Taxation and Investment in Denmark 2015

Reach, relevance and reliability

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1.0 Investment climate

1.1 Business environment

Denmark is a parliamentary democracy. The Kingdom of Denmark includes Denmark, the Faroe Islands and Greenland.

Denmark is an open economy and its location at the entrance to the Baltic region, EU membership, well-developed infrastructure, and a highly educated and skilled workforce all contribute to its advantage as an export base. (The EU is an economic and political union of 28 countries that operates an internal (or single) market that allows the free movement of goods, capital, services and people between member states.)

EU Member States		
Austria	Germany	Netherlands
Belgium	Greece	Poland
Bulgaria	Hungary	Portugal
Croatia	Ireland	Romania
Cyprus	Italy	Slovakia
Czech Republic	Latvia	Slovenia
Denmark	Lithuania	Spain
Estonia	Luxembourg	Sweden
Finland	Malta	United Kingdom
France		
EU Candidate Countries		
Albania	Montenegro	Turkey
Macedonia	Serbia	
European Economic Area (EEA) Member States		
EU member states	Liechtenstein	Norway
Iceland		

Denmark is one of the most prosperous countries in the EU. Once a primarily agricultural economy, it is now industrialized with a large services sector. Denmark has advanced industries in some high-tech sectors, including pharmaceuticals and biotech, a highly developed financial sector and a major oil and gas industry.

Denmark projects itself as a hub for the Nordic and Baltic regions, Poland and Russia. Copenhagen airport has long been the main hub for Scandinavia. Advantages for investors include low corporate tax rates; low taxation for expatriate researchers and management; a stable economy and currency; a well-educated, linguistically talented, workforce; a technology-oriented economy; flexible labor market; low office rentals; low data and telecommunications rates; and competitive pay scales. Denmark claims particular strengths in information and communication technology, life sciences and renewable energy. The emphasis is on attracting corporate headquarters, shared service and distribution centers, research and development (R&D) facilities and high value-added manufacturing.

In addition to EU membership, Denmark is a member of the European Economic Area (EEA), the World Trade Organization and the OECD. As an EU member state, Denmark is required to comply with all EU directives and regulations and it follows EU regulations on trade treaties, import regulations, customs duties, agricultural agreements, import quotas, rules of origin and other trade regulations. Trade is also governed by the rules of the WTO. Denmark cooperates closely in many ways with other Nordic countries (i.e. Aland, Finland, Iceland, Norway and Sweden) through the Nordic Council.

OECD member countries		
Australia	Hungary	Norway
Austria	Iceland	Poland
Belgium	Ireland	Portugal
Canada	Israel	Slovakia
Chile	Italy	Slovenia
Czech Republic	Japan	Spain
Denmark	Korea (ROK)	Sweden
Estonia	Luxembourg	Switzerland
Finland	Mexico	Turkey
France	Netherlands	United Kingdom
Germany	New Zealand	United States
Greece		
Enhanced engagement countries		
Brazil	India	South Africa
China	Indonesia	
OECD accession candidate countries		
Colombia	Latvia	Lithuania
Costa Rica		

Price controls

The government retains the power to intervene with price controls in cases of emergency.

The Competition Authority can intervene in pricing issues, but generally only to prevent over-pricing. The National Telecom and IT Agency has power in the area of telecommunications prices if it detects abuses. The Energy Regulatory Authority sets prices for monopoly supply segments of energy markets and has broad powers to prevent unfair pricing in the electricity, gas and district heating markets.

Intellectual property

Patents, trademarks, copyrights, and industrial designs and models are legally recognized in Denmark. Danish law permits the granting of an exclusive license, and the recipient may in turn grant sub-licenses. Danish law on patents, trademarks, utility models, designs, copyrights and technology transfer agreements is influenced by EU law and international treaties. The Patent and Trademark Office is a government agency within the Ministry of Economic and Business Affairs.

Patents also can be obtained through the European Patent Office in Germany. Trademarks and designs can be registered with the EU's Office for the Harmonization of the Internal Market in Spain. Patents and trademarks can be registered using the mechanisms of the World Intellectual Property Organization's International Patent Co-operation Treaty and the Madrid Protocol, respectively.

The Patents Act is the key legislation, which ratifies amendments to the European Patent Convention and implements EU Directive 2004/48 on the enforcement of intellectual property rights. Danish patents are granted for 20 years. To obtain a patent, an invention must be new, essentially different from anything that has been done before and capable of an industrial application. A patent grants a right of exploitation. However, a third party that has made a substantial investment in a project and claims prior use has a limited right to continue to use and sell products deriving from a patent if its knowledge of the invention stems from legitimate channels. A licensee may sue in its own name against infringement of the licenser's patent.

Under the Utility Models Act, a utility model may be protected for three years, with an extension of up to 10 years. To obtain registration, a utility model must be novel and inventive.

Danish trademark law is contained in the Trade Marks Act and subsequent amendments to implement the EU Directive on the enforcement of intellectual property rights. The law protects a name automatically; the burden of proving prior common use falls on those contesting the claim. However, it also is possible to register a trademark, provided it is distinctive (either in wording or graphically). Registration is initially for 10 years. No restrictions are placed on the sale of trademarks.

Design registration is for five years and may be extended four times for periods of five years each. However, spare part design protection is available for up to 15 years.

Denmark's copyright law protects artistic works and most design products and computer software. Copyright protection lasts for 70 years from the death of an author; only the owner of the copyright can bring violators of that copyright to court.

1.2 Currency

The currency of Denmark is the danske kroner (DKK). Denmark is not part of the Eurozone.

1.3 Banking and financing

Denmark has a strong financial sector, which is governed by EU rules so that banks, insurance companies and investment services firms from other EU countries are subject to homogenous rules across the EU and can set up in Denmark with a minimum of formalities.

The central bank controls the money supply and credit, and a regulatory agency, the Supervisory Authority of Financial Affairs (FSA), supervises commercial and other banks.

Although Denmark has not adopted the Euro, by virtue of its EU membership it is a member of the economic and monetary union and, therefore, part of the European System of Central Banks and subject to European Central Bank (ECB) oversight of its payment systems. The National Bank's Kronos system is connected with the ECB's target system and Euro payments can be made domestically or to other EU countries on a real-time gross settlement basis.

The Copenhagen stock exchange is part of a Nordic alliance (NOREX) that includes the stock exchanges of Helsinki, Stockholm, Riga, Tallinn and Vilnius, which are becoming more integrated.

1.4 Foreign investment

The Danish government promotes investment through Invest in Denmark, which is part of the Ministry of Foreign Affairs. Local agencies also promote investment in their regions.

As an EU member state, Denmark is bound by the rules on the free movement of goods, persons, capital and certain services. Denmark does not distinguish between EU and other investors because it welcomes all foreign investment. There are no additional permits required for foreign investors. There is no bias against foreign companies in any dealings with the local or national authorities. The only restrictions on real estate purchases apply to the purchase of second/vacation homes. An exception to the openness to foreign investment is a limit on foreign ownership of arms production facilities of 40% of equity and 20% of voting rights. Ownership of aircraft is, in theory, restricted to EEA nationals, but exceptions may be granted. Registration of ships also is restricted to EU nationals and "foreign companies with a major Danish influence."

1.5 Tax incentives

Accelerated capital amortization is provided as follows:

- The purchase price of machinery, equipment and ships acquired for R&D purposes may be deducted in full in the year of acquisition;

- A full deduction may be claimed in the year of acquisition for all types of intangibles acquired for R&D purposes;
- A full deduction in the year of acquisition is generally available for patents and know-how, irrespective of the economic life or purchase price;
- Depreciation on assets acquired for R&D purposes may be deducted before the commencement of the business in which the result of the R&D will be used;
- A special tax credit is available for R&D activities that enables companies to obtain a cash refund of tax losses relating to R&D activities (up to DKK 1.25 million); and
- A free trade zone is available in the port of Copenhagen. This is the only true free trade zone in Denmark, although facilities providing duty-free storage may be available elsewhere.

1.6 Exchange controls

No restrictions are imposed on payments to and from Denmark, although the Danish tax authorities must be informed of certain transactions. Under an anti-money laundering measure, an individual leaving or entering Denmark with more than EUR 10,000 in cash or bearer instruments must report these to Customs.

2.0 Setting up a business

2.1 Principal forms of business entity

The main forms of commercial enterprise are the public limited company (*Aktieselskab* (A/S)), private limited company (*Anpartselskab* (ApS)), entrepreneurial (*Iværksætterselskab* (IVS)), branch of a foreign company, general partnership and limited partnership. Most foreign firms use the A/S or the ApS.

The *Societas Europaea* or SE company form also is available. The SE is designed to enable companies to operate across the EU with a single legal structure, to facilitate mergers and create flexibility for companies wanting to move their head office from one EU member state to another. Companies from two or more EU member states are permitted to merge to form an SE or create an SE holding company or branch. A company may convert an existing firm to SE status without liquidating. One advantage of an SE is that it is possible to move headquarters to another EU member state with minimal formalities.

