MINISTRY OF FOREIGN AFFAIRS
OF DENMARK
Invest in Denmark

2024

DENMARK

Facts about taxation in Denmark

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FAVOURABLE DANISH TAX CLIMATE

Denmark has a favourable tax climate with a corporate tax rate of 22%, an extensive network of tax treaties and attractive tax rules for expatriates. Other tax incentives include full deduction of patents and know-how in the year of acquisition and the possibility to deduct 108% on R&D expenses (2023-2025). Should R&D costs result in tax losses, companies are entitled to a cash reimbursement of 22% of losses related to those costs – up to a maximum tax value of DKK 5.5 million.

If these beneficial conditions have raised your interest, read on for a brief introduction to the Danish tax regime in its entirety.

INTRODUCTION TO THE DANISH TAX REGIME

The VAT rate in Denmark is 25% (no reduced rates) and companies with a turnover of more than DKK 50 million must file VAT on a monthly basis. There are specific scenarios where a VAT rate of 0% is applicable, including when invoicing international clients or supplying goods to maritime vessels in Denmark. The VAT filing deadline is the 25th in the month following the VAT period. If the 25th falls on a weekend or a holiday, the deadline is postponed to the next working day (except for June, where the deadline is postponed to August 17).

Danish VAT return is very simple compared to other countries:

- no SAF-T reporting or similar, but likely to be introduced in the future (no specific plans yet) When a business carries out fully VAT taxable activity, all input VAT can as a general rule be deducted in full
- VAT is to a large extent neutral for businesses. Please be mindful of the Danish bookkeeping requirements.

CORPORATE TAXATION

Danish corporate entities and foreign companies that are permanently established or have real estate in Denmark are subject to a corporate tax rate of 22% on net corporate income.

Dividends received from a subsidiary are generally tax exempt, as long as the requirements for participation exemption are met (see the section on outgoing dividends). Outbound dividend distributions may be distributed without withholding taxes if the recipient is the beneficial owner and eligible for benefits, according to the EU Parent Subsidiary Directive or a double taxation treaty. Furthermore, as a supplement to the normal corporate tax regime, a lenient tonnage regime applies to shipping activities in Denmark.

TAX LIABILITY OF CORPORATE ENTITIES

All companies with limited liability registered in Denmark – such as A/S (public limited liability company), ApS (private limited liability company) – are subject to corporate taxation.

Foreign companies and European companies (SE Company) are also subject to Danish corporate tax if their effective place of management is in Denmark or if they conduct business activities through a permanent establishment or real property in Denmark.
In most cases, partnerships are transparent for Danish corporate tax purposes.

This means only the partners/individuals are subject to tax and not the partnership as such. Other specific entities, such as commercial foundations, may also be subject to Danish tax.

FULL OR LIMITED TAX LIABILITY

The Danish corporate income tax system distinguishes between resident and non-resident entities.

Resident companies are subject to full taxation according to a modified territorial principle, which means that all income derived from Denmark is subject to Danish taxation. A corporate entity is resident in Denmark if it is registered with the Danish Business Authority or if its effective place of management is located in Denmark, in which case the location of the day-to-day management is normally the determining factor.

Foreign companies with a permanent establishment in Denmark are subject to pay limited tax on income derived from the permanent establishment, as defined under article 5 of the OECD Model Tax Convention. Income and capital gains are generally only taxable if the income/asset is attributable to a permanent establishment in Denmark.

Certain other types of income from Danish sources, such as real estate, are also subject to limited tax liability. Capital gains incurred by corporations due to disposal of immovable property in Denmark are always taxable.

The transfer of assets out of a Danish permanent establishment is, as a general rule, deemed disposal of all assets and liabilities at fair market value, including recapture of depreciation. This applies to inventory, machinery and equipment, intellectual property, financial assets/liabilities etc.

PERMANENT ESTABLISHMENT VS. COMPANY

From a Danish corporate tax perspective, the tax treatment of a permanent establishment and limited liability company is similar. Whether or not a company needs to register as a permanent establishment in Denmark depends on the facts and circumstances.

Generally, a representation office is not subject to Danish corporate taxation and, as a rule, is not required to register for tax purposes. However, registration for other purposes may be required. To avoid being deemed a permanent establishment, the activities performed by a representation office may only be preparatory and auxiliary in nature.

