International Tax
Denmark Highlights 2023

Updated January 2023

Recent developments

For the latest tax developments relating to Denmark, see Deloitte tax@hand.

Investment basics

Currency: Danske Kroner (DKK)

Foreign exchange control: There are no foreign exchange controls.

Accounting principles/financial statements: IAS/IFRS/Danish GAAP. Financial statements must be prepared annually.

Principal business entities: These are the public limited company, private limited company, partnership, sole proprietorship, and branch of a foreign company.

Corporate taxation

Rates	
Corporate income tax rate	22%
Branch tax rate	22%
Capital gains tax rate	0%/22%

Residence: A corporation is resident if it is incorporated in Denmark, or if its day-to-day management is in Denmark.

Basis: Resident companies are taxed on their worldwide income, although profits and losses from foreign permanent establishments and real estate are exempt. Nonresident companies are taxed on Danish-source income only. Branches are taxed in the same way as subsidiaries.

Taxable income: Corporate income tax is imposed on a company's profits, which consist of business/trading income, passive income, and capital gains. Normal business expenses may be deducted when computing taxable income.

Rate: The standard corporate income tax rate is 22%. Entities in the oil and gas industry are taxed at 25%.

Surtax: There is no surtax.

Alternative minimum tax: There is no alternative minimum tax.

Taxation of dividends: Dividends received by a Danish company on "subsidiary shares" and "group shares" generally are tax exempt, whereas dividends on "portfolio shares" are subject to taxation.

Subsidiary shares are shares where (i) the shareholder owns directly at least 10% of the nominal share capital of the company, and (ii) the company is Danish, or the company is foreign and the EU parent-subsidiary directive applies, or the subsidiary is resident in a jurisdiction that has concluded a tax treaty with Denmark. Group shares are those where the shareholder and the paying company are subject to mandatory Danish tax consolidation or voluntary international tax consolidation or qualify for voluntary international tax consolidation but have not elected for such taxation. Portfolio shares are shares that do not qualify either as subsidiary shares or group shares. Only 70% of the dividend income received from unlisted portfolio shares is taxable, i.e., the effective tax rate is 15.4% (70% x 22%).

Capital gains: Capital gains are included in taxable income and subject to the corporate income tax rate of 22%. However, gains derived from subsidiary shares, group shares, or unlisted portfolio shares are exempt (and losses are nondeductible).

Losses: Losses from previous years are fully deductible against taxable income that does not exceed a base amount of DKK 9,135,000 for 2023 (adjusted annually), with any remaining losses available to reduce the remaining income by only 60%. For jointly taxed companies, the restriction on the use of losses takes place at the level of joint taxation. The carryback of losses is not permitted.

Foreign tax relief: 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 net foreign income.

Participation exemption: See "Taxation of dividends" and "Capital gains," above.

Holding company regime: See "Taxation of dividends" and "Capital gains," above.

Incentives: Patents and know-how may be fully deducted in the year of acquisition.

The tax value of losses attributable to research and development (R&D) expenditure of a maximum of DKK 25 million at the group level may be refunded in cash, i.e., a maximum repayment of DKK 5.5 million (DKK 25 million x 22%). The possibility of deducting 130% of qualifying R&D expenditure up to DKK 910 million and 103% of the excess available for income years 2021 and 2022 is expected to be extended to the 2023 and subsequent income years but is pending legislative approval. Qualifying expenses are those that are considered R&D expenses in accordance with Danish legislation and case law.

Compliance for corporations

Tax year: The tax year is the calendar year, or another period if the taxpayer so elects. The tax year normally may not exceed 12 months.

Consolidated returns: Tax consolidation is mandatory between affiliated Danish companies, Danish branches of foreign companies, and Danish real estate owned by nonresidents. International tax consolidation is optional for affiliated companies.

Filing and payment: The tax return must be filed electronically within six months of the end of the fiscal year. For income years ending between 1 February and 31 March, the tax return must be filed by 1 August. Advance payments of tax generally must be made by 20 March and 20 November in the tax year. It is possible to make a voluntary payment in the period from 21 November in the tax year to 1 February in the year following the tax year.