Businesses (and in some cases individuals) can establish a European Economic Interest Grouping (EEIG). Companies (even non-EU companies if the vehicle is a subsidiary in an EU country) that want to start working with a Danish company but do not want to commit to a formal joint venture, may set up an EEIG. The grouping functions much like a partnership in that profits or losses are taxable only in the hands of its members. At least two of the companies involved must be from different EU member states.

Formalities for setting up a company

The requirements for registering an A/S, ApS or IVS are straightforward and much of the process can be carried out electronically, provided the founder is not a foreign company. All companies and branches must be registered with the tax authorities, the Customs authorities (for VAT purposes) and the Danish Business Authority. Financial institutions are subject to additional rules (in particular, concerning minimum capital requirements and supervision).

The founders of an A/S, ApS or IVS must draw up and sign a memorandum of association, draw up articles of association and set the price of shares offered for subscription, etc. If an existing business is paid in kind, a valuation report must be enclosed with the memorandum. The auditor will normally supply the report, although two valuation experts who are not state authorized public accountants may be used. The company must be registered with the Business Authority no later than two weeks after the date the memorandum of association for an A/S is signed. Until registration is completed, the persons acting on behalf of the company (e.g. founders) bear full legal responsibility for all transactions carried out in the name of the company.

Forms of entity

A/S, ApS and IVS

Capital. *A/S*: An A/S must have a minimum capital of DKK 500,000. Only 25% of the share capital is required to be paid in. Capital may be supplied in noncash forms (e.g. patents, know-how or machinery). An A/S may hold its own shares provided the acquisition of the shares can be made with retained earnings. Accumulated deficits must be covered before dividends are distributed out of current and available accumulated profits. Bearer shares are allowed. *ApS*: The minimum capital requirement for an ApS is DKK 50,000 (or the equivalent in Euro). Rules similar to those for A/S companies apply to ApS companies for paying up capital and distributing dividends. However, at least DKK 50,000 of the share capital must be paid in. *IVS*: An IVS operates under the same rules that apply to an ApS, except the required minimum registered capital is only DKK 1. An IVS is required to put aside 25% of its net profit each year to a special reserve until the reserve, along with the paid-in capital, is at least DKK 50,000. Once the special reserve, together with the paid in capital in the IVS, is at least DKK 50,000, the IVS can be re-registered as an ApS. The IVS will not be able to make dividend distributions before the threshold is met.

Founders, shareholders. All: At least one founder or legal entity is required. Founders do not need to be shareholders.

Directors. *A/S*: The board of directors must have at least three members. *ApS/IVS*: An ApS may have a management board or a board of directors, or both, but must have a board of directors if it has had more than 35 employees for three consecutive years and the employees exercise their right to have representatives on the board. The board of directors must have at least three members.

Types of share. *A/S*: Bearer or registered shares (whether transferable or not) are permitted. Within restrictions, company bylaws may provide for different classes of share. A share class can be issued without voting power and preferred shares also may be issued. *ApS/IVS*: Shares may not be listed on the stock exchange. Title to shares is established only by the listing in the register of shareholders; participation certificates are not evidence of title. All shares are freely transferable and negotiable unless otherwise provided under the bylaws. No restrictions are placed on the voting power attached to the shares. Shares may be issued without voting power if so provided under the bylaws and preferred shares also may be issued.

Control. *All:* Ownership of the majority of voting power gives control but effective control by other means may be recognized under the Companies Act (although a two-thirds majority of represented share capital is required to make changes in the purpose of the company and to the bylaws). One person may hold the entire share capital. Ownership of 90% of the company triggers a right to buy out the remaining shareholders.

Branch of a foreign corporation

A foreign corporation that is legally constituted in its home country may set up a branch in Denmark without any approval if the head office is in the EEA (i.e. the EU, Iceland, Liechtenstein or Norway). Companies from other countries should check with the authorities but, in principle, may set up a branch if they can provide a statement of reciprocity from their own authorities.

A registered branch office of a foreign corporation can carry out any business activity that is included in the objectives of the head office. The head office must register the branch office with the Business Authority and submit the following documents:

- A copy of the articles of association of the head office (if the head office is located outside the EU/EEA);
- A transcript from the local company's register (no more than three months old) concerning the head office, substantiating that the head office is duly incorporated and in existence;
- A power of attorney to a branch manager and a copy of his/her passport if the branch manager is not a Danish citizen; and
- A reciprocity statement if the head office is located outside the EU/EEA or Georgia, Korea (ROK), Switzerland or the US. Denmark has reached agreements with these countries enabling businesses domiciled there to establish branches in Denmark on an equal basis with EU/EEA countries.

The documents must be translated into Danish if required by the Business Authority and Companies Agency, although this requirement normally does not apply to documents in English, Norwegian or Swedish.

A registered branch office must have a name that includes the word "filial" (branch office), together with the name of the head office and the country of incorporation of the head office.

A branch is subject to the same taxes at the same tax rates as domestic companies. There is no branch profits tax in Denmark.

One advantage of a branch is that it generally may distribute profits to its foreign head office free of withholding taxes. However, this benefit is relative since many tax treaties waive withholding tax on dividend payments, and payments to companies in other EU member states are automatically exempt. Another advantage to the branch form is that the head office is more likely to be able to offset tax losses of a branch against head office income than it would be subsidiary losses.

One disadvantage of the branch form is the unlimited liability of the head office for the branch's activities and debts. Interest and royalties paid by a Danish branch to its foreign head office are nondeductible (such items are deductible for the A/S or ApS provided the amounts are reasonable). Management fees are fully deductible only in the case of subsidiaries, although a proportion of the overhead costs of a branch may be deemed to be chargeable to the head office.

Similarly, subsidiaries may deduct interest charged on a parent company loan but a branch may not. Thin capitalization rules apply in both cases, with a debt-to-equity ratio of 4:1 used as the benchmark. Net financing expenses are deductible only if they pass the thin capitalization test and an asset test and an "earnings before interest and income tax" (EBIT) test (see below).

Representative office

A foreign company can set up a representative office in Denmark, which can engage in limited activities of a preparatory nature (e.g. marketing). A representative office is not subject to taxation in Denmark.

2.2 Regulation of business

Mergers and acquisitions

The government welcomes mergers that enhance the competitiveness of Danish business. Certain mergers must be notified to the Competition Authority. Merger control applies only to merging companies with a combined turnover in Denmark of at least DKK 900 million and where at least two of the merging companies have turnover in Denmark of at least DKK 100 million. Alternatively, at least one of the merging companies should have turnover of DKK 3.8 billion in Denmark and at least one of the other companies must have worldwide turnover of at least that amount.

The EU, under its Merger Control Regulation, has jurisdiction in two situations:

1. Where the combined aggregate worldwide turnover of all the undertakings concerned is more than EUR 5 billion and the aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 250 million, unless each of the undertakings concerned achieves more than two-thirds of its aggregate EU-wide turnover in a single member state; and
2. Where the aggregate global turnover of the companies concerned exceeds EUR 2.5 billion; aggregate global turnover in each of at least three member states is more than EUR 100 million; aggregate turnover in each of these three member states of at least two undertakings is more than EUR 25 million and aggregate EU-wide turnover of each of at least two of the undertakings is more than EUR 100 million, unless each achieves more than two-thirds of its aggregate EU-wide turnover within one and the same state.

Companies whose merger normally would not fall under the jurisdiction of the European Commission may request that the commission review the merger if they would otherwise be obliged to notify three or more member states. The commission proceeds as a “one-stop shop” if none of the relevant member states objects within 15 days. The European Commission has powers to delegate to a member state approval of a merger large enough to require notification to the commission but in practice likely to affect only that single member state.

Monopolies and restraint of trade

Monopolies are not illegal in Denmark but abuse of market dominance and anti-competitive agreements are illegal. The Competition Act of 2010 and subsequent amendments define market dominance and concerted practices on the basis of EU principles. The act also makes anti-competitive state aid illegal in line with EU rules.

The Council’s powers against anti-competitive agreements extend to pricing. It can investigate the “reasonableness” of prices fixed by agreement among several companies or by a single market-dominating firm. For single dominant firms, the Council determines the reasonableness of a price on the basis of cost calculations, the corporate budget and annual accounts, using industry practice as a yardstick.

There are few monopolies in Denmark as a result of EU rules on deregulation. The exceptions are some public service providers, such as the state-owned railways and operators of certain types of energy and telecommunications infrastructure. Regulators are in place to ensure fair competition in energy and telecoms.

2.3 Accounting, filing and auditing filing requirements

All business enterprises in Denmark are covered by the Danish Financial Statements Act (DFSA). The DFSA is based on the 4th and 7th EU directives and follows a value-oriented accounting concept, which implies that the accounting in general must be based on the present market value of the assets and liabilities rather than historic cost. Under the DFSA, most Danish limited liability enterprises are required to file an annual report with the Business Authority.

