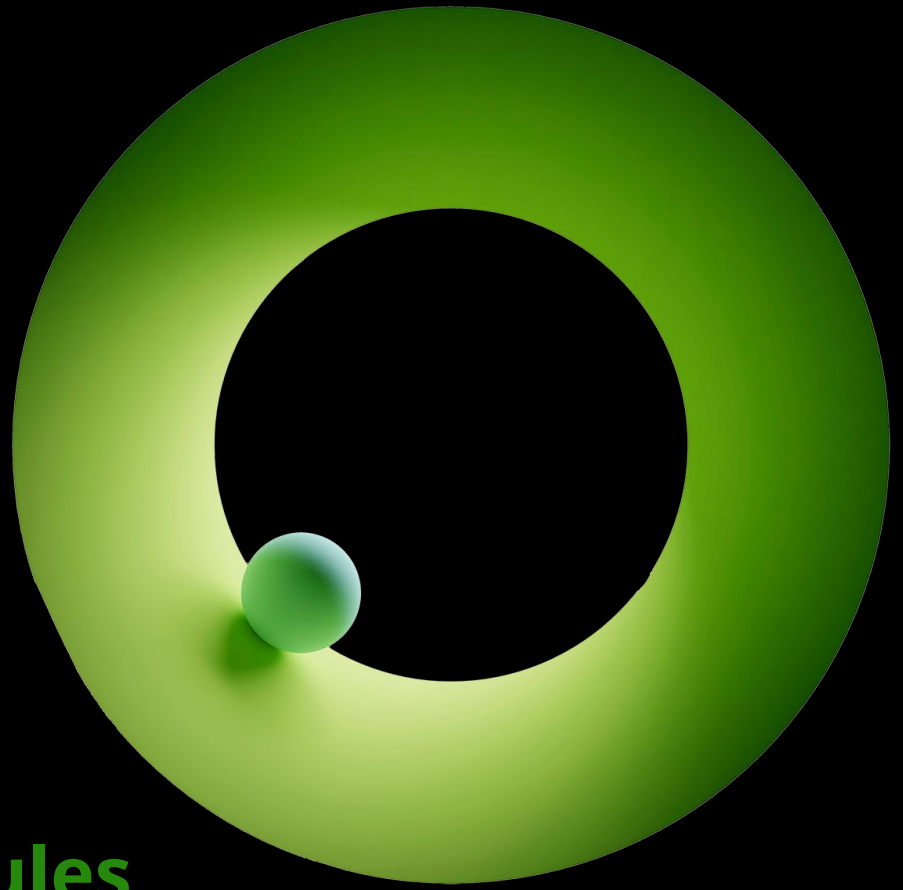
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New depreciation rules affect SaaS companies

Webinar – 17 December 2024

MAKING AN IMPACT THAT MATTERS since 1845

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The new rules for **capitalizing software** and their consequences

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Introduction to the rules
WHAT DO THE NEW RULES CONTAIN?

Consequences
WHAT DOES IT AFFECT?

Secondary consequences
GRANTS AND LIQUIDITY

In summary
THE FUTURE

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The Business Package – Part 1

Increase in the deduction of R&D expenses and the discontunuation of immediate depreciation of software, know-how and patent rights (L25 – FT 2024/25)

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Can software **always be deducted immediately** today?

WHAT ARE THE RULES FOR SOFTWARE IN 2024?

Assessment of **deduction rule**

Must the software be **put into use?**

What about **expenses incurred in vain?**

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Background for the amendments to the Danish Depreciation Act

Software

"The Tax Force has stated, among other things, that no positive derivative effects can be pointed out for anyone other than the company that acquires software, and that there is no reason to provide separate support for software investments."

"On this basis, the draft legislations is not considered to have any significant administrative consequences for the business community"

Know-how and patent rights

"The Tax Force has stated, among other things, that it is not clear to what extent the scheme contributes to increasing the level of research and innovation, and that the possibility of immediately depreciating expenses for the acquisition of know-how and patent rights is considered to involve an element of "double aid", as the tax credit scheme and the increased deduction for expenses for development and research activities also provide support to companies that develop."

