Tax report

2024

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Our approach to tax governance

At Danfoss, our commitment to ‘engineering tomorrow to build a better future’ extends to how we approach tax governance. We prioritize long-term sustainability and responsible tax practices in both the payment and administration of taxes. Our tax governance approach is built upon four main principles, all aimed at creating a better future for all our stakeholders.

Our tax governance approach is built upon four main principles:

- Transparency and simplicity
- Competence and risk management
- Compliance and collaboration
- Being a responsible taxpayer

Transparency and simplicity

Danfoss has published a global Group Tax Policy[1], which facilitates an efficient and fair global tax approach supported by central and local tax governance. Our business model is substance-based, and local tax presence is not driven by tax-saving considerations. While we are commercially present globally, we do not have any activity in tax havens that are listed on the EU list of non-cooperative tax jurisdictions or under section 4.2 of Ligningsloven LBK no. 42[2] from January 13, 2023. However, like many other global companies, we also have commercial operations in jurisdictions with a lower-than-average tax rate. Danfoss is present in its jurisdictions for commercial reasons and serving local markets with Danfoss' products and services.

The Danfoss Group tax structure is based on simplicity and efficiency through consolidation for tax purposes and straight forward repatriation of profits. Danfoss may centralize intellectual property (IP) to achieve its strategic goals. A transfer of IP may decrease or increase Danfoss' overall tax payments. However, the decision to transfer IP will always be made for strategic business reasons only, since we do not engage in any aggressive tax planning. An example of IP transfer is the ongoing centralization of various Digital Service IP in Denmark. The goal of this IP transfer is to be able to share resources and better support our investment in digitalization.

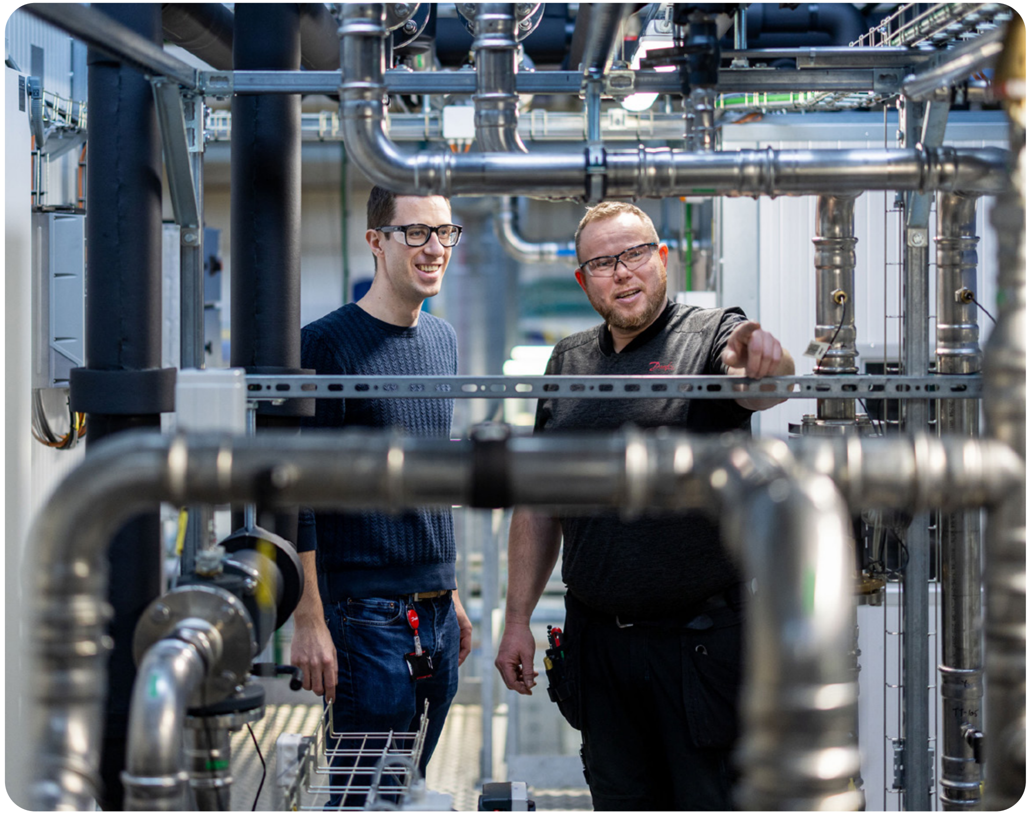
Transparency of tax matters towards all stakeholders is a priority within Danfoss' tax governance. Non-compliant tax matters can be brought forward, through our Ethics hotline, which meets the requirements of the European Whistleblower Protection Directive.

