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Content

Tax residency when acquiring a home in Denmark

Foreigners and Danish citizens living abroad should be aware of the Danish rules on tax residency when acquiring a home in Denmark

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It is well known that Denmark is - and for decades has been - a top contender for the world-record as the country taxing individuals the most.

Naturally, this entails a certain reluctance for foreigners and Danish citizens living abroad to become residents in Denmark for tax purposes. However, this may be an issue for non-residents acquiring a home in Denmark without taken up residency here at the same time.

Unfortunately, the rules determining when individuals become resident in Denmark for tax purposes under these circumstances seem complicated for many and the issue has in recent years let to several high-profile cases involving professional athletes, musicians, fashion models and even the husband of the Danish Prime Minister.

The question of tax residency often arises when a home in Denmark is acquired by an individual who remains – perhaps for the time being – residing abroad. In such cases, tax residency can be triggered unintentionally depending on the amount of time spent in Denmark and the kind of activities engaged in while staying in Denmark.

Generally, owning a home in Denmark severely limits work-related activities that can be performed in Denmark without triggering tax residency. However, holidays can be spent more extensively in Denmark without inducing tax residency.

A recent ruling by the National Tax Board shows an aspect of this adding to the complexity of the rules. In the ruling, it was determined that work performed in Denmark in the capacity as member of the board of directors of a Danish company - approx. 7 to 10 meetings a year - would not trigger tax residency in Denmark even though the individual owned a holiday home in Denmark. The holiday home was not used in relation to the meetings in Denmark.

The ruling may not be particularly surprising due to the fact that a distinction is generally made between holiday homes and all-year homes when determining tax residency. Having acquired an all-year home in Denmark, work-related activities performed in Denmark – regardless of whether the home is used while performing these activities - may quite easily induce tax residency. Conversely, if the home in Denmark is a holiday home, work-related activities may be performed in Denmark to a larger extent without triggering tax residency when the holiday home is not used in connection with work-related activities.

Despite not being particularly surprising, the case serves to demonstrate the complexity of the rules regarding tax residency. Foreigners and Danish citizens living abroad should be aware of these rules when acquiring a home in Denmark. It is advisable to seek professional advice in order to avoid unpleasant surprises. Naturally, BDO will be pleased to assist you.

Wealth tax on foreign situated real property

Danish resident individuals must pay Danish wealth tax on both Danish and foreign situated real property

By Hans-Henrik Nilausen, hhn@bdo.dk

Danish resident individuals and non-residents pay wealth tax on Danish real property.

As a main rule, the tax is calculated as 1 pct. of the value of the real property up to DKK 3,040,000 and 3 pct. of any exceeding amount. The lowest value of the following can be used when calculating the tax:

- The official assessment value as of October 1 in the income year
- The official assessment value as of January 1, 2001 increased by 5 pct.
- The official assessment value as of January 1, 2002

Danish resident individuals must also pay wealth tax on foreign situated real property. Basically, the wealth tax is levied at the same the percentages (1 pct. and 3 pct.) applying to Danish real property.

However, special rules apply for calculating the taxable value of foreign real property and the Danish tax authorities have issued guidelines in this regard.

Foreign official assessment value
If a foreign official assessment value exists which is comparable to Danish official assessment values, the wealth tax on foreign situated real property may be calculated according to the same rules that apply for Danish real property. However it is a condition that the Danish tax authorities have approved the foreign assessment for this purpose. Currently, only the Swedish assessments for 2001 and 2002 have been approved by the Danish tax authorities.

Indexation of acquisition price
When no official foreign assessment exists, a point of reference must be taken in the acquisition price of the real property. The acquisition price must be indexed back from the acquisition year to 2001 and 2002 respectively. In this way, the market price can be fixed for these income years and the year with the lowest value can be determined.

The actual acquisition price of the real property is indexed back to the relevant years according to the following order of preference:

1) A recognized foreign price index
2) The OECD index for development in housing prices
3) The Danish summer cottage index

Adjustment of the indexed acquisition price
As the wealth tax on Danish real property is calculated based on the official assessment value which is generally lower than the market price, foreign calculated market prices must be reduced by a similar discrepancy. This way, the foreign calculated market prices are made comparable to Danish official assessment values.

Tax return
The calculated market price according to the above rules may be used when preparing the tax return for the income year 2013. The tax return must be filed no later than July 1, 2014.