

CHANGES TO THE DANISH EXPAT TAX REGIME 2018

6 steps to consider on how to include Payroll Department

The extension of the stay period and a change in the tax rate for the inbound expats are the new black in the Danish Tax Regime. Does this call for the Payroll empowerment?

BASIC CHANGE AND IMPACT

From the 1st of January 2018 the rules on the Danish Expat Regime have changed. Basically, inbound expats are now able to stay in Denmark for 7 years rather than 5 at the low, flat tax rate. In order to finance the extension, the rate of taxation has been increased from 26 % to 27 %. On the other hand, it results in a less net of pay for all expats on the regime (see the example below). As from the 1st of January 2018, these changes affect not only the newcomers, but also every individual currently included in the expat regime.

WHY SHOULD YOU INVOLVE PAYROLL DEPARTMENT WHEN ADAPTING THE CHANGE

First and foremost, keep in mind that starting from 2018, **employers are now liable** for the content of the individuals' year-end statements. This means, that for employees under the Expat Tax Regime (see criteria below), the taxes shall also be settled via Payroll. Thus, the employer is now being responsible for the lack of compliance in the employee's tax declaration. As such, inclusion of the Payroll Department in these processes is crucial to clarify risks and management of such, because...

“... the Payroll Department is effectively preparing the tax returns for every employee, including inbound expats.”

To include the Payroll Department, we recommend the following steps:

1. Provide Payroll with the necessary knowledge of the inbound expat assignments
2. Consider the relevant compliance measures which shall be undertaken by Payroll and Tax
3. Secure that the Payroll changes the tax rate from 26% to 27% on the pay slips/HR system
4. Evaluate, if the period of stay for the current expats should be extended and communicate it to Payroll
5. Request an analysis from Payroll in respect of the key payroll related implications of the inbound expat assignments
6. Join the forces of Tax, HR and Payroll with the purpose of understanding every aspect of the assignments

Criteria for the Expat Tax Regime

The Expat Tax Regime can only be applied if the expat is deemed a researcher or a highly qualified employee. All the following criteria shall be met:

- The employee shall be recruited to Denmark
- If the employee is not a researcher, the employee shall be entitled at least to DKK 65,100 (2018) per month per employment agreement
- The employee shall not have ownership of the employer
- The employer shall be a Danish company or a foreign company with a permanent establishment in Denmark
- Employment has to be approved by the Danish Tax Administration ("SKAT")

PRE CHANGE (2017)*

Years			1-5	6-7
Employment income (annual)		DKK	1.000.000	DKK 1.000.000
Labour Market Contribution (annual)	8%	DKK	80.000	DKK 80.000
A-Tax (annual for 5 years - 26%)	26%	DKK	239.200	
A-Tax (annual for 2 years - 50%)	50%			DKK 460.000
Net cash in hand (annual)		DKK	680.800	DKK 460.000
Net cash in hand after 7 years		DKK	4.324.000	

* Employment income taxable under the expat tax regime (5 years)

* 100% of income taxable to Denmark

* No pension contributions

* No social security

* 50% (estimate for calculation convenience) tax rate for years 6-7

POST CHANGE (2018 -)*

Years			1-7
Employment income (annual)		DKK	1.000.000
Labour Market Contribution (annual)	8%	DKK	80.000
A-Tax (annual for 7 years - 27%)	27%	DKK	248.400
Net cash in hand (annual)		DKK	671.600
Net cash in hand after 7 years		DKK	4.701.200

Total approx. Gain DKK 377.200

* Employment income taxable under the expat tax regime

* 100% of income taxable to Denmark

* No pension contributions

* No social security