An A/S must file annual financial statements with the Business Authority, including an annual report, a profit and loss account, a balance sheet, a cash flow statement and appropriate explanatory notes. The statements must be audited by either a state authorized public accountant or a registered accountant. Financial statements must be approved by the annual shareholders' meeting within five months of the end of the financial year. The use of International Accounting Standards (IAS) is compulsory for the consolidated accounts of listed companies. An additional outside auditor must be called in if at least 25% of the shareholders so request. All holders of 5% or more of the share capital or voting rights must be listed; and their names and addresses (but not their holdings) must be published in the financial reports.

An ApS must file an annual financial report with the Business Authority. The A/S provisions on publication, access and audit, along with the provisions for information on substantial holdings, also apply to ApS companies, except for some smaller firms. Special disclosure rules apply to listed companies.

A branch must file the annual report of its head office with the Business Authority within five months from the end of its accounting year.

Danish accounting regulations are aligned with international accounting standards, such as IAS, International Financial Reporting Standards (IFRS) and US Generally Accepted Accounting Principles (GAAP). The regulations apply to all business enterprises, except enterprises regulated as financial businesses. In general, there is an obligation to retain bookkeeping material for five years with the possibility to maintain it abroad in certain cases.

Danish companies are subject to audit unless the financial statements for two consecutive years show at least two of the following: (1) a balance sheet that is less than DKK 4 million; (2) turnover less than DKK 8 million; and (3) less than 12 full-time employees.

3.0 Business taxation

3.1 Overview

The principal direct tax affecting companies in Denmark is corporate income tax. The most important indirect taxes are value added tax (VAT), transfer tax, real estate tax, stamp duties and “green” taxes. Other taxes include: withholding tax on dividends and royalties, social security contributions and hydrocarbon tax. Denmark does not levy a branch profits tax, remittance tax, capital duty, share transfer duty or wealth taxes.

Denmark has transfer pricing, thin capitalization and controlled foreign company rules, which are strictly enforced. Denmark has an extensive network of tax treaties that aim to eliminate double taxation.

The Danish tax rules do not cover the Faroe Islands or Greenland, as these regions have their own tax laws under their home rules.

The power to levy taxes is vested in parliament. However, a law must be signed by the Queen and a minister before it can enter into force; the law is then published in the official gazette. The Ministry of Taxation is responsible for the administration and collection of direct and indirect tax.

The main sources of income that are taxable are identified in the Income Tax Law, which has been supplemented by other statutes. Laws are interpreted by reference to comments on the law and case law established by the national courts and the Court of Justice of the European Union, as well as by the National Tax Tribunal, the Tax Department, the tax authorities and the Tax Board.

Denmark has implemented the EU parent-subsidiary, interest and royalties, and merger directives, as well as the EU savings directive, the latter of which requires the exchange of information between tax administrations when interest payments are made in one EU member state to an individual resident in another member state.

Denmark Quick Tax Facts for Companies	
Corporate income tax rate	23.5%
Branch tax rate	23.5%
Capital gains tax rate	0%/23.5%
Basis	Worldwide (but territorial in certain cases)
Participation exemption	Yes
Loss relief	
− Carryforward	Indefinite (but limit on amount)
− Carryback	No
Double taxation relief	Yes
Tax consolidation	Yes
Transfer pricing rules	Yes
Thin capitalization/interest restriction rules	Yes
Controlled foreign company rules	Yes
Tax year	Calendar year or other fiscal year
Advance payment of tax	Yes
Return due date	Within 6 months of end of fiscal year
Withholding tax	
− Dividends	0%/15%/27%
− Interest	0%/25%

− Royalties − Branch remittance tax	0%/25% 0%
Capital tax	0%
Stamp duty	0.6%-1.5%, plus DKK 1,660
Social security contributions	Contributions up to DKK 10,000-DKK 12,000 per year per employee
Property tax	1.6% to 3.4% on the value of the land (depending on the location)
Real estate value tax	Basis is 1% of the value of real estate up to DKK 3,040,000, and 3% of the value exceeding that amount
Payroll tax	12.2% for financial businesses
VAT	25%

3.2 Residence

A corporation is resident if it is incorporated in Denmark or if its place of effective management is located in Denmark. The term "place of effective management" refers to the day-to-day management of the company.

3.3 Taxable income and rates

All companies registered in Denmark are subject to corporate taxation, as are foreign companies carrying on business activities through a permanent establishment (PE) in Denmark.

Resident companies generally are taxed on their worldwide income, although income derived from foreign branch offices of a Danish company and real estate located outside the country is not subject to Danish tax. Other foreign-source income (e.g. interest and royalties) is subject to Danish taxation. Foreign companies with a PE in Denmark are subject to Danish taxation on income from the PE and income from real property in Denmark, and withholding taxes are imposed on certain dividends, interest and royalties (see below).

Corporate tax is imposed on a company's profits, which consist of business/trading income, passive income and capital gains. The corporate tax rate is 23.5% as from 1 January 2015 and will be further reduced to 22% as from 2016.The reduction will not apply to income subject to hydrocarbon tax. A branch of a foreign corporation is subject to the same rate as a resident Danish company.

Group entities under common control, including branches and PEs, are subject to mandatory joint taxation (refer to 3.7 below).

Dividend tax on unlisted portfolio shares is reduced to 70% of the corporate tax rate corresponding to a tax rate of 16.45% for income year 2015 (15.4% for income year 2016).

Taxable income defined

Taxable income comprises gross income less the costs of earning, securing and maintaining that income. The starting point for determining taxable income is the profit or loss shown in the company's statutory financial statements, adjusted for items such as exempt income, disallowable expenses and losses carried forward.

The taxation of dividends (i.e. dividends received by a Danish company from another Danish company or a foreign company) and capital gains on shares depends on whether the shares are considered subsidiary shares, group shares or portfolio shares (gains on unlisted portfolio shares are exempt):

- *Subsidiary shares* are shares in a company (1) in which the shareholder owns directly at least 10% of the nominal share capital; and (2) which is Danish, or foreign and the taxation of dividends paid by the foreign company is waived or reduced under the EU parent-subsidiary directive or a tax treaty between Denmark and the country in which the company is resident.

- *Group shares* are shares in a company that is either subject to mandatory Danish joint taxation with the shareholder company, or qualifies for voluntary Danish international joint taxation with the shareholder company. The basic requirement for international joint taxation is that the group parent company controls, directly or indirectly, more than 50% of the voting power of the Danish and foreign companies.
- *Portfolio shares* are shares that do not qualify as subsidiary shares or group shares.

Dividends on subsidiary and group shares generally are tax-exempt, whereas dividends on portfolio shares are subject to taxation. Anti-avoidance rules will deem subsidiary shares and group shares in certain cases to be owned directly by corporate shareholders of the parent company. Furthermore, dividends received from foreign subsidiaries are taxable for a Danish company if the subsidiary has deducted the dividend payment in calculating its taxable income, unless taxation of dividends paid should be reduced under the EU parent-subsidiary directive. A Danish company also is taxable if an indirect subsidiary of the company has deducted the dividend payment in calculating its taxable income, and the dividend has not been taxed before it is received by the Danish company, unless the withholding taxes on the dividend should have been reduced under the parent-subsidiary directive.

Deductions

Ordinary business expenses (including interest and royalty payments and foreign exchange losses) are deductible in calculating taxable income. Operating expenses are fully deductible if incurred for the purpose of earning income. Such expenses include salaries and personnel expenses. Provided they relate to the company's business activities, 25% of entertainment expenses are deductible. Expenses incurred for establishment or expansion are nondeductible. R&D costs and market research costs are fully deductible in the year in which they arise or they may be depreciated over a five-year period. Computer software is fully deductible in the year of acquisition, as are small capital purchases, i.e. purchases up to a threshold of DKK 12,800 (for 2015). The only taxes that are deductible in computing income for corporate income tax purposes are the real estate tax and social security contributions.

Interest generally is deductible provided the debt involves a genuine legal commitment. Interest paid to a related party must be calculated on an arm's length basis. Rents, royalties, license fees, technical assistance fees and copyright fees are deductible.

Depreciation

The rate and method of depreciation for tax purposes depends on the class of asset.

Machinery, equipment, ships and motor vehicles are depreciated as a single asset pool up to 25% a year (on a declining balance basis) as if they were single composite assets. The depreciation rate is reduced from 25% to 15% for operating equipment with a long economic life, such as certain ships, aircraft and drilling rigs. Special rules apply to leased assets. Losses (or gains) deducted in connection with the sale of ships, machinery and equipment are calculated as the selling price minus the book value tax basis. The result is applied to the aggregate value of the asset pool so that capital gains taxation is unusual.

Buildings normally are depreciated over 25 years at 4% annually. Buildings used for industrial purposes are depreciated under the straight-line method. Certain types of building, such as office and residential buildings, normally are not eligible for tax depreciation, unless these buildings are connected to a building that is eligible for such depreciation.

