



Danes and foreigners can advantageously choose a favourable taxation of employment income for up to 5 years.

The expat scheme can be used by employees who come to Denmark to work and earn at least 765,535.80 DKK (2017) per year before reduction of ATP. Approved researchers do not have to fulfil this salary requirement.

The expat scheme can in total only be used for 5 years.

Introduction

This is a short description of the expat scheme.

Registration/application

The tax authorities have to be notified about the choice of the expat scheme. We recommend that we review the employment contract before the contract is signed and submitted to the tax authorities.

What does the favourable taxation mean?

The expat scheme means that the employment income, other cash allowances, value of company car, free phone and health care insurances are taxed by a flat rate of 31.92% for up to 5 years, whereas the ordinary tax system's marginal rate is up to approx. 55.8% (excluding church tax).

The tax rate of 31.92% is a result of 8% AM-tax and a flat tax rate of 26%.

It is not possible to deduct expenses relating to the employment income as for instance commuting, travel expenses and union membership fees.

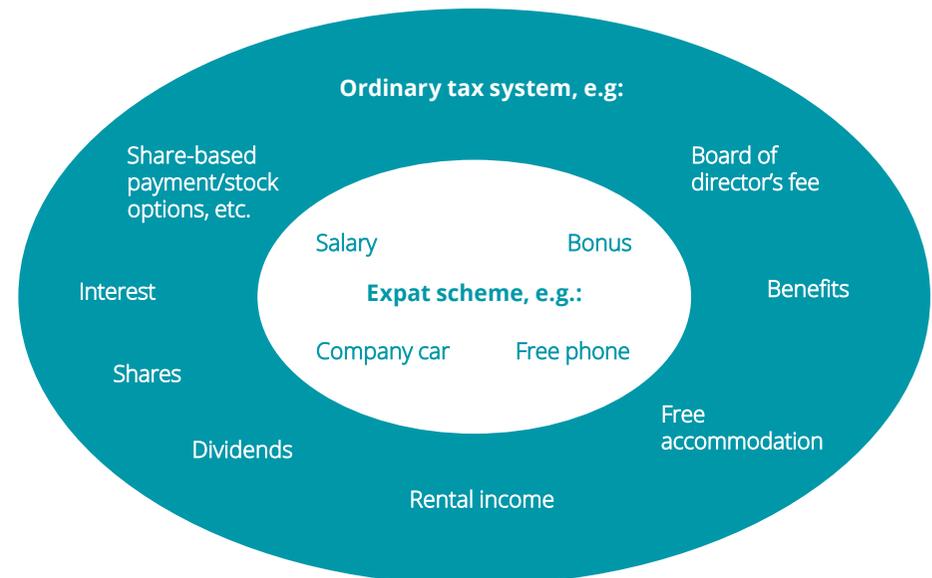
Taxation of other income

All other income such as free accommodation and other private income are taxed according to the ordinary tax system, which is up to 51.95% (excluding church tax), however, only up to 42% for dividends and gain on shares and approx. 42% (excluding church tax) for capital income (interest income etc.). Contributions to private pension schemes and interest expenses are deductible in the ordinary tax system.

If the deduction cannot be used in the calendar year, there are certain limitations for carrying forward of deficits to coming years.

Lower tax?

The expat scheme provides for low tax on employment income. However, with careful planning and composition of the salary package, the total taxation can become even more advantageous. Not only does it imply a higher net income for the employee, but also lower costs for the employer.



Conditions

A number of terms and conditions are applicable for the expat scheme. The most important ones are described below.

Salary requirements

The salary before tax including the value of company car and free phone etc. must constitute at least 63,794.65 DKK before deduction of AM-tax and ATP each month (2017) as an average within a calendar year. The salary requirement is adjusted every 1 January.

If there are problems with fulfilling the salary requirement, the solution could be to change the composition of the salary package.

Tax liability to Denmark

Irrespective of whether the employee is fully or limited tax liable, it is possible to benefit from the expat scheme. Tax liability must commence when the employment starts in Denmark.

In practice this means that the employee does not have to live in Denmark when using

the expat scheme. The employee can for example live in Sweden and work in Denmark and still use the expat scheme.

Danish employer

The employment must be with a Danish employer who has the withholding responsibility etc. and who bears the salary cost.

Tax liability for 10 years before using the expat scheme

If the employee has been tax liable to Denmark within the last 10 years before commencing the expat scheme, there is a risk that the expat scheme cannot be used.

Relaxation of the rules as from 2014

The so-called "corporate rule" has been repealed. Previously, the "corporate rule" meant that an employee could not be covered by the expat scheme if the employee within 3 years before and 1 year after termination of previous tax liability had been employed with the research institute or the company in which the employee is going to be employed – or with an affiliated Danish or foreign company.

The condition was introduced at a time when the rule stipulated that an employee should

have had no tax liability to Denmark for at least 3 years (now the requirement is 10 years, cf. above) in order to use the expat scheme. As from income year 2014, an employee must "only" fulfil the normal conditions for using the expat scheme, including the condition that the employee must not have been tax liable to Denmark within the last 10 years prior to the employment. Now it is not important in which company the employee has previously been employed and neither whether the employee (for more than 10 years ago) was expatriated within the group in which the employee has worked ever since, and now wants to return to the Danish company. However, it must be a new employment in the Danish company in order to use the expat scheme.

Work in Denmark

In some situations there is a limit as to how much and under which conditions work can physically be carried out in other countries whilst using the expat scheme.

In the situation where it as from 1 January 2017 is accepted that an employee subject to certain conditions can be taxed abroad for up to 30 work days during a calendar year without the employee losing the expat tax taxation.

Retroactive taxation/abolishment

As from 1 January 2011 the rules regarding retroactive taxation are abolished.

When the period under the expat scheme expires, all future income is taxed according to the ordinary tax system. It is possible to stay in Denmark indefinitely after the period under the scheme.

If it is necessary to apply for work and residence permits, we recommend to start this process at an early stage, as it may take some time to get the permits. The work and residence permits should in principle be granted before starting work in Denmark.

This is a short description of the expat scheme. All areas have not been described, and we recommend to seek advice in each individual case.

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