

WORTH KNOWING ABOUT

Tax-free mileage allowances



When employees drive their own cars for business purposes, they take on costs. Employers can only cover these costs tax-free for the employees by paying fixed-rate mileage allowances and adhering to certain conditions.

Below, we explain the rules for “tax-free travel reimbursements” commonly referred to as tax-free mileage allowances.

Privately owned cars

Mileage allowances are only tax-free if employees use their own cars. Cars owned by spouses and partners are considered privately owned cars in this context. However, for unmarried couples, joint economy is a requirement.

Cars registered in parents’ names qualify as privately owned cars provided a de facto ownership can be substantiated by means of account statements showing that all costs are defrayed by the employee.

Business travel

Mileage allowances must cover costs for business travels in order to be tax-free for employees.

According to Danish tax law, business travels are defined as follows:

- Travels between the employee’s primary residence and work place for up to 60 working days within the preceding 12 months.
- Travel between work places.
- Travel within the same work place.

Employees with a fixed work place do not qualify for tax-free mileage allowances when driving between the primary residence and the fixed work place subsequent to the first 60 days of employment at the fixed work place.

Workers and other employees with changing work places are subject to the 60-days rule for each new construction site or work place. When employed on short-term assignments typically lasting less than 60 days, employees can continue to receive tax-free mileage allowances - also for distances travelled between the residence and work place.

Voluntary work

In general, mileage allowances are only tax-free in connection with paid work. Hence, unpaid majority shareholders do not qualify for tax-free mileage allowances.

However, members of boards, committees, commissions, councils, etc. may qualify for tax-free mileage allowances, even though they are unpaid. The same applies to volunteers working in sports organisations etc., who are also exempt from the 60-day rule.

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Education

A place of study qualifies as a work place in relation to the rules concerning tax-free mileage allowances. Transportation from a work place to a place of study is regarded as travel between two work places.

Tax-free mileage allowances can be paid for travels to a place of study from either the residence or place of work according to the ordinary provisions (subject to the 60-days rule) or by using the low kilometre rate (DKK 2.19 per kilometre in 2023) in which case the 60-days rule does not apply.

Self-employed individuals

Self-employed individuals can choose between two options regarding mileage allowances. One option is to have the business travel costs covered as a proportion of the actual costs of the car. However, this requires meticulous documentation of the costs. The other option entails deduction of travel costs in the company accounts using the current tax-free mileage allowance rates. In the latter case, travel documentation is required (see below for further details).

Prohibited deductions

Reduction of the employee's gross salary by paid mileage allowances entails that the mileage allowances are taxable for the employee.

Settlements and payments on account

If the employer chooses to pay mileage allowances on account to employees, final calculation and payment of tax-free allowances must be completed by the end of the month following the month in which the travels occurred. Otherwise, the mileage allowances are taxable in their entirety.

Obligations of the employer

The employer is obligated to monitor whether the employee is entitled to tax-free mileage allowances and ensure that the rates applied are correct.

Documentation for payment of tax-free mileage allowances shall include the following information:

- The recipient's name, address and civil registration number
- The business purpose of the travel
- The date of the travel
- The final destination (address) and any way points
- The distance traveled
- The applied rates
- Calculation of the reimbursement
- Registration number of the car

The employer's failure to monitor and record this information may have serious consequences for employees and employer alike. Unless all conditions for paying mileage allowances tax-free are met, employees are subject to tax on the full amount received.

The employer may face penalties and liability for unpaid taxes if reimbursements are made tax free to employees ineligible for tax free mileage allowances.

Obligation to report

The employer must report all payments of mileage allowances, even though they are tax-free for the employees.

Rates

The basic tax-free mileage allowance rate in 2023 is DKK 3.73 per kilometre. If the employee drives more than 20,000 kilometres per year, the rate for additional kilometres drops to DKK 2.19 per additional kilometre. This limit applies to the individual employer. Hence, an employee driving 16,000 kilometres for one employer and 8,000 kilometres for another is not affected by the threshold. For travels in December, which are reimbursed in January, the December rates apply.

**DO YOU HAVE ANY
QUESTIONS?
PLEASE CONTACT**



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