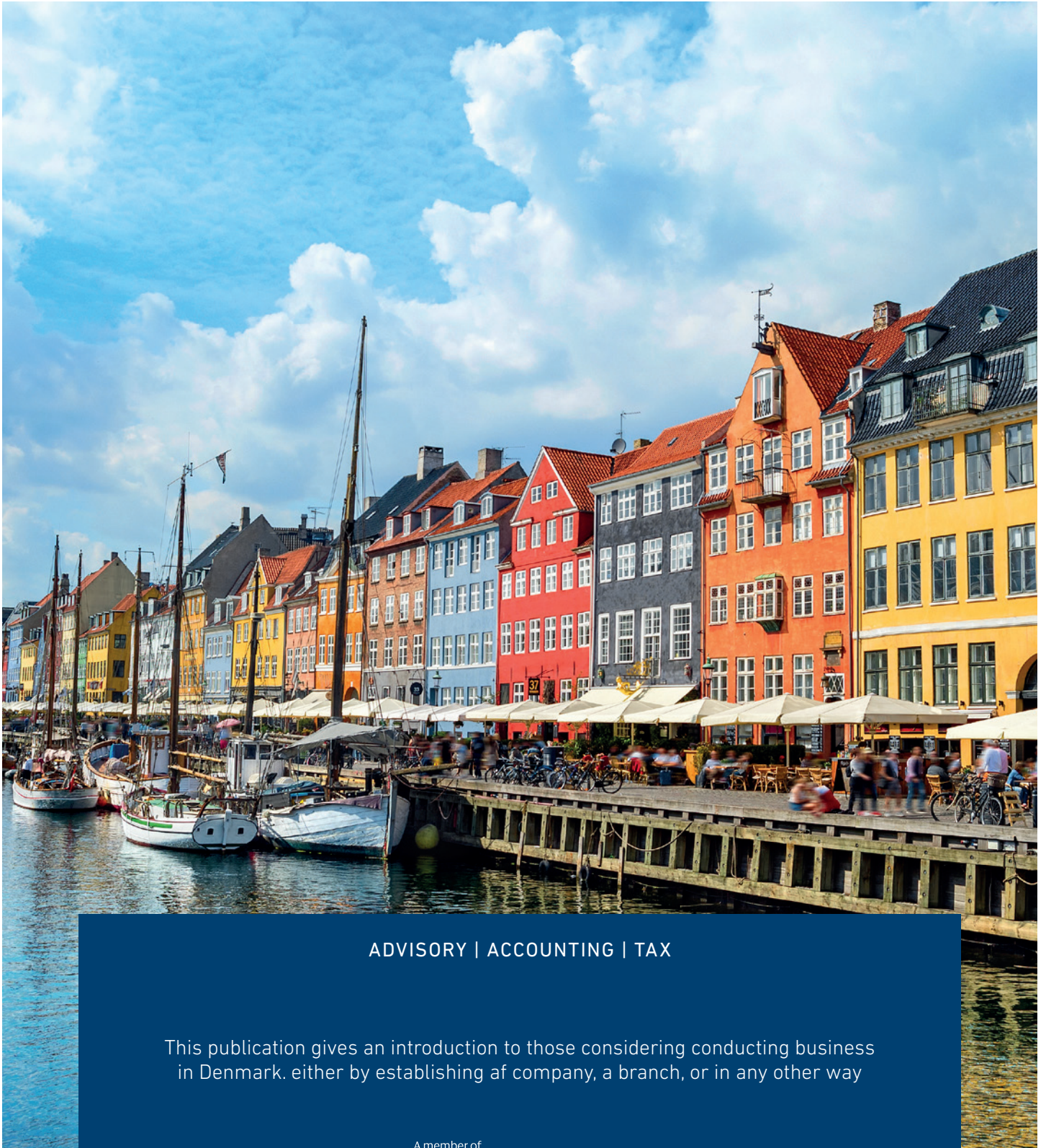


TAX, VAT & DUTIES

Guide to doing business in Denmark 2024



ADVISORY | ACCOUNTING | TAX

This publication gives an introduction to those considering conducting business in Denmark, either by establishing a company, a branch, or in any other way



Table of contents

Introduction	3
Discover Denmark in brief!	4
Why Denmark is great for doing business	5
Incorporating a business in Denmark – The legal framework	5
Business entities	6
Corporate Taxation	8
Taxation of individuals	11
VAT and other taxes	13
About Redmark	14
Contact us	15

Introduction

The purpose of this publication is to give an introduction to those considering conducting business in Denmark, either by establishing a company, a branch, or in any other way.

