



TAX:WATCH

Amendments to the Danish tax scheme for inbound expatriates

TAX:WATCH NO. 1
25-01-2019

The Danish parliament has adopted changes to the Danish tax scheme for inbound expatriates to better help Danish businesses attract highly skilled employees from abroad.

By Anders Kiærskou, æk@bdo.dk

As noted in the October 2018 issue of tax:watch, in order to make it easier for Danish businesses to attract highly skilled employees from abroad, the minister of taxation presented a bill aiming to remove several issues preventing application of the special tax scheme for inbound expatriates.

The amendments have been adopted by the Danish parliament and take effect from 1 January 2019.

One amendment makes it possible to utilise the tax scheme for inbound expatriates in situations where the employee is already employed in a foreign branch of the Danish employer when he starts working in Denmark, or the employee is going to work for a Danish branch of his current foreign employer.

Previously, in these situations, the tax scheme for inbound expatriates could not be utilised, as it was a requirement that the employee became liable to Danish tax in connection with the commencement of employment with a Danish employer.

After the amendment, instead, it is a requirement that the employee becomes liable to Danish tax on remuneration from a Danish employer.

This allows the employee to utilise the tax scheme, even though he is already employed with the same legal entity when he starts working in Denmark.

Another amendment states that periods where the employee is on parental leave are disregarded in connection with determining whether the minimum salary requirement (see below) for utilising the tax scheme is met.

Consequently, having a baby should not disqualify from taxation according to the tax scheme for inbound expatriates due to decreased earnings during periods of parental leave.

Additionally, an amendment seeks to eliminate an obstacle that previously could hinder employees, who had left Denmark, from returning to Denmark and utilise the tax scheme for inbound expatriates for the remaining part of the total 7 years allowed.

Background

Due to the high rates of individual income taxes in Denmark compared to many other countries, a special Danish tax scheme exist for Danish businesses to attract skilled labour

CONTENT

- Amendments to the Danish tax scheme for inbound expatriates
- Tax-exempt transfer of businesses to commercial funds

from abroad.

The scheme allows employees, recruited abroad, to relocate to Denmark and be taxed in Denmark on cash salary and certain benefits in kind from a Danish employer at a total flat rate of 32.84 pct. (8 pct. gross tax and 27 pct. tax on the remaining amount) for a total period of 7 years.

Conditions for utilising the scheme

Several conditions apply for an employee to be taxed according to the scheme.

Most notably, a minimum salary requirement exists, which is adjusted yearly.

From 1 January 2019, the monthly minimum salary according to the employment contract must amount to at least DKK 66,600 after deduction of mandatory social security contributions.

Tax-exempt transfer of businesses to commercial funds

A new political agreement ensures tax-exempt transfer of businesses to commercial funds.

By Anders Kiærskou, æk@bdo.dk

The agreement has been concluded between the Danish government and several other political parties.

The parties agree to follow the recommendations of the Working Group on Succession to Commercial Funds for a new model for taxation of the transfer of businesses to commercial funds.

The model aims to make it more attractive to transfer companies to commercial funds and, thus, creates incentives for the establishment of more funds.

In the future, when a business owner transfers his business to a commercial fund - for example in connection with a generational change - at the time of the transfer, it will be tax-exempt for both the transferor and the fund.

The new tax model recommended by the Working Group on Succession to Commercial Funds implies that the transfer of shares to a commercial fund will be tax-exempt in its entirety at the time of the transfer.

However, the fund will still be taxed on any subsequent divestment of the received shares and/or upon receipt of dividends from the transferred company.

Specifically, a ceiling is set on the tax payable as a result of the transfer to the fund.

Only tax corresponding to the calculated and deferred tax on the transferor's profit on the transfer date with the addition of interest can be claimed.

However, this tax will only become fully or partially payable in connection with the fund's subsequent divestment of shares in the transferred company or by the fund's receipt of dividends from the transferred shares.

The new rules are expected to be adopted in 2019.

BDO Statsautoriseret revisionsaktieselskab, a Danish limited liability company, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms. BDO is the brand name for the BDO network and for each of the BDO Member Firms. BDO in Denmark employs almost 1,100 people and the world wide BDO network has more than 74,000 partners and staff in 160 countries.

This publication has been written in general terms and should be seen as a broad guidance only. The publication does not cover specific situations and you should not act, or refrain from acting, without obtaining professional advice. Please contact BDO to discuss the specific matters. BDO, its partners and employees do not accept or assume any liability for any loss arising from any action taken or not taken in reliance on the information in this publication.