Penalties: Penalties apply for late filing and failure to file. A separate penalty applies for failure to comply with the transfer pricing documentation requirements.

Rulings: Advance rulings may be requested on the tax consequences of specific transactions. Rulings normally are binding on the tax authorities for five years. Advance pricing agreements for transfer pricing purposes also are available.

Individual taxation

Rates		
Individual income tax rate	**Taxable income (DKK)**	**Rate**
	Up to 56,630	8%
	56,631–428,190	40%
	428,191—618,369	42.7%
	Over 618,369	56.512%
Capital gains tax rate		27%/42%

Residence: An individual is resident in Denmark if the individual has a permanent residence and a "qualifying" stay in Denmark or spends more than six consecutive months in Denmark.

Basis: Resident individuals are taxed on their worldwide income; nonresidents are taxed only on Danish-source income.

Taxable income: Taxable income comprises employment income (including employment benefits), income from self-employment, directors' fees, interest income, dividends, etc. Income derived from self-employment may be taxed in the same way as income derived by a company.

Rates: Taxable earned income is taxed at various progressive rates up to approximately 56.512% (including the church tax). The income tax consists of the "AM-tax" of 8%, municipal tax, church tax, and state tax. The AM-tax is calculated and deducted before calculating other taxes and the AM-tax only is paid on income up to DKK 56,630. The municipal taxes are determined by each county and range from 23.1% to 26.3%. The optional church tax ranges from 0.4% to 1.3%. The state tax consists of a bottom bracket tax of 12.09% and a top bracket tax of 15% for income exceeding DKK 568,900 (after deduction of the 8% AM-tax), meaning that the highest level of taxation applies on the portion of annual earnings that exceeds DKK 618,369.

Capital income (interest income, etc.) up to DKK 48,800 for single taxpayers (DKK 97,600 for married couples) is taxed at a maximum tax rate of about 37.7%. Capital income exceeding DKK 48,800/DKK 97,600 is taxed at progressive rates up to 42.67%.

Capital gains on shares and dividends are taxed progressively as share income at 27% for income up to DKK 58,900 (DKK 117,800 for married couples), and 42% thereafter.

A special 32.84% expatriate taxation scheme on salary may be available for approved scientists or employees that meet the high salary qualification and other conditions.

Capital gains: Capital gains on shares are taxed as share income. Gains derived from the sale of an owner-occupied dwelling normally are exempt.

Deductions and allowances: A personal allowance of DKK 48,000, as well as an employment allowance, are available to most taxpayers. Deductions include interest expenses, child support payments, pension contributions (subject to an annual ceiling of DKK 60,900 for certain types of pension), trade union fees up to a maximum of DKK 6,000, unemployment fund fees, and expenditure incurred on transport between home and the workplace. The self-employed can deduct most business-related expenses.

Foreign tax relief: Foreign tax paid may be credited against Danish tax on the same income, but the credit is limited to the amount of Danish tax payable on the foreign income. In certain situations, exemption relief is possible.

Compliance for individuals

Tax year: The tax year is the calendar year.

Filing status: Spouses must file separately, although various elements of joint taxation exist.

Filing and payment: The tax return must be filed by 1 May or, in the case of complex returns, 1 July of the year following the tax year. Additional reporting requirements apply for, e.g., shares and foreign bank accounts.

Penalties: The main penalty is a variable increasing interest charge due on tax underpayments. Penalties also apply for late filing.

Rulings: Advance rulings may be requested on the tax consequences of specific actions. Rulings normally are binding on the tax authorities for five years.

Withholding tax

Rates

Type of payment	Residents		Nonresidents	
	Company	Individual	Company	Individual
Dividends	0%/27% (5% reclaimed)	27%	0%/15%/27% (5% reclaimed)	15%/27%
Interest	0%	0%	0%/22%	0%
Royalties	0%	0%	22%	22%
Fees for technical services	0%	0%	0%	0%

Dividends: Dividends paid to a resident company generally are subject to a 27% withholding tax, although 5% may be reclaimed, giving a final rate of 22%. No withholding tax is imposed where the participation exemption applies (see “Taxation of dividends” under “Corporate taxation,” above). Dividends paid to a resident individual are subject to a 27% withholding tax.

