



Denmark
Tax Guide **2009**



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A. TAXES PAYABLE

FEDERAL TAXES AND LEVIES

COMPANY TAX: Resident corporations are subject to Danish corporate income tax on their profits in Denmark and, to some extent, on income sourced abroad. Non-resident companies are required to pay tax on income sourced in Denmark.

Resident corporations include all Danish companies registered with the Danish Commerce and Companies Agency, as well as certain non-registered companies that are treated as residents. Companies incorporated under the laws of another country may be considered to be resident in Denmark if central management and control is exercised in Denmark.

Corporate income tax is charged at 25% for the income year 2009. Tax is paid on account on a current year basis in two instalments on 20 March and 20 November during the tax year, with a final instalment due on 20 November following the end of the tax year.

CAPITAL GAINS TAX: Capital gains/losses on disposals of assets are, in general, included in taxable income and subject to tax at the normal corporate tax rate.

Capital gains on disposals of shares are, in general, exempt unless the disposal occurs within three years of acquisition. Capital losses on disposals of shares are not deductible unless the shares were held for less than three years, in which case they may be offset against taxable gains on other shares held for less than three years.

Capital gains on disposals of assets and liabilities of a Danish permanent establishment are taxable in Denmark. This applies also to Danish real estate. Capital gains derived by non-residents from disposals of Danish shares or bonds are not subject to tax in Denmark unless voluntary global joint taxation is elected.

BRANCH PROFITS TAX: Branches of foreign companies are taxed on income derived from their activities in Denmark. Tax is calculated at the corporate tax rate of 25%.

SALES TAX/VALUE ADDED TAX (VAT): Danish value added tax (VAT) is levied at a standard rate of 25% of the sale price of most goods and services and the legislation generally follows EC Directives. No graduated rates exist.

Certain services are exempt, including most banking, real estate and medical services. Instead, a pay-roll tax of 3.08% - 9.13% is charged on the actual pay-roll or, in certain cases, on the result before interest and capital gains. Exports are zero rated.

FRINGE BENEFITS TAX (FBT): The tax value of most benefits in kind is, in principle, the fair market value. Employees are taxed on benefits in kind received. The cost of benefits in kind is deductible for tax purposes by the company.

LOCAL TAXES: Property Tax: Owners of real estate are subject to a local property tax based on the value of the land. The tax is levied at various local rates ranging from 1.6% to 3.4%.

OTHER TAXES: Transfer tax is levied on registration only. A change in ownership of real estate is charged at the rate of 0.6% + DKK 1,400 and on mortgages at 1.5% + DKK 1,400. Different rates apply to registrations on ships and aircrafts.

Stamp duty only applies to certain insurance policies.

SOCIAL SECURITY TAXES: Social security is funded almost entirely through income taxes. The only exceptions are the ATP and Health Contribution.

ATP is a supplementary State pension scheme. The employer pays annually DKK 2,160 (2009) and employees pay annually DKK 1,080 (2009).

Health Contribution is collected from employees and self-employed persons. The contribution is levied on gross salary and business income respectively at the rate of 8%. The employer withholds the contribution for the employee and the amount of contribution is deductible when computing the employee's personal income.

Pension contributions of 1% (2009) are levied, together with general social security contributions, on the same taxable base. However, this may be suspended for 2009.

B. DETERMINATION OF TAXABLE INCOME

Net or taxable income is arrived at by adjusting the accounting profits for non-taxable income and non-deductible items.

DEPRECIATION: Assets which cost less than DKK 12,300 (2009) or have an estimated useful life of less than three years can be written off immediately.

Ships less than 20 tons, machinery, furniture and other equipment are generally depreciated collectively using the declining-balance method. The balance may be written off at a maximum rate of 25%.

Buildings for manufacturing etc. are depreciated under the straight-line method according to the useful life. The normal rate is 4% per annum. If the useful life is less than 25 years, the rate will be increased accordingly. Depreciation of office buildings and dwelling houses is not allowable for tax purposes.

The cost of goodwill, know-how etc., may be depreciated over seven years using the straight-line method.

