



Denmark 2005

Preventing and Tackling Homelessness



Rescheduling / Remission of Debt



on behalf of

 European Commission
DG Employment, Social Affairs and Equal Opportunities





Starting with the 2005 Danish Finance Act, an annual amount of DKK 25m has been allocated for the period 2005-2008. The objective is to set up a scheme that allows debt to be remitted in whole or in part. This is because debt is often a barrier for socially marginalised people, preventing them from really moving on with their lives and benefiting from the service offers provided by Danish society.

More accurately, the aim is to ensure that requirements to repay debts do not negate the financial incentives to find a job. Because of the modest size of his/her disposable income, as long as a person receives social assistance he/she is protected from repayment requirements. But once he/she starts a job, creditors can in practice demand that the entire increase in disposable income be used to pay off the debt. The scheme therefore calls for a remission of the debt so that a surplus is left.

The scheme is primarily envisaged as covering debts to public authorities. As the value of public debts owed by socially marginalised people is actually far under the nominal value, so that only a small part of the debt would be paid off under the current regulations, the allocated pool of DKK 100m could actually cover a far larger remission of debt.

Before the scheme can be launched, a bill must be adopted to launch a pilot project.

Scope of the debt problem

A survey by the Danish National Institute of Social Research entitled *The most marginalised social assistance claimants* shows that 57% of social assistance claimants receiving help for more than four years and having problems other than unemployment are indebted to the public authorities.

Another survey from the Institute of Local Government Studies, *Survey of homeless, misusing and mentally ill people*, shows that about 40% of the socially marginalised believe that better options for rescheduling debt would improve their situations.



Debt types

Tax debts, VAT debts, unpaid child maintenance, debts to public utility companies, fare evasion fines, education loans, repayable social assistance and rental arrears covered by a public authority are debt types for which the rules of rescheduling/remission could apply. An upcoming act will determine the types of debt that are covered.

Debt rescheduling and debt collection

According to the Danish provisions of debt rescheduling, a range of conditions must be satisfied.

If citizens in Denmark are so hopelessly indebted that they are caught in a “debt trap”, they can apply for debt rescheduling, in this way managing to write down the debt to a realistic level and establishing a repayment scheme. The repayment period for the written-down debt is five years.

To be eligible for debt rescheduling, the debtor must prove that he is unable to fulfil – and has no prospects in the upcoming years of fulfilling – his/her debt obligations (the financial condition).

Furthermore, the debtor’s circumstances and other conditions must favour debt rescheduling (the subjective condition).

A precondition for debt rescheduling is that the debtor earns a stable income. This means that social assistance claimants or unemployed people are generally ineligible for debt rescheduling and have to postpone application for debt rescheduling until they have found work and thus earn stable incomes.

Debt rescheduling entails that all disposable income in excess of reasonable fixed expenses and the normal disposable income for a social assistance claimant is used to repay debts. Thus, a social assistance claimant has no financial incentive to find a job.

In cases falling outside the debt rescheduling provisions, an income increase could also be significantly reduced by small debt collection which in principle reduces an income increase in the same way as a debt rescheduling.



In 2001, Denmark registered 4,962 applications for debt rescheduling, and 1,547 people achieved debt rescheduling in whole or in part. But the practice for approving applicants for debt rescheduling appears to vary significantly from one judicial district to another.

According to the existing provisions, tax debts can be cancelled, whereas social security benefits cannot. However, debt incurred as repayable social assistance becomes statute-barred after five years.