Dividends paid to a nonresident generally are subject to a 27% withholding tax. For companies, the final rate is 22%, i.e., 5% may be reclaimed. The rate is 15% if the recipient holds less than 10% of the payer company, and the tax authorities in the jurisdiction where the recipient is resident are required to exchange information with the Danish tax authorities under an applicable tax treaty or other international treaty or convention, or according to an administrative assistance agreement in tax cases. Dividends paid to a nonresident company are exempt from withholding tax if the recipient is the beneficial owner of the dividends and owns at least 10% of the share capital of the payer, and the withholding tax would be reduced or eliminated under the EU parent-subsidiary directive, or an applicable tax treaty.

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

Interest: Interest paid to a Danish resident company or individual is not subject to withholding tax.

Interest paid to a nonresident generally is exempt from withholding tax, although a 22% withholding tax applies to interest paid to foreign related entities in certain situations.

Royalties: Royalties paid to a Danish resident company or individual are not subject to withholding tax.

Royalties paid to a nonresident are subject to a 22% withholding tax, unless the rate is reduced under a tax treaty, or the EU interest and royalties directive applies.

Fees for technical services: Denmark does not impose withholding tax on technical service fees.

Branch remittance tax: There is no branch remittance tax.

Anti-avoidance rules

Transfer pricing: The transfer pricing rules apply to transactions with affiliated companies. Controlled transactions are subject to the arm's length principle. Denmark generally follows the OECD transfer pricing guidelines.

Danish transfer pricing documentation comprises both a master file and a local file aligned with the OECD standards. The documentation must be prepared contemporaneously and finalized by the due date for submission of the annual corporate income tax return. Transfer pricing documentation must be submitted to the Danish tax authorities no later than 60 days after the due date for filing the annual corporate income tax return.

Substantial penalties are imposed for failure to comply with the Danish transfer pricing documentation requirements.

The Danish tax authorities may require certain businesses obliged to prepare transfer pricing documentation to obtain an assurance report from an independent auditor.

There also are country-by-country (CbC) reporting requirements (see “Disclosure requirements,” below).

Interest deduction limitations: Interest deductions may be limited by three sets of rules (but the disallowed expense is not recharacterized as a dividend):

- The thin capitalization test imposes a debt-to-equity ratio of 4:1;
- The asset test limits the deduction of interest expense to the tax basis of the assets multiplied by 2.7%; and
- The EBITDA (earnings before interest, taxes, depreciation, and amortization) test limits the deduction of interest expense and depreciation to 30% of taxable income before excess interest expense and depreciation.

Controlled foreign companies: The CFC provisions of the EU Anti-Tax Avoidance Directive (ATAD) have been transposed into Danish domestic law. The CFC rules apply where (i) a Danish company controls, directly or indirectly, more than 50% of the voting power of another company (Danish or foreign), and (ii) more than 50% of the subsidiary’s total income is considered “CFC income,” (i.e., financial income, income from intellectual property, etc.). In such a case, the entire income of the subsidiary is subject to taxation at the level of the Danish parent company, with a tax credit granted for the foreign tax paid by the subsidiary. CFC taxation only applies to financial institutions if more than one-third of the CFC income is derived from transactions with parent entities or other connected entities.

Hybrids: Denmark has implemented the anti-hybrid mismatch provisions of the EU ATAD into Danish law.

Economic substance requirements: For a number of years, the Danish tax authorities have scrutinized international groups and private equity-backed structures and imposed withholding tax on certain interest and dividend payments made from Danish companies to EU companies. The primary justification for this approach has been that the immediate recipient was not the beneficial owner of the payments, and that the payments were routed through an intermediary to benefit from the provisions of the EU interest and royalties directive, or a tax treaty with Denmark. In accordance with

Danish case law, it is irrelevant whether the recipient of the payments has significant substance where the company has no genuine power of disposal over the income.

Disclosure requirements: Multinational groups with a consolidated turnover of at least DKK 5.6 billion must prepare and submit a CbC report to the Danish tax authorities. Additionally, Danish taxpayers that are part of a group with a consolidated turnover that exceeds the threshold must submit an annual CbC notification to the Danish tax authorities. Substantial penalties are imposed for failure to comply with the CbC reporting and notification requirements.

