Expansion of the Danish tax scheme for inbound expatriates

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According to a new bill, the Danish tax scheme for inbound expatriates will be expanded.

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With a recent political agreement and subsequently proposed bill, the government and other political parties intend to expand the period where employees can use the special Danish tax scheme for inbound expatriates from the current total of 5 years to a total of 7 years.

However, the tax percentage will increase from the current 26 pct. to 27 pct. of the employee's salary calculated after deduction of 8 pct. gross tax.

Consequently, the total taxation according to the scheme will increase from currently 31.92 pct. to 32.84 pct.

The tax rate according to the scheme is independent of the size of the salary, and there are no deductions.

According to the bill, employees fulfilling the requirements for using the scheme, who have not already been taxed according to the scheme for a total of 5 years on 1 January 2018, when the bill is proposed to take effect, will be able to utilise the scheme for the expanded period of up to 7 years in total.

The expansion of the maximum period, where the scheme can be used, combined with the increased tax rate, is expected to have a neutral effect on the tax revenue.

The agreement to expand the scheme is concluded in order to accommodate wishes of Danish businesses. Due to the high personal income tax rates in Denmark in comparison with many other countries, the tax scheme for inbound expatriates exist in order for Danish businesses to be able to attract highly qualified employees and researchers from abroad.

Compared to taxation according to the ordinary Danish progressive tax system, where the marginal tax rate is approx. 56 pct. on yearly income exceeding approx. ½ mio. DKK, the scheme is quite favourable.

Despite the slightly increased tax rate, the expansion of the tax scheme will likely be good news for most employees already using the scheme or employees, who will be taxed according to the scheme in the future.

In order for an employee to be taxed on salary according to the special tax scheme, there are several conditions that must be met.

In our leaflet, these conditions are described.

Tax on investment in foreign shares

Many expatriates and other individual taxpayers relocating to Denmark own shares deposited in e.g. a bank in their home country. This can cause challenges in relation to Danish tax compliance.

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Although complying with Danish tax law is more complicated when owning shares deposited in foreign banks compared to only owning shares deposited in Danish banks, there are no adverse tax effects of doing so - as long as the taxpayer complies with Danish tax law.

The rules on taxation of individual taxpayer's profit and loss on listed shares, generally do not distinguish between shares deposited in Danish or foreign banks, or whether the shares are held in Danish or foreign companies.

Capital gains are taxed with a marginal tax rate of 42 pct. Capital loss cannot be offset against other kinds of income, but only against capital gain and dividend from listed shares.

Nevertheless, there are a few tax compliance issues that must be observed in relation to shares held in foreign deposits.

Ownership of shares in foreign deposits must be reported to the Danish tax authorities. The Danish tax authorities do not automatically receive information on share purchases through foreign banks etc.

Therefore, in order to motivate investors to remember to declare their foreign shareholdings, loss on such shares only entitle to a tax deduction, if the purchase of the shares has been reported to the Danish tax authorities no later than the deadline for filing the tax return for the income year where the shares were purchased. Generally, this is no later than 1 July of the following year.

Expatriates and other individual taxpayers, who relocate to Denmark and become resident in Denmark for tax purposes according to a double tax treaty concluded by Denmark - or according to domestic Danish tax law if Denmark has not concluded a tax treaty with the home country – must disclose all their foreign shareholdings to the Danish tax authorities no later than the deadline for filing the tax return for the income year of relocation to Denmark.

There is no dispensation from the deadline.

Please note, that there is no obligation to report non-listed foreign shares. Non-listed shares are treated the same for tax purposes regardless of whether they are in Danish or foreign companies.

Dividends from shares in foreign deposits

Further, the Danish tax authorities do not automatically receive information on dividend payments from shares in foreign deposits. Hence, the investor must report this himself on the Danish tax return.

When dividends are received from foreign shares, a withholding tax will normally be deducted from the dividend. When declaring the dividend, both the gross dividend and the withholding tax must be reported. However, only the amount of dividend that the country of source is entitled to according to a double tax agreement with Denmark should be reported. In most cases, this is 15 pct.

If dividend tax has been withheld at a higher rate, the taxpayer can request the surplus amount to be refunded from the local tax authorities.