Leasehold improvements are depreciated over the lifetime of the rental agreement. If no termination date is stated in the agreement, the cost generally may be depreciated on a straight-line basis over a five-year period.

Depreciation on the following is allowed only up to 7% on a declining balance basis: infrastructure used for the transportation, storage and distribution of electricity, water, heat, oil, gas and waste water; installations used for the transmission of radio, television and telecommunication; and fixed railway equipment. The reduced rate does not apply to the IT hardware and software element of the assets.

Goodwill may be amortized by up to 1/7 per year. The taxpayer can choose to amortize patents, know-how and licenses over one year or up to seven years. The seven-year rule applies to other intangibles.

Losses

An operating loss must first be set off against the taxpayer's income from other sources, if any, for the same year. Unrelieved losses then may be carried forward indefinitely. Prior year losses are fully deductible against taxable income that does not exceed a base amount of DKK 7.7475 million (reviewed annually), with any remaining losses only available to reduce remaining income by 60%. For jointly taxed companies the restriction on the use of losses takes place at the level of joint taxation, i.e. it will apply only if the total income of the jointly taxed companies before losses exceeds DKK 7.7475 million. Further, the losses of a company or its jointly taxed subsidiaries may not be used after a tax-exempt restructuring.

The carryback of losses is not permitted.

In the case of a direct or indirect change in control/ownership of more than 50% of the share capital or voting rights of a company that has tax losses carried forward, the losses still may be offset against future ordinary operating income provided the company is active at the time of the change in ownership. However, normally, the losses carried forward, as well as losses incurred in the year of the change of control, may not be offset against future net financial income and lease income from machinery, equipment and vessels.

3.4 Capital gains taxation

Capital gains derived by a Danish corporate shareholder from the sale of group shares, subsidiary shares and unlisted portfolio shares, are tax-exempt (see above under 3.3). Capital gains on listed portfolio shares are subject to tax at 23.5%.

Foreign shareholders generally are not subject to Danish capital gains tax on the disposal of shares in Danish companies, although the distribution of liquidation proceeds normally receives capital gains tax treatment if the proceeds are paid in the calendar year in which the company is finally dissolved. The taxation of capital gains on the liquidation of a company varies depending on whether the shares can be characterized as group shares, subsidiary shares or portfolio shares.

Capital gains derived by a resident company normally are included in taxable income and taxed at the regular corporate income tax rate of 23.5%. The most common types of asset subject to capital gains tax include machinery and other business assets, real estate and certain intangible assets (e.g. patents, trademarks, copyrights and goodwill). Nonresidents are taxed on capital gains only if the gains arise from the sale of real estate in Denmark or of assets relating to a PE in Denmark.

Capital gains derived from the sale of machinery or other equipment for more than its book value, in practice, usually are not taxed directly. Since depreciation is calculated on a pooled basis (i.e. all assets in one category are valued together), any gain on the sale of an asset is reflected in a change in the value of the pool, which will almost always reduce in value over the year.

Gains arising from the sale of real estate are calculated as the difference between the regulated sales price and the regulated purchase price. Losses may be offset only against future gains on the sale of real estate. In the case of a depreciated building, the difference between the sales price of the building and the book value is taxed at the regular corporate income tax rate of 23.5%. Such losses may be offset against other income.

Gains or losses on the sale of intangible assets are calculated as the difference between the sales price and the purchase price with deductions for amortization.

3.5 Double taxation relief

Unilateral relief

Denmark grants unilateral relief for foreign tax paid in the form of a credit against the Danish tax liability. Foreign tax paid may be credited against Danish tax on the same profits but the credit is limited to the amount of Danish tax payable on the foreign net income.

Tax treaties

Denmark has a broad tax treaty network, the aim of which is to eliminate double taxation and provide for reduced rates of withholding tax on dividends, interest and royalties. Most of Denmark's treaties are based on the OECD model treaty, providing relief from double taxation on all types of income, limiting the taxation by one country of companies resident in the other and protecting companies resident in one country from discriminatory taxation in the other country. Denmark's treaties generally contain OECD-compliant exchange of information provisions. Denmark is a member of the Global Forum on Transparency and Exchange of Information for Tax purposes and has entered into a number of bilateral tax information exchange agreements.

Denmark also is a party to the multilateral Nordic tax treaty along with the Faroe Islands, Finland, Iceland, Norway and Sweden.

Nonresidents generally can obtain treaty benefits by applying the treaty directly, i.e. without an application/clearance procedure.

As for withholding tax on dividend distributions where the beneficial owner is not known to the distributing company (typically distributions from listed companies), the nontreaty rate (27%) normally will be applied by the distributing company. Non-Danish custodians may obtain clearance from the tax authorities (Central Office Foreign Tax Affairs) in advance to apply the treaty rate, but not the zero rate that may be applicable to corporate and certain institutional shareholders resident in the EEA.

If tax is withheld at a higher rate than that which should have applied, an application can be made to the Central Office Foreign Tax Affairs for a refund.

Denmark Tax Treaty Network			
Argentina	Germany	Macedonia	Slovenia
Australia	Greece	Malaysia	South Africa
Austria	Greenland	Malta	Sri Lanka
Bangladesh	Hungary	Mexico	Sweden
Belarus	Iceland	Montenegro	Switzerland
Belgium	India	Morocco	Taiwan
Brazil	Indonesia	Netherlands	Tanzania
Bulgaria	Ireland	New Zealand	Thailand
Canada	Israel	Norway	Trinidad & Tobago
Chile	Italy	Pakistan	Tunisia
China	Jamaica	Philippines	Turkey
Croatia	Japan	Poland	Uganda
Cyprus	Kenya	Portugal	Ukraine
Czech Republic	Korea (ROK)	Romania	United Kingdom
Egypt	Kuwait	Russia	United States
Estonia	Latvia	Serbia	Venezuela
Faroe Islands	Lithuania	Singapore	Vietnam
Finland	Luxembourg	Slovakia	Zambia
Georgia			
Denmark also has limited treaties with Bermuda, Cayman Islands, Guernsey, Isle of Man and Jersey.			

3.6 Anti-avoidance rules

Transfer pricing

Denmark's transfer pricing rules apply to transactions with all affiliated companies, whether resident or nonresident. The transfer pricing legislation applies to a person controlled by another person, affiliated companies and head office or PE. The main test of control is direct or indirect ownership of more than 50% of the share capital; or direct or indirect control of more than 50% of the voting power.

Denmark follows the 2010 OECD transfer pricing guidelines, whereby the selection of a transfer pricing method aims to find the most appropriate method for a particular case. When more than one method can be applied in an equally reliable manner, the traditional transaction-based methods are preferable to the transactional profit methods.

Taxpayers are required to prepare and retain transfer pricing documentation by the due date of filing the annual return. The documentation must include a number of elements, including:

- A description of the group's legal and organizational structure, including a specification of the primary business activities of the taxpayer and the related parties with whom the taxpayer has had controlled transactions;
- A summary showing the last three years' revenue and earnings before interest and tax (EBIT) of the taxpayer and of the related parties with whom the taxpayer has had controlled transactions;
- Functional analysis (functions, assets and risks);
- Choice of transfer pricing method(s); and
- A description of comparable data relied on in applying the relevant transfer pricing method(s).

Failure to comply may give rise to penalties that can be significant, the possibility of assessing taxable income on an estimated basis and a reversal of the burden of proof. An exemption from the full documentation requirements exists for small and medium-sized enterprises.

The Danish tax authorities are empowered to require certain businesses that are obliged to prepare transfer pricing documentation to obtain an assurance report from an independent auditor. The auditor may not be the same person who audits the company's annual accounts or who assists in preparing the transfer pricing documentation. The independent auditor will have to certify whether he/she found any evidence that indicates that the company's controlled transactions do not comply with the arm's length principle.

The assurance report obligation applies to companies that have transactions with related parties located outside the EU/EEA and resident in countries that have not concluded a tax treaty with Denmark and to companies that had an average operating deficit for the past four years (according to their annual accounts), measured as the company's operating income before financing, extraordinary items and taxes. Special rules apply to banks and insurance companies.

Both unilateral and bilateral advance pricing agreements are possible.

Thin capitalization

The deductibility of interest expense in Denmark may be restricted under three sets of rules: the thin capitalization test, the asset test and the EBIT test.

1. The thin capitalization test, which limits the deductibility of interest expense on debt owed to group companies and on debt guaranteed by group companies, imposes a debt-to-equity ratio of 4:1 and applies to any borrowing from a legal entity that exceeds DKK 10 million. Companies are deemed to be under common control if a shareholder controls more than 50% of the share capital or more than 50% of the voting power in both companies. These rules apply both to foreign and domestic companies within the group.

