

This report provides helpful information on the current business environment in Denmark. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

Report on Denmark

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RBC Royal Bank®



Important to Know

Official language

› Danish

Currency

› Krone (DKK)

Bank holidays

2010	
January	1
April	1, 2, 5, 30
May	13, 14, 24
June	5
December	24–26, 31

Source: www.goodbusinessday.com.

Types of Business Structure

Under Danish law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

Public limited liability company

A/S (*Aktieselskab*). This is a company whose shares may or may not be registered to their owners. Bearer shares are tradable on a public stock market. This requires a minimum paid up share capital of DKK 500,000 (or the equivalent in EUR).

Private limited liability company

ApS (*Anpartsselskab*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires a minimum share capital of DKK 125,000 (or the equivalent in EUR).

Company with limited liability

SMBA (*Selskab med begrænset ansvar*). This is a company whose shares are registered to their owners and therefore are not publicly tradable. This requires no minimum share capital. There are no governance rules and no requirements for audited accounts.

General partnership

I/S (*Interessentskab*). In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

Limited partnership

K/S (*Kommanditselskab*). In a limited partnership, some partners enjoy limited liability (silent partners) although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

Cooperatives

AMBA (*Andelsselskab med begrænset ansvar*). A limited liability cooperative requires no minimum share capital. There is no personal liability.

Other organizational types

Danish companies are entitled to form European Economic Interest Groupings (EEIGs) with companies based in other European Union (EU)* member states. An EEIG performs particular activities on behalf of its member owners. An EEIG is also permitted to perform these activities with entities outside the EU. An EEIG has unlimited liability.

*The EU is an economic and political union of 27 countries (including all members of its forerunner, the European Community, as well as other countries in Central and Eastern Europe), 16 of which use the euro as a common currency.

A *Societas Europaea* (SE) is a European public limited company, which can be established in any European Economic Area (EEA)* member state. It must maintain its registered office and head office in the same country, and it is subject to the company law in that country.

*EEA countries include those of the EU and three of the four European Free Trade Association (EFTA) member countries (Iceland, Liechtenstein and Norway).

Associations with limited liability (FMBA) require no minimum share capital. There is no personal liability.

Branches and representative offices

Non-Danish companies are entitled to establish a branch or a representative office in Denmark. A branch's activities are subject to Danish company law, although it is considered part of the company's head office and therefore not a separate legal entity. Both branches and representative offices require no minimum share capital. However, for tax purposes, the branch's head office may be required to provide documentation of a minimum registered capital of DKK 125,000. Branches must be registered at the Danish Commerce and Companies Agency. To open a branch a company must file a number of documents, including head office accounts. While branches are permitted to make sales, representative offices may not sell directly in Denmark.

Opening and Operating Bank Accounts

Residency

To be considered resident, a company must have a registered office, its principal establishment or its centre of management in Denmark.

Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (DKK) accounts outside Denmark and foreign currency accounts both within and outside Denmark.

Non-residents are permitted to hold local currency and foreign currency accounts in Denmark.

All local currency accounts are fully convertible into foreign currency.

Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the account holder. This must include name, address, a national registration number (CPR number) or a business registration number (CVR number), or similar documentation if the person in question does not have a CPR or CVR number.
- › The identity of the beneficial owners of legal entities must be established.
- › All credit and financial institutions have to identify non-account holders for transactions exceeding DKK 100,000 or the equivalent in foreign currency.

Special purpose accounts required by local regulation

None.

Value-added tax (VAT) on banking services

Under Danish law, banking and financial services are exempt from VAT.

Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for both domestic and cross-border payments in the EEA. They can be initiated using Internet and other electronic banking facilities. Non-urgent credit transfers are the primary payment method used to make payroll payments, with companies able to take advantage of PBS's DataLøn Internet solution, which allows them to report payroll data using the Internet. Third-party payroll agencies are available. Credit transfers and inter-company direct debits are the most common method of payment for business-to-business transactions. Card payments are commonly used for consumer transactions, with debit cards much more popular than credit cards. Pre-authorized direct debits are used primarily by utility and insurance companies to collect domestic payments. There are two main types of direct debit in Denmark: one for inter-company payments (LeverandørService), which requires an agreement between both the payer and payee, and one for both private and corporate customers (BetalingService). Struktureret advisering (structured notification – formerly BetalingService Plus) is a bill payment service for businesses. Cheque use has been declining in recent years.

Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (EUR billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	16.5	13.7	- 17.0	40.20	28.62	- 28.81
Debit cards	794.9	867.7	9.2	39.94	41.73	4.5
Credit cards	57.2	68.2	19.2	4.94	5.74	16.2
Credit transfers	277.6	287.7	3.6	614.69	633.60	3.1
Direct debits	185.5	193.2	4.2	76.17	81.22	6.6
Total	1,331.7	1,430.5	7.4	775.9	790.9	1.9

Source: ECB Payment Statistics, September 2009.