Our intention is to provide a description of the business environment and the main aspects of the legal framework of Danish business life. For readers actually planning to set up a new business in Denmark, we recommend further professional assistance.

Please also be aware that for tax purposes Danish tax legislation does not apply to Greenland and the Faroe Islands, but there are tax treaties in force with Denmark and these two jurisdictions.

As this serves as a general guidance only, Redmark is not responsible for potential errors or omissions in the booklet.

Discover Denmark in brief!

Denmark, located in Scandinavia, the northern region of Europe, is bordered by Germany to the south and Sweden and Norway to the northeast. With an almost 6 million-strong population, 1.4 million reside in the vibrant capital, Copenhagen, named by Forbes as the world's best city for work-life balance.

Other prominent cities in Denmark include:

- **Aalborg** in the north: Renowned for Aalborg University, ranked as Europe's top engineering university for six consecutive years.
- **Aarhus** in the Jutland region: Home to Denmark's largest commercial port.
- **Esbjerg** in the southwest of Jutland: Denmark's energy hub and offshore capital.
- **Odense** in the heart of Denmark: Recognized as Europe's Robotics Capital.

The Kingdom of Denmark encompasses not only Denmark itself but also the Faroe Islands and Greenland, all under the formal rule of Queen Margrethe II. Denmark operates as a constitutional monarchy with a parliamentary democracy, where general elections are held every fourth year. Denmark has been a member of the European Union (EU) since January 1973 but opted out of adopting the Euro, retaining its national currency, Danske Kroner (Banking code DKK). However, the monetary-policy consist of a fixed-exchange-rate policy towards the Euro currency. Additionally, Denmark is a member of NATO, UN and OECD.

The Danish people are ranked among the happiest in the world; a testament to the Danish culture and society built on high levels of social trust. Trust is an integral part of both Denmark's social and business environment.

Beyond its reputation as a superb living and business destination, Denmark proudly hosts some of the world's most esteemed and recognizable companies, including industry giants like Novo Nordisk, Maersk, LEGO, and many others.

Wind turbines on a summer day in Jutland

Facts

Location: Northern Europe
Government: Parliamentary democracy
Capital City: Copenhagen
Population: 5.93 million in 2022.
Language: Danish (High English proficiency)
Currency: Dansk krone (DKK)
GDP: USD 395 billion (2022)
GDP per capita: USD 66.983 (2022)
Time zone: GMT +1

Why Denmark is great for doing business

Denmark ranks as Europe's best country for business and 4th in the world by The World Bank in its most recent Doing Business Report. Furthermore, Denmark is ranked the most digitally competitive economy in the world in IMD's World Digital Competitiveness Ranking 2022.

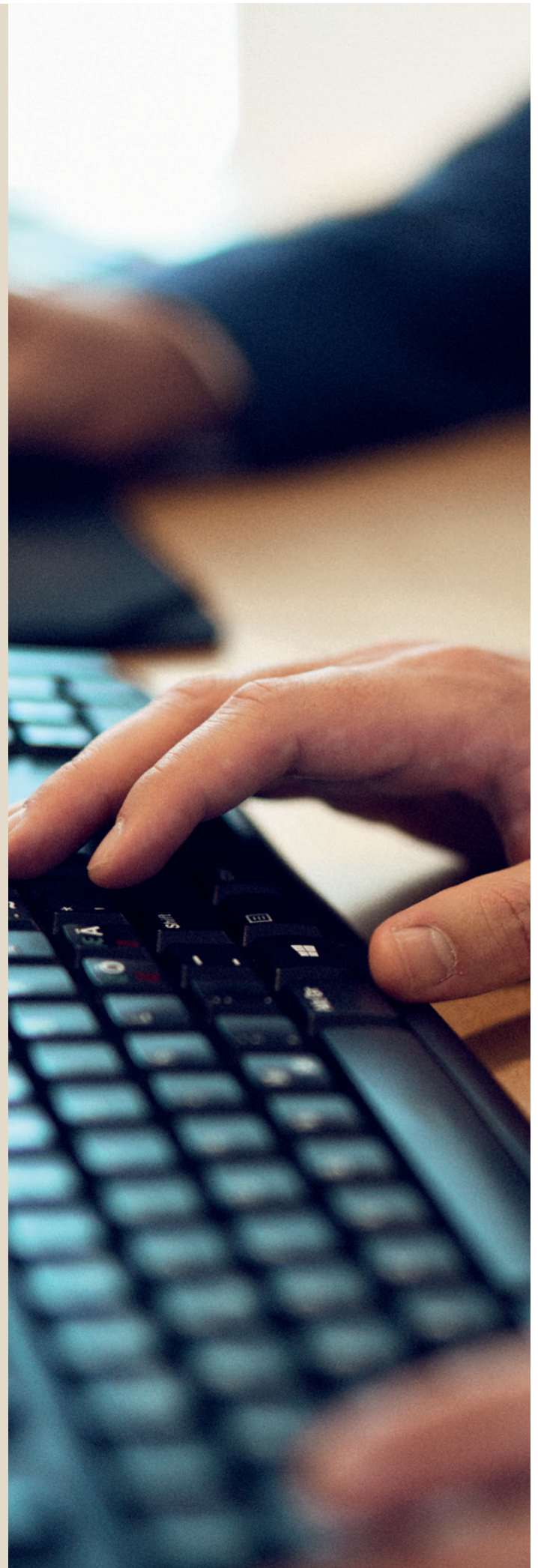
Denmark offers a stable and prosperous environment for businesses, underpinned by a robust economy marked by low corruption and high GDP per capita. Its business-friendly policies, transparent legal system, extensive tax-treaty network to avoid double taxation and government support for innovation make it an attractive destination. Denmark prioritizes work-life balance, fostering a motivated and well-educated workforce.

