

Denmark

Contact

Niels Josephsen
Partner
njosephsen@deloitte.dk
+45 21 54 32 11

Niklas Bjerggaard Andersen
Partner
nikandersen@deloitte.dk
+45 30 93 45 66

What's new?

Summary of updates/Changes to R&D and government incentives from 1 January 2019 through 31 October 2020

Proposed measures announced on 15 June 2020 in response to the COVID-19 pandemic include an increased deduction for R&D expenses incurred in 2020 and 2021. The proposal is for a 130% super deduction subject to a cap on R&D expenses, applied at the group level, of DKK 845 million in 2020 and DKK 910 million in 2021. The initiative is intended to encourage R&D investments for the benefit of Danish exports, but it is not a condition that the investments be export related. The measure has not yet been fully defined or passed by the Danish government.

Featured government incentives

Incentive name	Description	Maximum percentage	Qualification standards	Key exclusions or issues
Tax allowances for R&D activities	Costs incurred in R&D activities related to a taxpayer's business generally are tax-deductible at an enhanced rate in the year they are incurred. Alternatively, the taxpayer may choose to depreciate the costs in equal annual amounts in the year incurred and over the following four years	103% for tax year 2020, increasing to 105%, 108%, and 110% for tax years 2021 and 2022, 2023 to 2025, and from 2026, respectively	Expenses incurred on R&D activities related to the taxpayer's business and for a commercial purpose	A combination of the two methods is available, but where a taxpayer has started to tax depreciate over a five-year period, depreciation must continue for these costs, whereas costs incurred in subsequent years may be depreciated immediately Expenses incurred on certain assets (e.g., machinery and equipment, automobiles, ships, and certain leased equipment) and intangible assets used in conducting R&D do not qualify
Tax credit scheme for refundable tax losses attributable to R&D activities	Tax value of losses attributable to R&D is refundable in lieu of being carried forward to offset against future profits. The cash credit may be claimed on losses up to a maximum of DKK 25 million per year	22% of the losses attributable to R&D up to DKK 25 million	Expenses incurred on R&D activities related to the taxpayer's business and for a commercial purpose	Application for a cash refund on tax losses attributable to R&D activities must be filed with the annual tax return Expenses incurred on certain assets (e.g., machinery and equipment, automobiles, ships, and certain leased equipment) and intangible assets used in conducting R&D do not qualify

Industries most often affected by government incentives in country

Technology, Media & Telecom	Financial Services
Telecom, Media & Entertainment	Banking & Capital Markets
● Technology	Insurance
Consumer	Investment Management
Consumer Products	Real Estate
Retail, Wholesale & Distribution	Life Sciences & Health Care
Automotive	Health Care
Transportation, Hospitality & Services	● Life Sciences
Energy, Resources & Industrial	Government & Public Services
Power & Utilities	Health & Social Care
Mining & Metals	Defense, Security & Justice
Oil, Gas, & Chemicals	Civil Government
Industrial Products & Construction	International Donor Organizations
	Transport

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Type	National incentive?	State, provincial, regional or local incentives? ¹	Filing deadlines imposed?	Is the claim made in advance or arrears? ²	Nature of incentive	Maximum benefit available to large enterprises	Maximum benefit available to small and medium-sized enterprises
Innovation							
Research & Development (R&D)	●	●	● ●	National: Arrears Local: Not applicable	Enhanced tax deduction for expenses incurred on experimental and research activities in year cost incurred	103% deduction for tax year 2020, 105% for tax years 2021 and 2022, 108% for tax years 2023 to 2025, and 110% from tax year 2026	103% deduction for tax year 2020, 105% for tax years 2021 and 2022, 108% for tax years 2023 to 2025, and 110% from tax year 2026
R&D grant: national or EU	●	●	●	Advance	Specific application on a case-by-case basis	Varies	Varies
R&D tax: Refundable tax losses attributable to R&D activities	●	●	● ●	National: Arrears Local: Not applicable	Cash tax credit relating to R&D activities where entity incurring the costs is in a tax loss-making position as a result of the R&D activities	22% of 100% of the tax loss up to DKK 25 million (i.e., maximum cash payment DKK 5.5 million)	22% of 100% of the tax loss up to DKK 25 million (i.e., maximum cash payment DKK 5.5 million)
Investment							
Employment	●	●	● ●	National: Advance Local: Not applicable	1. Low flat rate taxation for a seven-year period for highly skilled employees 2. Beneficial tax treatment for employee share plans	1. Flat rate tax of 32.84% for a seven-year period 2. Beneficial tax treatment up to a total value of 10% or 20% of employee's annual salary	1. Flat rate tax of 32.84% for a seven-year period 2. Beneficial tax treatment up to a total value of 10% or 20% of employee's annual salary
Environmental Sustainability							
Sustainability	●	●	● ●	National: Varies Local: Not applicable	Several incentives in place that vary in nature	Varies	Varies

Key: ● = PERMANENT INCENTIVE (■) = TEMPORARY INCENTIVE (■) = NEGOTIABLE ● = NO ● = LIMITED APPLICABILITY ● = NOT APPLICABLE

Notes:

- Green means that this incentive is currently in effect. Yellow means that the incentive has limited applicability, i.e., the requirements for this incentive limit its value to most companies. Red means that there is no incentive.
- If the response is advance, this means that the government must approve the award of the incentive prior to the commencement/completion of the project/activity. If the response is arrears, this means that the award of the incentive is determined at the end of the tax period or after the completion of the qualifying project or activity. Most tax incentives are considered to be claimed in arrears because they are reported on tax returns.

