



Denmark

Introduction

A person's liability to Danish tax is primarily determined by residence status or source of income. The Danish income tax system is a progressive tax system based on the person's worldwide income. Taxable income is technically divided into personal income, capital income, and share income. In addition, there are other special categories that are all taxed at different rates. Deductions are allowed against taxable income according to specific domestic rules.

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Key messages

Extended business travelers are liable for Danish tax on income derived from employment relating to Danish workdays, meaning workdays where the taxpayer is physically present and performs work in Denmark for a Danish employer or a foreign employer's permanent establishment in Denmark. There are also special rules that apply to international hiring out of labor and the potential "economic employer" concept.

Income tax

Liability for income tax

An individual's liability for Danish tax is determined by residence status.

A person can be either a tax-liable resident or a tax-liable nonresident. A tax-liable resident is generally a person who settles and establishes residency/accommodations/home in Denmark on a single or family basis. A stay in Denmark for at least six consecutive months will also trigger tax-liable resident status. Short stays abroad for leisure or holidays will not be considered as interruption of the six-month period. A nonresident of Denmark normally has no residency in Denmark or spends less than six consecutive months in Denmark. A resident is liable for tax on worldwide income unless the taxation of the income in question is attributed to another country under a double tax treaty. Nonresidents are liable for tax on income derived from certain sources in Denmark.

Extended business travelers will, as a general rule, be considered nonresidents for tax purposes provided that they are not residents of Denmark or stay for less than six consecutive months in Denmark. Employment income is generally treated as Danish-sourced employment income if the person actually performs the services in Denmark for a Danish employer or a foreign employer's permanent establishment.

Tax trigger points

As a general rule, there is no threshold/minimum number of days exempting a person from the requirements to file and pay tax in Denmark. Where a person qualifies for relief under the dependent personal services article of a tax treaty, there will be no tax liability provided that the person does not receive income derived from employment for work performed in Denmark or income attributable to a permanent establishment in Denmark. International hiring out of labor triggers taxation from day one.

Types of taxable income

The types of taxable income subject to tax in Denmark for extended business travelers are, in general, salary income and other income derived from employment, including benefits, income from Danish sources, fees, etc.

Tax rates

The tax ceiling for taxable employment income is 55.38 percent in 2011. Taxable employment income is taxed at progressive tax rates ranging from approximately 42.3 percent to 55.38 percent. These rates are inclusive of mandatory labor market contribution; further information follows.

Social security

Liability for social security

As a general rule, a person is not liable for Danish social security contributions if the person is not liable for tax in Denmark.

As a rule, a person liable for tax in Denmark must pay the Danish labor market contribution (*Arbejdsmarkedetsbidrag* (AM)) of 8 percent of gross salary, including certain benefits-in-kind. Contributions to employer-managed pension schemes are also subject to 8 percent AM contribution, which is withheld by the pension provider. There is no cap on the labor market contribution. It is not possible to be exempted from paying AM contribution even though a person is covered by the social security rules of the person's home country, as AM contribution is treated as income tax for the purposes of double tax treaty and domestic tax relief. Healthcare is generally free in Denmark, but limitations apply to medicine and dental treatment. Further, the person must pay mandatory Danish labor market supplementary pension (ATP) of 90 Danish krone (DKK) per month. The employer contribution is DKK180 per month.

Compliance obligations

Employee compliance obligations

As a general rule, the income tax year for a person is the calendar year. The tax return for a person who is liable for tax in Denmark is, as a general rule, due by May 1 following the tax year-end. However, in certain cases, such as when the tax return includes foreign income, the tax return is due by July 1 following the tax year-end.

Employer reporting and withholding requirements

Employer reporting and withholding requirements depend on whether the employer is Danish or foreign, including whether a foreign employer has a permanent establishment in Denmark. A Danish employer or a foreign employer with a permanent establishment in Denmark has an obligation to withhold taxes (A-taxes) from the employment income and to withhold the labor market contribution.

Other issues

Work permit/visa requirements

According to the EU rules on free movement of persons and services, EU citizens and EEA/Swiss nationals may stay in Denmark for up to three months, and for up to six months if they are looking for employment. Persons who want to stay in Denmark for a longer period must apply for a registration certificate. Citizens from outside the EU/EEA or Switzerland must apply for a work permit. Citizens of some countries must also apply for a visa before coming to Denmark.

Double taxation treaties

In addition to Danish domestic rules providing relief from international double taxation, Denmark has double tax treaties with more than 80 countries.

Permanent establishment implications

There is a potential risk that extensive business travel would create a permanent establishment. This would depend, however, on a case-by-case analysis, the type of service performed, the level of authority the person has, etc.

Indirect taxes

Value added tax (VAT) of 25 percent is levied on taxable supplies. VAT registration may be required in some circumstances.

Transfer pricing

According to Danish transfer pricing regulations, documentation demonstrating that transactions between related parties follow the arm's-length principle must be prepared. A transfer pricing event could arise to the extent that an employee is paid by a party in one jurisdiction but performs services for the benefit of a related party in another jurisdiction without the first party receiving a price equivalent to the value of services performed. This however, should be assessed case by case based on the nature, scope, and complexity of the related transactions carried out.

Local data privacy requirements

Denmark has data privacy laws.

Exchange control

Denmark does not restrict the flow of Danish or foreign currency in or out of the country, but there are certain reporting obligations in order to prevent money laundering and the financing of terrorism. New legislation requires financial institutions and other cash dealers, including attorneys performing certain transactions, to report any suspicion of transactions related to money laundering and financing of terrorism; there is no minimum amount in this regard. It could be, for example, complex or unusually large transactions or transaction patterns.

Nondeductible costs for assignees

There are also special rules covering limited or extended deductions for short-term and long-term assignees, also depending on treaty residency status.

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