From a Danish corporate tax perspective, the tax treatment of a permanent establishment and limited liability company is similar.

OUTBOUND DIVIDENDS

A Danish company may distribute dividends to a foreign recipient without withholding tax subject to the following conditions:

- The shares in the distributing company qualify as subsidiary shares* or group shares** (i.e. participation exemption).
- And the recipient is the beneficial owner and eligible to obtain benefits, according to the EU Parent Subsidiary Directive or the relevant double taxation treaty.

Accordingly, most foreign companies may receive tax-exempt dividends from a Danish subsidiary, providing these conditions are met.

In 2015, Denmark introduced an anti-avoidance provision (GAAR), which does not grant the benefits of the EU Parent Subsidiary Directive (and the EU Interest Royalty and EU Cross Border Merger Directives) and double taxation treaties. GAAR applies if it can be reasonably concluded that obtaining the benefit is one of the principal purposes of the arrangement/structure and that the beneficial owner is not resident in an EU/EEA or double taxation treaty jurisdiction.

On 1 January 2019, a broader GAAR rule came into force, following the implementation of the EU tax avoidance directives (Directive 2016/1164 of 12 July 2016 and Directive 2017/952 of 29 May 2017).

A special anti-avoidance rule is in place to stop shareholders pooling their ownership through a chain of companies in order to qualify for participation exemption as holders of subsidiary or group shares. Furthermore, Denmark has implemented an anti-tax avoidance rule, which involves withholding taxes on outbound dividends. This applies when a Danish entity distributing dividends has received such dividends for distribution from foreign subsidiaries and cannot itself be viewed as the beneficial owner of such dividends.

Certain exemptions apply to European recipients.

Certain investors (e.g. certain sovereign funds) may be eligible for a dividend exemption certificate.

** Subsidiary shares are defined as shares where the shareholder owns at least 10% of the nominal share capital of the company.*

*** Group shares are defined as shares where the shareholder and the company are subject to mandatory Danish national joint taxation or could opt for Danish international joint taxation. The general requirement for mandatory Danish national joint taxation or for opting for international joint taxation is that the parent company, directly or indirectly, controls more than 50% of the votes of the company.*

A Danish company may distribute dividends to a foreign recipient without withholding tax.

Otherwise, dividends are subject to 27% withholding tax (a 22% or 15.4% rate may apply at source when paid to Danish corporations). Non-resident corporate shareholders are generally eligible for a 22% dividend tax rate. Furthermore, the general withholding tax may be reduced to 15% under Danish domestic law if:

- The shares in the distributing company do not qualify as subsidiary shares or group shares (i.e. ownership less than 10%),
- and the receiving company is resident in a country that has a double taxation treaty or administrative agreement with Denmark, whereby each country is obliged to share information regarding taxation.

All such reductions – as well as reduced dividend withholding tax based on tax treaties – are subject to filing a tax reclaim.

INCOMING DIVIDENDS

Dividends received by a Danish company are generally exempt from tax if the shares in the distributing company qualify as subsidiary shares or group shares.

Otherwise, the following applies:

- 70% of dividends received by a Danish company from unlisted portfolio shares (non-group or non-subsidiary shares, i.e. less than 10% ownership) should be included in the taxable income and taxed at the corporate income tax rate of 22%. The effective tax rate is then 15.4%.

- Dividends received by a Danish company from other shares are fully taxable at the 22% corporate income tax rate.

If the distributing company is registered as a foreign company, then it is a requirement that the distributing company or subsidiary further down in the ownership structure does not deduct dividend distributions from its taxable income.

CAPITAL GAINS ON SHARES

Capital gains from a disposal of shares that are not own shares, group shares or subsidiary shares are taxable at a rate of 22%. Losses from these shares are deductible regardless of the ownership period. Capital gains are generally exempt from tax following the sale of unlisted shares by Danish corporate shareholders.

A corporate tax rate of 22% is only triggered following the sale of listed nongroup or non-subsidiary shares. Such capital gains are generally taxed annually on a mark-to-market basis. Foreign shareholders are not subject to Danish capital gains tax when selling shares in a Danish company to a third party.