Single Euro Payment Area (SEPA)

SEPA payment instruments allow enterprises to make and receive EUR-denominated credit transfers, direct debits and debit card payments from a single bank account to and from other parties located anywhere within the EEA and Switzerland. The use of International Bank Account Numbers (IBANs) and Bank Identifier Codes (BICs) is compulsory for transfers denominated in EUR between bank accounts in the EU.

International Payments

International payments, including foreign currency payments and payments to and from parties located outside the EEA, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

Payment Processing Times

Transactions processed	Value dating rules	Cut-off time(s) in local Central European Time (CET)
High-value and urgent domestic and intra-EEA transfers	Settlement in real time with immediate finality	17:00 CET for EUR-denominated payments 15:30 CET for DKK-denominated payments
Non-urgent, low-value domestic consumer payments	Payments in EUR and DKK are settled on a same-day basis between 16:00 and 16:30 CET	01:00 CET for next-day settlement in DKK 06:30 CET for next-day settlement in EUR
Non-urgent intra-EEA credit transfers with a maximum value of EUR 50,000*	Settlement either same-day or next-day	13:00 CET for same-day settlement or 01:00 CET for overnight settlement

* SEPA credit transfers are not subject to a maximum value threshold.

Central Bank Reporting

Danmarks Nationalbank collates balance of payments statistics based on mandatory reporting requirements of all transactions between residents and non-residents on a monthly basis.

Danmarks Nationalbank asks those companies (approximately 600) with a high volume of resident/non-resident transactions to complete surveys on the nature of their transactions. These companies also have to submit annual reports including data which usually only becomes available once a year.

Approximately 367 companies holding significant accounts with non-residents are also required to submit annual reports.

Transactions regarding external trade in goods and services are reported to Statistics Denmark.

Exchange Arrangements and Controls

Denmark applies no currency exchange controls.

Cash and Liquidity Management

Managing cash on both a domestic and regional (Scandinavian*) basis is relatively straightforward, although there are a few restrictions.

*Scandinavian countries include Denmark, Finland, Norway and Sweden.

Physical Cash Concentration

Physical cash concentration is available from all large Danish and international banks. Resident and non-resident companies can participate in the same domestic cash concentration structure. However, there are restrictions to inter-company lending to parent companies outside the EEA. Central bank reporting requirements for payments between residents and non-residents apply.

Pools can be denominated in local currency (DKK) and some foreign currencies. Some banks offer cross-border, cross-currency physical cash concentration, particularly on a regional level.

Notional Cash Pooling

Notional cash pooling is available from Danish and international banks, but in practice is rarely offered. This is because Denmark does not allow banks to offset credit and debit balances, making a notional pooling structure costly to operate. Where domestic notional cash pools are available, resident and non-resident companies can participate in the same structure. There are also restrictions on inter-company lending.

As an alternative, some banks have developed interest rate optimization or enhancement products, particularly for Nordic companies, which can include resident and non-resident accounts, for cross-border, cross-currency use.

Short-term Investment

Bank instruments

Interest-bearing current accounts are generally available. Banks offer time deposits in a range of currencies for terms from overnight to over a year, although these are often subject to minimum investment requirements. Banks also issue fixed-rate certificates of deposit (CDs), usually for terms ranging from one week to a year.

Non-bank instruments

Commercial paper (CP) is available in Denmark. The maximum maturity of the paper is one year and the minimum investment is usually DKK 1 million.

The Danish government has changed its issuance strategy and the Treasury bill programme was phased out in 2008. Treasury bills used to be issued regularly for maturities of three, six, nine or 12 months. If necessary, the Danish government may issue new Treasury bills.

Danish companies have access to money market funds.

Short-term Borrowing

Bank

Overdrafts, bank lines of credit and bank loans are usually all available in Denmark to both resident and non-resident companies. Banks will usually charge a margin over CIBOR (the Copenhagen Interbank Offered Rate) for DKK-denominated facilities. Other commitment and arrangement fees will also be charged.

Non-bank

Larger companies issue commercial paper both into the domestic and the euro commercial paper (ECP) market. Issues into the ECP market require a rating, whereas it is possible to issue commercial paper into the Danish domestic market unrated. ECP can be issued for periods from a week to one year, depending on borrowing requirements and investor appetite.

There is an active repurchase agreement (repo) market in Denmark.

