surplus, owner-occupied dwellings (Until and including 1999)
Net surplus, self-employment and rental property
Interest received
Other B-income

Other income

Wages and salaries are calculated as A-taxable earnings. The amount comprises holiday pay and other supplements to earnings, but excludes contributions to pension schemes administered by employers, including ATP contributions.

Other A-income is calculated as the difference between the total A-income obtained from the central taxpayers' register, and the sum of the above-mentioned income types obtained from the salary information register. Other A-income comprises other A-income types, e.g., sickness benefits, private pension schemes, public servants' pensions and various types of remuneration, and any discrepancies between the central taxpayers' register and the salary information register.

Some amounts, which in the income tax return form appear as income deductions, are considered negative income in the statistics. This is true of deficit on self-employment, rental property and owner-occupied dwelling and deductions for assisting spouse.

Surplus/deficit on self-employment, rental property and owner-occupied dwellings is compiled exclusive of deductions for interest payments. Similarly, any interest re-

ceived in conjunction with own business and real property are not included in the concepts of surplus/deficit.

Until (and including) 1990 share dividends and tax refunds were included in gross income. From 1991 gross is estimated exclusive of share dividends.

5.2.3 Income deductions

Income deductions consist of the amounts which the taxpayer may deduct from the gross income before taxation. As mentioned, deficit on self-employment and on real property and deductions for assisting spouse are considered negative income in the statistics, although these amounts appear as income deductions on the income tax form.

Interest payments comprise all interest payments, irrespective of whether it is interest paid in connection with own business or private debt.

5.3 Income statistics for families and persons

5.3.1 Total family income

The central income concept in the income statistics for families is total family income comprising the sum of the main income types: primary income, current transfers and property income. However, total family income constitutes some income types of minor importance, which are impossible to refer to the main income types. This concerns, e.g., payment in kind and income earned abroad.

5.3.2 Primary income

The primary income consists of partly wages and salaries, etc. and partly surplus on self-employment.

Wages and salaries, etc. comprise income and the like earned as employee and remuneration and fees, etc. to board members and committees. The remunerations comprise fees, unemployment benefits, travel and subsistence allowances, etc. However, travel allowances are only included if other remuneration is paid, or if they exceed the rates of the National Assessment Council.

In some cases, the value of free board and lodging is included in the wages and salary, etc. However, other payments in kind, free residence, telephone or private car are not included. However, payments in kind - also comprising that part of board and lodging excluded from the wages and salary, etc. - are included in the total income, valued according to the tax authorities' rules.

Surplus on self-employment is assessed on the basis of the tax rules for the assessment of entrepreneurial income, including income concerning shipping and net surplus on rental property. Interest payments and interest received in connection with own business are excluded from the assessment, and write-offs are included according to the rules governing taxation. The compilation of the general income statistics differs from the tax assessment by deducting the B-taxable benefits from the assessment. Deductions for assisting spouse are deducted from the entrepreneurial income of the spouse engaged in business activities, and income as assisting spouse is considered as entrepreneurial income of the assisting spouse.

5.3.3 Current transfers

Current transfers comprise incomes which do not result from any business activities or from the possession of capital. However, only payments in cash and not payments in kind from the public authorities (e.g. in the form of medical treatment) are included. Payments from private pension and life insurance schemes are included in the current transfers, although they can be considered to constitute consumption of previously accumulated capital.

Current transfers are sub-divided into the following income types:

- Cash benefits under the Social Assistance Act
- Unemployment benefits, etc.
- Temporary leave benefits
- Other social security benefits, including supplements
- Social security pension payments (including supplementary pension)
- Pension from ATP
- Early retirement pay
- Temporary leave (taking care of relatives, education etc.)
- Other pensions
- The State Education Fund's financial assistance to students
- Rent subsidies
- Family allowances for children and young persons

Cash benefits comprise assistance under parts 9 and 10 of the Danish Social Assistance Act.

