

Tax Matters Alert

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Higher tax deduction on costs related to innovation and research activities

On Friday, 23 February, the Danish Ministry of Taxation presented for debate their proposal for bill on amendment of the Danish Act on Amortisation and Depreciation and the Danish Tax Assessment Act (higher tax deduction on costs related to innovation and research activities).

Specifically, it was proposed that the deduction should be increased to 101.5 per cent in the income years 2018 and 2019; 103 per cent as from the income year 2020; 105 per cent as from the income year 2021; 108 per cent as from the income year 2023 until full implementation of 110 per cent as from the income year 2026.

The bill is based on the existing definition of deductible innovation and research costs.

By innovation and research activities is meant original testing aimed at acquiring new scientific or technical knowledge and understanding with the primary aim of achieving given goals and results that can be put into practice, i.e. the application of scientific or technical knowledge to create new or significantly improved materials, mechanisms, products, processes, systems or services. The same applies to costs for basic research incurred by a going concern. By basic research is meant original testing aimed at acquiring new scientific knowledge and understanding without the testing being primarily aimed at achieving practical goals or applications. Also costs related to information about innovation and research work are covered by the deductibility, provided that there is the necessary connection to the taxpayer's business enterprise.

The additional deduction is also to apply where elected to depreciate operating equipment according to the general rules on depreciation on operating equipment and vessels.

The additional deduction does not cover costs incurred for raw materials exploration in connection with the taxpayer's business.

Nor does the additional deduction cover acquisition of know-how or patent rights that can be written off immediately according to s. 41 of the Danish Act on Amortisation and Depreciation.

In relation to the Danish tax credit scheme, it is proposed that not more than the tax value of the loss corresponding to the incurred costs can be disbursed.

The bill will come into force on 1 July 2018 and with effect as from the income year 2018.

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