STOCK/INVENTORY: Inventory may be valued at cost or market value. Cost may be determined by using the FIFO method or some other averaging principle but not on a LIFO method.

CAPITAL GAINS AND LOSSES: See discussion above.

DIVIDENDS: Dividends received from a subsidiary are basically exempt from tax if the parent company owns 15% (10% from 1 January 2009) or more of the share capital throughout a 12-month period in which the dividend is received. It is a requirement that the dividend-paying company is resident within the EC or in a tax treaty country and that it is not a 'flow-through' entity. Specific rules apply to dividends received from a subsidiary in a non-EC and non-treaty country.

Further, 66% of dividends received from a company which does not comply with these conditions are included in taxable income. If received from a non-EC and non-tax treaty countries, the total dividend is included. Withheld tax will be considered as a tax payment on account.

INTEREST DEDUCTIONS: Interest income, except interest on overpaid corporate tax, is included in taxable income. Companies must compute this income on an accruals basis.

In general, interest paid is deductible whether due to foreign or resident creditors and regardless of the purpose of the debt. However, limitations may apply due to Danish thin capitalization rules and limitations apply if net financial expenses exceed Million DKK 20.6 (2008) / 21.3 (2009).

Interest on overdue tax is not deductible.

LOSSES: Losses may normally be carried forward indefinitely. However, losses may not be offset against interest and other capital income, net of interest paid, if more than 50% of the shares in the company have changed ownership since the beginning of the previous year in which the loss was incurred. If a company enters into a settlement with creditors, losses carried forward are reduced by the nominal amount of debt cancelled.

In cases where the company receives a capital contribution in connection with a reconstruction from a principal creditor and the company subsequently repays its debts to the creditor, tax losses from income years up to and including the year of the capital contribution will be reduced by an amount equal to the capital reduction. Furthermore, tax losses cannot be offset against future taxable income if the company has no activity at the time the transfer was agreed.

Losses cannot be carried back.

CONTROLLED FINANCIAL COMPANY INCOME (CFC): Profits made by Danish financial companies or foreign subsidiaries will be taxed in Denmark if the Danish parent company (directly/indirectly) controls the company (votes/decisive influence), and:

- the business of the company is mainly of a financial nature (i.e. more than half of its gross income is derived from certain financial activities), and;
- the financial assets of the company exceed 10% of the assets of the company.

Credit is given for foreign taxes paid on foreign income.

Losses resulting from activities in foreign countries cannot generally be deducted from the Danish source income unless voluntary global joint taxation has been chosen.

C. FOREIGN TAX RELIEF

Danish tax law provides for unilateral relief for foreign taxes paid on some types of income (dividends, royalties, etc). Such relief may not exceed the Danish tax liability that relates to the foreign income concerned. If a tax treaty is in force, relief may be restricted to the tax that the foreign state is entitled to levy under the treaty.

If income is earned in a country with which Denmark has no treaty, any foreign tax is relieved by the credit method under domestic tax rules.

No Danish tax credit is given for foreign permanent establishment profit or real estate profit unless voluntary global joint taxation is elected for. Thus, Denmark has adopted the principle of territoriality for Danish companies.

D. CORPORATE GROUPS

Danish companies within a group, along with Danish permanent establishments and real estate of foreign subsidiaries are subject to compulsory Danish joint taxation. Such companies must have the same financial year.

The group taxation allows the pooling of profits and losses. Losses of one company can be offset against profits of another company.

Such a group may elect to enter into a voluntary global joint taxation arrangement with foreign group companies and foreign permanent establishments and real estate. If voluntary global joint taxation is opted for, all foreign group companies, permanent establishments and real estate 'above' and 'below' Denmark must be included in the joint taxation (cf 'global'). In this case, capital gains derived by non-residents from disposals of Danish shares or bonds may be subject to tax in Denmark.

The foreign entities' income, assessed according to Danish rules, is then included in the Danish taxable income of the group but normally no additional Danish tax is imposed because a tax credit for foreign corporate tax paid is allowed. The inclusion may allow foreign tax losses to be offset against Danish taxable profits. Special rules apply with respect to exemption/credit for foreign taxes and claw back provisions respectively.

