

Corporate tax

Corporate taxation in Denmark is calculated on the basis of a flat rate of 30% of the taxable worldwide profit. This rate applies whether or not profits are distributed. No local income taxes, franchise tax or net wealth tax are levied on companies or branches in Denmark.

Since 1903 the tax regime has provided for joint taxation of Danish parent companies with foreign and local subsidiaries. This enables businesses to offset losses in a foreign subsidiary against Danish taxable income. Furthermore, as from 2004, it is possible to establish a joint taxation between two wholly owned Danish subsidiaries of e.g. a EU parent company.

Corporate tax is paid as a provisional tax twice a year. The ordinary taxable income earned by companies during the income year is assessed largely along the same lines as those that apply to personal income. There are more than 70,000 companies in Denmark. The administration of the company tax is shared between the Central Customs and Tax Administration and the regional customs and tax offices.

2.3.1. Holding companies

For years Denmark has been attractive to foreign investors owing to several commercial reasons, including:

- a highly developed infrastructure;
- a high level of education; and
- a high coverage ratio of IT and electronic equipment.

In the autumn of 1998 the Danish government decided to improve on the investor friendly environment in respect of corporate taxation. In order to attract more foreign investment a holding regime was introduced, primarily designed for operative entities. The main features of the resulting Danish holding regime include:

- zero corporate taxation of inbound dividends, subject to a Danish holding company participation of $\geq 20\%$ (15% and 10% as of 1 January 2007 and 2009 respectively) and a holding period of >1 year;
- zero withholding tax on outbound dividends to corporate parents, subject to a foreign company participation of $\geq 20\%$ (15% and 10% as of 1 January 2007 and 2009 respectively) and a holding period of ≥ 1 year; and
- zero or reduced withholding tax on inbound dividends as a result of a strong network of tax treaties (>75).

Other general taxation elements, which apply to holding companies, include:

- no capital duty on capital contributions;
- no stamp or transfer duty (save in the form of registration charges in respect of fixed property, ships and aircraft);

- no capital gains taxation on share profits at the level of the Danish holding company, subject to a holding period of ≥ 3 years;
- no wealth tax on foreign investors within the holding period;
- no exit tax on foreign investors (foreign investors are not subject to limited Danish tax liability on their disposal of shares in a Danish (holding)company);
- and the option to pay dividends on account (interim dividends).

The Danish holding regime created a tax environment for foreign investments which is neither second to none nor perfect, but which is definitely competitive in many cases and eligible for consideration in international long-term tax planning. Some Danish rules have proven to discourage or hamper some investments, for instance:

- Danish CFC rules disqualify investments in foreign finance companies from benefiting from the Danish holding regime;
- restrictions apply to the up streaming of cash flow to a foreign company via loans from the Danish holding company and there are also restrictions on the Danish holding company providing security for the indebtedness of its foreign parent company;
- withholding tax is levied on interest paid on intra-group loans paid to companies in tax havens (no withholding tax applies to companies resident in one of the approximately 90 jurisdictions with which Denmark has a double taxation treaty). Anti-avoidance provisions apply; and
- anti US check-the-box rules limit the tax efficiency of Danish holding companies.