DFK INTERNATIONAL

Doing Business in Denmark

This document describes some of the key commercial and taxation factors that are relevant on setting up a business in Denmark.

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Background

Country overview

Denmark is a small country of islands in Northern Europe and is a part of Scandinavia. Copenhagen is the capital and the principal language is Danish. Denmark has approximately 5.6 million inhabitants, of which 2.9 million are active employees. The Danes are generally well educated yet customarily informal. They therefore have a relaxed and humorous approach to life, which is reflected in their attitude towards authority.

Characteristic features of Denmark are primarily the welfare system, which ensures equal rights and access to public services for all, and the democratic government. Denmark is also characterised by gender equality, freedom of speech, an active business life and high-quality research and development environments.

Denmark has a royal head of state and is governed by a parliamentary democracy, within which there is a multi-party structure with several parties represented in Government. Denmark has a capitalist system of production, characterised by private ownership of businesses and production. However, there is considerable regulatory control from the state and other public authorities, and they provide comprehensive services for the citizens.

Economic overview

The Danish economy is small and open, very dependent on trade with other countries, and has no influence over international trading conditions or central economic factors (e.g. through affecting interest rates).

Denmark's economic policy is in line with EU guidelines, which were jointly agreed by EU countries in the interest of their long-term development and employment. The Danish currency is the krone (crown). The international symbol is DKK, but most prices are notated as "kr." in Denmark. Denmark has chosen to stay outside the EMU, but participates in the ERM2 with a central parity at DKK 7.46 per euro and a fluctuation band of +/- 2,25%.

Denmark has traditionally been an agrarian country and agriculture is still a key economic sector, contributing 20% of export earnings. Since the end of World War II, however, manufacturing and services have gained in importance, employing 20% and around 47% of the labour force respectively (2004). Manufacturing and services contribute respectively 18% and almost 50% gross domestic product, and agriculture 4 per cent. Danish ships, which operate in foreign waters, further contribute substantially to the economy.

Participation in the labour market in Denmark is very high. Of those aged 16-67, 78.6% (2012) are in the labour force. The high employment rate of Denmark is first and foremost due to the great number of women in the labour market.

Transport infrastructure

Denmark covers an area of approximately 43,000 km2. Denmark's geography is characterised by a long coastline of 7,314 km and its many islands.

Denmark has a highly-developed infrastructure and a well organised and efficient public transport system. For moving freight inland, road is the most commonly used form of transport, 5% is by sea and the remainder mainly by train. In the past, transport by sea dominated Denmark's international freight traffic with 76% of freight sent by sea, just under 20% by road and the remainder mainly by rail and plane.

Choice of Legal Form

Limited liability company

The most usual types of limited liability companies are the limited company (aktieselskab – A/S) and the private limited company (anpartsselskab – ApS).

	Limited company	Private limited company
Minimum capital	DKK 500,000	DKK 50,000
Board of directors required	Yes	No
Residence in Denmark/EU required for management or board of directors*	Yes	Yes

NB. 1 EUR is approx. DKK 7.45.

*In a limited company the manager and half of the board of directors must be residents of Denmark or of the EU.

The share capital can be paid-in as cash funds or be provided by contributions in kind, such as goodwill, fixed assets, stocks, debtors etc. Contributions in kind must be evaluated by qualified experts, for instance by an auditor.

No registration fee is payable; however, the Danish authorities have notified that financial businesses and institutions in the future might pay a registration fee if the capital of a private limited company equals or exceeds the minimum capital of a limited company, DKK 500,000.

In general, all requirements with respect to taxes, accounting and auditing are the same for the private limited and the limited company.

In 2014, a new type of company called “Entrepreneurial company” (iværksætterselskab – IVS) was introduced. It is similar to the private limited company, except to establish an entrepreneurial company only DKK 1.0 in capital is required. The capital must be paid in cash. The capital is thereafter built up with 25 % of the annual profit until the capital is DKK 50,000. It is not possible to get dividends before the capital is built up to DKK 50,000.

Partnerships

Partnerships are regulated in the Danish Company Law, furthermore partnerships must be registered with the Danish Business Authority (DBA).

For tax purposes a partnership is treated as a transparent entity.

Branch

A registered branch or a subsidiary of a foreign company must be registered and meet the requirements of Danish Company Law.