[1] https://assets.danfoss.com/documents/403523/AH493132344561en-000101.pdf
[2] https://www.retsinformation.dk/eli/lta/2023/42

Competence and risk management

Tax governance is a key priority to Danfoss' senior management. Our Group Tax Policy is reviewed annually by our Group Executive Team and approved by our Board of Directors. Within the Board of Directors, the Chair of the Audit Committee is overseeing the Group's tax policy. Operational tax matters, including monitoring and management of tax risks, are periodically reported to the Audit Committee. The Executive Vice President and Chief Financial Officer (CFO) of Danfoss Group is accountable for management of income taxes, employee taxes, indirect taxes, and transfer pricing. The CFO delegates the strategic management of income taxes, employee taxes, and transfer pricing to the Vice President of Group Tax, who manages it together with a skilled team on corporate and local levels. Operational management of income taxes, employee taxes, transfer pricing compliance, and all matters concerning VAT and custom duties is managed by global and local teams within Danfoss Global Services, Business segments and HR.

Danfoss is committed to establishing processes and controls that ensure a low-risk environment based on recognized risk control strategies. However, cross-border activities imply a higher risk level, due to national tax systems not always being aligned or harmonized. Therefore, we have established and will maintain an internal organization that supports our global operations from a tax perspective. Our transfer pricing team mitigates tax risk by ensuring that transactions between Danfoss entities are based on the Arm's Length Principle as required by the OECD. Moreover, our corporate and local finance teams of professionals, are committed to managing tax risk. Group tax ensures high tax competence throughout our organization by offering regular trainings to a broad spectrum of employees. Group Tax also encourages our key tax staff to continuously educate themselves about important developments in the OECD and national tax issues. If additional competences are needed, Group Tax seeks advice from external consultants and advisors.



Compliance and collaboration

Danfoss is committed to high compliance standards. Our use of state-of-the-art IT and data management aim at high data quality and processes to meet legal requirements. 'Compliance first' is the guiding principle for Danfoss. Group Tax thoroughly reviews all important tax compliance documents applying a 4-eyes principle.

Danfoss prioritizes to establish collaboration with tax authorities throughout the world. In Denmark, we participate in the 'Tax Governance Program', an initiative by the Danish Tax Agency aimed at achieving a high level of mutual assurance related to the Group's compliance filings. We have continuous and transparent dialogue with the Danish authorities (Skattestyrelsen) through regular meetings. Another example of our close co-operation with the Danish tax authorities is our dialogue concerning mutual agreement procedures (MAPs). We are able to discuss these with the Danish tax authorities to resolve double taxation with other jurisdictions. In addition, we invite tax authorities for discussions on our profitability benchmark studies, planned footprint changes, or information provided in local files.

At Danfoss, we also seek collaboration with all other important stakeholders to achieve our goal of social and environmental responsibility and tax compliance. Danfoss is an active member of the Confederation of Danish Industry (DI), where we support DI's efforts for clear, stable, and coherent international tax rules to avoid aggressive tax planning. In the US, we are a member of several industry associations, such as the Alliance for Responsible Atmospheric Policy (ARAP) and the Association of Equipment Manufacturers (AEM). Our collaboration with peers allows us to discuss and align our tax governance with industry standards.

Being a responsible taxpayer

At Danfoss, we prioritize a fair profit allocation and want to be a responsible taxpayer. Our tax planning activities focus on avoiding double taxation and achieving efficient use of resources, since tax expense and a tax management expense are business costs and need to be considered like other costs when making business decisions.

Danfoss supports the tax-related business actions of the UN Global Compact and Global Reporting Initiative (GRI)[3] and aim at paying our fair share of taxes. In accordance with the tax-related business actions, we do not use tax avoidance mechanisms, and we assess the impact of our tax contributions in the countries where we operate. With our tax payments to countries around the world, we support local governments in reaching the UN's sustainable development goals (SDGs), like quality education (goal number 4) and good health/well-being (goal number 3). Moreover, our responsible global tax presence aims at reaching UN sustainable development goal number 8 concerning decent work and economic growth, as well as goal number 16, concerning peace, justice, and strong institutions.

Tax incentives and tax reliefs are used provided they are generally accessible to a broad group of taxpayers, and provided they are applicable to Danfoss commercial substance in the relevant tax jurisdiction. For example, Danfoss utilizes opportunities for tax deductions related to research and development (R&D) activities in China, the US, and Denmark. Danfoss is continuously investing in innovation and new technology to continue engineering tomorrow to build a better future. In jurisdictions where Danfoss operates and R&D tax incentives are widely accessible, they will be accepted and utilized accordingly.