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Content of Draft Legislation L25 (2024/25)

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As a general rule, patent rights can no longer be depreciated immediately, but must be depreciated by 1/7 annually

As a general rule, software can no longer be immediately depreciated/expensed, but must be depreciated by a maximum of 25% annually of the depreciated value

Gradual increased step-up on R&D expenses from 2026

As a general rule, know-how can no longer be depreciated immediately, but must be depreciated by 1/7 annually

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Software must now be capitalized

What is that all about…

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What do the new rules for **software** entail?

1st January 2025

DKK 34,400 (2025)

Maintenance/ Improvement



No longer possibility of immediate depreciation (over DKK 34,400)
CURRENT RULES EXPIRE AS OF 31.12.2024

Liquidity consequences
CONTRIBUTIONS AND DEDUCTIONS

New registration requirements
INCREASED BUREAUCRATIZATION

Risk of missing deductions
HOW SO?

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MORE DETAILS

Recognition of expenses

- External expenses must be capitalized for tax purposes
- Internal payroll expenses and other directly attributable expenses must be capitalized for tax purposes



The consequences of the **new depreciation rules** for special **software**



Assessment

- An assessment must be made of whether the project is maintenance or an improvement – including in relation to new modules

Example: New module, replacement of software, development of a new asset, etc.

- *"However, if it is an expense for software development which is capitalized for accounting purposes, it is also an expense that must be capitalized for tax purposes"*
- What are the consequences if the project is incorrectly qualified?



When and how?

- When can you depreciate software?
- What about the liquidity?



Other issues

- Subscription Software
- Software scrapping
- Software that is part of a physical operating asset

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WHEN TO DEPRECIATE SOFTWARE?

Depreciation of software with 25% annually of the depreciated value

Delivered to **a going concern**

Destined to be part of **the operations**

Completed so that it can be included in the operations

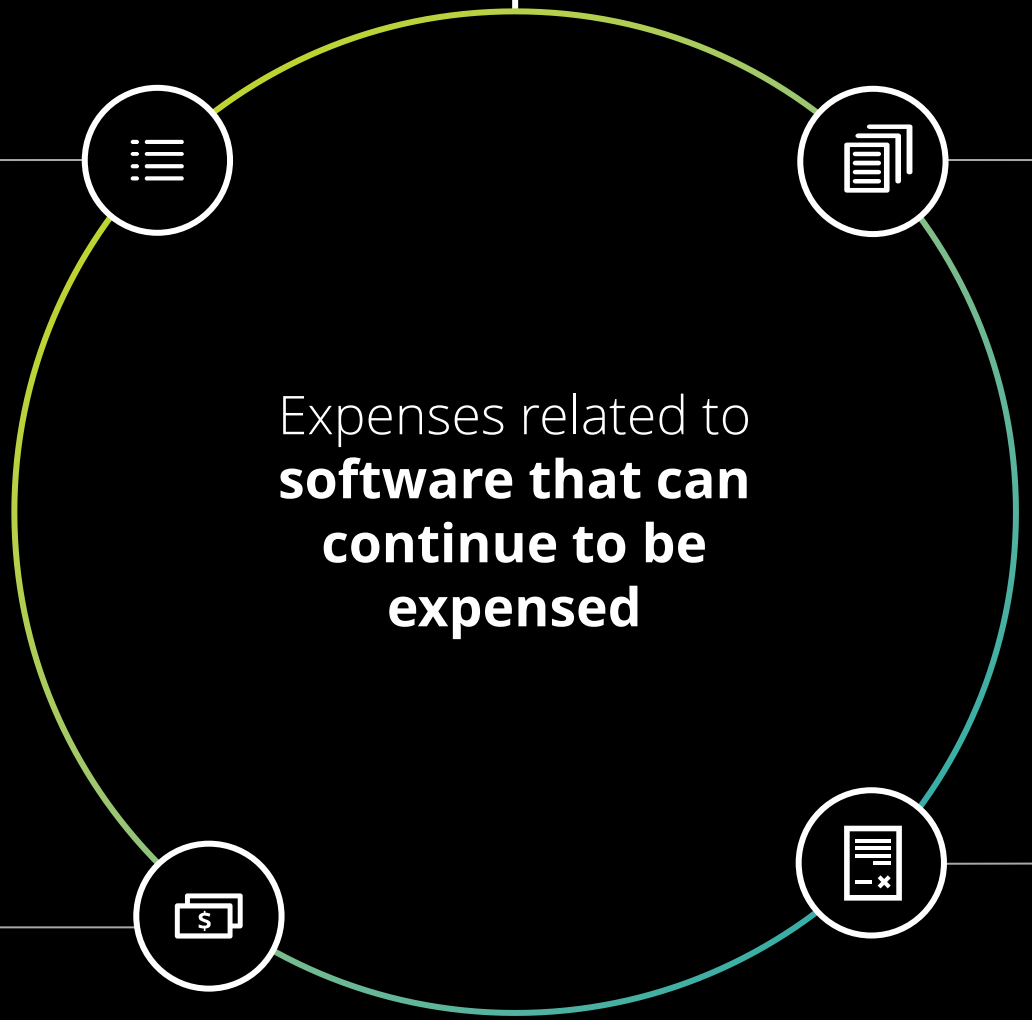
What happens when a project **is abandoned?**

