

**Chandrawat
& Partners**

Doing business in Denmark

A comprehensive guide.



Table of Contents

Content	Page no.
Introduction	02
Economic Overview	03
Foreign direct investment	04
Key sectors	05
Advantages	06
Types of Business	07
Minimum Eligibility Criteria for Company Registration	08
Taxation	09
Value Added Tax	09
Accounting standards	09
Employment laws & policies	10
How we can help?	11



Introduction

Denmark is a free-market capitalist economy with a strong social welfare safety net for its citizens. It is rated among the world's best locations for doing business due to its talent pool, flexible labor market, reliable supplies of electricity and water, and well-developed financial system. The country has consistently ranked 3rd in the World Bank's Ease of Doing Business .

WELFARE SYSTEM

The basic principle of the Danish welfare system, often referred to as the Scandinavian welfare model, is that all citizens have equal rights to social security.

ECONOMY

Historically, Denmark is an agricultural country, but for many years now the production structure has been changing. Denmark relies on a highly developed service sector and large export-oriented industry. Altogether, the service sector employs 66 % of the Danish workforce.

Economic Overview

Denmark is known for its strong and stable economy, and it offers a favorable environment for doing business. The country consistently ranks among the top performers in global ease of doing business rankings.

Starting a Business:

Denmark offers a streamlined process for starting a business. On average, it takes only 4 days to complete all the necessary procedures.

Registering the property:

Registering property in Denmark is efficient and transparent. The country ranked 11th in the world for ease of registering property, according to the doing business report 2022. The registration process is straightforward, and entrepreneurs can easily access information and resources through the Danish Business Authority's online portal.

Protecting minority investors:

Denmark is recognized for its strong investor protection framework. Minority investors are provided with legal safeguards and mechanisms that protect their rights and interests, ensuring a secure and fair business environment for all stakeholders.

Labour Market Efficiency:

Denmark's labor market is known for its flexibility and efficient labor laws. The country has a strong tradition of social dialogue between employers, employees, and the government, fostering a cooperative approach to labor relations.

Innovation and Research:

Denmark places a strong emphasis on innovation and research institutions, research centers, and universities promoting technological advancements. Denmark invests heavily in innovation and provides support programs, grants, and tax incentives to encourage research and development activities, fostering a conducive environment for businesses at the forefront of innovation.

Foreign Direct Investment



In recent years, the Danish and European focus on this has increased, with the introduction of Regulation (EU) 2019/452 in 2019. Denmark has taken the initiative to increase the control of foreign direct investments, and a new Act on Screening of Certain Foreign Direct Investments (Investment Screening Act). Before this new act, Denmark did not have a general screening mechanism in place concerning screening of foreign investments based on the risk of disturbing national security or public order.

In addition to the Investment Screening Act, two special screening arrangements are implemented with the War Material Act and the Continental Shelf Act. The main laws governing “FDI” policy in Denmark are investment screening act, war material act and The Continental Shelf Act

The Investment Screening Act

The object of the act is to prevent foreign investment and special financial agreements from posing a threat to national security or public order in Denmark. This is ensured by introducing a general screening programme comprised by (1) a mandatory sector-specific approval scheme for particularly sensitive areas, and (2) a voluntary cross-sectorial notification scheme for other areas.

The War Material Act

The act applies to equipment manufactured for military purposes, ammunition that may be used for military purposes (military equipment) and non-government owned companies that produce material for military purposes.

The Continental Shelf Act

The act is applicable to Danish or foreign companies that wish to install transit power cables or natural gas pipelines in Danish territorial waters. The companies need to obtain a permission from the Danish Ministry of Climate, Energy and Utilities prior to the installation. A permission can only be granted if it is consistent with Danish interests regarding foreign, security and defence policies.

Key Sectors

Information Technology and Digital Innovation:

Denmark has a thriving “IT” and digital innovation sector, with a skilled workforce and a supportive ecosystem. The country is known for its expertise in software development, cybersecurity, and data analytics.

Clean energy and sustainability:

Denmark is a global leader in clean energy and sustainability. The country has made significant investments in renewable energy sources such as wind power and biomass. Danish companies are involved in the design, manufacturing, and installation of wind turbines, making it a hub for the wind energy industry.

Life Sciences and Healthcare:

Denmark has a well-developed healthcare system and is known for its high-quality healthcare services and medical research. The life sciences sector encompasses pharmaceuticals, biotechnology, medical devices, and digital health. Danish companies are active in developing innovative treatments and medical technologies.