With a strong emphasis on renewable energy and sustainability, Denmark leads in green initiatives, creating opportunities in eco-friendly sectors. Innovation thrives in Denmark, especially in areas like renewable energy, clean technology, life sciences, and design. Its well-developed infrastructure, strategic European location, and high English proficiency further enhance its appeal for international businesses. With a flexible labour market and collaborative work culture, Denmark stands as a beacon for companies aiming for success and environmental responsibility in Northern Europe.

Incorporating a business in Denmark – The legal framework

As a rule of thumb – depending on your line of business – there is no need for government approval to conduct business in Denmark. Some areas of business in Denmark requires a license from a public or regulatory authority. Examples include, but are not limited to, attorney-at-law, certified public accountant, the financial services sector and to some extent healthcare services.

The incorporation process mainly depends on the choice of business entity. Business entities in Denmark can be categorized in regulated business entities and non-regulated business entities generally distinguished by the business owners' level of liability.



Business entities

Business activities can be carried out through companies, partnerships, or individuals operating as sole traders. Investors have the flexibility to select the most suitable form of organization for their needs. The following section outlines the most frequently utilized types of entities.

Limited liability companies (regulated entities)

Limited liability companies, in short LLC's (In Danish "A/S or ApS"), are characterized by ownership being distributed by share capital of the company. The shareholder's liability is limited to the nominal value and amount of shares subscribed or purchased.

Public limited liability company (Aktieselskab, A/S)

A public limited company ("A/S") must have a share capital of a nominal value of at least DKK 400.000. Only 25 %, meaning at least DKK 100.000, of the initial share capital must be paid up in full in connection with the registration and establishment of the company. This only applies when establishing the company by injecting cash as share capital. The share capital may also be injected in other assets.

Public limited companies can be solely owned by a foreign individual or company, or ownership can be shared among individuals, companies, or a combination thereof. As of July 1st, 2016, shareholders are registered in a register at the Danish Business Authority. However, only share holdings of at least 5 % of the capital or votes are publicly available.

The management may consist of either a board of directors (a minimum of 3 persons) and the managing director(s) (a minimum of 1 person), or a board of managing directors supervised by a supervisory board (a minimum of 3 persons).

Private limited liability company (Anpartsselskab, ApS)

A Private Limited Company ("ApS") must have a share capital of a nominal value of at least DKK 40.000. The minimum share capital requirement must always be paid up in full.

The options for distribution of ownership of a Private Limited Company are almost identical to those of the Public Limited Company. Share holdings of at least 5 % of the capital or votes are registered in a register at the Danish Business Authority and are publicly available. The main difference in distribution of ownership compared to the Public limited Company is, that a Private Limited Company cannot make its shares available to the public (i.e., listed on a stock exchange).

The management may consist of either a board of managing directors, or a board of directors and the managing director(s), or a board of managing directors supervised by a supervisory board. A board of directors or a supervisory board is only required if the company employs more than 35 persons for 3 consecutive years.

From a tax perspective, limited companies (A/S and ApS) are separate tax entities. This implies that the annual profits and losses are taxed at the company level. The owners are taxed only at the personal level when profits are distributed to the shareholders, such as through dividends.

