

Setting up in Denmark

6. Taxation

The Danish tax system for individuals rests on the global taxation principle.

The principle holds that the income of individuals with full tax liability is taxed in Denmark irrespective of whether the income is earned in Denmark or abroad. The tax system for Companies rests on the territorial taxation principle. Neither individuals nor companies pay wealth tax in Denmark.

Individuals with full tax liability are generally individuals living in Denmark.

Companies with full tax liability are generally companies which are registered with the Danish Commerce and Companies Agency. Foreign companies which are managed from Denmark are also subject to full tax liability.

Relief from double taxation is granted under the double taxation treaties which Denmark has concluded with other countries, or under internal Danish rules.

Individuals and companies with limited tax liability are taxed only on income from certain activities in Denmark and on certain specific earnings. Only costs directly related to the income are tax-deductible.

Individuals and companies with limited tax liability are generally not taxed in Denmark on the yield on Danish bonds or interest earned on deposits with Danish banks. Their share dividends are subject to a 28 per cent dividend withholding tax. This coupon tax is refundable wholly or partly if Denmark has a double taxation treaty with the investor's country of domicile. Subject to specified conditions, dividends can be paid net of the reduced treaty withholding tax to private investors resident in certain countries.

The purpose of this section is solely to render a brief account of some of the tax rules which are relevant to business enterprises wishing to set up in Denmark.

Anyone wishing to set up a business in Denmark should seek professional advice from a lawyer or accountant.

6.1 Income tax

6.1.1 Companies

The corporation tax rate is 25 per cent. The tax is payable on account in two instalments (March and November) in the income year, with a final settlement in November of the following year.

The advance tax is initially set at a rate of 50 per cent of the average of the previous three years' income tax.

A company registered in Denmark may be taxed jointly with both Danish and foreign subsidiaries on condition that the share capital of the subsidiary is controlled by the company.

All transactions with related parties must be entered into on an arm's-length basis. The pricing method must be documented. There are rules on thin capitalisation, which generally limit the possibility of deducting interest and capital losses on debt to persons and companies controlled from abroad if the Danish company's debt-equity ratio exceeds 4:1. Loans from third parties for which collateral has been supplied are considered a basis for controlled debt.

Special rules limit the possibility of deducting interest expenses exceeding DKK 20.6 million.

For Danish holding companies that own at least 15 per cent (10 per cent as of 2009) of the share capital of a company with full tax liability in Denmark, dividends will be paid without Danish tax being withheld.

Similar rules generally apply to foreign holding companies in the EU or another country with which Denmark has entered a double taxation agreement. There are special rules on dividends from certain financial companies, however. In general, these rules have made Denmark an attractive domicile for holding companies.

An example of a corporation tax computation is shown at the end of this section.

6.1.2 Individuals

The income of individuals with full tax liability is classified as personal income, capital income and share income. Personal income includes salary, the taxable value of fringe benefits such as free housing and a free car, earnings from independent business activities, pension income, etc. There is a deduction from income of 4.0 per cent, with a maximum of DKK 12,300 (2008). The deduction is calculated on wages or salary less deductible pension contributions. The maximum tax value of the deduction is about DKK 4,100 (2008). Capital income comprises interest earnings, taxable gains on shares (SKAL SLETTES) and profit from real property companies; gains on real property used as a residence by the owner, however, are generally exempt from taxation. All interest expenses are deductible as negative capital income. Share income includes dividends earned from Danish and foreign companies and taxable gains on shares.

There is a 8 per cent social security levy on employment income and business profits. The levy is deductible from personal income. The income brackets noted below apply to income after deduction of the levy.

Taxation is progressive. The sum of personal income and positive net capital income up to DKK 279,800 (2008) is taxed at a rate of about 39 per cent (2008), depending on the level of local taxes. Income over DKK 279,800 (2008) is subject to an additional 6 per cent tax. Income in excess of DKK 335,800 (2008) is subject to a further 15 per cent tax. The maximum marginal rate

is 59 per cent. If the total taxes give a cumulative rate over 59 per cent, the 15 per cent tax rate is reduced.

Capital income is calculated as a net amount (for example interest earnings less interest expenses), and positive net capital income is subject to a marginal rate of up to 59 per cent, whereas negative net capital income has a tax value of only about 33 per cent (2008).

Dividend income from Danish and foreign companies is subject to 28 per cent share income tax, provided it does not exceed DKK 46,700. Income between DKK 46,700 and DKK 102,600 is taxable at a rate of 43 per cent. Income exceeding DKK 102,600 is taxable at a rate of 45 per cent. The thresholds for calculating share income tax are doubled for spouses. Taxation of share income at a rate of 45 per cent takes effect as from 2008. Lifting the tax rate to 45 per cent has resulted in the introduction of a interim balance to ensure that profits generated at a corporation tax rate higher than 25 per cent are taxable at a maximum rate of 43 per cent.

Allowances such as travel allowances and maintenance payments to a former spouse or children generally have a tax value of 33 per cent in 2008.

There is no deduction for payments to private health insurance schemes.

The total tax is reduced by the tax value of a personal allowance amounting to about DKK 15,900 (2008).

An example of an individual income tax computation is shown at the end of this section.

Expatriate staff who are stationed in Denmark may under certain conditions choose to pay 25 per cent tax on gross employment income, excluding certain payments in kind, which are subject to the normal tax rates. When the social security levy is taken into account, total taxation is about 30 per cent. This tax rate may apply for a maximum of three years.

The following conditions must be fulfilled: the monthly salary must be at least DKK 61,700 net of social security levy (2008), the contract of employment must have been concluded with a Danish person or company or a person or company that has a permanent establishment in Denmark. Full tax liability begins as soon as employment commences.