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MORE DETAILS

Examples of operating expenses

- Ongoing security updates
- Updates to meet supplier requirements
- Training of employees
- Legal advice prior to the acquisition of software (but not start-up costs)
- Expenses for clarification of requirements and needs
- Wage costs for adapting software to the company's conditions through general use of acquired software



Projects

- Software that is developed for the customer – and where the expenses and income have arisen in the same income year (work in progress)

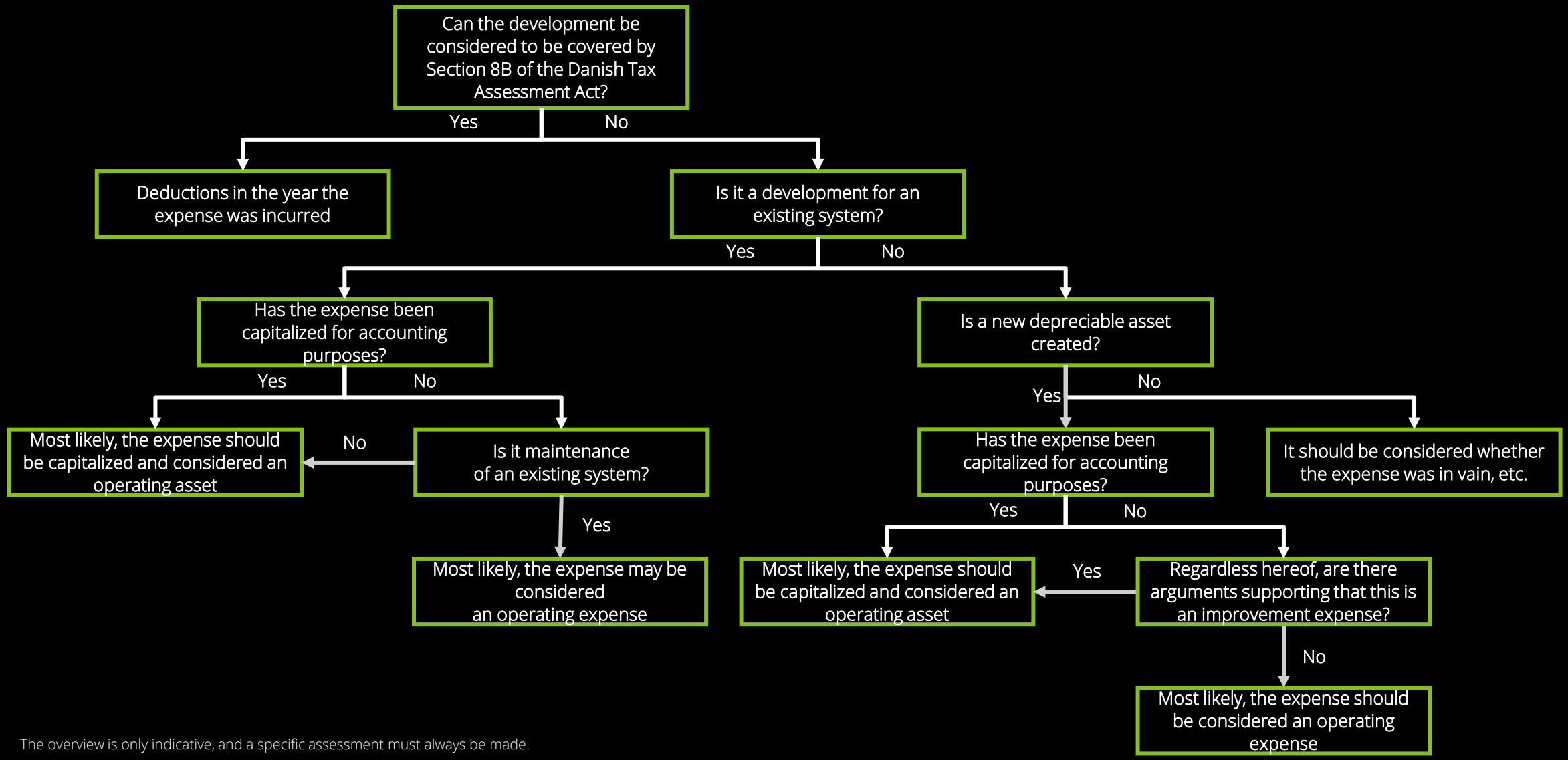
Under DKK 34,400

- Minor software costs can continue to be expensed

Other issues

- The IT department's general use of time
- The Danish Tax Agency's assessment that continous development of software is often considered to be maintenance

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The overview is only indicative, and a specific assessment must always be made.

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Know-how and patent rights must also be capitalized

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Requirement for capitalization of acquired **know-how and patent rights?**

HOW ABOUT **KNOW-HOW AND PATENT RIGHTS?**

Only **expenses attributable to the acquisition of the asset** are assigned to the acquisition price

Effective as of **1st January 2025**

Depreciation over a **7-year period**

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The consequences of the new draft legislation

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What should we do with **our software?**

HOW TO **TREAT SOFTWARE** GOING FORWARD?

Recognition of expenses

Maintenance or **improvement**

