



# TAX WATCH

## Relaxed conditions for utilising the Danish 26 pct. tax scheme

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*From 1 January 2017, the conditions for utilising the Danish 26 pct. tax scheme will be relaxed slightly, allowing individuals taxed according to the scheme to adopt a more flexible work pattern.*

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On 19 December 2016, the Danish Parliament adopted a bill amending the special Danish 26 pct. tax scheme for inbound expatriates.

### Background

Due to the high rates of individual income taxes in Denmark compared to many other countries, a special Danish tax scheme exist in order for Danish businesses to attract skilled labour from abroad.

This scheme allows employees recruited abroad to relocate to Denmark and be taxed in Denmark on cash salary and certain benefits in kind from a Danish employer at a total flat rate of 31.92 pct. (8 pct. gross tax and 26 pct. tax on the remaining amount).

### Conditions for utilising the scheme

Several conditions apply in order for an individual to be taxed according to the scheme. Most notably, a minimum salary requirement exist. This is adjusted yearly. From 2017, the monthly salary according to the employment contract must amount to at least DKK 63,700 after deduction of mandatory social security contributions.

### The relaxed condition

Another condition for utilising the special Danish 26 pct. tax scheme affects individuals who are resident in Denmark for tax purposes according to a double tax treaty between Denmark and another country, when the individual works abroad under such conditions that the country of work will be allowed to tax the salary or part hereof.

The purpose of this condition is to ensure a correlation between taxation according to the special Danish 26 pct. tax scheme and work performed in Denmark.

However, individuals employed in Danish entities of international groups will often find that the condition prohibits them from participating in business trips to group entities in other countries. This was not the intention.

For that reason, the condition has been relaxed with effect from 1 January 2017. Henceforth, a maximum of 30 days of work abroad during a calendar year - under such conditions that the country of work can tax a corresponding part of the salary - will be allowed without disqualifying the employee from using the Danish 26 pct. tax scheme.

Should you require assistance, BDO can help you or your business in any matters related to the Danish 26 pct. tax scheme for inbound expatriates.

### INDHOLD

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## Practical issues - re-election of international joint taxation

***Joint taxation with foreign subsidiaries, etc. is usually applicable for periods of 10 years at a time. A number of practical issues must be observed when international joint taxation are either to be terminated or re-elected.***

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Generally, international joint taxation is elected for a period of 10 years.

During this period, a recapture should be kept, country-by-country, of the tax value of foreign losses that are deducted from consolidated taxable income and have not since been reduced by the tax value of profits.

The 10-year period does not imply that international joint taxation cannot be terminated before the end of the period. However, previously deducted losses (recapture) from foreign group companies, etc. will be taxed in the income year in which international joint taxation ceases.

On the contrary, if international joint taxation is terminated upon expiry of the 10-year period, the taxable income of the administrative company in year 11 will increase with the lowest amount of either the recapture or fictitious liquidation profits of the foreign companies. Hence, in most cases, international joint taxation is not terminated before expiry of the 10-year period.

### Considerations at the end of the 10-year period

Whether international joint taxation should be re-elected at the end of the 10-year period for a new 10-year period or whether international joint taxation should end, essentially depends on expectations of future earnings in the foreign entities.

As a general rule of thumb, expectation of profits calls for termination of international joint taxation, while expectation of (further) loss calls for re-election.

The fact that - for example, due to prospect of profits - international joint taxation is not re-elected does not preclude election of international joint taxation for later income years if desired.

### Practical issues upon termination of international joint taxation

At the end of the 10-year period, the international joint taxation terminates automatically, unless re-election is requested. However, box 165 of the tax return for the first fiscal year after the end of the 10-year period (year 11) must be checked.

The Danish tax authorities should be notified in writing if termination of international joint taxation is desired before the end of the 10-year period. Notification should be provided before the end of the deadline for filing the tax return for the income year in which the international joint taxation would terminate. This is the income year in which a possible recapture shall be included in the taxable income. Apparently, there is no particular section of the online system of the Danish tax authorities to be checked in this regard.

### Practical issues upon re-election of international joint taxation

Re-election of international joint taxation at the end of the 10-year period shall be notified to the Danish tax authorities via registration of the administrative company in the systems of the Danish tax authorities. This must be done no later than the deadline for filing the tax return for year 11.

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