Limited Partnership Company (Partnerselskab, P/S)

A Limited Partnership Company is a limited business form that requires at least two parties to establish. Just like the Public and Private Limited Company, The Limited Partnership is also regulated by the Danish Companies Act, and ownership is distributed among shares, with a minimum share capital of DKK 400.000 required at the establishment. In general, the Limited Partnership must meet the same requirements in the Danish Companies Act as stated for Public Limited Companies.

The special feature of limited partnerships is that among the participating partners, there must be at least one general partner who is personally and unlimitedly liable for the company's obligations. The other partners are referred to as limited partners. These participants are liable under the same conditions as participants in limited companies, i.e., limited to their share capital contributions to the company.

From a tax perspective, the limited partnership (P/S) is tax transparent. This means that the partnership is not a separate tax entity, and profits and losses are taxed directly for the participating partners.

The Business form is often used by law-, auditing-, and consultancy firms



Island Middelgrundsfartøjet and offshore wind turbines on the coast of Copenhagen

Non-regulated entities

General Partnership (Interessentskab, I/S)

A General Partnership is a form of business entity that requires – as the name implies – at least two parties. A General Partnership can be established as a partnership between natural persons, legal persons, or a combination hereof.

The General Partnership is a non-regulated form of business entity in the sense that it is not regulated by the Danish Companies Act. The General Partnership is a separate legal entity, meaning it may own assets, incur debt and responsibilities, have employees etc. However, unlike the Limited companies, the participants in a General Partnership are personally, jointly, and unlimitedly liable for the company's obligations.

The distribution of ownership, profits, and the participating partners' mutual allocation of liability, and other obligations is most often regulated in a General Partnership agreement. The agreement is not mandatory, but highly recommended.

No registration of a General Partnership is needed unless the participating partners exclusively constitutes Limited Companies. If so, the General Partnership must be registered at the Danish Business Authority.

From a tax perspective, the general partnership (I/S) is tax transparent. This means that the partnership is not a separate tax entity, and profits and losses are taxed directly for the participating partners.

Sole Proprietorship/Sole Trader (Enkeltmandsvirksomhed)

A sole proprietorship (in Danish "Enkeltmandsvirksomhed") offers a straightforward way to establish a business without the need for formalities such as partnership agreements or minimum capital requirements, as seen in limited companies. This option is particularly suitable for small businesses and startups due to its simplicity, cost-effectiveness, and quick setup process.

However, it's important to note that in a sole proprietorship, there is no legal distinction between the owner and the business. This means the owner assumes full responsibility for all obligations and liabilities incurred during business operations.

From a tax perspective, there is no distinction between the business and the individual behind the business. The business' profits and losses are taxed directly for the owner.

Branch & Representative office

A foreign company or individual can, instead of establishing a business in Denmark, conduct their business activities in Denmark through a branch office or a representative office. In both scenarios the Branch and representative office must be registered with the Danish Business Authority.

Depending on the business activities conducted through the branch office or representative office, the activity may be deemed a permanent establishment in Denmark. If the specific activity constitutes a permanent establishment, the activity will be subject to taxation in Denmark. A separate tax report for the permanent establishment must be prepared, and a Danish tax return for the permanent establishment must be filed. The arms-length principle applies when preparing the permanent establishments tax-report and tax return.

If the activity in Denmark consists solely of preparatory or auxiliary functions, it cannot constitute a permanent establishment, e.g., warehousing or showroom facilities (however, dependent on the specific circumstances).

Permanent establishment is a complex concept, and therefore, we always recommend seeking specific advice before establishing business activities in Denmark.

Corporate Taxation

International investors and companies can benefit from one of the worlds most digitalized economies and taxation systems with ease of paying taxes ranking within top 10 in The World Bank's most recent Doing Business Report.

Tax rate

Denmark's Corporate taxation structure employs a flat corporate income tax rate of 22% (2023) on taxable income including capital gains.

Taxable income and corporate tax liability

The tax liability on corporate income and capital gains depends on the residency of the company.

A company is resident in Denmark for tax purposes if it is incorporated as a Danish Public or Private Limited Company (A/S or ApS) and its effective management is situated within the country, or if it is incorporated abroad as a company resembling the characteristics of a Danish Limited Company and its effective management is in Denmark. Effective management is determined based on the place of the day-to-day business decision making.

Resident companies are fully liable to pay corporate taxes on their global corporate income and capital gains. However, income from real estate or a permanent establishment abroad is exempt from Danish tax liability.

Non-resident companies can be subject to Danish limited tax liability either through a permanent establishment – as explained under branch offices and representation offices – or by deriving certain types of income or capital gains from sources in Denmark.