As part of the annual tax return, taxpayers with controlled transactions (with at least one other associated enterprise, either domestic or foreign) must disclose certain information in respect of those transactions, and whether they are subject to Danish transfer pricing documentation requirements. Substantial penalties are imposed for failure to comply with the disclosure requirements.

Exit tax: Exit tax applies to both corporations and individuals. The tax is calculated based on the fair market value of the assets as at the date of exit, and any capital gains tax due is payable immediately in accordance with the applicable tax rates. Individuals may apply to pay the tax due on certain types of asset in annual installments over a seven-year period, but where the individual returns to Denmark within the seven-year period, the balance of the tax due becomes payable in full.

General anti-avoidance rule: Denmark has two general anti-avoidance rules targeting arrangements where taxpayers aim to obtain, through one or more artificial arrangements, benefits granted under (i) the EU parent-subsidiary, interest and royalties, or merger directives, or (ii) a relevant tax treaty.

Other: Corporations that are treated as transparent entities for foreign tax purposes may be disregarded for Danish tax purposes. Danish branch offices and partnerships that are treated as corporations for foreign tax purposes also may be taxed as corporations for Danish tax purposes.

Value added tax

Rates	
Standard rate	25%
Reduced rate	0%

Taxable transactions: VAT is imposed on the sale of most goods, and the provision of most services.

Businesses registered for VAT may deduct the VAT incurred on most purchases.

Rates: The standard VAT rate is 25%. Passenger transport, education, insurance, financial activities, and certain other services are exempt. Where a business supplies VAT-exempt services, it cannot deduct VAT on the related purchases, and the business may be liable to pay a payroll tax instead. The payroll tax rate varies depending on the nature of the services supplied.

Registration: The VAT registration threshold is DKK 50,000. Nonresidents that make taxable supplies of goods or certain services in Denmark are required to register; there is no threshold in such cases.

Filing and payment: Businesses are obliged to file VAT returns and pay the VAT on a monthly basis where their annual turnover exceeds DKK 50 million; on a quarterly basis where annual turnover is between DKK 5 million and DKK 50 million; and on a biannual basis where turnover does not exceed DKK 5 million.

Newly registered businesses are liable to account for VAT on a quarterly basis unless their expected annual turnover exceeds DKK 55 million.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply to both companies and individuals and are imposed at the national level.

Social security contributions: The employer's liability for social security contributions amounts to about DKK 14,000 to DKK 17,000 per year per employee.

Individuals pay a monthly fixed contribution of DKK 94.65.

Payroll tax: A payroll tax applies to businesses (taxable persons) carrying out certain activities exempt from VAT (see "Value added tax," above).

Capital duty: There is no capital duty.

Real property tax: Some business property owned by companies is subject to a building tax, at a maximum rate of 1% of the building's value.

Individuals are subject to a property value tax levied on real estate, including foreign residential property. The basis is 0.92% of the value up to DKK 3,040,000 and 3% of the value exceeding that amount. The value is calculated in accordance with special rules and may use adjusted values going back to 2001.

Transfer tax: There is no transfer tax.

Stamp duty: Registration of the transfer of certain assets is subject to stamp duty of 0.6% to 1.5%, plus a fee of DKK 1,825.

Net wealth/worth tax: There is no net wealth tax or net worth tax, other than the property value tax for individuals.

Inheritance/estate tax: Individual taxpayers are subject to tax at 15% on inheritances from immediate family members (children, children-in-law, grandchildren, and parents). Inheritances from other individuals are subject to tax at 36.25%. Inheritances received from a spouse are tax free.

Other: Shipping companies may opt to pay tonnage tax in lieu of the normal corporate income tax. Activities carried out in connection with the extraction of hydrocarbons are subject to hydrocarbon taxation.

Tax treaties: Denmark has concluded around 80 tax treaties. The Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting (MLI) entered into force for Denmark on 1 January 2020. For information on Denmark's tax treaty network, visit Deloitte International Tax Source.

Tax authorities: Danish Customs and Tax Administration (Skattestyrelsen)

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