Assessment of **deduction rule**

Scrapping of software

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EXAMPLE 1

In 2024, Company A ApS will pay DKK 500,000 in **expenses for a new** internal **bookkeeping system**. The system will not be operational until **January 2025**

HOW IS **THE TAX DEDUCTION** HANDLED?

The expense cannot be immediately depreciated in the income year 2024

Must be depreciated over **the fixed asset balance in 2025**

The rules in **Sections 3 and 5 of the Danish Depreciation Act** must be complied with

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In 2025,
Company B ApS acquires a software program for DKK 1 million for use in the company's marketing department

HOW IS **THE TAX DEDUCTION** HANDLED?

Must be depreciated over **the fixed asset balance**

Can only be depreciated when the conditions in Section 3 of the Danish Depreciation Act are met – probably in 2025

EXAMPLE 2

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In 2025, Company C ApS will **develop** a new IT system on behalf of a customer. The IT system will not be delivered to the customer until 2026. The customer takes over all rights to the system

HOW IS **THE TAX DEDUCTION** HANDLED?

It is not a question of an operating asset or a deductible expense, but a **work in progress**

The expenses can only be deducted **when the project is delivered**

EXAMPLE 3

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EXAMPLE 4

In 2025, Company D ApS will **develop** a new IT system (SaaS solution) that does not meet the criteria of section 8B of the Danish Tax Assessment Act.
In connection with the development, a contribution has been received

HOW IS **THE TAX DEDUCTION** HANDLED?

