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WORTH KNOWING ABOUT

27 pct. tax regime

TAX AND VAT
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Denmark offers a special tax regime to highly paid inbound expatriates and researchers recruited from abroad.

Employees may elect to be taxed at a rate of 27 % on employment income and other cash allowances, for up to 84 months.

All other income, including benefits-in-kind other than company car and free telephone, are taxed at the ordinary rates. Such income includes any private income received by the expatriate from outside Denmark.

Conditions for expatriate taxation

1. Salary requirements
The monthly salary in cash must be at least DKK 66,600 on an annual mean basis. This qualifying threshold must be met after deduction of pension contributions withheld by the employer and deduction of Danish social security contribution. If the employee is domiciled in Denmark, the minimum salary requirement must amount to DKK 66,600 after deduction of mandatory foreign social contributions.

Taxable value of company car and contributions to a 53A-pension scheme is included in fulfilling the minimum salary requirement.

If the employee’s monthly salary is less than DKK 66,600 the salary requirement can - in some situations - be achieved by paying a bonus to the employee e.g. once a year so the average monthly salary including bonus reaches the minimum salary requirement. However certain requirements are to be met in that respect.

Researchers do not have to comply with the minimum salary requirement.

2. The time aspect
An employee can be subject to 27 % taxation for a total of 84 months.

As of 1 January 2019, it is possible for an employee on maternity leave, to have a lower monthly salary than the minimum salary requirement. However, the total period with expat taxation will not be prolonged.

The employee may change from one employment to another within one month.

After the expiration of the 84 month period, the employee may decide to stay in Denmark. In this situation the employee will have to pay ordinary tax rates, which means up to approx. 56 % taxation. In such cases, where the stay is extended beyond 84 months, no additional tax payment is required relating to the income earned in the first 84-month period.

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3. The employer
The employer must be a Danish entity or a foreign entity with a permanent establishment in Denmark.

4. Place of performance of work
The work must be performed in Denmark. If some of the work is performed abroad, it is a condition that the salary will be taxed in Denmark according to the relevant tax treaty. However, work for up to 30 days within the calendar year in foreign countries is allowed under such conditions that the country of work can tax the salary.

5. Part of the management, control and group ties
The employee must not, within a 5 - year period prior to the employment and during the employment itself, hold 25 % or more of the share capital in the employer company or hold the majority of the voting power in the employer company, or if the company is not incorporated, have a controlling influence on the company.

6. The employee
The employee may be fully tax liable to Denmark or live in another country and thus be limited tax liable to Denmark.

Danish nationals may also benefit from the 27 % taxation if they fulfil the conditions.

The employee must not in a 10 years period preceding the employment have been a tax resident in Denmark or have been taxed in Denmark on e.g. salary income as non-resident, director's fee, pensions, business activity or been liable to Danish tax according to the rules of hiring out of labour.

If the employee has been utilising the tax scheme for a shorter period than 84 months and he/she leaves Denmark, he/she can return to Denmark at a later point and continue to utilize the 27 % tax scheme for a total up to 84 months - provided that the other requirements are met upon his return. The employee can be employed in the same company and utilize the remaining period up to 84 month.

27 % tax versus general tax rules
The 27 % tax scheme applies to all kinds of cash remuneration and reimbursement of private expenses, including relocation allowance, bonus, school fees, etc. The taxable value of a company car and free telephone is also included in the 27 % scheme.

In addition to the 27 % tax, AM-contribution of 8 % must be paid. This even applies if the employee is covered by foreign social security. For that reason, the total tax becomes almost 33 % as the 27 % is calculated on the basis of the gross income after deduction of 8 % AM-contribution.

Other income, including private income from abroad is taxed according to the ordinary progressive tax rates with a marginal tax rate of approx. 52 %. In this tax calculation, a personal allowance of DKK 47,000 is deducted.

Free accomodation
The taxable value of free accommodation provided to employees is the market value and is taxed according to ordinary tax rules. In addition heat, electricity and other utility charges paid by the employer will be taxed. However, if it is stated in the contract that the employee has to move out of the residence when the employment ends, a 10 % discount is granted.

Tax return
The withheld 27 % tax is a final tax. Any other income must be reported on the tax return.

DO YOU HAVE ANY QUESTIONS?
PLEASE CONTACT

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