Corporate income tax return

Resident companies and Danish permanent establishments/real estates of foreign entities must file an annual corporate income tax return. The deadline is six months after the end of the financial year (5 months if the financial year ends on March 31).

The corporate income tax return is filed digitally via the Danish Tax Authorities' digital tax platform. Besides information on the taxable income, the entity must disclose information about for example dividends received and distributed, certain restructurings occurred during the year, and summary information on the controlled transactions that the entity has been part of during the year.

Taxable income

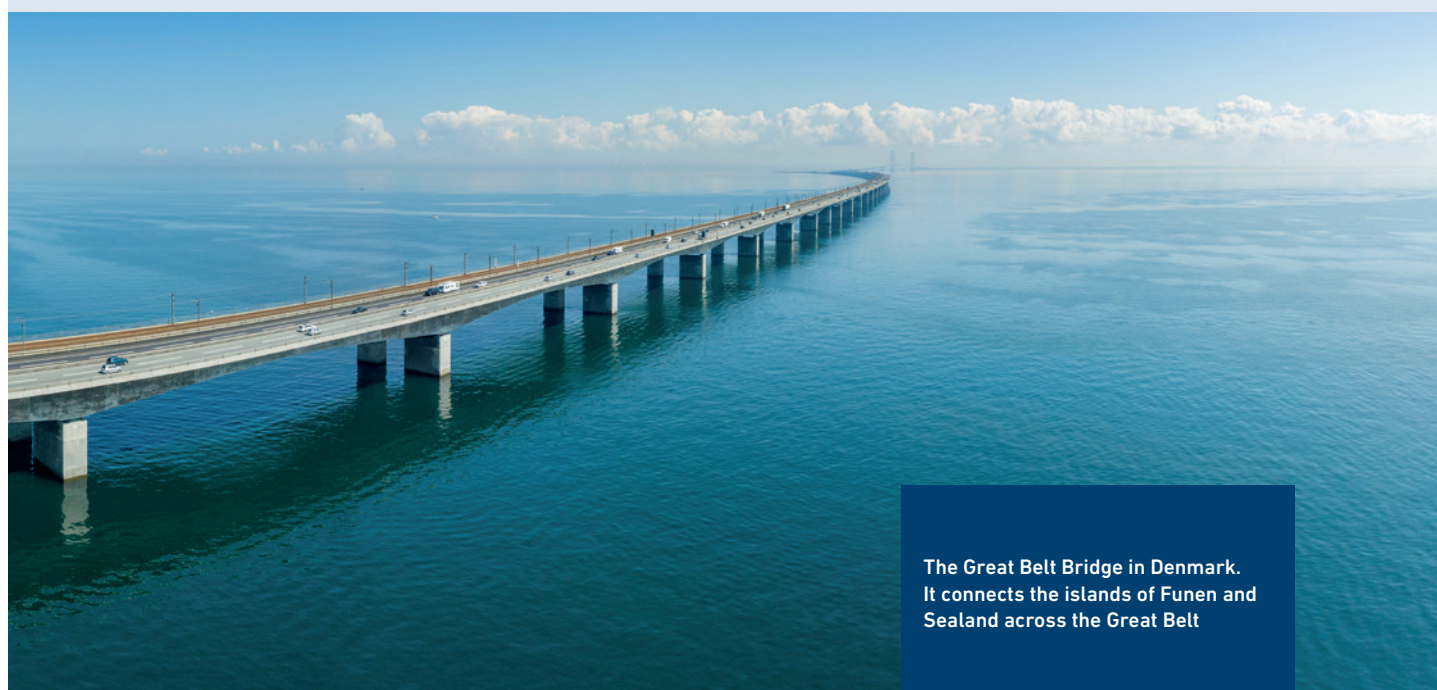
For resident companies the taxable income is determined on the basis of the result shown in their annual report adjusted to account for differences between income calculation for accounting and taxation purposes. For non-resident companies the taxable income is based on specific types of income derived from sources in Denmark. Please note that the table next page is not exhaustive.



