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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 (DK008)

Summary Analysis – Refundable Tax Credit for R&D Costs

3. Background

1. The Danish authorities notified the tax measure – Refundable tax credit for R&D costs – under the 2024 standstill exercise (DK007).

4. Relevant legal framework

2. § 8 X of the Tax Assessment Act as amended by § 5(1-2) of Law no. 1691 of 30 December 2024 (Lov om ændring af selskabsskatteloven, aktiesparekontoloven, aktieavancebeskatningsloven, personskatteloven og forskellige andre love (Udmøntning af dele af »Aftale om Iværksætterpakken«)).¹
3. The amendments to the measure entered into force on 1 January 2025.

¹ [Lov nr. 1691 af 30-12-2024](#)

5. Purpose of the measure

4. Denmark already has a measure which allows for a refundable tax credit for research and development (R&D) costs. When the R&D cost result in a deficit, the company can request a refund instead of relying on the general loss carry forward rules. The measure is intended to strengthen the companies' (especially SMEs) liquidity when investing in research and development whilst being in a loss-making situation. With the new law, the ceiling for the maximum amount of refundable tax credits is increased to a tax value of up to DKK 35 million² annually as of the fiscal year 2027. For the fiscal years 2025 and 2026, the ceiling is covered by the previous legislation and it is set at a tax value of DKK 25 million annually (2024 level)³.

6. Design of the measure

6.1. Beneficiaries

5. All resident and non-resident companies that are subject to tax in Denmark are entitled to the tax credit for R&D.

6.2. Qualifying R&D activities and eligible costs

6. Under the tax 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 covers 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 by the provision, meaning original studies with the aim of obtaining new scientific knowledge and understanding, without the studies primarily being aimed at practical goals and applications.
7. 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

² The tax value is DKK 7,700,000 (CIT rat of 22% x 35,000,000) = EUR 1,031,907

³ The ceiling is indexed annually to maintain the economic value in real terms.

acquisition of machinery, equipment and similar operating assets and ships are also included⁴.

6.3. Tax advantage

8. Companies in a loss-making situation cannot immediately benefit from the measures set out in § 8 B of the Tax Assessment Act, as these companies will not have any positive taxable income which the increased tax deduction of eligible R&D costs can be offset against (see DK007, WK-xxx/2025). The loss-making companies can, nonetheless, apply these measures and carry the loss forward according to the general rules.
9. As an alternative, upon request to the Tax Administration, a refundable tax credit may be granted to loss-making companies for R&D costs that have resulted in a deficit. The refundable tax credit is granted for an amount corresponding to 22%⁵ of the incurred R&D costs (i.e., the value of the tax loss carry-forward of the incurred costs).
10. As a result, the measure consists in a cashflow advantage. According to the general rules, deficits can only be offset against the tax due in subsequent years in which there are taxable profits (tax loss carry forward). The refundable tax credit allows the tax value of the deficits to be paid out at the time of the calculation of the tax due for the fiscal year in which costs are incurred. The tax loss carry-forward is, thus, “converted” into a refundable tax credit which can increase the immediate liquidity of the company. The request for a refundable tax credit for eligible R&D costs will reduce the costs which can be used for a tax loss carry-forward accordingly.

6.4. Amount of the tax advantage

11. The deficit, i.e., negative taxable income, is calculated on the total negative income of the company. For groups of companies, which are taxed on a consolidated basis, the deficit is calculated jointly on the basis of the total negative income of the whole group.
12. Based on the information provided by Denmark, the refundable tax credit cannot exceed an amount of DKK 7.7 million⁶, corresponding to a tax loss relating to R&D costs of DKK 35

⁴ The rule does not cover costs incurred in connection to exploration for raw materials.

⁵ 22% is the general CIT rate in Denmark.

⁶ DKK 7,700,000 = Euro 1,032,374.

million as of the year 2027. For groups of companies, which are taxed on a consolidated basis, the ceiling applies for all companies in total.

13. As an example, assuming that a company has a tax total deficit of EUR 2,000,000 of which eligible R&D costs consists of EUR 1,000,000 in 2027, the refundable tax credit would amount to EUR 220,000 (22% of the eligible costs). The tax loss carry-forward according to the general rules is accordingly decreased to EUR 1 million (corresponding to the non-eligible part of the total deficit). The overall tax advantage would thus amount to nominally DKK 0 (zero) overall for a profit-making company because the refunded amount would otherwise be re-captured over time by the loss-carry forward.
14. The amount of the refundable tax credit cannot exceed the tax value of the actual costs. The amount of the increased deduction, cf. § 8 B of the Tax Assessment Act, does not therefore qualify for the calculation of the refundable tax credit. This increased deduction will be treated as a loss and can be carried forward according to the general rules.

6.5. Duration and exercise of the tax incentive

15. The increased refundable tax credit can be applied for the first time in fiscal year 2027. For the fiscal years 2025 and 2026, the existing (lower) ceiling applies.

6.6. Budgetary impact

16. The increase of the ceiling for the refundable tax credits is estimated to result in a permanent annual decrease in revenue of approx. DKK 50 million after automatic and behavioral effects.

7. Conclusion

17. It is the Commission Services' opinion that the measure does not need to be assessed for the following reasons:

The measure is not a tax credit in the classic sense. It does not change the total tax due but strengthens loss-making companies' liquidity when they have invested in research and development activities. The measure entails a cash flow (liquidity) advantage, as the tax value of eligible costs is paid out, rather than carried forward and offset against tax due in subsequent fiscal years. The refundable tax credits are paid out at the time on the calculation of the tax due for the fiscal year in which the eligible costs are incurred.

8. Follow-up

18. In view of the above, the Group agree that the measure does not need to be assessed.

