

TAXATION IN DENMARK

Taxation in Denmark is generally based on direct taxation of companies and individuals, where companies pay a flat tax rate and individuals pay a progressive tax rate. In addition to the above, a number of indirect taxes exist, such as a general 25% VAT and various other indirect taxes on different goods. Certain goods and services are entirely VAT-exempt. Costs for social security etc. are usually covered by the state on the basis of the taxes paid.

How are companies taxed?

Danish companies pay a 25% corporate income tax. This percentage generally applies to all company income. Branches, agencies etc. established in Denmark are generally also liable to such taxation, although this may vary depending on the activities and the set-up of the entity in question.

How are individuals taxed?

Individuals residing in Denmark are subject to a progressive income tax on all income earned in Denmark and abroad. Special tax rates apply to capital income and income from shares.

More favourable tax regimes exist for foreign employees who are either highly specialised or earn a certain minimum salary. However, this regime may only be used by the individual in question for a limited period of time.

How are dividends taxed?

As a general principle, dividends are subject to taxation. However, a Danish company may receive tax free dividends provided that the company (i) holds at least 10% of another company, (ii) the company controls more than 50% of the voting rights in such company, or (iii) in another way exercises control of such company in accordance with the Danish provisions of joint taxation.

It is important to be aware that taxation of dividends received from tax havens etc. may be treated differently.

How is share income taxed?

Capital gains on shares in Danish companies are generally subject to taxation. However, a number of important rules generally apply. First of all, foreign companies are generally not liable to pay Danish tax on such capital gains. Second, Danish companies are also not liable to pay tax on such capital gains provided that (i) the company holds at least 10% of the share capital in such company, (ii) the company controls more than 50% of

the voting rights in such company, or (ii) in another way exercises control of such company in accordance with the Danish provisions of joint taxation.

Do thin capitalisation rules exist in Denmark?

The deductibility of interest is subject to the following limits:

- A 4:1 debt/equity ratio.
- Only financing expenses equal to 4.5% or less of the assets of the group are deductible (the percentage to be adjusted annually). Expenses below DKK 21.3 million (2011) are always deductible under this rule.
- Financing expenses exceeding 80% of the EBIT are not deductible that year.

Do transfer pricing rules exist in Denmark?

In accordance with relevant EU and OECD guidelines, transfer pricing rules apply according to which transactions must be carried out on an arm's length basis.

The above does not constitute legal counselling and Moalem Weitemeyer Bendtsen does not warrant the accuracy of the information. With the above text, Moalem Weitemeyer Bendtsen has not assumed responsibility of any kind as a consequence of a reader's use of the above as a basis of decisions of considerations.