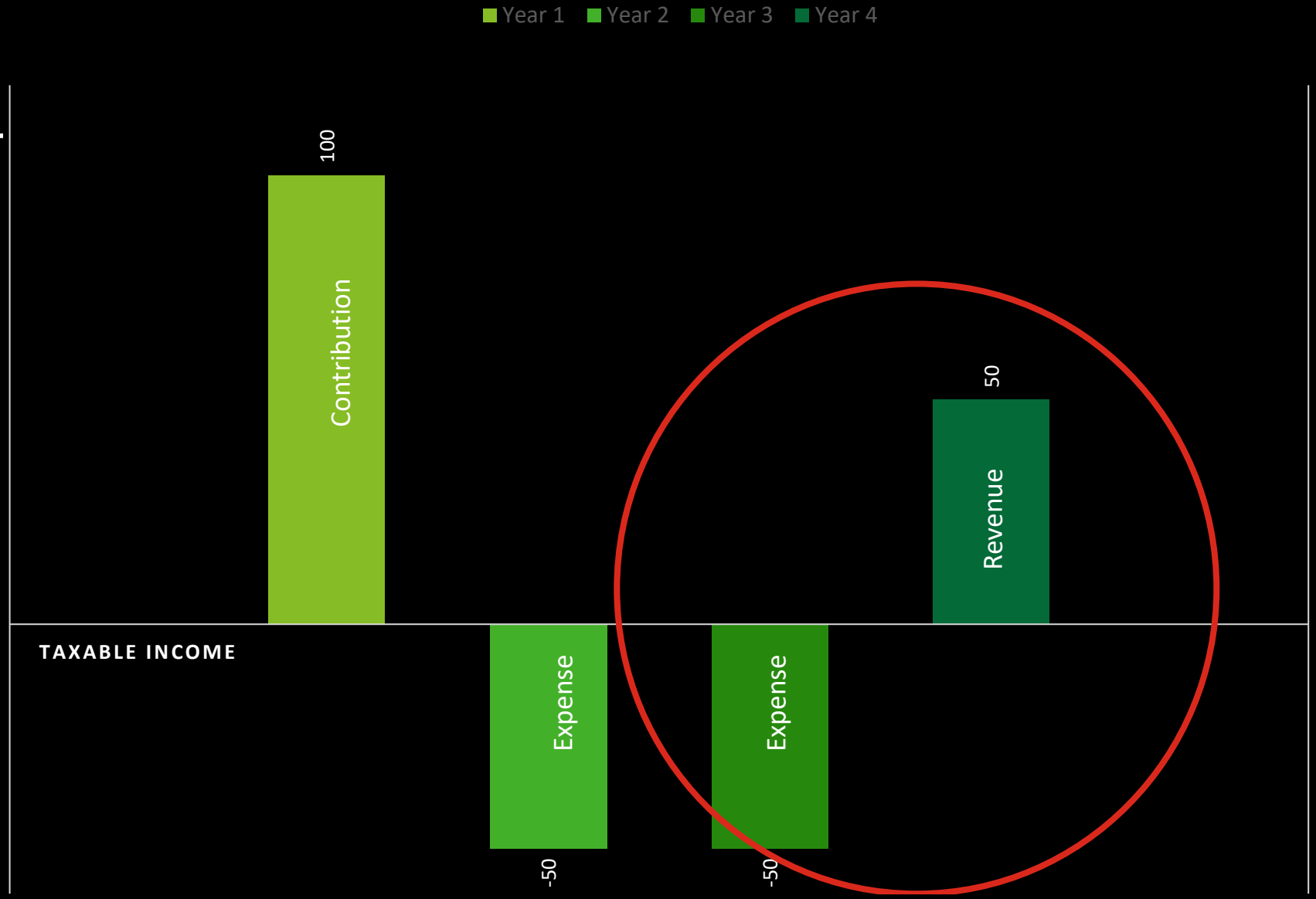
An assessment must be made of whether it is **maintenance or an operating asset**

All other things being equal, the contribution is **taxable at the time of legal acquisition**

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Liquidity
is affected



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deduction is
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future

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Increased deduction for development and research expenses

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In the future, **development and research expenses** may obtain a greater step-up

HIGHER R&D DEDUCTIONS FROM 2026

- Increase in 2026 to **114%**
- Increase in 2027 to **116%**
- Increase in 2028 and onwards to **120%**
- Cap of **DKK 1 billion** – anything above **110%**
- **Possible** change in **definition**
- Ensure **immediate depreciation** of software

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In summary

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Amended rules on **software, know-how and patent rights**



Software must **be capitalized**

Major liquidity **disadvantage**

Asymmetry between **taxation of contributions** and deductions for development

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