2. Under the asset test, net financing expenses exceeding DKK 21.3 million are deductible only to the extent the expenses do not exceed a cap calculated as a standard rate of return (4.2% in 2015) of the tax base of the company's assets (i.e. on a group basis) minus certain financial assets. The cap on net financing expenses is calculated on the basis of the Danish taxable value of all assets less shares, claims, financial contracts and cash. Tax loss carryforwards normally are recognized as an asset. The lessee in a finance leasing arrangement will be able to include the accounting value of the assets, except in the case of finance leasing between companies covered by Danish tax consolidation where the tax value of the assets will need to be used. Intangible assets created by the company itself, as well as group goodwill, have a tax basis of nil. The values of work-in-progress, inventory and receivables are included in the tax basis to the extent they exceed payables. The value of the assets is determined at the end of each fiscal year. Assets transferred to a company from an affiliated foreign company are recognized only if they remain in the company for at least two years. The tax basis of intangible assets acquired from an affiliated company is equal to the tax basis for the transferor, for the purposes of the asset test.

   For companies covered by Danish tax consolidation, the calculation of net financing expenses and the tax basis of the assets will need to be made on an aggregate basis. The DKK 21.3 million threshold is calculated on a group basis. Financing income and expenses paid between tax consolidated companies will be disregarded for purposes of calculating net financing expense. Net financing expenses that are restricted as a result of the cap will not be eligible for carryforward or carryback. Restricted capital losses, however, may be carried forward for three years.

   The asset test does not apply to life insurance companies.

3. Under the EBIT test, if net financial expenses exceed 80% of the taxable EBIT, the excess net financial expenses are not deductible in that tax year but are eligible for carryforward to future years. The maximum reduction of the net financing expense under the EBIT test will be to DKK 21.3 million.

Affiliated companies covered by tax consolidation must calculate taxable income and net financing expenses on an aggregate basis. The DKK 21.3 million ceiling is calculated on a group basis. Financing income and expenses paid between tax consolidated companies are disregarded for the purposes of calculating net financing expenses.

Controlled foreign companies (CFCs)

Denmark has enacted legislation that applies to CFCs. Under the CFC rules, a Danish resident company or a Danish PE of a foreign company may be subject to tax on the total income of a subsidiary or foreign PE of a Danish company in the following cases:

- The subsidiary is controlled directly or indirectly by the Danish resident company;
- The CFC income of the subsidiary constitutes more than 50% of the taxable income of the subsidiary; and
- The subsidiary's financial assets on average constitute more than 10% of its total assets in the income year.

If a subsidiary or PE is considered a CFC, the total income of the CFC (not just the financial/CFC income) will be attributed to the Danish parent and taxed at the normal Danish corporate tax rate of 23.5%. The Danish parent company is taxable in proportion to the ownership share and ownership period.

CFC income includes the following:

- Taxable net interest income;
- Taxable net gains on receivables and debts and financial instruments;
- Dividends that would be taxable under Danish law;
- Net capital gains on shares that would be taxable under Danish law;

- Royalties and capital gains on intangible assets (unless the intangible assets are developed through the subsidiary's own R&D and in the case of royalties, the royalties are received from third parties);
- Taxable finance leasing income;
- Taxable income from insurance, banking and other financial activities for which no CFC exemption has been granted under the exemption regime applicable to certain financial institutions; and
- Taxable gains and losses on disposal of CO_2 quotes and credits.

Denmark does not have a white or black list of countries. Subsidiaries in all jurisdictions (including Denmark) may be caught by the CFC rules.

General anti-avoidance rule

Denmark does not yet have a GAAR, although there are specific rules targeting various situations. As a result of a bill passed on Directive 2011/96/EC a GAAR has been implemented in Danish tax law as of 1 May 2015. The GAAR also covers interest and royalties covered by Directive 2003/49/EC and mergers etc. covered by Directive 2009/133/EC.

3.7 Administration

Tax year

The taxable year is the calendar year or another 12-month period if the taxpayer so elects.

Filing and payment

A company generally must file its tax return within six months of the end of the tax year. An extension may be granted upon application. The statement of taxable income must be submitted with the return form.

A company is required to make two advance payments of tax by 20 March and 20 November of the tax year.

Consolidated returns

There are two types of joint taxation in Denmark:

- Mandatory joint taxation, which applies to all Danish entities (including branches and PEs) within the same group; and
- Voluntary international joint taxation, under which foreign companies and foreign PEs can be included with Danish entities in the same group. If opted for, all foreign companies and foreign PEs must be included.

All Danish entities under common control by an ultimate parent and Danish PEs are subject to mandatory national tax consolidation. Entities are considered to be under common control if, *inter alia*, a company controls more than 50% of the voting power of both entities. The total income of each entity is included in the joint taxation income of the group and tax losses in one entity may be set off against the taxable income of another entity in the group. The administration company and other wholly owned entities within the group are jointly and severally liable for the payment of tax for the group. Other entities than the above-mentioned within the group are liable on a subordinated basis.

An ultimate Danish parent or foreign parent company may opt for Danish cross-border tax consolidation, under which foreign group companies may be taxed jointly with Danish companies. To qualify for cross-border tax consolidation, all global companies under common control must be in the consolidated group. An election for cross-border tax consolidation is binding for 10 years. If the consolidated taxation is terminated during this period, there will be a full recapture of any foreign losses set off against Danish taxable profits.

Statute of limitations

The statute of limitations for an assessment/reassessment is three years and four months. For transfer pricing adjustments, the period is five years and four months. In addition, an extraordinary assessment may be made irrespective of the normal statute of limitations in specific situations. For collection purposes, the statute of limitations normally is three years from the maturity date for the payment of tax.

Tax authorities

The Ministry of Taxation consists of the Tax Department and the tax authorities (SKAT) that are responsible for the administration and collection of direct and indirect tax, a department that helps the Minister of Taxation with legislation and tax policy, and the appeals court, the National Tax Tribunal. The Tax Department is responsible for the legislation and for negotiating tax treaties with foreign countries. SKAT is responsible for the day-to-day administration of the law and ensuring that tax assessments issued are based on uniform principles.

Rulings

A binding ruling can be obtained from the Danish tax authorities on the tax consequences of a proposed disposition or a specific situation. A ruling can normally be obtained in one to three months after filing an application. A ruling is binding for the Danish tax authorities for a maximum period of five years.

3.8 Other taxes on business

Tonnage tax

Shipping companies may opt to pay tonnage tax in lieu of the normal corporate income tax. Once a company elects to be subject to the tonnage tax regime, the election is binding for 10 years.

The taxable base of certain qualifying activities is computed on the basis of net ton per day times fixed rates. Expenses relating to qualifying activities are nondeductible. Nonqualifying activities are taxed at the general corporate tax rules. Qualifying activities include the transportation of passengers or goods between different destinations provided the shipping activity is undertaken by the company’s own ships, ships leased on a bareboat or time charter, ships owned and leased out, provided the lessee uses the ships for qualifying shipping activities and ships leased and subleased, provided the lessee uses the ship for qualifying shipping activities.

Hydrocarbon taxation

Activities carried out in connection with the extraction of hydrocarbons is subject to hydrocarbon taxation. The taxation covers hydrocarbon income including income generated by preliminary surveys, exploration and extraction of hydrocarbons, including construction, operation and maintenance of production facilities and pipelines. Hydrocarbon income is taxed at a special hydrocarbon tax of 52%. Other income generated by hydrocarbon companies is taxed as corporate income at a tax rate of 23.5%.Hydrocarbon income generated by individuals is first taxed at 52% and afterwards taxed at the corporate income tax rate of 23.5% resulting in an effective tax rate of 63,3%. Special rules apply to concessionaires that have obtained permission from the Ministry of Environment to carry out such activities.

Activities outside Danish waters are taxable from day one, unless otherwise stated in a tax treaty.

4.0 Withholding taxes

4.1 Dividends

Dividends paid by a Danish company to a nonresident company generally can be paid free from withholding tax in the following cases:

- The EU parent-subsidiary directive applies;
- The dividends paid by the Danish company qualify as "group shares" (see above under 3.3) where the shareholder is resident in an EU/EEA member state and the Danish withholding tax is waived or reduced under the directive or an applicable tax treaty; or
- The dividends paid by the Danish company qualify as "subsidiary shares" (see above under 3.3).

The withholding tax rate on dividends paid to nonresidents in all other cases (i.e. portfolio shares) is 27%. However, the rate is 15% where the recipient holds less than 10% of the payer company and the tax authorities in the state in which the recipient is resident are obliged to exchange information with the Danish tax authorities either under a tax treaty or other international treaty or convention, or according to an administrative assistance agreement in tax cases. The withholding tax rate may be further reduced under a tax treaty.

Distributions of liquidation proceeds in the calendar year in which a company is dissolved are considered dividends if the recipient is a company that owns at least 10% of the share capital of the company being dissolved and the proceeds are subject to Danish withholding tax on dividends; or is a company that owns less than 10% of the share capital, but is affiliated with the company being dissolved and is liable to Danish withholding tax on dividend income. The latter requirement does not apply if the foreign company is a tax resident in an EU/EEA member state and the Danish withholding tax should be reduced under the parent-subsidiary directive or an applicable treaty if the shares qualified as subsidiary shares.