[3] https://www.pwc.nl/en/services/tax/tax-transparency/sdgs-and-tax.html

Global tax footprint and total tax contribution

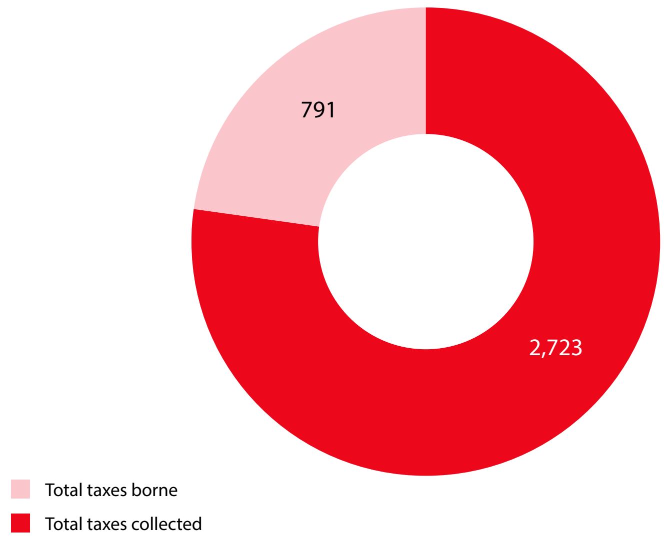
As presented in table 1 of amounts of income tax paid in each country, included at the end of the report, Danfoss Group pays corporate income tax in more than 50 different tax jurisdictions. Besides corporate income taxes, we also pay other direct taxes, like capital income tax and labor market contributions. Indirect taxes, like nonrefundable VAT, paid sales and use tax, property taxes, and custom duties are also relevant examples of business expenses borne by Danfoss that support local governments. Moreover, Danfoss Group collects taxes on behalf of local governments, in the form of value-added taxes on sales and withholding taxes on salaries and capital gains. In this way, our presence generates tax revenues for local governments, both in the form of taxes borne by us and taxes collected by us.

In the year 2024, Danfoss contributed globally a total of EUR 3,514m to local public finances via tax payments, EUR 791m borne by Danfoss and EUR 2,723m collected by Danfoss.

To facilitate cross-border consolidation and comparison, we use three universal tax bases to break down our global total tax contributions, namely income taxes, indirect taxes, and labor taxes. In general, taxes are defined as mandatory payments imposed by national regulations, with no direct relation to a specific benefit received. To achieve comparability between different social and tax systems, our global tax contribution also includes mandatory payments to social schemes, like pension funds, provided governmental regulations require companies to contribute to those schemes.

Total tax contribution 2024 (EURm)

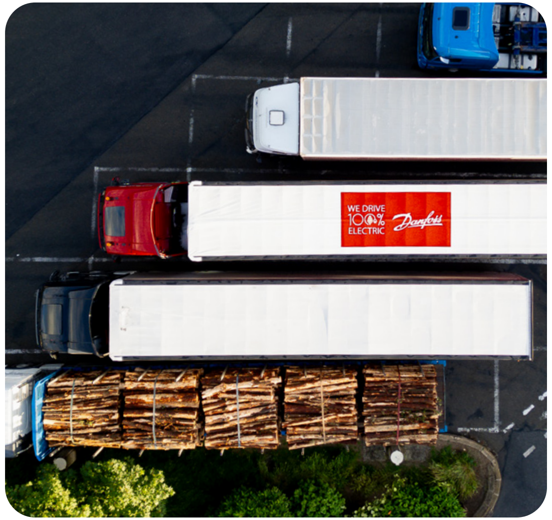
3,514



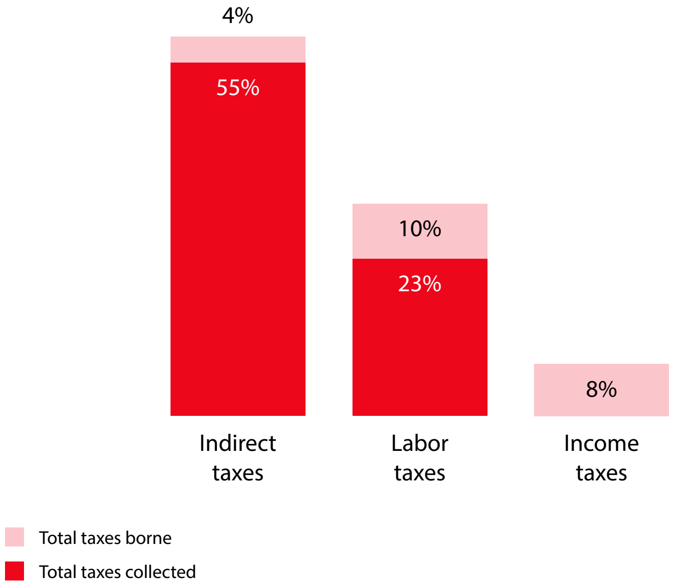
Geography and categories of total tax contribution