Unemployment benefits, etc. comprise ordinary unemployment benefits, educational grants for unemployed persons, assistance to new entrepreneurs and compensation for loss of the right to receive unemployment benefits in cases where an unemployed person has not received a job offer within the period, in which the unemployed person is entitled to receive unemployment benefits.

Other social security benefits comprise unemployment benefits paid by the public authorities (unemployment benefits paid by the employers are included in the wages and salaries, etc.) and fees for vocational courses or other assistance paid by an unemployment insurance fund (except for unemployment benefits) or strike/lockout pay.

Various supplements to social security pensions comprise various non-taxable amounts.

Other pensions consist of private pensions and public servants' pensions.

Rent subsidies comprise subsidies paid to pensioners.

5.3.4 Property income

Property income comprises net interest received, share dividends, etc. and an assessed rental value of owner-occupied dwellings and other property income.

The net interest received makes up the difference between interest received and interest payments. In the statistics, interest received and interest payments are aggregated, i.e., there is no distinction between interest received and interest payments concerning self-employment, owner-occupied dwellings or consumer debt.

Rental value of owner-occupied dwellings is estimated at 2.0 pct. (weekend cottages 2.5 pct.) of the assessed cash value compiled on the basis of information from the register of real property statistics (see paragraph 2.5). Consequently, the concept is not identical with the assessed taxable surplus on real property. The method used is further described in paragraph 5.4.3.

Other property income comprises share dividends of more than DKK 35.000, dividends from unit trusts and some profits in connection with the sale of capital assets. However, in most cases profits from the sale of capital assets are excluded from the assessment of income. Share dividends on foreign companies cannot be distinguished from other income from abroad, and are therefore not included in the property income. However, share dividends from abroad are included in the total income.

5.3.5 Family income less taxes, etc.

Total income less taxes, etc. include the total family income less income tax and compulsory maintenance payments.

5.3.6 Equivalence weighted income

When compiling equivalence weighted income the number of persons in the family is taken into account. The aim of compiling this income is to enable comparisons of family income between various family types and sizes. The equivalence weighted income in this publication is compiled on the basis of the scales recommended by the OECD, where the first adult is given weight 1, the second adult weight 0,7 and children weight 0.5. A couple with 2 children, who have a family income of DKK 506.000, have an equivalence weighted income of $506.000/2.7 = \text{DKK } 187.400$.

5.3.7 Personal income

The personal income constitutes the main income concept used in the section on persons of the income statistics. The personal income comprises the parts of income that can be distributed among each individual person, i.e. primary income plus current transfers, except for rent subsidies and allowances for children and young persons.

5.3.8 Wealth

After abolishment of wealth taxation from 1997 and onwards the information necessary to construct the wealth concept formerly used in the Statistics no longer exists. As a consequence, information on wealth is no longer included.

5.4 Technical description

5.4.1 Family income and personal income

Information from the income tax return form constitutes the main source for compiling family income. Below, reference is made to the extended income tax return form (appendix 3).

The total household income comprises:

1. The taxable personal income before deductions, except for deductions for assisting spouse, but including labour-market contribution + income as assisting spouse on the income tax return form + income from abroad, which can be classified as wages and salaries or entrepreneurial income.
2. The taxable property income and income from capital, except for surplus on owner-occupied dwellings and capital yield in connection with the enterprise schemes, less deductions in the capital income, except for expenditure in connection with the acquisition of capital.
3. Income from abroad, which is excluded from item 1.
4. An assessed rental value of owner-occupied dwellings estimated at 2.0 pct. (weekend cottages 2.5 pct.) of the assessed cash value.
5. Cash benefits under the Social Assistance Act.
6. Rent subsidies and family allowances.
7. Supplements to the social security pension payments.

Family income less taxes, etc. are arrived at by deducting income tax, labour-market contribution and maintenance payments, from total household income.

The sum of the above-mentioned items 1, 4, 6 and 8 makes up the personal income. The remaining items are only included in the household income.

5.4.2 Distribution by income types

The annual pay declaration slips submitted to the Danish State Tax Directorate are used in classifying income types. The pay declaration slips constitute an important

source for the classification of the items from the income tax return form. A pay declaration slip is shown in appendix 1.