Certain group-related transfers of shares where the remuneration is wholly or partly not in the form of shares may trigger Danish withholding tax.

Danish withholding tax may be imposed if the Danish company is not the beneficial owner of the dividends received directly or indirectly on subsidiary or group shares and the taxation of the on-declared dividend is not eliminated under the EU parent-subsidiary directive or reduced under a tax treaty.

4.2 Interest

Denmark generally does not impose withholding tax on interest paid to a nonresident. However, in certain cases, a foreign affiliated company may be taxable on interest received on debt from a Danish company at a rate of 25%. The rate may be waived or reduced under a tax treaty or where the interest is paid to a qualifying associated company under the EU interest and royalties directive.

4.3 Royalties

The withholding tax on royalties paid to nonresidents is 25%. The rate may be further reduced or exempt under a tax treaty or where the payment is made to a qualifying associated company under the EU interest and royalties directive.

4.4 Branch remittance tax

No withholding tax is charged on remittances of branch profits to a head office.

4.5 Wage tax/social security contributions

Danish employers are required to withhold and pay wage taxes and social security contributions on behalf of their employees each month. Most social security contributions for Danish employees are paid by the employees themselves (and withheld by the employer); the employer's liability for the social security contributions only amounts to about DKK 10,000-DKK 12,000 per year per employee.

5.0 Indirect taxes

5.1 Value added tax

VAT is levied on the supply of goods and services and on the import of goods and most services. VAT is charged on the full consideration for the good or taxable service supplied, including insurance, transport costs and other ancillary charges (but excluding the VAT itself). VAT is not levied on exports.

The standard VAT rate is 25%. There are no reduced rates in Denmark, but some supplies are exempt; for example, financial services, insurance, medical treatment, education, passenger transportation. Other supplies are zero-rated; for example, export supplies and local supplies of a limited number of goods and services generally related to exports or to international transport.

A business carrying on an exempt activity does not have to charge output VAT or register for VAT purposes, but it is not entitled to recover input VAT charged to it on purchases relating to its exempt supplies. Strictly, a zero-rated supply is taxable, but at a zero rate of VAT. A registered business that supplies zero-rated goods or services does not have to charge VAT to its customers, but it has to register and can recover VAT charged on invoices from its suppliers. All goods exported to non-EU countries are zero-rated, as well as intra-EU supplies when supplied to a trader with a foreign VAT registration number.

Registration for VAT purposes is required for resident companies with annual turnover exceeding EUR 6,720 (DKK 50,000). There is no threshold for nonresident companies (both EU and non-EU). Non-EU companies must appoint a tax representative in Denmark. For companies resident in other EU member states selling goods by mail order or internet (distance selling) to unregistered customers (i.e. end-consumers), a VAT registration threshold of EUR 37,333 (DKK 280,000) per year is applicable.

VAT returns normally are filed monthly within 25 days after the end of the month to which they apply, but companies with turnover between EUR 0.67 million (DKK 5 million) and EUR 6.7 million (DKK 50 million) may file quarterly and businesses with a turnover less than EUR 0.67 million (DKK 5 million) may file VAT bi-annually.

5.2 Capital tax

Denmark does not levy capital duty.

5.3 Real estate tax

Denmark has various taxes on real estate, some of which are paid to the state and others to the local public authorities. The taxable base for the real estate taxes is a valuation completed every second year by the tax authorities, although some taxes are frozen at the value in 2002.

A building tax applies to certain business property at a rate of up to 1% of the value of the building.

5.4 Transfer tax

No

5.5 Stamp duty

Registration of the transfer of certain assets is subject to stamp duty of 0.6%-1.5%, plus DKK 1,660.

5.6 Customs and excise duties

As a member of the EU, no customs duties are imposed on goods from other member states. However, goods from jurisdictions outside the EU are subject to tariffs.

Excise duties apply to a number of items, such as tobacco, alcoholic beverages, chocolate and other foodstuffs containing sugar, energy products and vehicles etc. The taxation of cars is particularly high compared with other EU countries.

5.7 Environmental taxes

Denmark levies a number of “green taxes,” including taxes on carbon dioxide emissions and on waste water.

5.8 Other taxes

Payroll tax

Most services that are exempt from VAT are covered by a payroll tax. There are various methods to calculate the payroll tax, depending on the nature of the supply and the legal form of the supplier’s organization. As a general rule, the tax base is the total payroll +/- profit/deficit. The tax rate in 2015 is 4.12%. Organizations, funds, associations/unions and some other legal entities use a tax rate in 2015 of 6.37% and the total payroll as their tax base. Financial service suppliers also use the total payroll as the tax base, but with a tax rate in 2015 of 12.2% (the tax rate for financial services will increase incrementally each year until it reaches 15.3% in 2021). Publishers of newspapers are subject to a payroll tax in 2015 of 3.54% of the sales value.

Insurance premium tax

Insurance documents are subject to insurance premium tax at a rate of 1.1%.

6.0 Taxes on individuals

Individuals in Denmark are subject to a number of taxes, including the AM-tax (Danish labor market contribution), state tax, municipality tax, health care tax, church tax, share income tax, property tax, inheritance tax, social security contributions and VAT.

Denmark Quick Tax Facts for Individuals	
Overall income tax rate	Progressive to 55.8% (excluding church tax)
AM tax	8%
Church tax	0.43% to 1.40%
Health care tax	5%
Municipal tax	22.5% to 27.8%
Capital gains tax rates	27%/42%
Basis	Worldwide income
Double taxation relief	Yes
Tax year	Calendar year
Return due date	1 May or 1 July
Withholding tax	
− Dividends	27%
− Interest	0% no withholding obligation on payout
− Royalties	25%
Net wealth tax	No
Social security	Employee: DKK 1,080/year Employer: DKK 10,000-DKK 12,000/year
Inheritance/gift tax	0%/15%/25%/36.25%
Property tax	1.6% to 3.4% on the value of the land (depending on the location)
Real estate value tax	Basis is 1% of the value of real estate up to DKK 3,040,000 and 3% of the value exceeding that amount
VAT	25%

6.1 Residence

An individual is resident for Danish tax purposes if he/she is domiciled in Denmark or if he/she stays in Denmark (without establishing residence) for a consecutive period of six months or more. The six-month period is not limited to a calendar year, i.e. any six-month period may trigger tax liability.

6.2 Taxable income and rates

Danish tax resident individuals are subject to unlimited tax liability in Denmark (i.e. they are taxed on their worldwide income in accordance with Danish tax rules, e.g. employment, business income, share income, etc.) unless the income is specifically exempt under Danish tax law or taxation is allocated to another country under a tax treaty. In practice, income is taxed in the year in which it is received. Nonresidents are taxed on Danish-source income (i.e. employment or business income from Denmark, dividend income, board member fees, property income, etc.).

While Denmark's corporate tax rates are modest in international terms, the personal tax burden is high when all forms of taxation are taken into account. The Danish individual tax system is progressive and the rates of national tax are low but rates of local taxation are high.

A special scheme for certain expatriates applies for their first five years in Denmark (see below).

Taxable income

Taxable income is split into the following categories:

- *Earned income*, which consists of employment income, business income, fees, pensions and annuities; social security benefits; and income from scientific, artistic and literary activities.
- *Unearned income*, which consists of certain dividends, interest, some capital gains; profit from renting out from real estate; and the return on certain life insurance policies.

Most earned income is subject to the AM-tax (Danish labor market contribution) of 8% of gross salary/income from self-employment. The AM-tax is deducted from income before other taxes are calculated. The income tax rates are progressive and comprise state, municipality and church tax. The lowest tax rate is about 38% up to a marginal income tax rate of 52%, excluding the church tax. Church tax is a voluntary tax for residents and nonresidents. Including the AM-tax, but excluding the church tax, the marginal tax rate is 55.8%.

Taxable employment income includes bonuses and all kinds of benefits, such as free housing and company cars, in addition to wages and salaries. An individual's profits from commercial activities and professional business operations generally are determined in a similar manner to, and subject to the same rules as, those applying to companies.

Resident individuals are liable for state and municipal income taxes on various gains on disposals of capital assets. Nonresidents are taxed on capital gains only if the gains arise from the sale of real estate in Denmark or of assets relating to a personal establishment in Denmark.

Married couples are taxed separately, although various elements of joint taxation exist.

Deductions and reliefs

Individuals are entitled to an annual personal allowance of DKK 43,400, i.e. the first DKK 43,400 of taxable income (after payment of the 8% AM-tax) is tax-free. Unused personal allowances are transferable between spouses.

