GMS Flash Alert

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Denmark - Proposal to Amend Special Tax Scheme for Expatriates

In August 2017, the Danish government announced 22 initiatives to strengthen Danish business and entrepreneurship in the global economy.[1] Included is a proposal to amend the structure of the Danish "special tax scheme,"[2] extending the period that it would apply, but also increasing the rate.

This and other proposed initiatives are expected to improve Denmark's ability to attract and retain highly-qualified workers.

WHY THIS MATTERS

If this proposal is approved in its current form, expatriates who are eligible for the special tax scheme may benefit from a longer period of time during which the scheme applies (amended from the current five years to a total of seven years). While the details are not yet available, this may be especially relevant for expatriates who are nearing the end of their five-year limit.

There should be no significant changes as to how the Danish special tax scheme is handled administratively; however, if the effective tax rate changes from 31.92 percent under the current scheme to 32.84 percent under the amended scheme, this would affect hypothetical tax calculations, tax withholdings, etc.

Proposal in Brief: Special Tax Scheme

If the proposal is adopted in its current form, the period for which the special tax scheme can be applied will be extended from five years to seven years. To finance the extended time period, the tax rate would increase from 26 percent to 27 percent – which means the effective tax rate would change from 31.92 percent under the current scheme to 32.84 percent. Despite this, in general, the special tax scheme will remain more advantageous than switching to taxation under the ordinary Danish progressive tax rates.

KPMG NOTE

Currently, the initiative to revise the Danish special tax scheme remains a proposal, and there is no guarantee that the proposal will be adopted in its current form. After the government has considered the initiative, KPMG Acor Tax will endeavor to issue another GMS *Flash Alert* with the relevant updates.

FOOTNOTES:

1 See the press releases (in Danish) from the Ministry of Finance:

"Erhvervs- og iværksætterudspil skal styrke fremtidens virksomheder" (30 August 2017)

"Regeringen vil sænke skatten på arbejde, biler og pension med 23 mia. kr." (29 August 2017)

2 Expatriates assigned to Denmark, under certain conditions, can currently opt for a 31.92 percent (26-percent flat rate plus labor market contribution) gross tax on their cash remuneration, taxable value of company car, and company paid telephone and company-paid health-care insurance. All other income, including other benefits, is taxed at ordinary tax rates. To learn more about Denmark's special tax scheme, see KPMG's "Taxation of International Executives: Denmark" publication (look under Income Tax > Expatriate Concessions).

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