Some income types can be distinguished on the basis of the annual pay declaration slips, by combining information on income in items 13, 14, 36 and 38 with the code number for further information in item 68.

The amount indicated in item 13 covers A-income, which is subject to collection of labour market contributions. This item covers wages and salaries, remuneration and the like.

If item 68 is not completed, the amount in item 13 is normally considered to be wages and salaries. However, if it appears from the SE-number that the amount is paid by an unemployment insurance fund the amount is regarded as early retirement pay, if the person is aged 59-66 years and is registered as early retirement pensioner on the central register for labour market statistics (CRAM). In other cases, the amount is considered paid by an unemployment insurance fund as unemployment benefits.

The amount indicated in item 14 covers A-income, which is *not* subject to collection of labour market contributions. On the basis of information in item 68 the amount is divided into:

- Old-age pension and early retirement pension
- Pension supplement
- Supplementary pension
- Early retirement pay
- Temporary leave (taking care of relatives, education etc.)
- Public servants' pension
- Unemployment benefits
- Sickness and accident benefits, not regarded as A-income
- Education benefits
- Rehabilitation benefits
- Cash benefits

The amount in item 14 is considered to be early retirement pay, if the code for early retirement pay is indicated in item 68, or if item 68 has not been completed, but the amount has been paid out by an unemployment insurance fund. However, in both cases it is a condition that the person is included in the age group 59-66 years and is registered as early retirement pensioners on CRAM. In other cases, where item 68 has not been completed, the amount is regarded as an unspecified item 14-amount.

In the statistics, public servants' pension indicated in item 68 is classified to the category other pensions. The same is true of unspecified amounts in item 14, if at least one of the two following criteria are fulfilled:

8. The SE-number of the employer has been used in at least one case in conjunction with public servants' pension and the recipient is above the age of 60 years or is registered on the pension statistics register as pensioner receiving public servants' pension, or has received public servants' pension indicated in item 68 on another annual pay declaration slip.
9. The SE-number of the employer has been used in at least 100 cases in connection with payments of amounts indicated in item 14 for persons aged 70 years and more.

Provided that none of these criteria are fulfilled, an unspecified amount indicated in item 14 is classified to the category various remunerations.

The amount indicated in items 36 and 38 covers B-income which *is/is not* subject to collection of labour market contributions.

From the amount indicated in item 38, the B-taxable unemployment benefits can be distinguished on the basis of item 68. Moreover, interest subsidies to students for instalments on student loans granted by the State Education Fund, defined as the amount in item 36, can be distinguished if they are paid out by the State Education Fund.

Special information on income can be obtained from the other items on the pay declaration slip, e.g. the values of a number of fringe benefits, which are not regarded as A-income.

The establishing of income types in the statistics based on the administrative income types is further described in appendix 8.

There are differences, in practice, as there is not always complete consistency between the annual pay declaration slips and the income tax return form. Together with unclassifiable income types, these differences are included in a residue group comprising the difference between total family income, as defined in the previous chapter, and the sum of primary income, property income and current transfers.

5.4.3 Assessment of rental value (imputed rent)

The rental value is usually assessed at 2.0 pct. (weekend cottages 2.5 pct.) of the cash value of the real property, which according to the register of real property statistics is owned by the family members at the end of the year. When assessing the rental value, it is taken into account whether the real property has only been owned by the family for some months of the year. In cases, where the family members are not registered as owners on the register of real property, but where there is a net surplus on the real property on the income tax return form, the net surplus is used as rental value. This presumably concerns households which have sold their property during the year. If a family member has bought as well as sold a property during the year only the rental value of the property bought is included, and only for that part of the year after acquisition of the property.

If the property is used for business purposes as well as residence, an assessed cash value is distinguished concerning the owner-occupied dwellings recorded on the register of real property. In these cases, the rental value is assessed on the basis of the value which has been distinguished. Frequently, families with such mixed real property have no net surplus on the owner-occupied dwellings on the income tax return form. It must therefore be assumed that the surplus on the owner-occupied dwellings is included in the entrepreneurial income. In order to avoid duplicate imputation of the surplus, the assessed rental value less DKK 3.000 (corresponding to the taxable standard allowance) is deducted from the entrepreneurial income of these families.