Liquidation and redemption proceeds should generally be regarded as tax-exempt capital gains. However, for certain non-qualified shareholders, liquidation and redemption proceeds may qualify as taxable dividends if the conditions for exemption are not met (see section on outbound dividends). Certain other anti-avoidance rules apply in connection with intra-group sales of shares.

SHARES

The following are considered group shares:

- Shares in a company that is subject to mandatory joint taxation under Danish rules together with the shareholder of the company
- Shares in a company that is eligible for inclusion in an international joint taxation arrangement under Danish rules.

Shares are considered subsidiary shares if all of the following conditions are met:

- The shares are in a company in which the shareholder directly owns at least 10% of the share capital.
- The company is in a legal form that is similar to a Danish limited liability company.
- The company is subject to corporate tax in its home country (without exemption).
- The company is located in a country that has an agreement with Denmark on exchange of information.

Own shares are the shares issued by the company.

MANDATORY JOINT TAXATION

All Danish group companies, including the Danish real estate and permanent establishments of foreign group companies, are subject to mandatory joint taxation.

The following rules apply:

- Losses in one Danish company may be set off against taxable income in another Danish company or permanent establishment/real estate under the joint taxation group. If a loss in one group company is used by another group company, then the group company that utilises the loss must pay the administrative company (i.e. the head of the joint taxation arrangement) an amount equivalent to the tax saving. The administrative company should then refund the same amount to the loss-making company. Generally, the top parent company is appointed as the administrative company and, thereby, head of the joint taxation arrangement.

- The main effect of the mandatory Danish joint taxation regime is the ability to utilize tax losses incurred by an affiliated company to offset taxable income of another company. The Danish jointly taxed income is computed as the sum of the net income of each of the affiliated companies on a stand-alone basis.

- Losses from a Danish permanent establishment can only be offset against income in other affiliated Danish entities, providing the loss is not offset against income in the foreign head office.

- International joint taxation with foreign affiliated companies and branches is optional. However, the decision to form an international consolidation group is binding for a period of 10 years.

Moreover, group companies are jointly and severally liable for tax payments and withholding taxes under the joint taxation scheme.

International joint taxation with foreign affiliated companies and branches is optional.

ENERGY AND ENVIRONMENTAL TAXES

Businesses are normally fully exempt from energy taxes:

99.5%

For electricity its possible to deduct up to 99.5% of tax.

Up to 86.5% of the tax for fuels used for the production of goods. There is no exemption for the energy tax for fuels used on heating. If there is a mixed usage of the fuels, the allocation between the two must be done by measuring the fuel used for production of goods.

86.5%

DEDUCTION AND DEPRECIATION

Business expenses incurred when acquiring, securing and maintaining taxable income are generally deductible. The following general conditions apply:

- Interest expenses related to a loan are subject to Danish interest restriction rules (see Other restrictions on interest deductions).
- Machinery and equipment are depreciated on a pool basis using the declining-balance method. The tax payer can generally choose a depreciation rate of 25%. Depreciation of certain assets with a long lifespan, e.g. ships, airplanes, certain infrastructure assets, etc. is reduced to 7-15%.
- Buildings and installations are generally depreciated at a rate of up to 3% using the straight-line method. Buildings and installations may only be depreciated at a rate of 4% if they were acquired before 1 January 2023.
- Goodwill and other intangibles may be amortised over seven years using the straight-line method.
- Some specific costs are subject to limitations in the right to deduct VAT, e.g.; Restaurant, Passenger cars, Presents, Employee phones with private use.

However, the acquisition costs of patents and acquired know-how may, as an alternative to the straight-line method, be fully deducted in the year of acquisition.

LOSSES

Denmark has fully implemented the EU rules regarding European public limited companies (SE companies).

Losses may be carried forward indefinitely. However, with regard to tax losses realised in previous income years, the annual amount deductible is limited to DKK 9,457,500 in 2024 on a consolidated level. The remaining losses carried forward may only reduce the residual income by up to 60%.

CASH CREDIT FOR R&D LOSSES

Loss-making companies may receive a cash tax credit for losses related to R&D costs. The cash credit amount is based on a maximum tax value of DKK 25 million. This means companies with R&D activities can receive a payment equal to the tax value, i.e. 22% (DKK 5.5 million) of the loss-making R&D costs.