Overview of taxable income for resident- and non-resident companies

TAX LIABILITY	RECIPIENT	
	Residents	Non-residents
Type of income		
Business profits	Taxable ¹	Non-taxable ²
Dividends	Mainly tax-free ⁵	Mainly tax-free ⁵
Capital gain/loss on debt & monetary claims	Taxable ¹	Non-taxable ^{2, 3}
Capital gain/loss - shares	Mainly tax-free ⁴	Non-taxable ⁴
Interests	Taxable ¹	Non-taxable ^{2, 3}
Royalties	Taxable ¹	Taxable ⁶

- 1** Unless the income can be attributed to a permanent establishment situated in another state.
- 2** Unless the income can be attributed to a permanent establishment situated in Denmark.
- 3** Unless the income is derived from debt and/or monetary claims to/from affiliated companies in Denmark, i.e., controlled debt (50% ownership).
- 4** For residents a minimum of 10% ownership is required. For residents and non-residents, the repurchase of shares by the issuing company is reclassified as dividends.
- 5** In general, dividends are tax free if the receiving company owns at least 10% of the distributing company. For non-residents, the tax liability is additionally contingent on whether Denmark has waived or reduced its right to taxation according to an EU-Directive or tax treaty.
- 6** Unless the recipient is a resident for tax purposes in an EU/EEA member state, and if the receiving and distributing companies are affiliated by at least 25% ownership.



The Great Belt Bridge in Denmark. It connects the islands of Funen and Sealand across the Great Belt



Tax losses and joint taxation

Operating tax losses may be carried forward indefinitely, however, with a yearly cap on utilization. Carry back of tax losses is not possible. One company's unutilized tax loss can be utilized in other Danish affiliated companies if the companies are part of a joint taxation group. National joint taxation is mandatory for permanent establishments in Denmark and Danish Limited Companies if affiliated by more than 50 % holdings of the voting rights.

Transfer Pricing

Permanent establishments in Denmark and Danish companies engaged in transactions with affiliated group companies are obliged to report summary information on controlled transactions in their tax returns. They are also required to prepare and file written documentation on their prices and terms in controlled transactions being determined based on an arms-length principle. Further, an independent accountant's opinion is required in certain specific situations.

The documentation requirements are compliant with OECD's transfer pricing guidelines. Covered entities must thus prepare and file a local file and a master file. The filing deadline is 60 days after the deadline for filing the corporate income tax return for the year.

Companies that are part of smaller groups, are exempted from the documentation requirements. Following thresholds (measured at Group-level) apply for the exemption:

- Less than 250 employees, **and**
- Less than DKK 250 million consolidated turnover, **or**
- Less than DKK 125 million consolidated assets
- If the thresholds are exceeded, the company is covered by the documentation and filing requirement.

Competitive Tax rules

- Low social security rates and employer cost
- Losses can be carried forward indefinitely
- Extensive tax treaty network to avoid double taxation
- Costs incurred in R&D activities related to a taxpayer's business is tax-deductible at 130%
- The Danish Tax rules contain a cash tax credit scheme for companies with losses due to deductions for R&D expenses. When using the tax credit scheme, the tax value of losses attributable to R&D becomes refundable

Taxation of individuals

Taxation of individuals in Denmark builds upon a global income-principle. Thus, individuals who are fully liable to pay taxes in Denmark are taxable on their global income and capital gains. Global income encompasses more than just the classical example being cash remuneration. Income is taxable regardless of the form it takes whether it be goods, services, employer benefits such as company car, pensions, or social benefits. However, Denmark has no tax on wealth, except, in certain cases, property tax.

Individuals – who are not sole traders – have limited access to tax-deductions, however, certain costs are to some extent deductible, such as cost of travelling between home and work.

The global income-principle only applies to residents for tax purposes, i.e., individuals with unlimited tax liability. Tax residency can be established by access to a habitual abode in Denmark with the intention of permanent residency or uninterrupted stay for at least 6 months.

Non-tax-residents can be liable to pay taxes in Denmark if they derive income from sources in Denmark. Examples can include, but are not limited to, remuneration for work performed in Denmark (contingent on further circumstances), dividends from Danish entities or income from immovable property in Denmark.

Taxable income

Denmark's taxation structure for individuals employs a progressive income tax rate and is comprised of different types of taxable income.