E. RELATED PARTY TRANSACTIONS

Related party transactions must be in accordance with the arm's length principle.

F. WITHHOLDING TAX

Danish outward dividends are generally subject to a 28% withholding tax.

Outward interest payments are generally subject to a 30% Danish withholding tax. However, several modifications apply and under most tax treaties this withholding tax is reduced or refunded.

Outward royalty payments under industrial, commercial or scientific agreements are subject to a 30% withholding tax. Under most tax treaties, this withholding tax is reduced or refunded.

G. EXCHANGE CONTROLS

In general, Denmark does not impose exchange controls on business activities.

H. PERSONAL TAX

Individuals are deemed to be residents of Denmark for tax purposes if they occupy accommodation in Denmark as their permanent place of abode or remain in the country for a period of six months or more.

Tax residency is normally terminated on emigration. Some assets will be deemed to be taxed as sold at market value on the date of departure. Any profit will be taxed in Denmark.

Residents are subject to Danish taxation on their worldwide income.

Non-resident individuals are subject to tax on Danish-sourced income, including dividends, royalties, profits from Danish permanent establishments; profits from real estate; and salaries earned from work performed in Denmark.

Profits made by more than 50% held (shares/votes) financial companies established in low tax countries are taxable in Denmark at 25% (CFC).

The CFC taxation generally only applies if the company's financial income is more than 50% of its total income but may not apply if the company is established in an EC or a tax treaty country.

Dividends and gains and losses on the disposals of shares are taxed jointly. The tax rate on this income is 28% on amounts up to DKK 48,300, 43% on amounts between DKK 48,300 and DKK 106,100, and 45% on the surplus (2009).

Personal income includes all remuneration received from the taxpayer's employer, whether in cash or kind, such as free lodging, free use of a car, free use of the telephone etc.

Pension payments, unemployment benefits etc are also included in personal income.

After deduction of Health Contributions of 8% (for 2008) and Pension Contributions of 1% (2009) on gross salary and business income, tax due on the total taxable income and its components is determined as follows:

- a basic charge of 25.7% (average) on taxable income is due to the municipality in which the taxpayer lives;
- the basic State tax rate is 5.04% on taxable personal and positive interests income. (2009);
- a rate of 6% is charged on personal and positive interests income exceeding DKK 347.200 (2009);
- the higher rate of 15% is levied on income exceeding DKK 347.200 (2009).

Some expatriates who are employed in Denmark for a maximum period of 36/48 months can, under certain conditions, choose to be taxed on their gross salary by a final tax instead of ordinary income tax. The tax rate is 25%/33% plus Health Contributions of 8% and Pension Contributions of 1%.

Maximum tax rates (including local and national taxes):

2008	(%)
Personal income	59
Net capital expenses ¹	33.5
Deductions ²	33.5

1 Tax value of interest expenses and capital losses if deductible.

2 Tax value of other tax deductions such as car allowance etc.

I. TREATY AND NON-TREATY WITHHOLDING TAX RATES

	Dividends (%)	Interest (1) (%)	Royalties (%)
<i>Non-treaty countries:</i>	28 (2)	30 (1)	30 (1a)
<i>Treaty countries:</i>			
Argentina	15/10	12	3/5/10/15
Armenia	15/0	0	0
Australia	15	10	10
Austria	10	0	10/0 (10)