The branch manager of a registered branch office must file a certified copy of the foreign corporation’s audited financial statement with the DBA. When filed, the information is available to the general public.

Audit Requirements and Annual Report

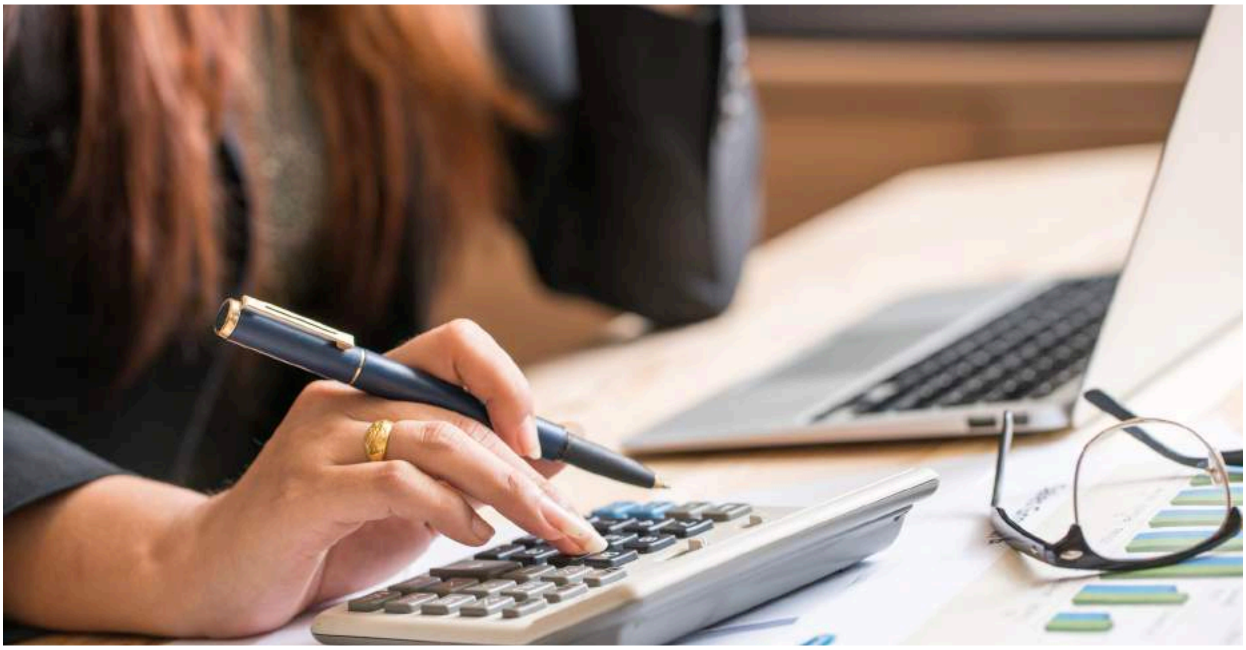
The annual report is subject to auditing by a state authorized public accountant or a registered accountant. Small companies can avoid statutory audit (having turnover less than DKK 8.0 mill., less than 12 employees and a balance sheet less than 4.0 mill.).

Companies with turnover less than DKK 89 mill, less than 50 employees and a balance sheet less than 44 mill. have the option between a statutory audit and an extended review. Extended review is a cross between audit and review.

The annual report must be filed with the Danish Business Authority in XBRL (extensible Business Reporting Language). Upon filing, the annual report will be available to the public.

For groups of companies, the filing of a consolidated financial statement is mandatory unless the shares of the Danish company are owned by an EU-company which prepares a consolidated financial statement, except in the case of small consolidated financial statements (Total assets less than 44 mill DKK, turnover less than DKK 89 mill and employees less than 50).

Taxation



Corporate taxes

The Corporate Income Tax Act comprises as taxable entities the limited company (A/S), private limited company (ApS), and a registered branch or a subsidiary of a foreign company.

The corporate tax rate is 22 %. The tax is prepaid during the current year in two instalments (March and November). The taxable base is the worldwide income.

The corporate tax is charged on a company's profits defined as income and taxable capital gains. In principle, all expenses are deductible if incurred in producing or maintaining business income including annual depreciations on operating equipment or buildings.