The most common deductions are:

- Employee contributions to approved Danish (and in some cases, EU) pension schemes up to DKK 51,700 per year for 2015 (although this threshold does not apply to certain pension schemes);
- Unemployment insurance (actual cost) and union membership subscription (maximum DKK 6,000);
- Interest expense (on mortgage and other debt);
- Double households (maximum DKK 25,900);
- Charitable contributions (maximum DKK 15,000);
- Travel expenses connected to work and not covered by the employer (maximum DKK 25,900); and
- Employment tax credit of 8.05% of earned income up to a ceiling of DKK 26,800.

There are no special deductions for children in calculating taxable income, but state payments for children (paid for children up to the age of 17) are tax-free. These payments range from DKK 11,076 to DKK 17,772 per year, depending on the age of the child, with the highest amount paid for the youngest age group. Additional child support is available for single parents.

Rates

As explained above, the income tax rates are progressive and comprise state, municipality and church tax.

The 8% AM-tax, a flat rate tax imposed on gross income without any deductions, is imposed on most types of earned income. State income tax is imposed at a rate of 8.08% on income from DKK 43,400. An additional tax of 15% is imposed on income exceeding DKK 459,200 (the threshold after the AM-tax is deducted). The municipal, health care and church income taxes are calculated based on taxable income, with tax levied on the part of taxable income that exceeds the personal tax relief allowance (DKK 43,400 for 2015). Each municipality, in principle, determines its own municipality tax rate. The average municipal tax rate ranges from 22.5% to 27.8%. The health care tax is 5%. The church tax, which is optional, ranges from 0.43% to 1.40%.

Taking all of the taxes together, the marginal tax rate on earned income is approximately 55.8%, (excluding the church tax).

Interest income, etc. up to DKK 41,400 for single taxpayers and DKK 82,800 for married couples is taxed as capital income at a maximum tax rate of approximately 36.5%. Income exceeding DKK 41,400/DKK 82,800 is taxed at progressive rates up to 42%.

Capital gains on shares and dividends are taxed at progressive rates as share income at 27% for income up to DKK 49,900 (married couples can receive up to DKK 99,800), and 42% thereafter.

For property that serves as an abode (including summer houses), the following rules apply:

- Danish residents are taxed on property ownership.
- Gains from the sale of property are taxable, unless the property has been used as a private residence.
- Real estate value tax is levied at 1% of the value of the property up to DKK 3,040,000 and at 3% on the value exceeding that amount. The local authorities also tax the value of the land. Rates range from 1.6% to 3.4% of the assessed value. For foreign property, the market value must be used as the basis for the real estate value tax.

For property that does not serve as an abode, Danish residents are not taxed on property ownership, but instead are taxed on capital gains derived from the sale of the property.

Special regime for expatriates

Individuals assigned to work temporarily in Denmark may be eligible for a 31.92% flat rate income tax on employment income for the first five years of their employment. The criteria to qualify for the regime include the following:

- The individual must be a researcher or “key personnel.” Key personnel are defined as individuals with a monthly gross salary of at least DKK 61,500 (as from 1 January 2015), including the AM-tax and Danish social security.
- The individual must not have—or have had at any time within five years prior to employment—a direct or indirect part in the management, control or capital of the company in Denmark (measured as the percentage of ownership and/or voting rights).
- The individual must not have incurred various types of liability in Denmark in the 10 years before commencement of the employment in Denmark (e.g. full tax liability or limited tax liability from employment or remunerated board membership of a Danish company).
- It is possible for an employee to return to the same Danish employer, if certain conditions are fulfilled.

No deductions relating to the employment are granted to individuals who benefit from the expatriate regime and other deductions cannot be used to reduce taxation of the employment income, although the deductions may be used to reduce taxation on private income (e.g. interest income). Other benefits, such as free accommodation and other private income, are taxed according to the ordinary tax rules.

A fast-track scheme has been introduced as from 1 April 2015. The scheme will make it easier for individuals from third countries to obtain a residence permit; however the employee must fulfill certain requirements. To use the fast-track scheme the employer must apply for a certification to hire foreign labor.

6.3 Inheritance and gift tax

Inheritance tax

Inheritances between spouses who are not separated are tax-free. For other members of the immediate family (e.g. children, grandchildren and parents), the estate tax will amount to 15% of the net assets that exceed a basic allowance of DKK 272,900. An additional estate tax of 25% must be paid on the part of the value that is allotted to persons other than the following:

- Children, stepchildren (and their children) of the deceased;
- Parents of the deceased;
- The child or stepchild of a non-separated spouse, regardless of whether the child is alive;
- Persons who have had the same address as the deceased person for the two years before the time of death and persons who previously had the same address as the deceased person for a continuous period of at least two years when the community property is vacated due to placement in an institution, including housing for the elderly;
- The separated or divorced spouse of the deceased; and
- Foster children who have been living with the deceased for a continuous period of at least five years when the stay began before the foster child turned 15.

If additional estate tax of 25% is to be paid, the total estate tax will amount to 36.25%.

The Minister of Taxation is authorized to grant an exemption from the payment of estate tax concerning inheritances, legacies, etc. to public institutions, the Evangelical Lutheran Church in Denmark, congregations, religious societies, associations and companies or foundations with charitable or other nonprofit purposes.

Taxation of gifts

Gifts between spouses who are not separated generally are tax-free. For other members of the immediate family (e.g. children, grandparents and parents), gifts or advances are tax-free if they do not exceed DKK 60,700 in a calendar year. If the value of the gift exceeds this amount, a 15% gift tax must be paid on the excess (36.25% for gifts to step-parents and step-grandparents exceeding the threshold).

Cohabitants and foster children have the same status as other members of the immediate family under the same rules as apply for estate tax purposes.

For gift tax purposes, spouses are considered as two individual grantors and/or recipients.

If a gift is granted to a person who is not subject to the rules on taxation of gifts, e.g. siblings, income tax will be due.

6.4 Net wealth tax

Denmark does not levy net wealth tax.

6.5 Property tax

Danish individuals who own property in Denmark must pay property tax. The tax is 1.6% to 3.4% on the value of the land (depending on the location).

Danish individuals who are fully liable to tax in Denmark are subject to real estate value taxes on real estate owned in Denmark and abroad. Individuals who are not fully liable to tax in Denmark are subject to Danish property value taxes on real estate owned in Denmark. The annual real estate tax is calculated as 1% of the public value of the real estate for the part of the public value that does not exceed DKK 3,040,000 and 3% of the public value exceeding that amount.

6.6 Social security contributions

Danish social security is modest compared to most other countries. The cost for the employee is DKK 1,080 per year (withheld by the employer). The cost for the employer is about DKK 10,000-DKK 12,000 per year per employee.

6.7 Other taxes

Church tax

Individuals who are members of the Danish public church are liable to pay church taxes, which vary depending on the municipality. The church tax rate currently ranges from 0.43% to 1.40% calculated based on the taxable income of the individual.

6.8 Compliance

The taxable period for individuals is the calendar year and most individuals receive a tax assessment automatically based on reported income to the Danish tax authorities. Changes to the tax assessment should be filed by 1 May of the year following the tax year end. Individuals with foreign income or personal business income generally receive a special tax return form with a filing deadline of 1 July of the year following the tax year.

Married couples must prepare separate tax returns.

Income tax and statutory contributions normally are deducted at source by the employer so a wage earner with no unearned income is generally relieved of any filing obligations.

7.0 Labor environment

7.1 Employee rights and remuneration

The regulation of labor law in Denmark is divided into two main categories: (1) regulation of salaried employees; and (2) regulation of blue collar employees.

Several labor laws address holiday entitlement, maternity, paternity and parental leave, equal treatment and nondiscrimination.

Other issues such as notice periods, entitlement to salary during absence owing to sickness, etc. depend on the category of employee. Salaried employees are covered by the Salaried Employees Act and often also a collective agreement, whereas blue collar employees are protected only by mandatory legislation applicable to all employees and in some cases also collective agreements.

A Danish employer is subject to a collective agreement only if it is a member of an employers' association or has entered into or adopted a collective agreement. The fact that employees are members of a union does not mean that the employer becomes bound by a collective agreement.

There are certain areas where Denmark has legislated because of a requirement to implement an EU directive into national legislation.

There are provisions in company law governing employee representation, another area in which EU rules set much of the current framework, but is rooted in Danish tradition.

All employees working more than eight hours per week have a right to written notification of the terms of their employment, including but not limited to: pay, holiday entitlements, probationary periods and the terms under which an employee can be dismissed.

Working hours

The weekly hours of work are agreed between the employer and the employee; the normal working week is 37 hours in both the private and public sectors. Overtime pay normally is paid as 50% above basic pay for the first three hours of additional time or for the first three hours worked on a day on which the employee normally would not work. After that, overtime is paid at 100% of basic pay, as it is for work on Sundays and public holidays. Shift work carries an extra premium. Time off may be given in lieu of overtime. These are benchmarks that may vary in individual agreements and collective agreements, if any. For salaried employees, it is not unusual for the individual employment agreement to include a provision stating that compensation for overtime is taken into account when determining the base salary and no additional payment will be made for any overtime worked.