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Country background

The corporate income tax rate in Denmark is 22%. Several foundations support innovative projects regardless of the field of research (e.g., health and medical). Both companies and individuals may apply for innovation funds.

Innovation incentives

Research & development (R&D)

Nature of incentives

Tax allowances for R&D activities

Costs incurred on R&D activities related to a taxpayer's business generally are tax deductible in the year the expenses are incurred, at 103% for tax year 2020 (increased from 101.5% for tax years 2018 and 2019). Alternatively, the taxpayer may elect to depreciate the costs in equal annual amounts in the year incurred and over the following four years. A combination of the two methods is available, but where a taxpayer has started to tax depreciate over a five-year period, depreciation must continue for these costs, whereas costs incurred in subsequent years may be deducted immediately (or depreciated in the year incurred and over the following four years, as above). Expenses incurred on certain business assets that are used in conducting R&D, such as machinery and equipment, automobiles, ships, and certain leased equipment, are not eligible for deduction using the above methods.

To claim the R&D incentive, a taxpayer must file an annual corporate income tax return within six months following the end of the income year. The deduction is made on the tax return, with a separate application submitted with the return. The tax deductibility percentage gradually will increase as follows:

- 105% for tax years 2021 and 2022;
- 108% for tax years 2023 to 2025; and
- 110% from tax year 2026.

Costs incurred before business commences are deductible only in the year the business activities start.

The Danish government has proposed a temporary increase in the deduction for income years 2020 and 2021.

Refundable tax losses attributable to R&D activities

The tax value of losses attributable to R&D is refundable in lieu of being carried forward to offset against future profits. The cash credit may be claimed on losses up to a maximum of DKK 25 million per year. The 22% corporate income tax rate is used to calculate the tax value, so the highest possible amount that can be refunded is DKK 5.5 million annually. The amount of refundable losses is determined at the controlled group level, i.e., consolidated losses/gains for all affiliated Danish companies. Special rules apply where the company has opted for international joint taxation. To obtain R&D credits, the costs must be depreciated immediately.

An application for a cash refund on tax losses attributable to R&D activities must be submitted with the annual tax return. Corporations are required to file their return within six months following the end of the income year. For income years ending between 1 February and 31 March, the tax return must be filed by 1 August.

The increase in tax allowances for R&D activities does not affect the ability to reclaim tax losses attributable to R&D activities. The remaining 1.5%-10% may not be refunded but may be carried forward as a tax loss.

Eligible industries and qualifying costs

To qualify for the R&D tax credit, the taxpayer (whether an individual or a corporation) must be engaged in, or intend to commence, experimental and development business activities. The costs must be related to the taxpayer's business and must have a commercial purpose (i.e., research undertaken to develop an abstract scientific discovery does not qualify).

The tax allowance is limited to costs incurred in connection with the production of new or materially improved materials, products, mechanisms, processes, systems, or services. Qualifying costs include payroll, rent, raw materials, and consumables, as well as



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depreciation on the purchase or lease of operating equipment used in R&D. Amounts paid to third parties for carrying out R&D also are covered. However, costs incurred for significant intangible assets used in research do not qualify.

The type of industry is irrelevant—qualification is based only on the nature of the costs and whether the activities qualify as R&D.

R&D grant (national): Denmark National Funds

Several national funds support the growth of Denmark's economy, including the following:

- Advancement of growth, employment, and exports, particularly in Danish small and medium-sized enterprises (SMEs). To qualify as an SME, a company must have no more than 250 employees, and turnover not exceeding EUR 50 million;
- Support of development and production in the Danish food industry through cofunding of development and demonstration projects aiming to commercialize promising technologies with high market potential, as well as positive environmental effects;
- Eco-innovation, which supports Danish companies with the development and demonstration of new eco-efficient solutions. These would meet Danish and global environmental challenges, with a general focus on water, climate change adaptation, recycling of waste, cleaner air, noise reduction, reduction in hazardous chemicals, and ecological and sustainable construction. The industry's environmental performance also is a factor; and
- SMEs and large companies connected to the energy sector or wishing to enter the industry may receive cofinancing for projects encompassing the development and/or demonstration of new and efficient energy technologies for research projects directly improving or supporting demonstration activities, and for the development of public-private partnerships for energy technology.