5.4.4 Calculation of family allowances and rent subsidies

Information concerning payment of family allowances is only available for the fourth quarter of each year. An estimate is therefore made of the amount paid for 1997 by weighing the amounts for the fourth quarter of 1996 and the fourth quarter of 1997 with the weights 1.5 and 2.5.

Information concerning rent subsidies is available for December of each year. Here, an estimate for 2000 is made by weighing the December figures for 1999 and 2000 with the weights 5.5 and 6.5.

6. Statistical measurements

6.1 Average

The average amounts are estimated as the total amount divided by the number of persons/families in the group, to which the information relates. The compilation also includes persons or families, who do not have the type of income or deduction concerned. However, in table 22 an average has been estimated only for persons who have an amount that differs from 0 in the income type concerned.

6.2 Medians, quartiles and deciles

A fractile in an income distribution divides the income recipients into two groups. Income recipients, whose income is lower than the fractile and recipients, whose income is higher. For example, the 20-percent fractile indicates that 20 percent of the income recipients have an income which is lower and 80 pct. have an income which is higher.

The fractile dividing the income recipients into two equal groups (the 50-percent fractile) is called the median. The 25-percent fractile and the 75-percent fractile are called the lower quartile and the upper quartile, respectively. As one fourth of the income recipients are classified to a group below the lower quartile and one fourth of the recipients are classified to a group above the upper quartile, half of the income recipients will be classified to groups between the upper and lower quartiles.

The deciles divide the income recipients into ten groups of equal size in the same way, as the median and the upper and lower quartiles divide them into four groups. The first decile corresponds to the 10-percent fractile, the second fractile to the 20-percent fractile, etc.

6.3 Maximum equalization percentage

The maximum equalization percentage is a measurement of the degree of difference in income distribution. The maximum equalization percentage indicates the proportions of total incomes that have to be transferred from income recipients with a higher income than the average to income recipients with a lower income than the average in order to achieve an even distribution.

6.4 Gini-coefficient

Like the maximum equalization percentage the Gini-coefficient constitutes a measurement of the difference in income distribution. In an even distribution, i.e., a distribution where all income recipients have the same income, the Gini-coefficient is 0. The more uneven the distribution, the greater the Gini-coefficient.

In the tables, the Gini-coefficients are calculated on the basis of a relatively detailed distribution by income brackets. A lower and an upper limit are calculated for the Gini-coefficient, but, in most cases there is no difference between the two limits, when the result is rounded off to 2 decimals. In cases, where the difference is greater than 0,01, notes have been added to the table.

7. Comparability

7.1 Earlier income statistics

7.1.1 Tax-related income statistics

Since 1976 the registers operated by the Danish State Tax Directorate have provided the main basis for the statistics of income and wealth. As the tax authorities have supplied the primary statistical data, the concepts of income and wealth have been closely linked to the income and wealth concepts used in the tax system. The taxable concepts have generally remained unchanged during the period 1976-1982, and therefore, it has been possible to produce comparable statistics throughout this period.

With effect from the income year 1983, the rules governing taxation of spouses were altered. However, using married couples and single persons as units of analysis, it was still possible to produce comparable statistics back to 1976. The publication entitled »Income and wealth 1985 and 1986« contains tables showing the developments in the distribution of income and wealth of married couples and single persons for the period 1976-1986.

The population covered by the tax-related income statistics was changed in 1987, so that children under the age of 15 years are now excluded, although they have income or wealth subject to taxation. Consequently, it is not possible to compare the tables concerning the tax-related income statistics in the present publication, with published statistics from before 1987.

The introduction of a new tax reform on 1 January 1994 implied that the level of public pensions payments for single persons was increased, concurrently with a reduction in the personal allowance. In this context, a number of incomes, which were previously exempted from taxation, e.g. some pension supplements and cash benefits, were subjected to taxation.

