KPMG

# Denmark Country Profile

EU Tax Centre

June 2021

## Key tax factors for efficient cross-border business and investment involving Denmark

**EU Member State**

Yes.

**Double Tax Treaties**

With the following countries, territories and jurisdictions:

Argentina, Armenia, Australia, Austria, Azerbaijan, Bangladesh, Belarus, Belgium, Bermuda, Brazil, British Virgin Islands, Bulgaria, Canada, Cayman Islands, Chile, China, Croatia, Cyprus, Czech Rep., Egypt, Estonia, Faroe Islands, Finland, Georgia, Germany, Ghana, Greece, Greenland, Guernsey, Hong Kong SAR, Hungary, Iceland, India, Indonesia, Ireland, Isle of Man, Israel, Italy, Jamaica, Japan, Jersey, Jordan SAR, Kenya, Rep. of Korea, Kuwait, Latvia, Lebanon SAR, Lithuania, Luxembourg, Macedonia, Malaysia, Malta, Mexico, Montenegro[a], Morocco, Netherlands, New Zealand, Norway, Pakistan, Philippines, Poland, Portugal, Romania, Russia, Serbia, Singapore, Slovakia, Slovenia, South Africa, Sri Lanka, Sweden, Switzerland, Taiwan, Tanzania, Thailand, Trinidad & Tobago, Tunisia, Turkey, Uganda, UK, Ukraine, US, Venezuela, Vietnam, Zambia

Note: (a) Treaty signed with former Yugoslavia applies.

**Most important forms of doing business**

Public Limited Company or Stock Corporation (Aktieselskab - A/S), Private Limited Company (Anpartsselskab - ApS).

**Legal entity capital requirements**

A/S: DKK 400,000.

ApS: DKK 40,000.

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| **Residence and tax system** | A company is resident if it has been incorporated in Denmark or if the place of effective management is in Denmark. A modified territorial income condition applies for resident companies. Generally speaking, income from permanent establishments (PEs) and foreign property is not included in a company's taxable income. However, the worldwide tax liability applies: if a group has opted for international joint taxation (see below); if there is a Controlled Foreign Company (CFC) tax liability (see below). The following are also subject to taxation: international shipping and air transport activities; dividends from foreign entities, Danish-sourced interest and royalties (in certain circumstances). |
| **Compliance requirements for CIT purposes** | Filing of: corporate income tax (CIT) return, appendix to tax return concerning controlled transactions (if applicable) and of Tax Statements (if applicable), assessment of joint taxable income (if applicable) and group structure chart (if applicable). On account CIT payments are due on March 20 and November 20. |
| **Corporate Income tax rate** | 22 percent (2016 onwards). |
| **Withholding tax rates** | On dividends paid to non-resident companies<br><br>The general withholding tax (WHT) rate is 27 percent. Under most tax treaties the rate is reduced to 15 percent via reclaim.<br><br>Relief at source for non-Danish entities is only available when the Parent-Subsidiary Directive applies, in which case the participation exemption implies that no WHT is due (0 rate), or if a Danish tax exemption certificate has been issued to the payee (available for certain sovereign funds, etc.). Please refer to the section on Holding Rules below.<br><br>On interest paid to non-resident companies<br><br>As a general rule no WHT on interest payments applies. However, a 22 percent WHT applies to interest payments on certain ‘controlled debts’.<br><br>On patent royalties and certain copyright royalties paid to non-resident companies<br><br>22 percent / possible exemption.<br><br>On fees for technical services<br><br>No.<br><br>On other payments<br><br>No.<br><br>Branch withholding taxes<br><br>No. |

**Holding rules**

Dividend received from resident/non-resident subsidiaries

Exemption (100 percent) applies to dividends from subsidiary shares (10 percent or more participation and the subsidiary is located in an EU or treaty country that includes a treaty agreement regarding exchange of information and must pay more than 0 percent CIT) and to dividends from group company shares (majority of votes).

Capital gains obtained from resident/non-resident subsidiaries

Non-resident shareholders are not subject to Danish capital gains tax on the disposal of shares in Danish companies.

Generally, any capital gains resident companies realize on the sale of unlisted shares are tax-exempt. However, capital gains on the sale of listed (non-group/non-subsidiary) shares are subject to 22 percent CIT. Such gains are taxed annually on a mark-to-market basis. Capital gains on bonds and other debt are generally subject to 22 percent CIT.