Denmark currently has one of the largest hospital infrastructure projects in Europe. A large chunk of money will be spent on new super hospitals countrywide.

Food and Agriculture:

Denmark has a strong agricultural sector and is known for its high-quality food products. The country is a leading exporter of agricultural goods, including meat, dairy products, and seafood. Danish companies focus on sustainable and organic farming practices, food safety, and innovative food processing technologies.

Design and creative industries:

Denmark is renowned for its design and creative industries, including architecture, furniture, fashion, and interior design. Danish design is characterized by simplicity, functionality, and aesthetic appeal.



Advantages

Robust domestic economy : Although a small country with a population of just less than \$6 million, Denmark has one of the strongest economies in the world and a comparatively large domestic market – making it an attractive option for foreign companies and individuals.

Ease of doing business: The World Bank’s “Ease of Doing Business Index” scores Denmark highly. It is one of the easiest places to do business in Europe, 1. The government has also developed efficient and cost-effective processes – including the simplification of several legal procedures – that make it easy and quick to establish a business in the country.

Strong services sector: The services sector is the leading contributor to Denmark’s “GDP”, employing about 80% of the population. This includes a highly developed and concentrated banking and finance industry.

Strategic Location: Denmark is strategically located in Northern Europe, making it a gateway to other Scandinavian and European markets. Its well-developed transportation infrastructure, including ports, airports, and road networks, facilitates easy access to neighboring countries.

Skilled Workforce: Denmark has a highly educated and skilled workforce. The country places great emphasis on education and vocational training, producing a talent pool of skilled professionals. The workforce is known for its innovation, efficiency, and proficiency in English, which is widely spoken in the business community.

Innovation and Technology: Denmark is a leader in innovation and technology, particularly in sectors such as clean energy, sustainability, life sciences, and information technology. The government actively supports research and development initiatives and provides grants and incentives to promote innovation and entrepreneurship.



Types of business

Danish Private Limited Company ("Anoartsseskab or ApS")

Minimum Capital: The minimum share capital required to establish an ApS is DKK 50,000 (Danish Kroner). At least 25% of the share capital must be paid up before the company can be registered.

Shareholders: An ApS can have one or more shareholders, and they can be individuals or legal entities

Directors: An ApS must have at least one director, who can be a shareholder or a third party. The director is responsible for managing the company's daily operations.

Name and Registration: The company name must be unique and end with "ApS." To register an ApS, you need to submit the necessary documents.

Danish Public Limited Company ("Aktieselskab or A/S")

Legal Structure: An A/S is a separate legal entity from its shareholders, providing limited liability protection. Shareholders are generally not personally liable for the company's debts or obligations.

Share Capital: A Danish A/S must have a minimum share capital of DKK 400,000 (Danish Krone) before it can be incorporated. This capital can be divided into shares of equal or different values.

Shareholders: An A/S can have one or more shareholders, who can be individuals or legal entities. Shareholders contribute to the share capital of the company and hold shares representing their ownership.

Board of Directors: The A/S is managed by a board of directors (bestyrelse) responsible for the overall management and decision-making. The board is typically composed of at least three members, who are elected by the shareholders.

Danish Limited Partnership ("Kommanditselskab K/S")

Limited Partners: A Danish "K/S" can also have one or more limited partners. Limited partners have limited liability, meaning their liability is restricted to the extent of their capital contribution to the partnership.

Capital Requirements: A Danish "K/S" must have a minimum capital contribution from the general partner(s).

Registration: To establish a Danish "K/S", it must be registered with the Danish Business Authority (Erhvervsstyrelsen).

Danish Sole Proprietorship

Legal Status: A sole proprietorship is not considered a separate legal entity from its owner. The owner is personally liable for all business obligations and debts.

Registration: To establish a sole proprietorship in Denmark, you must register it with the Danish Business Authority (Erhvervsstyrelsen).

Taxation: As a sole proprietor, you are taxed on the profits of your business as personal income. The business's income and expenses are reported on your personal tax return (Form 04).

Minimum eligibility criteria for company registration

Public limited companies must have a minimum share capital corresponding to DKK 500,000, and private limited companies must have a minimum share capital corresponding to DKK 80,000.

The first step is to choose the type of company to be established in Denmark-

Limited Liability Company

The vast majority of companies in Denmark are companies with limited liability – a public limited company (“A/S”) or a private limited company (“ApS”).

