Worth knowing about:

Foreign employees

Tax Legal
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When an individual comes to Denmark to work, several tax issues arise. In the following, we clarify some of them.

27 pct. Taxation
On certain conditions, individuals coming to Denmark to work may be eligible for a favourable tax rate of 27 pct. for up to seven years. An 8 pct. Labourmarket contribution must also be paid, however, bringing the total tax rate to just below 33 pct.

These rules apply to scientists and other highly paid employees, such as professional handball and football players. To qualify as highly paid, the employee's annual salary (non-guaranteed pay components are not taken into account) must exceed DKK 936,000 + social security contributions. This is a gross tax scheme, i.e. no personal allowance or deductions apply. Income covered by this special type of favorable taxa-tion also includes the value of a company car, free telephone and internet and re-funds of private expenses, costs of living, school fees, etc. as well as bonuses.

In addition to the minimum salary, a number of other conditions apply (if relevant, see the separate publication on these rules).

Taxation as resident or non-resident
Individuals coming to Denmark to work are either taxed as residents or non-residents.

Non-residents
Employees without a home in Denmark who have not stayed in the country for more than six consecutive months are taxed as non-residents in Denmark. This means that the Danish tax authorities only levy tax on Danish-source income, i.e. primarily the salary from the Danish employer. Similarly, only expenses linked to this income can be deducted, e.g. transport allowance.

Unless the 27 pct. tax scheme is applicable, normal tax rates apply to the income. The marginal tax rate is approx. 56 pct.

In certain cases, non-residents can be taxed according to special cross-border rules. This can be an advantage if the employee has no other source of income than the Danish salary and if he has considerable interest expenses in the home country.

Residents
Employees who move to Denmark and acquire a home here or stay in Denmark for more than six consecutive months are normally taxed as residents in this country. Whether the home is rented or owner-occupied and whether it is provided by the employer is generally immaterial.

Residents are liable to tax on all income - both Danish and foreign.

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If the employee's family remains in the home country, this typically results in the employee being resident in both countries. In this case, the employee is deemed to be resident in the country where he has the strongest personal and financial ties. If this is the home country, the Danish tax authorities will only levy tax on Danish-source income. As for non-residents, the employee can choose to be taxed according to the cross-border rules.

For residents, the market value of any assets (shares, bonds, property, etc.) held by the employee at the time of relocation to Denmark must be established. This is relevant in case of subsequent sale of assets and for some assets there is also an obligation to inform the Danish tax authorities hereof in order to be able to get a deduction on losses later on.

Tax returns in the home country
In most cases, non-resident individuals and dual residents must include their Danish-source income on their tax return in their home country – even if the income is taxed in Denmark.

Even though the Danish-source income is included on the tax returns in both the home country and Denmark, double taxation does not occur. Normally, the home country reduces the tax, either by the amount already paid in Denmark or by the proportion attributable to Danish-source income.

Social security
The Danish health service covers both foreign workers with a home in Denmark and people working for Danish employers without having their primary residence here (cross-border workers).

Foreign workers from an EU country
According to rules which also apply to the UK, Norway, Switzerland, Iceland and Liechtenstein, foreign employees are as a starting point covered by the social security system of the country in which they are working, e.g. Denmark. However, the employees remain covered by the social security system of their home country when posted to work temporarily in Denmark. This is rarely an advantage, as most countries' social security rates are higher than the Danish rates.

Employees working in both the home country and Denmark are usually covered by the social security system in the home country (if they work 25 % or more in the home country).

Foreign workers from non-EU countries
Foreign workers from countries outside the EU, the UK, Norway, Switzerland, Iceland and Liechtenstein are almost invariably only covered by the Danish health service if they establish a primary residence in Denmark.

Further, they are also often covered by the social security legislation of their home country and therefore must pay social security contributions there.

Labour market contributions
Employees must pay labour market contributions on the full salary taxed in Denmark. This applies to both resident and non-resident individuals. Labour market contributions remain due even if employees opt to remain covered by the social security system of their home country.

Miscellaneous
Employees from other EU countries only need an EU residence document to work in this country. Employees from non-EU countries must acquire residence permits based on employment.

In some cases, it is advisable to take out special health insurance for foreign employees.

Do you have any questions? Contact:

Mette Eskildsen
Senior Director
Phone: 29 64 51 60
meesk@bdo.dk

Julie Refstrup
Manager
Phone: 28 44 57 21
juref@bdo.dk