Other income, such as certain payments in kind and interest earnings, is taxed in accordance with the general rules.

At present, the Danish tax authorities consider supplementing the present 25 per cent tax regime with a new regime under which staff are liable to pay tax at a rate of 33 per cent for a period of five years. Staff will be able to choose between the two regimes.

6.2 Some deductions

Depreciation of buildings: Buildings used for production purposes can normally be depreciated using the straight-line method at a rate of 4 per cent per year until the building is fully depreciated. The depreciation base is that part of the cash acquisition sum which is attributable to the building itself. No depreciation may be taken on office buildings, except for ancillary buildings, or land.

Machinery, office equipment, motor cars: The cash acquisition cost of machinery, office equipment and motor cars, is pooled and depreciated at 25 per cent using the reducing balance method. Full depreciation is allowed in the year of acquisition, unless the asset is to be used for leasing, when there is no depreciation in the first year unless special approval has been obtained. If no depreciation is allowed in the first year, leasing assets are depreciated at 50 per cent in the second year and 25 per cent in subsequent years.

In the year of sale, the sales proceeds are deducted from the opening balance of the plant and equipment pool, before depreciation allowances are taken.

Special deduction rules govern infrastructure installations and machinery and equipment of a permanent nature.

Royalties: Royalty payments are fully deductible. If the recipient is not fully taxable in Denmark, the payer must withhold 30 per cent royalty tax. The royalty tax may be avoided wholly or in part if a double taxation treaty confers the right of taxation wholly or partly on the recipient's country of residence.

Interest expenses: Interest expenses are deductible on an accrual basis for companies and on the due date for individuals, subject to payment within certain time limits.

Income tax: Taxes paid cannot be deducted from taxable income.

Losses: Negative taxable income may be carried forward and set off against taxable income with no time limit. Negative taxable income cannot be carried back.

6.3 VAT and excise duties

The current VAT rate on goods and services is 25 per cent of the sales price. Enterprises registered for VAT may set off VAT paid against VAT received on their sales, and are required to pay the difference to the tax authorities.

All goods and services are subject to the same VAT rate. Imports from countries outside Denmark are subject to VAT. Excise duties are also levied on imports from other countries. Exports from Denmark are usually exempt from VAT.

6.4 Special oil and gas tax

Enterprises engaged in oil exploration, extraction, transportation and related activities in Denmark are subject to a special form of taxation – the hydrocarbon tax.

6.5 Tax rules for shipping companies

Shipping companies may choose to pay tax according to special rules. Instead of computing taxable income in accordance with the ordinary rules, they may compute taxable income on the basis of net tonnage per day per vessel, regardless of actual earnings.

The company's other income is computed in accordance with the ordinary rules.

Double taxation treaties

As of January 2008, Denmark had concluded double taxation treaties with the following countries:

Argentina	Germany	Morocco	Tanzania
Armenia*	Greece	Netherlands	Thailand
Australia	Greenland	New Zealand	Trinidad and Tobago
Austria	Hungary	Norway	Tunisia
Azerbaijan	Iceland	Pakistan	Turkey
Bangladesh	India	Philippines	Uganda
Belgium	Indonesia	Poland	UK
Belarus*	Iran	Portugal	Ukraine
Bosnia-Herzegovina	Ireland	Rumania	USA
Brazil	Israel	Russia	Venezuela
Bulgaria	Italy	Serbia-Montenegro**	Vietnam
Canada	Jamaica	Singapore	Yugoslavia
Chile	Japan	Slovakia**	Zambia
China	Jordan	Slovenia	
Croatia**	Kenya	South Korea	
Cyprus	Latvia	South Africa	
Czech Republic	Lithuania	Spain	
Egypt	Luxembourg	Sri Lanka	
Estonia	Macedonia	Sweden	
Faroe Islands	Malaysia	Switzerland	
Finland	Malta	Taipei	
France	Mexico	Taiwan	
Georgia*	Moldavia	Tajikistan	

* CIS agreement (the former Soviet Republics).

** The Yugoslavian agreement is used.

Example:

Corporation tax computation

	DKK
Income after tax according to financial statements	1,000,000
Additions	
Taxes according to financial statements	600,000
Book depreciation	300,000
Non-deductible costs	50,000
	<u>950,000</u>
	<u>1,950,000</u>
Deductions	
Tax depreciation	400,000
Non-taxable income	<u>20,000</u>
Taxable income	<u>1,530,000</u>
Corporation tax at 25 per cent	<u>382,500</u>

Generally payable as advance tax in two instalments on
March 20 and November 20

Example:

Income tax computation for an individual (2008)

The individual is assumed to be unmarried.

	DKK
Personal income (salary 500,000, social levy 40,000)	460,000
Capital income, net	+30,000
Deductions	- 10,000
4.0 per cent of 500,000, max. 12,300	- 12,300
Taxable income.....	<u>467,700</u>
Lower rate tax (about 39 per cent of 467,700 *).....	182,403
Intermediate rate tax (6 per cent of 210,200) (460,000+ 30,000 - 279,800)	+12,612
Higher rate tax (14 per cent of 154,200**) (460,000 + 30,000 - 335,800)	+21,588
Tax value of personal allowance (39 per cent of 41,000)	<u>- 15,990</u>
Income tax.....	200,613
Social levy	<u>+40,000</u>
Total tax and social levy	240,613

* The lower rate tax includes a variable local authority tax and health care contribution.

** The higher rate tax is reduced from 15 per cent because of the maximum marginal rate 59 per cent.