Taxation

Corporate Taxation

- › The corporate income tax rate is 25%. Corporate income tax is imposed on all corporate taxpayers and is paid on account twice a year.
- › Both resident and non-resident companies are taxable on their Danish-sourced income. All affiliated entities (companies, permanent establishments, real estate, etc.) must enter into compulsory joint taxation, resulting in one summarized Danish income.
- › International joint taxation can be elected, resulting in Danish taxation of the worldwide income for all affiliated entities, both Danish and foreign.

Advance Tax Ruling Availability

- › The advance tax ruling procedure applies to all federal taxes. It may also relate to the regional taxes collected by the federal state, such as the withholding tax on immovable property income. In certain cases, taxpayers may request a binding advance statement from the local tax authorities. This statement will not be binding for the tax authorities if the assumptions on which the statement has been given

are amended, for example, if there is a change in legislation or where incorrect or incomplete information has been provided by the taxpayer. A binding advance statement may be appealed in the same way as a tax assessment.

- › Binding advance rulings on specific proposed transactions may be obtained from the local tax assessment office. Persons not subject to Danish tax are also entitled to ask for a binding advance ruling.

Withholding Tax (subject to tax treaties and other exemptions)

- › Generally, a withholding tax of 28% is imposed on dividends paid to resident and non-resident companies. If a resident company (or a non-resident company situated in a jurisdiction with which Denmark has a double tax treaty that contains a dividend article) owns more than 10% (15% in 2008) of the share capital for over one year, there will be no withholding tax on the dividend. The demand of ownership can be fulfilled subsequently.
- › No withholding tax is generally levied on interest paid to residents and non-residents. However, interest paid by a Danish company or a foreign company's Danish permanent establishment (PE) to a foreign group company can, in special limited circumstances, become subject to Danish withholding tax of 30%.
- › A rate of 30% (levied on gross payments) applies to industrial royalties paid to non-residents. Non-residents may be eligible for a lower rate of withholding tax, or be able to avoid it altogether, provided that their parent company is located in a country with which Denmark has a tax treaty.

Capital Gains Tax

- › Gains and losses realized on inter-company balances are in general tax-free/non-deductible (depending on the tax treaty for the debtor / creditor).
- › Gains realized on the disposal of shares held for at least three years are normally tax-exempt.

Stamp Duty

- › No stamp duty is levied on loan agreements.

Thin Capitalization

- › A deduction may be denied for excess interest expense (and to a certain extent for capital losses) on debt to foreign group

companies (controlled debt) if the Danish company's debt-to-equity ratio (calculated at market value) at year end exceeds 4:1, unless the Danish company can provide evidence that similar loan terms would be granted by an independent party.

- › The thin capitalization rules are restricted in their scope, as they only apply to controlled debt in excess of DKK 10 million. Furthermore, they do not apply in respect of interest which is subject to Danish withholding tax (see "Withholding Tax" above).
- › In addition to the EBIT model in the Tax Act (Section 11), the usual rules concerning thin capitalization still apply. The deduction according to Section 11 is made first. The finance expenses already deducted are not included in the net financing expenses calculation.

Transfer Pricing

- › According to Danish tax legislation, all inter-company transactions (both national and international) must take place on an arm's length basis. There are guidelines on the documentation requirements which recognize the principles laid out in Organisation for Economic Co-Operation and Development (OECD) transfer pricing guidelines.
- › Companies that trade with related parties must prepare written documentation in order to prove that the prices and conditions of transactions within the group companies are on market terms. Failure to comply with the documentation requirements is subject to a penalty of up to 200% of the operating costs saved by the taxpayer by not preparing the documentation, and a penalty of 10% of any adjustment. Moreover, the taxpayer's taxable income may be determined on an estimated basis if documentation is not prepared. The penalties are applicable for fiscal years beginning April 2, 2006 and thereafter.
- › A company has 60 days to submit the correct documentation once it has received a request from the Danish tax authority.

Sales Taxes / VAT

- › VAT is levied on the supply of goods and the provision of services at a rate of 25%. All companies must register for VAT, except for Danish-resident companies with a turnover of less than DKK 50,000. Certain supplies are exempt from VAT, for example those relating to transfer of real estate, insurance and reinsurance, certain financial services, and passenger

transport. There are also zero-rated supplies, for example newspapers.

Payroll and Social Security Taxes

- › There is no general payroll tax. Only persons carrying on certain activities exempt from VAT are liable to payroll tax.
- › Employees are liable for contributions to a supplementary pension fund (ATP) at a flat rate of DKK 180 per month per full-time employee. The contribution is paid quarterly.

- › Contributions paid are tax-deductible for corporate tax purposes.
- › Additionally, employers are obliged to take out industrial injury insurance and pay other minor contributions per employee. The expenses depend on the size and character of the company.

All tax information supplied by Deloitte LLP (www.deloitte.com). Data as at March 1, 2009.

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