Denmark also offers grants to support R&D-projects aimed at more efficient electricity use, with a particular focus on buildings and electricity consumption in the industry.

R&D grant (EU)

The Danish government provides funding to companies operating within the EU. Several Danish programs offer support to SMEs, large enterprises, and research institutions in Denmark for preparing consortia and applications for EU programs.

It is possible to apply for funds in the fields of agriculture, innovation, growth, medical and healthcare, etc.

Nordic Solved

Applicants in Denmark can apply for Nordic funding, which allows Nordic private and public companies to apply for funding at any time for projects that are innovative and enhance certain fields, such as the environment or the health sector. The program provides the possibility to obtain a swift response on a project idea, resulting in funding innovative activities related to new or improved products, processes, services, technologies, and/or ideas that are readily available to markets, governments, and/or society. More than DKK 1 billion is available in funding per year. The specific requirements that must be met to qualify for funding are detailed on the [Nordic Innovation – Nordic Solved Programme website](#).

Danish Council for Independent Research

Several funds support projects within the technology, entrepreneurship, sustainable energy development, health and pharmaceutical, transport, infrastructure, and food sectors.

More than DKK 960 million in funding is distributed to projects in the following five research disciplines:

- **Technology and production sciences:** Funding is available for specific basic research activities within technology and production science, focusing on application-oriented solutions to problems or new ways of meeting the needs of society;
- **Social sciences:** Funding is available for research in economics, sociology, political science, law, and general social aspects of gender, cultural geography, etc.;
- **Natural sciences:** Several funds cover all aspects of research aimed at fundamental scientific issues within natural sciences, computer science, and mathematics. The funds allocate grants to researchers working in these areas with a cognition-related goal. Commercialization of the results is not required. The funds provide scientific advice within the areas of natural sciences, computer science, and mathematics, either upon request or at the initiative of the fund itself;
- **Humanities:** Several funds support specific basic research activities within all branches of culture, aesthetics, languages, history, and the theory of cognition, as well as providing scientific advice in the relevant areas; and

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- **Medical sciences:** Several funds allocate grants to researchers covering all aspects of both basic scientific and clinical medical research, as well as socio-medical research related to human health and disease. The funds also provide scientific advice related to health-scientific issues, either upon request or at the initiative of the fund.

Both Danish companies and multinational entities can apply for project funding and incentives, regardless of their industrial sector, although it is easier to apply for funds where the company has a Danish-registered company number.

Investment incentives

Employment: Favorable expatriate taxation of employment income

The expatriate scheme applies to employees who come to Denmark to work for up to seven years and who receive annual compensation of at least DKK 818,335.80 for 2020 before the deduction of contributions to the ATP (a supplementary pension fund). The salary requirements do not apply to an approved researcher whose qualifications are approved by a public research institution or the Independent Research Committee.

Under the expatriate scheme, employment income, other cash allowances, the value of a company car, the value of a free employer-provided mobile device, and health care insurance are taxed at a flat rate of 32.84% for up to seven years (compared to a 55.8% marginal rate under the normal tax system, excluding church tax). The 32.84% tax rate results from applying an 8% Danish labor market contribution (AM-tax) and a flat rate tax of 27%, applied to the income net of the AM-tax.

The average monthly salary before tax during the calendar year, including the value of a company car and free phone, etc., must be at least DKK 68,194.65 for 2020 before the deduction of the 8% labor market contribution and public pension contribution. The salary

requirement is adjusted annually on 1 January. The salary requirement must be fulfilled by the date of commencement of the employment, and all details including the contribution to the special pension-scheme "53A" (pensionsbeskatningslovens § 53A) confirmed.

The expatriate scheme is available regardless of whether the employee is fully or partially liable for tax. The tax liability must commence when the employment starts in Denmark, but the employee does not have to live in Denmark to benefit from the scheme. However, the employment must be with a Danish employer. Under the scheme, it is not possible to deduct expenses relating to the employment, including commuting and other travel expenses, and union membership fees.

If the employee has been liable for Danish income tax at some point within the last 10 years before commencing the expat scheme, it is possible that the expat scheme may not apply.

Employment: Beneficial tax treatment of employee share plans

Employees can enter into an agreement with their employer to receive tax-efficient awards up to a total value of 10% or 20% of their annual salary where certain conditions are fulfilled. These provisions apply to shares, conditional share awards, stock options, and warrants (i.e., rights to receive newly issued shares) granted to employees under an employee share plan.

The taxation of such awards is deferred until the date the individual sells the underlying shares. Gains from the sale of the shares will be taxed as share income at a rate of 27% up to DKK 55,300 for 2020 for an individual, and 42% for amounts exceeding this threshold. The threshold is doubled for spouses filing a joint tax return.

The employer is required to report the grant of stock options or warrants and the subsequent vesting (conditional share awards)/exercise (stock options or warrants) of all type of award to the Danish tax authorities.