Danish taxpayers are also entitled to deduct R&D expenses. The deduction will be as follows:

Income year	Rate of Deduction
2021	130%
2022	130%
2023-2025	108%
2026 and onwards	110%

TRANSFER TAXES

Denmark does not tax net wealth or worth. Furthermore, there are no stamp duties or transfer tax on the transfer of shares, bonds, securities, intangibles and capital nor any capital duty on the formation and expansion of company capital.

When transferring immovable property, a registration levy of DKK 1,850 applies plus 0.6% of the transfer amount. A levy also applies to mortgage agreements concerning immovable property and transfers of vessels and aircraft, including related mortgages. No real estate transfer tax is payable in connection with an indirect disposal of real estate, including a transfer of shares in a Danish company holding Danish real estate assets.

Denmark levies excise duties on, for example, alcoholic beverages, cars, chocolate, sugar, gasoline, certain insurance policies and tobacco.

SPECIAL PAYROLL TAXATION

Special payroll taxation applies only to companies that conduct specific VAT- exempt activities and is based on payroll related to employees that carry out work associated with these activities.

Methods and rates of taxation vary according to the type of VAT-exempt activity, such as financial, import and newspaper publishing.

TRANSFER PRICING

Transactions between group companies are considered controlled transactions and are subject to the arm's length principle. Danish law on controlled transactions generally follows the recommendations of the OECD and Transfer Pricing Guidelines. The following conditions apply:

- Larger groups that exceed certain thresholds are required to prepare contemporary transfer pricing documentation which should be finalised by the time of the tax return.

- For income tax years beginning as of 1 January 2021, new legislation requires taxpayers to submit annually their transfer pricing documentation (including Master file and Local file) to the Danish tax authority no later than 60 days after the tax return deadline.

- Taxpayers related to smaller groups are only required to provide partial documentation.

- A specific transfer pricing return must be filed with the tax return, containing information about the types of controlled transactions and related amounts.

Denmark has implemented country-by-country reporting requirements and enforces a specific transfer pricing penalty regime. Please note the following thresholds are applicable for companies with Danish entities and/or permanent establishments engaging in cross-border related party transactions on a global, consolidated group level:

1. The company employs more than 250 employees, and/or
2. More than DKK 125 million (EUR 16,767,350) in assets and more than DKK 250 million (EUR 33,535,250) in revenue.

THIN CAPITALISATION

Thin capitalisation may apply if a group's intercompany debt exceeds DKK 10 million and the debt to equity ratio exceeds 4:1 at the end of the year. Capital losses that are restricted by the thin capitalisation provision may, however, be carried forward and set off against future capital gains in respect of the same debt relationship.

OTHER RESTRICTIONS ON INTEREST DEDUCTIONS

Due to the interest ceiling limitation, Danish entities are only allowed to deduct net financial expenses if they do not exceed the taxable value of the entities' (qualifying) assets multiplied by a standard rate (6% for 2024) or the basic amount of DKK 21.3 million (2024). Restricted net financial expenses below the interest ceiling limitation are forfeited. The rules stipulate that the tests are performed in the above order, i.e., any interest that is limited by thin capitalization rules would be excluded from the interest ceiling rule, etc.

The EBITDA rule was implemented in Danish tax law with effect from 1 January 2019. According to the EBITDA rule, companies, funds, association and other entities subject to corporate income tax are generally only allowed to deduct exceeding borrowing costs from taxable income by a maximum amount corresponding to 30% of the taxable income before borrowing costs and depreciation and amortisation (EBITDA). The exceeding borrowing costs as well as EBITDA should generally be calculated on a consolidated basis for the jointly taxed group. It should be noted that, according to the new rules, net financial expenses of approx. DKK 22.3 million are always deductible (calculated on joint taxation basis).

Exceeding borrowing costs are generally calculated as the sum of net financial expenses under the interest ceiling rule after potential interest limitations under the Danish thin capitalisation and interest ceiling rules.

Reduced borrowing costs may be carried forward without any time limitation, and unused interest deductibility capacity may be carried forward for five years.

