

New amended rules for the favourable Danish expat taxation

Effective from 1 January 2018, the Danish expat tax has been changed to the effect that it can be applied for up to 7 years compared to the previous 5 years. In addition, the gross tax is slightly increased from 26% to 27% plus social security contributions, totaling 32.84%.

Extension period applies to everybody

The expat taxation has been extended to apply from up to 5 years to 7 years.

This extension does not only apply to new expats but also to employees already using the expat taxation. If an employee started to apply the expat taxation on 1 January 2014, according to the new rules, such employee will be able to apply the favourable tax regime until 1 January 2021. The extension will not apply to expats that have already used the expat taxation for more than 5 years prior to 1 January 2018.

Gross taxation is slightly increased

The gross taxation is increased from 26% to 27%. To this social security contribution of 8% should be added, resulting in the effective total tax of 32.84% compared to the previous 31.92%. The new tax rate of 26% applies to both new expats and expats already using the tax scheme. Accordingly, with effect from 1 January 2018, the employer is obliged to increase the deduction of payroll tax to 27% for everybody.

Changes to existing employment contracts may be needed.

As a consequence of the new rules having effect from 1 January 2018, the following changes may be needed:

- The payroll tax should be increased to 27% plus social security contribution, totaling 32.84%, covering salary paid out after 1 January 2017.
- Many expats are seconded to Denmark and expecting to receive a specific **net salary**. As a consequence of the increase of the gross taxation, the employee will receive a reduced net salary amount. Depending on the circumstances, the employee may demand that the gross salary is increased with the result that the net salary remains the same after 1 January 2018.

In such case, a new net/gross salary calculation must be made. Further, the **employment contract** must be amended to reflect the size of the new gross salary.

- It will depend on the circumstances and the previous employment contract to which extent the employer is legally obliged to increase the gross salary if the employer is not prepared to accommodate mere expectations from the employee.

Cost savings for the employer

The favourable Danish expat taxation may not only be a benefit for the employee. The employer can obtain substantial cost savings.

By moving an expat to Denmark from a country in which salary has previously been taxed with 45% plus social security paid by the employer of 30%, the employer will achieve a **total cost saving of EUR 60,000 per year** even if the employee maintains the same net salary in Denmark as before or for instance EUR 5,850 per month.

Do you want to know more?

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