On a global level, our largest contribution to public finance consists of indirect taxes, followed by labor taxes and income taxes. The chart also illustrates the proportion of tax collected and tax borne in each tax category. The biggest portion of taxes borne by Danfoss are labor taxes and income taxes, while the biggest portion of taxes collected are indirect taxes followed by labor taxes.

When analyzing Danfoss' total tax contribution (TTC) from a geographic point of view, it shows that Danfoss contributes the largest amount of tax in Europe. Indirect taxes and labor tax percentages may vary significantly between countries, consequently Total Tax Contribution for a given country or region is not necessarily proportional to business footprint measured in sales, headcounts or total assets employed. However, after taking into consideration national tax environments, the geographical division of our TTC corresponds with our global business footprint. The largest operational footprints are in Denmark, Germany, China and the US and in those countries, we also have our biggest national Total Tax Contribution. This illustrates that Danfoss' tax payments are business driven.



Tax categories as percentage of total tax contribution



Geographic split of total tax contribution

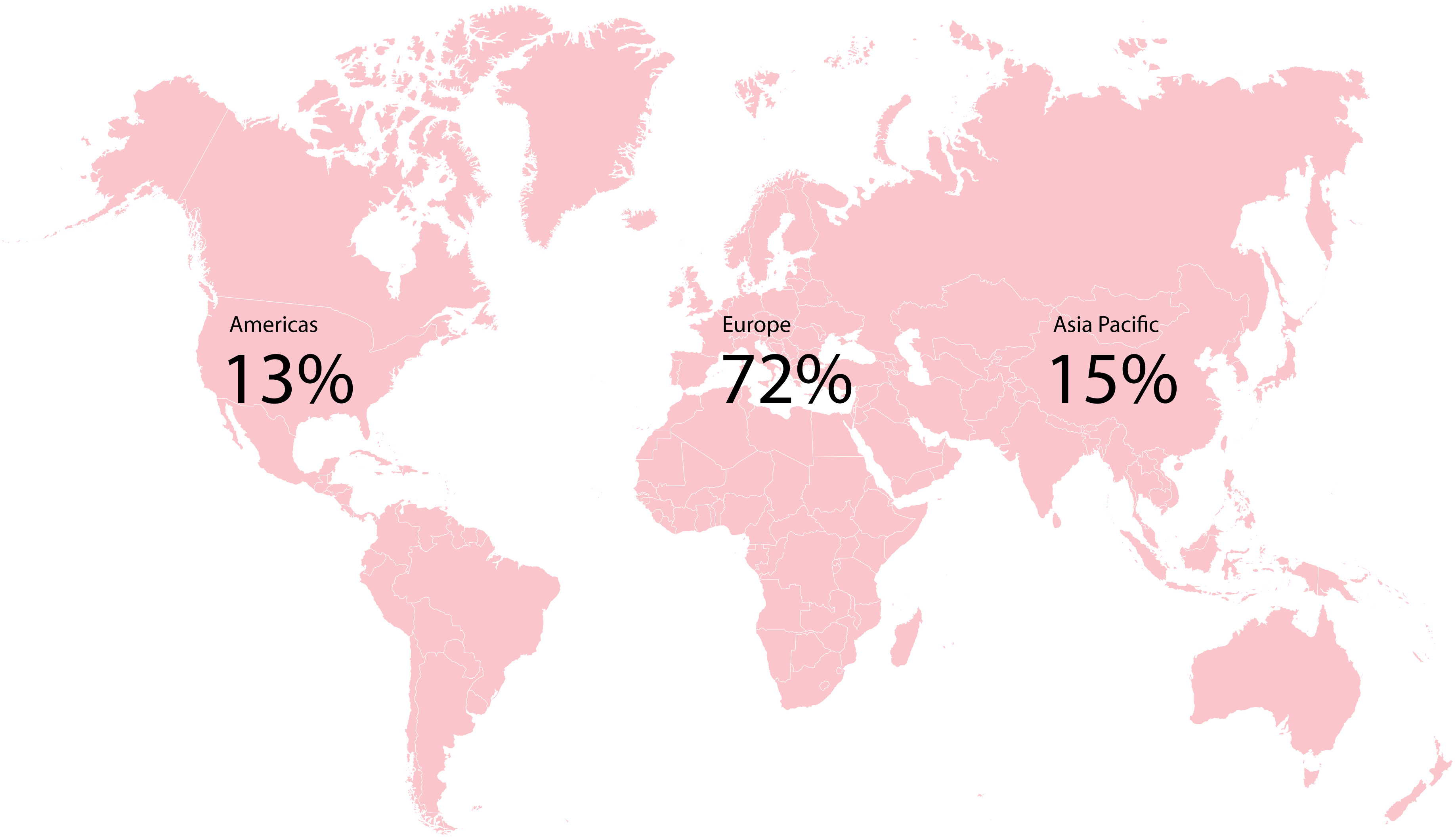


Table 1 — Income tax paid, Country by Country Report 2024

		Organizational functions performed of entities in the country				
Country	Income tax paid in the country in tEUR[1]	Research and Development	Holding/managing intellectual property	Manufacturing or Production	Sales, Marketing or Distribution	Admin., Management, Support Services and other
Argentina	0				●	
Australia	-1,694[2]			●	●	●
Austria	318				●	
Belgium	352				●	
Brazil	15,041	●	●	●	●	●
Bulgaria	-8			●	●	
Canada	2,067				●	
Chile	134				●	
P.R. Of China	29,822	●	●	●	●	●
Colombia	751				●	
Croatia	239				●	
Czech Republic	495			●	●	
Denmark	69,832	●	●	●	●	●
Egypt	0				●	
Estonia	99				●	
Finland	8,017	●	●	●	●	●
France	10,803	●	●	●	●	●
Germany	37,045	●	●	●	●	●
Great Britain	75	●	●	●	●	●
Hong Kong	463				●	

