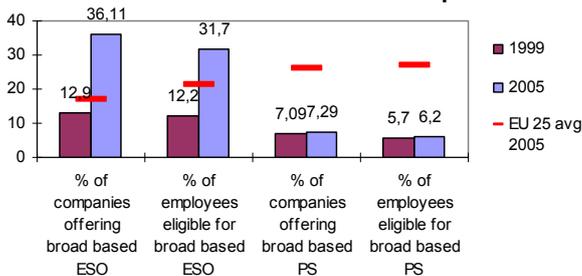


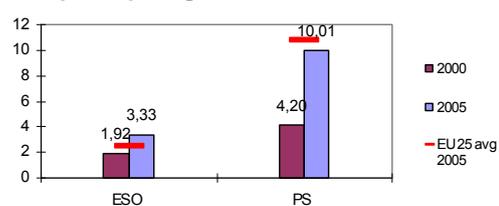
## VI. Denmark

Employee financial participation began to be discussed at the end of the 1950s, in connection with an ideological debate on the concept of economic democracy and in response to the Swedish wage earner fund model. In 1987, the Liberal Conservative Government introduced the first tax incentives for certain forms of broad, voluntary, share-based plans at the enterprise level. Many firms implemented these plans with success. But then the issue of financial participation disappeared from the political agenda, remaining dormant until the beginning of the new century. In 2003, several new individual share-based plans as well as stock option plans were added. In 2005, these new plans were amended, in response to problems that had emerged in practice. All plans are based on employee shares or stock options.

**CRANET - Offer in firms with > 200 Empl.**



**EWCS - Proportion of employees participating in FP schemes**



The Tax Ministry now regularly reports to Parliament on the progress of employee share ownership. According to the 2005 report, the number of employees participating in the various plans and the corresponding asset values were as follows: broad share-based profit-sharing – 10,000 employees, DKK 163 million; broad profit-sharing based on stock options – 1,000 employees, DKK 10 million; individual stock option plan without limitations – 4,047 employees, DKK 388 million. According to the 2006 report, the newly introduced individual profit-sharing plans based on shares and stock options covered 1,326 employee participants in 77 enterprises. It should be noted that these numbers reflect the ‘flow’, that is, the number of additional plan participants/shares in the respective year. Data in absolute numbers were presented by the trade union Dansk Metal for 1999: an estimated 160,000 employees were shareholders in their companies, while 13 per cent of companies in high-growth industries and 25 per cent of all IT companies operated a share-based plan for their employees.

## 1. General Attitude

In the 1960s and 1970s, the Danish Trade Unions Federation and the Social Democratic Party submitted several proposals for compulsory collective funds, national and regional, in response to the wage earner fund (the Meidner Plan) of Sweden. These proposals were strongly opposed by both the Danish Employers Federation and the parties of the central and right political spectrum; they preferred tax incentives for voluntary plans at the enterprise level. At the same time the government wanted to introduce additional tax incentives for existing schemes, but failed to get its draft law through Parliament.

Employee financial participation remained a highly controversial political issue until the late 1980s. During the 1990s, little attention was paid to financial participation by either the government or social partners. Since the beginning of the present decade, the government has actively supported employee financial participation by introducing and adopting new individual share-based plans. Trade unions have been reported to be rather indifferent, while employers associations seem to be sceptical and reluctant to an extension of employee participation in general.

## 2. Legal and Fiscal Framework

The following employee financial participation plans are currently regulated: broad-based share-based profit-sharing plans, including stock options; broad-based share ownership plans; individual share-based profit-sharing plans, including stock options, and individual stock option plans without limitations.

### a) Share Ownership

**Employee Shares** – Under the broad-based share ownership plan connected with tax incentives (§ 7A of the Tax Assessment Law), shares of the employer company can be offered at discount to all employees; special rules may apply according to length of employment, working hours or seniority. The plan may not include management (for example, members of the supervisory board). If the reduced price is paid in full at appropriation, the value of the shares does not exceed 10 per cent of the annual salary, and the shares are placed under bank trusteeship for five years, the employee is only liable to share income tax at sale while the employer company can deduct its costs from its corporate income tax base.

**Stock Option Plan** – The stock option plan under § 28 of the Tax Assessment Law is individual and may include members of the supervisory board. The number of options under this plan has no limits. However, it must be filed with the tax authorities. The employee is taxed at exercise of the option on the difference between the market price and the purchase price and again at the time of sale with the share income tax. The employer company can deduct the options cost from its corporate income tax base.

## b) Profit-Sharing

**Broad, share-based** – These plans, linked to tax incentives (§ 7A of the Tax Assessment Law), introduced in 1987, are based on share or stock options. They must include all employees, although special rules may pertain to length of employment, working hours or seniority; they must exclude management, for example, members of the supervisory board. The plan must be approved by the tax authorities. If free shares are allotted within the plan, no tax need be paid by the employee at grant on total share values not exceeding DKK 8,000 (2006), and shares are placed in trust with a bank subject to a blocking period of seven years. In the case of stock options, the employee pays no tax at grant or exercise if the value does not exceed 10 per cent of annual salary and the shares are placed in trust with a bank for a blocking period of five years. According to the 2005 amendment, the obligation of the employee to return shares to the issuing company under certain circumstances is not an obstacle to tax exemption. In both cases, general taxation rules in force at the time the shares are sold apply: if the income from sale of shares does not exceed DKK 44,300 (2006), the tax rate is 28 per cent; otherwise 43 per cent. The employer company can deduct from its corporate income tax base the value of shares or options transferred to employees.

**Individual, share-based** – First introduced in 2003 under § 7H of the Tax Assessment Law, these plans are based on shares and/or stock options. Only employees are eligible, and members of the supervisory board excluded. The employer company and the employee must conclude an agreement which is to be endorsed by an auditor or attorney and submitted to the tax authorities. Only common stock can be allocated. Value of shares may not exceed 10 per cent of annual salary. Value of stock options should not exceed 10 per cent of the annual salary or the exercise price should be less than 15 per cent lower than the market price of underlying shares. This means that an employee is eligible for tax incentives if he acquires shares under the 10 per cent rule and, additionally, stock options under the 15 per cent rule, but not stock options under both rules. If the above pre-conditions are fulfilled, the employee is exempted from personal income tax and social security contributions at grant or exercise and is only liable to the share income tax at sale according to general taxation rules. However, the employer company cannot deduct costs from the tax base of the corporate income tax.

**Cash-based** – Plans are independent of tax incentives; their incidence is reputedly low.

## c) Participation in Decision-Making

No direct connection exists between participation in decision-making and employee financial participation. Financial participation plans are specifically enjoined from extending the existing rights in connection with participation in decision-making. Financial participation is generally not a part of collective bargaining agreements.