Personal income

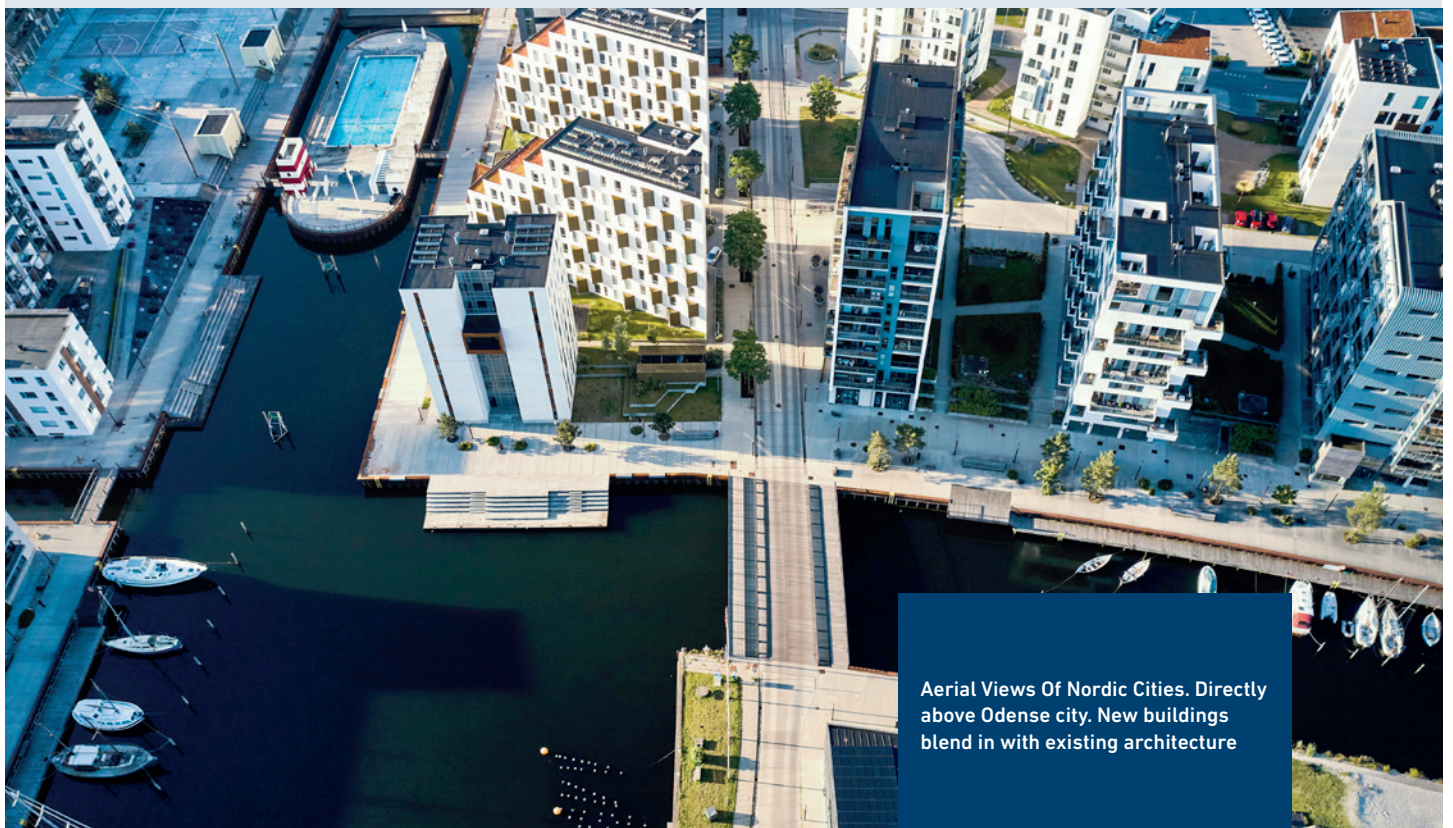
Personal income is comprised of all taxable income that is not part of capital income or share income (see below). Personal income is subject to a progressive tax rate depending on the individual's municipality tax and whether the annual income exceeds the top tax bracket of DKK 568.900 (2023). The top tax rate is an additional 15% on annual income exceeding the top tax bracket. The average tax rate in Denmark is appr. 42-56%.

Capital Income

Capital income includes, but is not limited to, earnings from interest payments and profits from capital gains on debt and monetary claims, both in domestic and foreign currency. Capital income is taxed as net income with a tax rate not exceeding 42%.

Share income

Share income mainly includes gain and loss on sale and purchase of shares and earnings from dividend payments. Share income is taxed in two brackets. A tax rate of 27% is applied on the first DKK 58.900 and 42% on share income exceeding the bottom tax bracket. Unutilized bottom tax bracket of one spouse can be utilized by the other spouse.



Aerial Views Of Nordic Cities. Directly above Odense city. New buildings blend in with existing architecture



Modern futuristic Buildings and skyscraper of Aarhus Skyline

Tax on Real Estate

Profits and losses from commercial buying and selling of real estate (immovable property) in Denmark are taxable. However, for individuals, profits and losses from the purchase and sale of real estate that has served as the owner's or their household's residence are tax-free.