To establish a company in Denmark the following documents must be drafted:

- Memorandum of Association
- Articles of Association

All documents should be drafted in English and no signatures require a notarial certificate.

Furthermore, the share capital must be paid to the company’s bank account or to the client account of the company’s attorney.



Taxation

In terms of taxation, registered companies in Denmark are taxed according to residence, where resident companies are taxed on their worldwide income and non-resident ones only on their Danish-source income. For resident corporations, profits and losses derived from foreign permanent establishments and real estate are exempt from taxation. In terms of taxation, registered companies in Denmark are taxed according to residence, where resident companies are taxed on their worldwide income and non-resident ones only on their Danish-source income. For resident corporations, profits and losses derived from foreign permanent establishments and real estate are exempt from taxation.



Danish-incorporated businesses are subject to the Danish corporate tax on the taxable income at a rate between 12% - 15%. However, shipping companies may opt-in for an advantageous tax scheme, the so called tonnage tax scheme, rather than paying standard corporation tax. Additionally, Danish upstream oil and gas activities are not covered by the ordinary corporate income tax regime but are instead covered by special rules set out in the Danish Hydrocarbon Tax Act. Lastly, some special types of corporate entities are completely tax exempt or subject to a lower tax rate. According to a recently published legislative proposal, an increased corporation tax may apply to financial companies as of 1 January 2023. The tax rate will remain same but the taxable income is proposed to be multiplied by a factor the proposal is currently under consideration by the Danish Parliament's tax committee.

Income tax-

In Denmark, the tax authorities distinguish between two different types of income:

A-income

A-income includes, for example, a salary or unemployment benefits, pensions, fees, holiday allowance and state educational grants.

Value Added Tax

The standard VAT rate is 25%. The general or standard VAT rate will be 25%. The standard VAT rate will be applied in general for all goods and services for which no VAT exemption or 0% VAT rate is provided.

Most Danish services and goods are subject to the VAT, however, the supply of real estate (with the exception of newly constructed real estate and building plots) and the supply of financial services and products are generally not subject to VAT. The VAT is paid on an annual, biannual, quarterly, or monthly basis depending on the service or goods provider's annual turnover.

Supplies of services or goods are subject to a 25% value added tax ("VAT") on the invoiced amount. In connection with the supply of services or goods, the seller will be required to impose a 25% VAT on the invoiced amount. The buyer will be entitled to claim a reimbursement of the VAT, provided that the buyer itself is operating a business.

Accounting Standards

In terms of accounting and reporting requirements in Denmark, investors must know that the Danish Financial Statements Act applies to companies. The legal entities, such as the accountants are required to file annual financial statements that include the annual report, the profits and loss account, the cash flow statement and the balance sheet along with any explanatory notes.

Danish company accounting is largely based on the preparation of financial statements, the principles of which are contained in the Financial Reporting Act showing the division of all Danish business activities into 4 classes (A, B, C and D) according to the following criteria:

- legal form,
- company size,
- number of employees,
- total assets,
- annual net turnover.

Employment laws and policies

There is generally freedom of contract on the Danish labour market. Pay and working conditions are generally regulated through individual contracts and collective trade union agreements as opposed to statute.

There are, however, a number of statutes in place which are designed to protect employees.

Working hours

The maximum weekly working hours are stipulated to 37 hours in the collective labour market agreements for full-time workers, but parties are free to agree a variation of working hours up to a maximum of 48 hours a week including overtime.

Remuneration

There are no statutory mandatory minimum pay provisions but minimum wages are often agreed in the collective labour market agreements.

Under the Danish equal pay regulations employers are under an obligation to pay the same remuneration to men and women who do equal work or work of equal value.

Holidays

The Holiday Act regulates employees' entitlement to annual leave and the extent to which such leave is paid. The current Holiday Act (ferieloven) stipulates a statutory entitlement to 5 weeks' annual leave.

Maternity/paternity leave – entitlement to leave and pay

A pregnant employee is entitled to take 4 weeks' leave before the expected due date. Following delivery, the mother is obliged to take 2 weeks' maternity leave and is entitled to a further 12 weeks' maternity leave. After the first 14 weeks she is entitled to at least another 32 weeks' additional leave and is further entitled to extend the parental leave up to a maximum of 46 weeks.



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Key Contact



Surendra Singh Chandrawat

Managing Partner

✉ surendra@chandrawatpartners.com

Connect Surendra on



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