CONTROLLED FOREIGN COMPANY TAXATION (CFC TAXATION)

Danish CFC-taxation involves a Danish parent company being taxed on income generated in a foreign subsidiary or branch. If the CFC-rules apply, the Danish parent is taxed in Denmark on a proportional part (equal to the ownership interest) of the subsidiary's income.

The following are generally the two main criteria for Danish CFC-taxation to apply:

- More than 1/3 of the income in the subsidiary is CFC-income

- The parent company alone or jointly with other group companies directly or indirectly owns more than 50% of the share capital, controls more than 50% of the votes or is entitled to more than 50% of the subsidiary's profits.

The rules apply to financial companies only if more than 1/3 of the CFC-income in the subsidiary derives from transactions with the parent or associated persons.

A parent company can elect to include only the CFC-income as opposed to the total income of the subsidiary. Such election is binding for five years and applies to all subsidiaries.

CFC-income is generally financial income, royalties, gains on intellectual property and "other income from intellectual property" (incl. embedded royalties). Goodwill is not considered intellectual property for CFC-purposes.

According to a substance test, CFC-taxation does not apply to "other income from intellectual property" if the subsidiary conducts "significant economic activity related to the intellectual property, and this activity is supported by personnel, assets and premises." CFC-taxation also does not apply to other income from intellectual property that is a product of R&D-activities carried out by the subsidiary or group-related companies located in the same jurisdiction as the subsidiary.

PERSON INCOME TAX

SOCIAL SECURITY CONTRIBUTIONS

Unless an employee is covered by social security in another country according to Title II in EC Regulation No. 883/2004 or any other agreement, Danish social security applies to the employer and employee when work is performed exclusively in Denmark. Danish social security contributions are calculated on the basis of working hours.

If the employer chooses to make use of collective bargaining, this may include additional costs for the employer and employee, e.g. additional pension insurance. Such additional costs are not covered by Danish social security.

EMPLOYERS

Mandatory social security contributions in Denmark consist of six contributions, which are all paid to the Supplementary Labour Market Pension Fund (ATP) at a total cost of approximately EUR 2,000 per employee a year.

In addition, employers are obliged to take out industrial injury insurance with an occupational insurance company, in compliance with the Workers' Compensation Act. The cost of this insurance depends on the trade or industry and the category of risk and may vary between EUR 400 and EUR 650 per employee per year.

EMPLOYEES

Employees are liable to a supplementary labour market pension contribution of around EUR 160 a year for full-time employment. The employer is obliged to withhold and pay the employee contribution to ATP.

Mandatory social security contributions in Denmark consist of six contributions, which are all paid to the Supplementary Labour Market Pension Fund (ATP) at a total cost of approximately EUR 2,000 per employee a year.

SPECIALIST SUPPORT FOR SETTING UP IN DENMARK

Invest in Denmark provides all the support you need for locating your business in Denmark. So, if you are considering setting up or expanding your activities in Denmark, make us your first stop.

Our specialised, international staff can advise you on every aspect of locating in Denmark. Not only when you set up, but also as your business grows.

Our tailor-made solutions include connecting companies with key local contacts, arranging fact-finding tours and providing comprehensive benchmark analyses. We make sense of local legislation and the advantages of locating in Denmark – all free of charge and fully confidential.

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best country for business

DENMARK LEADS THE GLOBAL OPPORTUNITY INDEX 2024

#1

IN EUROPE FOR EASE OF DOING BUSINESS

The World Bank (2012-2020)

BEST

labour regulations
in the world

IMD (2023)

#2

MOST DIGITAL COUNTRY IN THE EU

Digital Economy and Society Index (2022)

#1

DENMARK TOPS EUROPEAN INNOVATION SCOREBOARD 2023

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#1

IN THE WORLD ON CLIMATE CHANGE ACTION

Environmental Performance Index, Yale University, 2023

100%

GREEN ELECTRICITY BY 2027

DENMARK AIMS TO BE POWERED ENTIRELY BY RENEWABLE SOURCES BY 2045

63 %

PRODUCED SOLAR & WIND POWER BY 2023

Energinet, 2024

#2

WORLD'S BEST ENERGY SYSTEM

World Energy Council, 2022

MINISTRY OF FOREIGN AFFAIRS
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OUR GLOBAL PRESENCE

WE LOOK FORWARD TO WELCOMING YOU TO DENMARK

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