Immovable property is also subject to property value tax and land tax in certain cases. Immovable property owned by individuals who are tax residents in Denmark is subject to Danish property value tax, regardless of whether the immovable property is located in Denmark or in a foreign state. Additionally, immovable property situated in Denmark is subject to land tax. Owners of residential properties are required to pay property value tax if they inhabit the property themselves. Residential properties up for lease and commercial properties are not subject to property value tax.

Land tax is a tax on the value of the land on which the property is situated and should reflect the potential utility value of the land. In principle, all owners of immovable property are subject to land tax, regardless of the utilization of the property.

Tax Scheme for researchers and highly paid employees

Denmark has a special tax scheme for researchers and high-income employees wishing to work and reside in Denmark. This scheme allows for taxation at a reduced tax rate of 32,84% (2023) on their salary and some employee benefits. The tax scheme can be utilized for up to 7 years.

To qualify for the scheme, both the employee and the employer must meet specific conditions, including the

requirement that the employee has not been fully or partially taxable in Denmark within the last 10 years prior to the employment. If the employee moves to Denmark, the move can occur no earlier than 1 month before the first day of work.

The employer must be either a fully taxable company or individual in Denmark. If not fully taxable in Denmark, the employer can be a foreign company or individual partially taxable through a permanent establishment in Denmark.

Tax Return for individuals

Tax residents in Denmark (fully tax liable individuals) and non-residents with limited tax liability, must file an annual Danish tax return. The tax return deadline is either May 1st or July 1st in the year following the relevant fiscal year, depending on the individual's specific circumstances.

The tax return for individuals is filed digitally via the Danish Tax Authorities' digital tax platform. The tax return for tax residents must cover information on the individual's global income. For non-residents the tax return may only cover the specific income for which the individual is subject to Danish limited tax liability.

Please note that income received from certain Danish entities will automatically be reported to the Danish tax authorities. This includes, but is not limited to, salaries paid by a Danish employer, or a permanent establishment located in Denmark, interest income from deposits in Danish financial institutions, and dividends, gains, and losses on shares in Danish depositaries.

VAT and other taxes

Value-Added Tax – VAT

Value-added tax (VAT) is an indirect tax on the supply of goods and services. VAT is collected at each stage of the sales chain. Businesses subject to VAT can deduct the input VAT they have paid (though some certain cost cannot be deducted, and the deduction rate depends on the activity), passing the tax burden on to the end consumer of the goods or services. Denmark applies a standard VAT rate of 25% to taxable activities and the rule of VAT is regulated in the VAT directive, which applies to all countries within EU.

Certain activities are exempt from VAT, such as service regarding healthcare, education, insurance and financial services. In most cases, activities excepted from VAT are liable to Payroll tax.

The handling of VAT also depends on the matter if the sale is Business to Business or Business to Consumer, if the goods or services is delivered to or received from a company abroad and in some cases where the service is used.

Excise duties

In Denmark, certain types of goods are subject to excise duties, in addition to the value-added tax (VAT). Excise duties are levied, unlike VAT, only at one stage in the supply chain. Therefore, businesses that produce and import specific goods subject to excise duties are obligated to collect and remit the duty, along with complying with various regulations under Danish excise duty law.

Goods subject to excise duties includes, but is not limited to, energy in the form of electricity, gas and fuels, chocolate, tobacco, and alcohol.





About Redmark

Redmark is one of Denmark's largest consulting and accounting firms with more than 400 employees and offices in Aalborg, Hadsund, Randers, Viborg, Hadsten, Aarhus and Copenhagen.

With a comprehensive range of skills and knowledge, and a progressive, involved and committed approach, Redmark's ambition is to make our mark on the Danish auditing and consulting market and to be recognised for combining highly-qualified financial advice with motivation and presence.

Redmark specialises in a diverse array of fields, encompassing consulting, auditing, tax, VAT, business service, digitalization and more. We tailor our services to the specific needs of different industries and companies of all sizes – from doctors and physiotherapists to the real estate sector, educational institutions, and utility companies. And we are constantly building new industry knowledge.

We provide comprehensive solutions and make a noticeable difference when we address the challenges at the top of your agenda. We care about you, your challenges, and your dreams, and we take action to assist you every step of the way. We focus on the needs of our customers, we keep our promises and long-term and present relationships with our customers are important to us.

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About MGI Worldwide

As a member of MGI Worldwide we can act efficiently and quickly, both nationally and internationally. MGI Worldwide is a Top-20 ranked international network of independent audit, tax, accounting, and consulting firms with almost 9,000 independent auditors, accountants, and tax experts in some 400 locations around the world. Member firms are committed to help many clients set up and grow their business locally, regionally, and internationally.



View of the harbour and city in Aalborg

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