Dividends from a subsidiary are tax exempted if the recipient company maintains a 10% shareholding for at least one year and the dividends are distributed during the holding period.

Dividends not qualifying for the participation exemption must be included in the taxable base as far as 100% of the dividend amount is concerned.

An exemption applies if dividends are received from a foreign subsidiary having mainly financial activities, and provided the profits of the subsidiary have been subject to substantially lower taxation than if taxed in Denmark.

Such dividends are fully taxable, however, subject to credit, according to double tax treaties or internal Danish credit regulations.

Capital gains are normally taxed as income. Capital gains on bonds and other financial claims or debts are taxable income. Losses in both foreign and Danish currencies are deductible. Capital gains on real estate are also tax liable, while losses can be set off exclusively against capital gains on other real estate.

Danish corporations are required to choose group taxation with Danish owned or foreign subsidiaries. Group consolidation means primarily that losses of one company can be set off against profits of the other companies. However, upon termination of group consolidation with a non-resident subsidiary, losses which have been set off against profits of other companies may be recaptured according to specific regulations.

Tax losses

Tax losses may be carried forward indefinitely but losses can only be set off against positive taxable income up to 8.025 mill. (2017) DKK. Remaining tax losses can only reduce the remaining taxable income by 60 %. No carry-back is allowed.

Intercompany loans

Thin capitalisation rules have applied since 1999. Companies will only be affected by the thin capitalisation rules if the equity makes up less than 10 mill. DKK.

The non-deductible part of the interest expenses will be calculated according to the following formula:

$$\frac{\text{debt} \div (4 \text{ x equity}) \text{ x (net capital expenses)}}{\text{debt}}$$

Net capital expenses amount to net interest expenses plus net exchange losses.

In addition, limited deduction possibilities will not be viable if the company can prove that a similar financing can be obtained with an independent party. In that case, the solvency ratio in the line of business in question will be taken into consideration.

A loss on intercompany accounts receivable is non-deductible with the exception of documented trading losses due to currency fluctuations.

CFC taxation

A Danish resident parent company is liable to pay Danish tax on the net financial income of a non-resident controlled subsidiary (direct or indirect ownership of more than 25% of the share capital or of 50% of the voting power), and provided that the income of the subsidiary is subject to substantially lower taxation than if subject to taxation in Denmark, and provided the subsidiary's activities are mainly financial.

Personal income tax

Individuals resident in Denmark are liable to income tax on their worldwide income. Most capital gains are calculated as taxable income. Capital losses are to some extent deductible.

An individual is considered to be a resident if they permanently lives in Denmark, if a house or a flat is available for them or their family in Denmark, or if they maintain their residence in the country for six months or more in a consecutive period without taking up legal residence in Denmark.

Taxable individuals are liable to pay national income tax (statsskat), municipal, health contribution and church taxes (kommuneskat, sundhedsbidrag og kirkeskat).

	2017
Municipal-, health contribution, church taxes, average	27.6%
Basic state tax (bundskat)	10.08%
State top tax (topskat)	
On income exceeding DKK 479,600 (2017)	15%
Total tax rate	**52.68%**
MAXIMUM PERSONAL TAX RATE	51.95%
Social security and pension contributions	8%
(tax value at marginal income tax rate)	

Income deriving from shares is taxed at 27% if the amount is less than DKK 51,700 (or for married couples DKK 103,400) (2017). Income exceeding this amount is taxed at 42%. Income deriving from shares includes dividends and capital gains/losses on shares.

Husband and wife are taxed separately. However, personal allowances and tax-free amounts can be transferred to the other spouse.

Social security and pension contributions are deducted when calculating the taxable personal income. The tax value is up to 51.95 %.

Non-residents are subject to the same taxes as residents on various sources of income and capital gains. Limited tax liability includes the following types of income:

- Income from a trade or business carried out in Denmark through a permanent establishment

- Income from immovable property in Denmark
- Dividends, 27% withholding tax (depending on tax treaty provisions)
- Royalties, 25% withholding tax (depending on tax treaty provisions)

Business income

Business income can be elected to be taxed under a particular tax regime allowing the business income to be provisionally taxed at a rate of 22% (the tax rate follows the corporate tax rate). When no longer retained in the business, profits will be finally taxed.

