



Danes and foreigners can advantageously choose a favourable taxation of employment income for up to 7 years.

The expat scheme can be used by employees, who come to Denmark to work and earn at least DKK 836,335.80 (2021) per year before reduction of ATP. Approved researchers do not have to fulfill this salary requirement.

The expat scheme can in total only be used for 7 years.

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.

Introduction

This is a short description of the expat scheme.

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 32.84% for up to 7 years, whereas the ordinary tax system's marginal rate is up to approx. 55.8% (excluding church tax).

The tax rate of 32.84% is a result of 8% AM-tax and a flat tax rate of 27%.

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

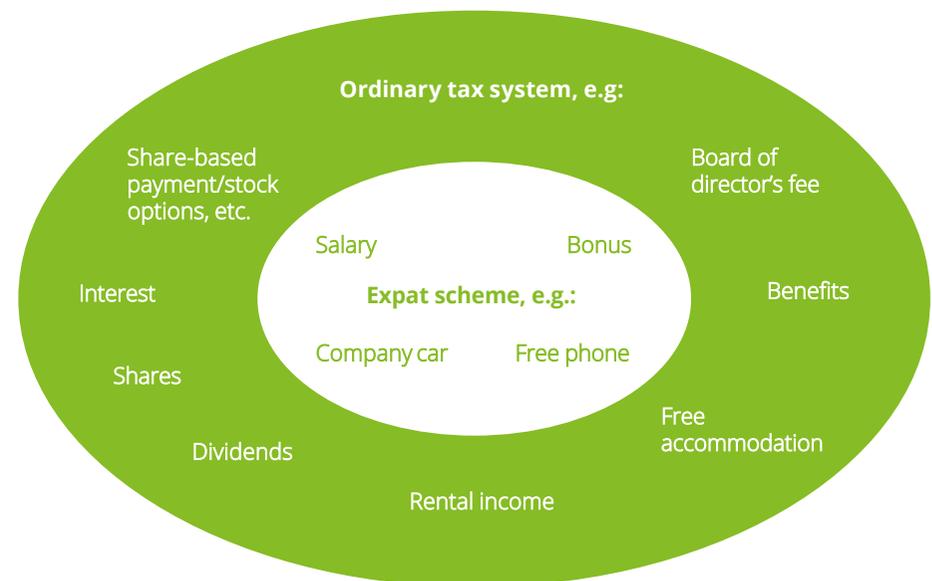
All other income such as free accommodation and other private income are taxed according to the ordinary tax system, which is up to 52.06% (excluding church tax), however, only up to 42% for dividends and gain on shares and approx. 42% (excluding church tax) for capital income (interest income etc.). Contributions to private pension schemes and interest expenses are deductible in the ordinary tax system.

Board member fees and business income is taxed by up to 55.8%.

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 DKK 69,694.65 before deduction of AM-tax and ATP each month (2021) 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.

It is crucial that the salary requirement is fulfilled latest as from the date of commencement of the employment contract, including e.g. that the special pension-scheme "53A" (pensionsbeskatningslovens § 53A) must be agreed/established.

Tax liability to Denmark

Irrespective of whether the employee is fully or limited tax liable, it is possible to benefit from the expat scheme.

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.

An international assignment contract can satisfy the required employer-employee relation between the employer and the Danish entity. Also in combination with maintaining coverage of foreign social security according to e.g. the EU regulation.

As from 1 January 2019 the formal conditions relating to the nature of employment contract that as the main rule is required between the Danish employer and the foreign employee have been eased.

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.

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.

Under certain conditions it is allowed to be imposed with a foreign tax liability on employment income for up to 30 days during the calendar year without losing the expat scheme.

When the expat scheme ends

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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