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REPORT

From:	General Secretariat of the Council
To:	Delegations
Subject:	Code of Conduct Group (Business Taxation) - Report to the Council

STANDSTILL 2025 – Denmark (DK007)

Summary analysis – Increased deductions for R&D

I. Background

1. The Danish authorities notified the tax measure – increased deduction of R&D costs (a front-end tax incentive) – under the 2024 standstill exercise (DK007).

II. Relevant legal framework

2. § 8 B of the Tax Assessment Act (ligningsloven) as amended by § 2 of Law no. 1472 of 10 December 2024 (Lov om ændring af afskrivningsloven, ligningsloven og lov om indskud på etableringskonto og iværksætterkonto (Afskaffelse af muligheden for at straksafskrive på edb-software, knowhow og patentrettigheder m.v. og forhøjelse af fradraget for udgifter til forsøgs- og forskningsvirksomhed)¹.
3. The amendments to the measure entered into force on 1 January 2025.

¹ [LOV nr. 1472 af 10/12/2024](#)

3. Purpose of the measure

4. Denmark already has a measure which allows for a tax deduction for research and development (R&D) costs at 110%. In order to promote further investments in certain IP assets and thus supporting business growth and competitiveness, the new measure increases this deduction in progressive steps to 120%. It starts with an increase to 114% in fiscal year 2026, it goes to 116% in the fiscal year 2027, and reaches a deduction of 120% in fiscal year 2028 onwards.

4. Design of the measure

4.1. Beneficiaries

5. Taxpayers conducting business activities are entitled to the increased deduction for eligible R&D costs.
6. The increased deduction is available to resident and non-resident taxpayers, regardless of their legal form, size, or type of business activity.

4.2. Qualifying R&D activities and eligible costs

7. Under the measure, qualifying R&D activities primarily cover development work that is linked to the business. This means the use of scientific or technical knowledge to produce new or significantly improved materials, mechanisms and products, processes, systems, or services. Activities also cover so-called applied research, i.e., original studies with the aim of obtaining new scientific or technical knowledge and understanding, primarily aimed at practical goals and applications. Basic research is also covered, meaning original studies with the aim of obtaining new scientific knowledge and understanding, without the studies primarily being aimed at practical goals and applications.
8. Eligible costs have to be carried out in relation to qualifying R&D activities and will typically include salary costs, costs for raw materials and costs for renting laboratories or similar facilities used for experimental and research activities. Costs incurred for the

acquisition of machinery, equipment and similar operating assets and ships are also included².

4.3. Tax advantage

9. The tax advantage consists in an increased deduction for the eligible R&D costs which are subtracted from the tax base at the end of the fiscal year in question. The new measure increases the existing deduction from 110% to 120%. The increase is gradually introduced starting with an increase to 114% in the fiscal year 2026, 116% in the fiscal year 2027, and 120% as of the fiscal year 2028.
10. If the company is loss-making, it can choose to get a refundable tax credit for all, or a part of, the eligible R&D costs (DK008 - WKXXX) in the sense that a loss-making company, which, e.g., is entitled to an increased deduction of 120%, may choose to get a refundable tax credit on the basis of 100% of the eligible costs, while the remaining 20% may be used to get the tax deduction.

4.4. Amount of the tax advantage

11. The tax measure is a front-end incentive for R&D costs incurred by taxpayers and its benefit depends on the types of qualifying activities carried out and amount of R&D eligible costs actually incurred.
12. Based on the information provided by Denmark, the increase applies to costs up to DKK 1 billion³ (2024 level)⁴ of eligible costs. For groups of companies, which are taxed on a consolidated basis, the ceiling applies to the group jointly. Eligible costs that exceed the ceiling may be deducted at 110% as of the fiscal year 2026.

² The rule does not cover costs incurred in connection to exploration for raw materials.

³ DKK 1,000,000,000 = 134,076,000.5 Euro

⁴ The ceiling is indexed annually to maintain the economic value in real terms.

13. As an example, assuming that a company has eligible R&D costs of DKK 1,000,000 in 2026, the increase would amount to DKK 140,000 (extra 14% of the eligible costs). The overall deduction would amount to DKK 1,140,000 (114% of the eligible costs) for the fiscal year 2026. Given the Danish CIT rate of 22%, the tax advantage would be DKK 30,800 ($140,000 \times 22\%$) = EURO 4,127.

4.5. Duration and exercise of the tax incentive

14. The increased deduction can be exercised for the first time in the fiscal year 2026. The measure is not limited in time, i.e., as of 2028, the deduction will be fixed at 120%.

4.6. Budgetary impact

15. The increase in the deduction for eligible R&D costs is estimated to result in a permanent annual decrease in revenue of approx. DKK 500 million⁵ after automatic and behavioural effects.

5. Conclusion

16. It is the Commission Services' opinion that the measure does not need to be assessed for the following reasons:
- i. The new tax incentive is a front-end (or cost-based) incentive.
 - ii. As such, the front-end incentive consists in a tax relief of real R&D costs incurred by businesses.
 - iii. The measure is capped at a maximum amount.
 - iv. If the tax relief cannot be used fully in a given year because the company does not have sufficient profits, a refund under the conditions of the tax credit for R&D (DK008) is possible or the loss of the company can be carried forward according to the general rules.

⁵ DKK 500,000,000 = EUR 67,025,539

17. Furthermore, the Code of Conduct Group has already cleared a number of front-end incentives⁶ for R&D in the past as this kind of tax incentives is considered an economically sound and evidence-based method for encouraging R&D and innovation activities.
18. More generally, promoting research, development and innovation is an important Union objective laid down in Article 179 of the TFEU.

6. Follow-up

19. In view of the above, the Group agreed that the measure does not need to be assessed.
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⁶ Such ‘front-end’ tax incentives may operate as deductions from the tax to pay or as deductions from the tax base like the present tax measure. For example, the Italian cases (IT023) in 2022, (IT022) in 2021 or the German case (DE015) in 2020, or the Croatian case (HR013) in 2019.