**Tax losses**

Losses from a business activity can be offset against positive income and may be carried forward indefinitely. A change in ownership (more than 50 percent) may restrict this so that the losses may not be used to reduce the taxable income below the net income from capital.

Losses carried forward from previous years exceeding DKK 8,767,500 (2021) can only be used to reduce future income by 60 percent.

**Tax consolidation rules/Group relief rules**

Joint taxation is mandatory for Danish group companies, Danish PEs, and Danish property. In general, Group relation exists if the ultimate owner of more than one Danish entity holds more than 50 percent of the equity or voting rights of the Danish entity.

International joint taxation continues to be optional.

Where it is elected, all foreign and Danish group companies and PEs/property must be included in the international joint taxation. This also applies to foreign parent/related companies.

The value of foreign tax losses deducted in Danish international taxation will be added to a balance of account (re-taxation balance). Generally, the election for international joint taxation will be binding for a period of 10 years. If the joint taxation is discontinued during this period, the re-taxation balance will be subject to full re-taxation. If the joint taxation is discontinued at the end of the 10-year period, the amount subject to re-taxation is calculated on the basis of a fictitious liquidation profit, maximized to the tax value of the losses deducted.

Foreign taxes paid by subsidiaries participating in international joint taxation can be offset against Danish taxes using the credit method. This applies irrespective of possible exemption provisions in a double tax treaty.

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| **Registration duties** | No. |
| **Transfer duties** | On the transfer of shares<br><br>No.<br><br>On the transfer of land and buildings<br><br>Yes.<br><br>Stamp duties/ Real Estate Transfer Tax<br><br>Yes, a levy on registration applies. The value is determined at DKK 1,660 plus 0.6% of the transfer amount.<br><br>If the transfer of real estate is part of a merger, demerger, transfer of assets or conversion of a personal business into an A/S or ApS, the 0.6% stamp duty is waived. |
| **Controlled Foreign Company rules** | Yes - controlled foreign company (CFC) taxation may be triggered if there is:<br><br>- controlling interest (a majority of votes);<br><br>- substantial financial income (more than 50 percent of total net income) and financial assets account – on average – for more than 10 percent of the total assets.<br><br>CFC taxation applies irrespective of where the subsidiary is resident and irrespective of the level of taxation. If a company qualifies as a CFC, all the company's income will be subject to taxation at the parent company level. The parent is granted a credit for income tax paid by the CFC.<br><br>Due to the implementation of the Anti-Tax Avoidance Directive (ATAD), the Danish CFC rules are expected to change during 2021. |
| **Transfer pricing rules** | General transfer pricing rules<br><br>Yes.<br><br>Documentation requirement<br><br>Yes. |
| **Thin capitalization rules/Interest Limitation rules** | Yes, 4:1 debt-to-equity ratio. In addition, also interest ceiling rule and EBITDA-rule. |
| **General Anti-Avoidance rules (GAAR)** | Anti-avoidance rules targeting double-dip structures and applying a beneficial ownership approach. |

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| | As of January 1, 2019, a General Anti-Avoidance Rule (GAAR) covering Danish corporate tax law was introduced. The exact scope of the GAAR is still to be established in practice. |
| **Specific Anti-Avoidance rules/Anti Treaty Shopping Provisions/Anti-Hybrid rules** | The Danish Corporate Tax Act includes anti-hybrid rules. The ATAD hybrid mismatch rules have been transposed into Danish tax law and entered into force on January 1, 2020, replacing the existing rules. |
| **Advance Ruling system** | Advance binding rulings may be applied to specific transactions or arrangements, either planned or completed. |
| **IP / R&D incentives** | Yes. Increased deductibility of R&D costs. In 2020 – 2022, 130% of R&D costs can be deducted. |
| **Other incentives** | No. |
| **VAT** | 25 percent flat rate. |
| **Other relevant points of attention** | No. |
| **Mandatory Disclosure Rules Updates** | For country specific information and updates on the EU Mandatory Disclosure Rules please visit KPMG's EU Tax Centre's MDR Updates page. |

Source: Danish tax law and local tax administration guidelines, updated 2021

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