

GMS Flash Alert

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Denmark - Initiatives Adopted on Special Tax Scheme for Expatriates, Employee Shares

On 12 November 2017, the Danish government agreed to adopt a proposed initiative to amend the structure of the Danish "special tax scheme" along with other initiatives pertaining to the country's income tax regime.¹ This initiative is now part of a bill.²

Among other important initiatives is the possibility for employees to receive employee shares (so-called "7P-shares") at a value equivalent to up to 20 percent of their yearly salary income. Currently, employees can receive employee shares at a value of up to 10 percent of their yearly salary income.

WHY THIS MATTERS

Based on the proposed bill, employees meeting the conditions to apply the Danish special tax scheme³ as of 1 January 2018, will be able to apply the scheme for seven years as opposed to the current five-year-application period. Employees currently applying the Danish special tax scheme will be able to extend their taxation according to the scheme provided that they have not been and will not have been subject to tax under the scheme for five years on 1 January 2018.

Also, according to the new initiative, employees can be granted employee shares (7P-shares) at a value of up to 20 percent of their yearly salary income (currently 10 percent). This opens up remuneration options for employers and may provide greater incentives for employees to achieve performance and other employment/profitability/productivity-related goals. Employers and employees should bear in mind that such remuneration can carry tax-advantageous terms.

Danish Special Tax Scheme

On 4 October, a GMS *Flash Alert* ([2017-145](#)) was issued about the Danish government's announcement of 22 initiatives to improve Denmark's opportunities in the global economy. One of the initiatives concerned a proposal to amend the structure of the Danish special tax scheme,³ extending the period that it would apply, but increasing the rate.

The agreement on the part of Denmark's government set up an obligation for the governmental parties to prepare and consider a legislative bill on the subject. The bill was presented on 16 November 2017, and is expected to pass before year-end.

Employees meeting the conditions to apply the Danish special tax scheme as of 1 January 2018, will be able to apply the scheme for seven years as opposed to the current five-year-application period. As stated in the aforementioned GMS *Flash Alert*, the extension will be financed through an increase of the tax rate from 31.92 percent to 32.84 percent

KPMG NOTE

Employees currently applying the Danish special tax scheme will be able to extend their taxation according to the scheme provided that they have not been and will not have been subject to taxation under the scheme for five years on 1 January 2018. If the five-year-application period for an employee expires on 31 December 2017, the employee will be disqualified for applying the extended rule as of 1 January 2018.

The agreement to adopt the initiative on the Danish special tax scheme is expected to have a significant impact on Denmark's ability to attract and retain highly-qualified workers. Extending the period for which employees are eligible to apply the Danish special tax scheme from five years to seven years has already garnered positive feedback from employers' and labor organizations.

Employee Share Rules Initiative

Under the current Danish regulation (the Danish Tax Assessment Act section 7P), employees can arrange with their employer for the employee to be granted employee shares at a value of up to 10 percent of the employee's yearly salary income (in the year that the agreement between employer and employee is entered into).

The benefit of the 7P-scheme (as it is known) is that remuneration in shares is taxed as share income (up to 42 percent tax) instead of personal income (up to 56 percent tax) provided that certain conditions are met. Furthermore, taxation is postponed until the time of sale of the shares.

According to the new initiative under consideration, employees can be granted employee shares at a value of up to 20 percent of their yearly salary income. Employers are, however, obliged to give at least 80 percent of their employees the opportunity to opt for the 7P-scheme if the employees are to be granted more than 10 percent of their yearly salary income in employee shares.

The amended 7P-scheme rules enter into force on 1 January 2018.

A special version of the 7P-scheme will apply to smaller start-ups. Such companies will be able to grant employee shares at a value of up to 50 percent of the employee's yearly salary income. The condition that 80 percent of the employees must be given the opportunity to opt for the scheme does not apply. These special rules are expected to enter into force on 1 January 2019 at the earliest.

Other Initiatives

Another matter worth mentioning is an initiative on the more uniform taxation of mutual funds. Currently, income from foreign mutual funds is usually subject to higher taxes than income from Danish mutual funds. When the initiative enters into force, starting in 2019, yield from all share-based mutual funds will be taxed as share income instead of capital income.

FOOTNOTES:

1 For the 12 November 2017 press release (in Danish), [click here](#).

2 For the *Lov om ændring af chokoladeafgiftsloven, lov om forskellige forbrugsafgifter, kildeskatteloven, spiritusafgiftsloven, øl- og vinafgiftsloven og forskellige andre love* (bill on amending the Danish Tax at Source Act ("Kildeskatteloven"), and thus the Danish special tax scheme as proposed) (in Danish), [click here](#).

3 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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