	Dividends (%)	Interest (1) (%)	Royalties (%)
Bangladesh	15 (5)	10	10
Belarus	15	0	0
Belgium	15	10/0 (10)	0
Brazil	25	15	15/25
Bulgaria	15/5	0	0
Canada	15/5	10	0/10
Chile	15/5	15	5/15
China	100	10	10
Croatia	15/5	0	10
Cyprus	15/10	10/0 (10)	0 (10)
Czech Republic	15/0	5/10 (15)	
Egypt	20/15	15	20
Estonia	15/5	10/0 (10)	5/10/0 (10,13)
Faroe Islands	15 (7)	0	0
Finland	15 (7)	0 (10)	0 (10)
France	0	0 (10)	0 (10)
Georgia	15	0	0
Germany	15 (3)	0 (10)	0
Greece	18 (10)	8/0 (10)	5/0 (10)
Greenland	– (12)	0	10
Hungary	15/5 (12)	0 (10)	0 (10)
Iceland	15 (7)	0	0
India	25/15	10/15 (14)	20
Indonesia	20/10	10	15
Ireland	15	0 (10)	0 (10)
Israel	15/5	25	10
Italy	15	10/0	5/0 (10)
Jamaica	15/10	12.5	10
Japan	15/10	10	10
Kenya	30/20	20	20
Korea	15	15	10/15 (4)
Kyrgyzstan	15	0	0
Latvia	15/5	10/0 (10)	5/10/0 (10,13)
Lithuania	15/5	10/0 (10)	5/10/0 (10,13)
Luxembourg	15/5	0 (10)	0 (10)
Macedonia	15/0/5	0	10
Malaysia	0	0/– (12)	0/25 (11)
Malta	15	0 (10)	0 (10)
Mexico	15/0	5/15	10
Montenegro	15/5	0	10
Morocco	25	10	10
Netherlands	15 (7)	0 (10)	0 (10)
New Zealand	15	10	10
Norway	15 (7)	0	0
Pakistan	15	15	12
Philippines	15/10	10	15
Poland	15/0/5	5/0 (10)	5/0 (10)
Portugal	10	10/0 (10)	10/0 (10)
Romania	15/10	10	10
Russia	10	0	10
Serbia	15/5	0	10
Singapore	10/0/5	10	10
Slovak Republic	15/5	0 (10)	5/0 (10)
Slovenia	15/5	5/0 (10)	5/0 (10)
South Africa	15/5	0	0

	Dividends (%)	Interest (1) (%)	Royalties (%)
Spain	15	10/0 (10)	6/0 (10)
Sri Lanka	15	10	10
Sweden	15 (7)	0/10/ (10)	0 (10)
Switzerland	0	0	0
Taiwan	10	10	10
Tanzania	15	12.5	20
Thailand	10	10/15	5/15 (6)
Trinidad and Tobago	20/0	15	15
Tunisia	15	12	15
Turkey	20/15	15	10
Uganda	15	10	10
Ukraine	15/5	10	0/10
United Kingdom	15/0 (8)	0 (10)	0 (10)
United States	15/5 (3,9)	0	0
Venezuela	15/5	5	10
Vietnam	15/5/10	10	5/15
Zambia	15/	10	15

- 1 Denmark imposes withholding taxes on outward interest payments at a rate of 30%. However, Danish withholding tax does not generally apply to interest payments to a foreign group company in an EC Member State or protected by a tax treaty.
- 1a Denmark imposes withholding taxes on outward royalty payments at a rate of 30%.
- 2 A 0% rate applies to dividends distributed to foreign companies in EC countries/protected tax treaty countries holding at least 15% of share capital (10% from 1 January 2009) throughout a 12-month period and if not a 'flow-through' entity.
- 3 The rate is 5% for parent companies holding at least 10% of the capital of the company.
- 4 10% for industrial royalties and know-how.
- 5 10% for parent companies holding at least 10% of the capital of the company.
- 6 5% for copyright of literacy, analysis of scientific work.
- 7 Only 10% ownership is required for the 0% rate.
- 8 For individuals, the withholding tax is increased to 28% if the person is subject to tax in the UK on the dividend.
- 9 Limitation of benefits applies.
- 10 Nil, if protected by EU Directive 2003/49EF.
- 11 The reduced rate applies only to approved royalties.
- 12 There is no reduction under the treaty – the domestic rate applies.
- 13 Applies to industrial, commercial and scientific royalties.
- 14 The lower rate applies to bank loans only.
- 15 The reduced rate applies to royalty payments in respect of patents, trademarks and similar industrial, commercial or scientific rights. The domestic rate applies to all other royalty payments.



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