Table 1 — Income tax paid, Country by Country Report 2024 — continued

		Organizational functions performed of entities in the country				
Country	Income tax paid in the country in tEUR[1]	Research and Development	Holding/managing intellectual property	Manufacturing or Production	Sales, Marketing or Distribution	Admin., Management, Support Services and other
Hungary	1				●	
Iceland	108				●	
India	6,617	●	●	●	●	●
Indonesia	8				●	
Iran	0				●	
Italy	9,232	●	●	●	●	●
Japan	11,626	●	●	●	●	●
Kazakhstan	799				●	
Latvia	8				●	
Lithuania	203				●	
Malaysia	110				●	
Mexico	6,457			●	●	●
The Netherlands	3,070			●	●	●
New Zealand	254				●	
Norway	1,209	●	●	●	●	
Philippines	111				●	
Poland	-1,450[3]			●	●	
Romania	485			●	●	
Saudi Arabia	0				●	
Serbia	79				●	

Table 1 — Income tax paid, Country by Country Report 2024 — continued

		Organizational functions performed of entities in the country				
Country	Income tax paid in the country in tEUR[1]	Research and Development	Holding/managing intellectual property	Manufacturing or Production	Sales, Marketing or Distribution	Admin., Management, Support Services and other
Singapore	653			●	●	
Slovakia	3,536	●	●	●	●	
Slovenia	5,143	●	●	●	●	
South Africa	142				●	
South Korea	759			●	●	●
Spain	1,345	●		●	●	
Sweden	1,770				●	
Switzerland	681				●	
Taiwan	166				●	
Thailand	220				●	
Türkiye	9,499	●	●	●	●	
Ukraine	52				●	
United Arab Emirates	0			●	●	
USA	53,560	●	●	●	●	●
Vietnam	0				●	
Total Income tax paid	**290,304**					

[1] Jurisdictions with 0 income tax paid, primarily occur due to either, being loss making, utilizing tax losses from previous years, or due to tax refunds from previous years.
[2] Income tax paid in 2024 plus refund of in 2023 excessively prepaid tax.
[3] Income tax paid plus refund received in 2024 for taxes overpaid from 2018-2021.

Further information available
on Danfoss' website: danfoss.com

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Contact address:
Danfoss A/S
Nordborgvej 81
6430 Nordborg
Denmark
Tel.: +45 7488 2222
CVR no. 20165715 (registration number with the Danish Business Authority)
Email: danfoss@danfoss.com

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