Expatriates with high salaries

A special legislation relates to foreign employees working temporarily in Denmark. When certain conditions are met, foreign employees may choose to be taxed at a flat rate of 26% of their gross income rather than being subject to the general rules of taxation of individuals. The foreign employees must normally pay a tax-deductible labour market contribution at a rate of 8% (2017). Thus, the total tax amounts to 31,92% of the gross income (8% + (26% x 0,92))

The foreign employees must work for a Danish employer subject to full Danish taxation or for Danish branches or permanent establishments of foreign companies with legal residence in Denmark.

The 26% taxation may be chosen for an aggregated period of 5 years within a 10-year period. The employees will, however, be subject to normal Danish taxation, if the period of time exceeds 5 years.

The minimum monthly salary of the employees in cash and fringe benefits, e.g. free company car and free accommodation, must be DKK 63,794.65 (2017) after deduction of labour market contribution. This minimum salary is adjusted annually.

The tax and the labour market contribution are withheld by the employers. The employers' withholding is the final settlement of the tax liability.

Expenses incurring in connection with earning the salary cannot be deducted. A tax loss from another income year cannot be offset against income taxed at 26 %. However, it can be offset against other income.

Value added tax

The Danish VAT is 25% on the sales price and is levied on most goods and service. Registration for VAT must take place within 8 days before starting business activities.

The general registration threshold is DKK 50,000.

Allowances

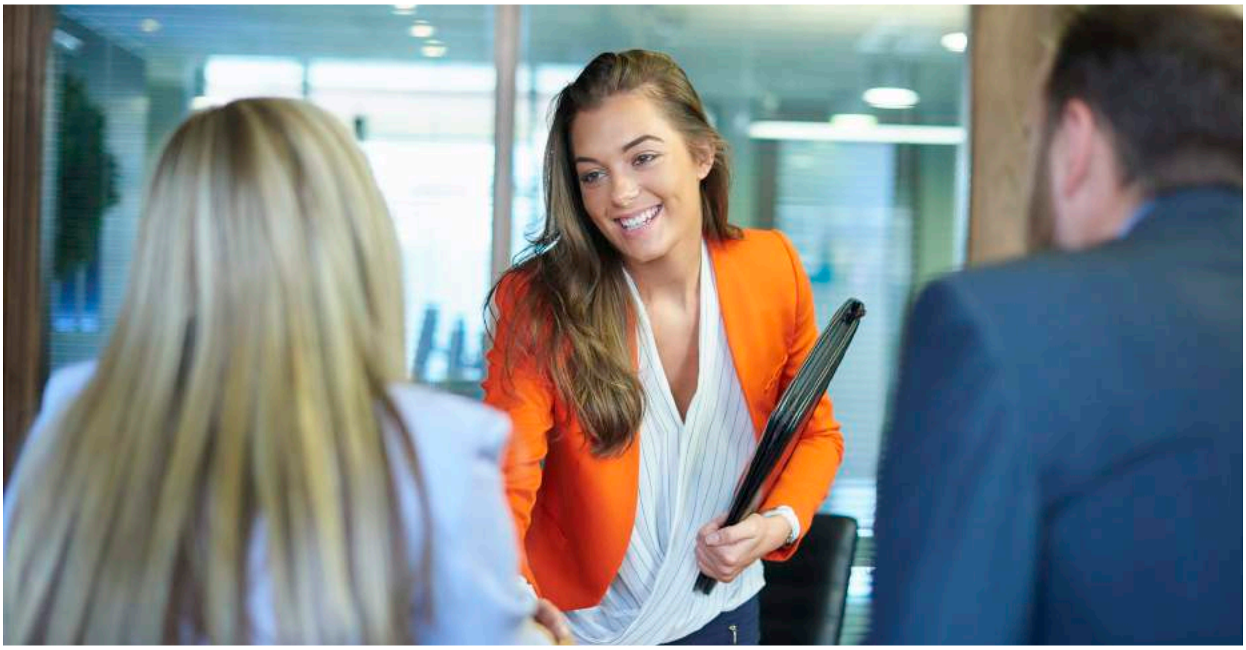
Depreciation

On buildings used for commercial purposes, except office buildings, an annual capital allowance of 4% is deductible. Machinery and equipment applied for commercial purposes are depreciated with a maximum of 25% each year applying the declining balance method.