7.2 Wages and benefits

There is no legal minimum wage; wages vary by sector and by company, and normally are renegotiated annually.

Employees are entitled to maternity/childbirth and paternity leave and unemployment benefits (up to a cap). Unemployment benefits are paid from privately run unemployment funds, which are often run by trade unions but can be cross-sectoral. Membership of a fund is voluntary and it is not necessary to be a member of the union when signing up for a union-run fund.

It is possible to receive "early retirement" pay at age 60, provided the employee has contributed to an early retirement fund and has worked for at least 25 of the previous 30 years. An individual who is eligible for early retirement at age 60 but continues to work until 62 receives a higher amount. The early retirement system is being phased out.

Part-time and temporary employees have the same employment rights as full-time workers. Any financial benefits available to full-time workers are available to these employees on a pro rata basis.

Pensions

The state pension is funded from general taxation. The pension is available from age 65 or 67 depending on the date of birth.

There also is a supplementary pension scheme, the ATP, financed by monthly contributions by both the employee and the employer. Apart from this obligation, there is no legislation governing an employer's pension payment obligation. Pension schemes can be governed by collective agreement or be subject to agreement between the employer and the employee.

Social insurance

The principle underlying the Scandinavian welfare model followed by Denmark is that benefits should be granted to all citizens who meet the requirements, without regard to employment or family situation. However, in the areas of sickness and unemployment, the right to benefits depends on previous employment and sometimes on membership of an unemployment fund and the payment of contributions. Nevertheless, the largest share of the financial burden is carried by the state and financed from general taxation. The state or local authorities undertake most social welfare tasks.

A further characteristic of the Scandinavian welfare model is the entitlement to a wide range of service benefits provided by the authorities, which are often free or subsidized.

Employees of a Danish employer must contribute to the Danish social security system, unless the individual is exempt under EEC council regulations 1408/71 and 883/2004 or a reciprocal agreement between Denmark and another country. No social security contributions are payable by the employer.

Expatriates may not be required to make Danish social security payments if they are still paying into a home country scheme. This is likely to be the case if they are from an EEA country, another Nordic country or Switzerland, or if they are from a country that has concluded a social security agreement with Denmark, i.e. Australia, Canada (and Quebec), Chile, Croatia, Israel, Macedonia, Morocco, New Zealand, Pakistan, Turkey and the US.

Other benefits

Employees have a statutory entitlement to 2.08 days per month of holiday based on a five-day work week, i.e. five weeks per year. Salaried employees paid by the month usually receive full pay during holidays. In addition, the employer must pay a holiday supplement of 1% of the salary earned in the calendar year preceding the holiday year. Blue collar employees usually are paid by the hour and receive a holiday allowance equal to 12.5% of their salary. These are minimum entitlements, which can be exceeded in collective agreements and in individual contracts. A sixth week of holiday has become customary, expressed in collective agreements, individual employment agreements or employee handbooks as five additional days off each year (from an initial entitlement of three days in most cases).

All employers are required to take out industrial injury insurance, which covers occupational diseases. The premium depends on the risk assessment of the industry in which the company operates.

Under the Salaried Employees Act, a salaried employee is entitled to full pay (including any benefits) during absence due to sickness – irrespective of the length of such absence. The entitlement to sick pay, if any, for blue collar workers depends on the collective or individual employment agreement. The cost of sick leave is normally borne by the employer for 30 days of illness, after which time the local authorities will reimburse some of the payment.

Many collective agreements provide for employers to contribute to the funding of the Danish trade union training system.

Voluntary benefits include subsidized canteens, luncheon vouchers, childcare, transport, uniforms, payments-in-kind, group life insurance and profit-sharing.

7.3 Termination of employment

Summary dismissal (and resignation without notice) is possible only in case of gross misconduct.

Different dismissal rules apply to different categories of employee and may be codified in employer-union agreements that differ by industry. The Salaried Employees Act applies to salaried employees. The general rule is that termination must not take place on “unreasonable grounds.” According to many collective agreements, workers aged 18 or older who have been employed for at least nine or 12 months may only be dismissed for justification.

If an employee believes a dismissal was unfair, he/she can take the case to the dismissals tribunal or the ordinary courts. An employer can be required to pay compensation to a salaried or blue collar worker dismissed without having just cause. Union representatives enjoy special job protection and pregnant employees, employees on maternity leave, etc. are also offered certain protection.

The notice period varies, usually depending on the length of employment. Employers and employees can negotiate longer periods.

Danish legislation on collective redundancies is incorporated in the Collective Dismissals Act. The law applies to all dismissals within a 30-day period if companies with between 20 and 100 employees want to make at least 10 redundant, if companies with 100-300 employees want to make at least 10% of the workforce redundant and if larger companies want to lay off more than 30 employees. The Regional Labor Market Council must also be notified. This entity coordinates with the Public Employment Service in providing assistance to individuals made redundant in retraining and finding new jobs.

7.4 Labor-management relations

Union membership generally is voluntary. The Danish’s unions are powerful because of the role they play in negotiating collective agreements. The largest confederation is the Confederation of Trade Unions, with nearly 1.3 million members.

A mediation system is available to assist collective bargaining and to settle conflicts. When an accord cannot be reached, strikes or lock-outs may occur, although they are rare. Wildcat strikes are not banned but they usually are brief, because the labor court can impose substantial fines on strikes that are in violation of a current accord. Once an agreement is in place, it normally is a guarantee against strikes for the duration of the agreement.

Under Danish company law, employee and employer representatives are entitled to one-third of the seats on company boards in firms employing more than 35 employees. Boards of parent concerns must accept representatives of their subsidiaries’ employees. The term of board membership for employee and employer representatives is fixed by law at a minimum of four years, regardless of the period for other board members.

Under the cooperation agreement between the Employers’ Confederation and the Confederation of Trade Unions or the Act on Information and Consultation of Employees, all companies with more than 35 employees for a period of three years should have works councils, also known as cooperation committees. These committees are designed to promote social dialogue in the company’s day-to-day operations. The councils must be informed about all employer-related matters of significance to the employees. The minimum requirements are information on recent and probable development of the employer’s activities and economic situation, information regarding the employment situation with the employer, information and consultation with the employees on decisions that may lead to substantial changes in the work organization or contractual terms of the employees.

Companies with more than 1,000 employees in the EU and at least 150 employees in at least two EU member states are required to have a European works council as a forum for consultation and dialogue, particularly on issues affecting the entire labor force. Major Danish multinationals have such councils, as do foreign multinationals with more than 150 employees in Denmark.

7.5 Employment of foreigners

Denmark’s rules on employment of foreigners distinguish between nationals of Nordic countries (i.e. Finland, Iceland, Norway and Sweden), nationals of Switzerland and EEA countries, and nationals from other countries.

Nordic country nationals need an Internordic relocation certificate from their home country if they stay in Denmark for more than six months. This must be presented to the local municipality in Denmark within five days of arrival. Nordic nationals do not need a residence or work permit. However, if married to a national of a country outside the Nordic or EEA regions and Switzerland, they can opt for EEA rules, as the rules on reunification of family members are more liberal.

Nationals of the second group need a residence certificate if they stay in Denmark for more than three months. They do not need a work permit.

Nationals of other countries must obtain both residence and work permits from the Danish Immigration Service. The application should be sent to the embassy in the person's home country or if a visa is not required to enter Denmark, the application can be sent to the Danish immigration authorities. The prospective employee must not go to Denmark before the application has been approved.

8.0 Deloitte International Tax Source

The Deloitte International Tax Source (DITS) is a free online database that places up-to-date worldwide tax rates and other crucial tax information within easy reach. DITS is accessible through mobile devices (phones and tablets), as well as through a computer.

Connect to the source and discover:

A database that allows users to view and compare tax information for 65 jurisdictions that includes –

- Corporate income tax rates;
- Historical corporate rates;
- Domestic withholding tax rates;
- In-force and pending tax treaty withholding rates on dividends, interest and royalties;
- Indirect tax rates (VAT/GST/sales tax); and
- Information on holding company and transfer pricing regimes.

Guides and Highlights – Deloitte's Taxation and Investment Guides analyze the investment climate, operating conditions and tax systems of most major trading jurisdictions, while the companion Highlights series concisely summarizes the tax regimes of over 130 jurisdictions.

Jurisdiction-specific pages – These pages link to relevant DITS content for a particular jurisdiction (including domestic rates, tax treaty rates, holding company and transfer pricing information, Taxation and Investment Guides and Highlights).

Tax publications – Global tax alerts and newsletters provide regular and timely updates and analysis on significant cross-border tax legislative, regulatory and judicial issues.

Tax resources – Our suite of tax resources includes annotated, ready-to-print versions of holding company and transfer pricing matrices; a summary of controlled foreign company regimes for the DITS countries; an R&D incentive matrix; monthly treaty updates; and expanded coverage of VAT/GST/sales tax rates.

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9.0 Office locations

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