The new tax reform also implied that employees and self-employed persons are now liable to pay a special contribution to unemployment, job training and sickness funds. As the labour-market contributions are incorporated in the relevant income concepts, if they have been estimated before taxation, and are deducted, if the assessment of taxation is made after the payment of taxes, comparisons are not affected, unless attempts are made to monitor the overall taxes which have been paid.

7.1.2 The general statistics of families and persons

From 1991 the delimitation of households and families in the population statistics register has been changed and improved considerably. Consequently, the tables, which were published in »Income and Wealth« until 1990 covered households, have been replaced by tables covering families as from 1991. The significance of this change in the classification is further discussed in the publication »Income and Wealth 1991«.

In compiling the total household income for 1988, a change was made in relation to the statistics for 1986, so that maintenance payments to children was excluded. Previously, total household income included maintenance payments, but was not distributed over each income type.

From 1990-1996 it was not possible to distinguish contributions to pension schemes administered by the employer for employees with such an arrangement.

The definition of income types remained generally unchanged in the period 1988-1993. The family allowances introduced in 1987 as partial compensation for the general allowances for children and young persons are treated in the same manner as the child maintenance payments.

Household income less taxes, etc. was estimated for 1986 as total household income less income and wealth taxation, maintenance payments and current benefits to associations. From 1988 deductible gifts to associations were excluded, as the primary data no longer enabled a distinction. The rules for deductions of gifts are rather restrictive, for example, each person subject to taxation cannot deduct more than DKK 5.000.

From 1996 the economic characteristics follows the classifications accordingly to SOCIO and DISCO-88 (see paragraph 4.2 above). Among other changes this means that the self-employed persons no longer are specified within industrial branches.

7.2 International statistics

It has been endeavoured to adapt the generalized statistics to UN's guidelines on statistics of income and wealth (United Nations, Provisional Guidelines on Statistics of the Distribution of Income, Consumption and Accumulation of Households, Statistical Papers, Series M, no. 61, New York 1977). Total family income is the central income concept used in UN's guidelines. Total family income comprises the sum of the three main types of income: primary income, property income and current transfers and other benefits received. The definitions are based on UN's national accounts system (United Nations, A System of National Accounts, Studies in Methods, Series F, no. 2 rev. 3, New York 1968), but are adapted to the special requirements of the statistics of individuals and households.

The most important differences between the generalized statistics and UN's guidelines are as follows:

- In conjunction with the compilation of entrepreneurial income, changes in stocks are valued according to the difference between stocks at the beginning and end of the period, where the rules governing taxation make it possible to choose between various calculation methods (market price, purchase price, production price). Contrary to this, the guidelines recommend that stock changes are valued as the change in quantity valued at current average prices.
- The guidelines recommend that surplus on self-employment is valued as gross income, i.e., prior to write-offs. In the statistics, entrepreneurial income is valued as net income, as the registers do not make it possible to distinguish write-offs.- According to the guidelines surplus on real property is to be valued as the difference between the rateable value of the dwelling and costs in connection with maintenance of the dwelling, real property tax and mortgage interest. A highly simplified method is used in the statistics, where the surplus is fixed at 2.0 pct. (weekend cottage 2.5 pct.) of the assessed cash value.
- According to UN's guidelines only interest payments concerning self-employment or owner-occupied dwellings are to be deducted in compiling the family income. Interest paid on consumer debts is not to be deducted. All interest payments are deducted in the statistics.

As regards the latter point, it is only in connection with the assessment of total family income that the missing distinction of interest paid on consumer debts is of significance. These interest payments are deducted in the income concepts of the statistics, but they should not be deducted according to the definition of the guidelines.

In addition to this, the missing classification of interest payments affects the distribution of the total family income by main types of income. As all net interest payments are assigned to the property income, the primary income is overestimated in relation to the guidelines, and the property income is correspondingly underestimated.

A redistribution takes place between net interest received and surplus on own dwellings within the components of the property income.