Software can be written-off in the year of acquisition. The same applies for machinery and equipment with a purchase price of less than DKK 13,200 (2017).

Acquired intangible rights such as goodwill, know how, patents, trademarks, copyrights can be depreciated during a period of 7 years applying the straight-line method.

Employment



Social security contributions

Social security contributions are payable by employees and self-employed persons. For 2017 the rate is 8%. Social security contributions are deductible in income with a tax value up to 51.95 %.

Resident individuals are liable to pay social security contributions on income from employment exercised in Denmark.

Employers do not pay any social security contributions.

Medical

Medical treatment in hospital is free in Denmark

Assignment of staff

White collar workers are employed under the Act on Salaried Employees and most blue collar workers are appointed on a group contract basis covered by collective agreements.

In general, the Danish labour market is flexible with respect to employment and dismissal of employees.

Withholding Taxes

Certain types of payments to non-residents are subject to Danish withholding tax, which may be reduced according to a double taxation treaty.

Interest

Interest payments made to non-residents are generally not subject to withholding tax. But if interest is paid to controlled entities in countries with no double taxation treaty, withholding tax has to be paid at 25 %.

Royalties

According to Danish law withholding tax must be paid on all royalties for the use - or the right to use - patents, trademarks, designs or models, plans, secret formulas or processes, or information concerning industrial, commercial or scientific processes. Usually, purchases of intangible assets are not subject to withholding tax, but payments for access to know-how may be deemed subject to withholding tax at 25% (subject to treaty relief). Royalty payments for the use of any copyright to literary or artistic work are not subject to Danish withholding tax.

Dividends

Dividends from Danish subsidiaries can be distributed without withholding tax provided that:

a) The parent company is either resident in an EU member state or distribution of dividend to the parent company is protected by a double taxation treaty and

b) the parent company has owned 10% or more of the Danish subsidiary, and

c) the dividends are distributed during this period of time.

If the parent company does not satisfy the above requirements, then the Danish subsidiary must withhold tax at a rate of 27% subject to treaty relief.

The exemption requires that the Danish subsidiary can certify that the parent company meets these conditions prior to the payment on the dividend. Otherwise, the subsidiary must withhold tax, and the parent company can subsequently reclaim the withholding tax from the Danish tax authorities.

This document is provided by Addere Revision as a general overview of matters to be considered when setting up an overseas business in Denmark. It is essential to take advice on specific issues. No liability can be accepted for any action taken or not taken arising from the information provided in this publication.

If you are setting up a business in Denmark, the members of DFK International can help you to achieve this efficiently. You will receive practical advice on business issues, tailored to meet your objectives, from experienced business advisers.

For further information on the services available from the DFK member firms in Denmark please see overleaf.

Copenhagen

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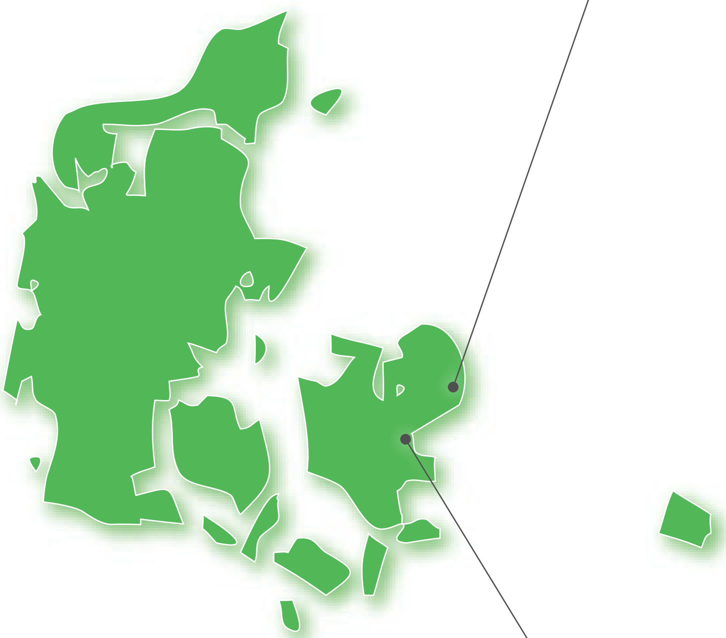

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