Dutch tax system and planning opportunities

… expatriates taking up employment in the Netherlands will be subject to Dutch comprehensive rules. Grant Thornton's Global Mobility Services team can help expatriates and their employers in dealing with those rules.
In particular, Grant Thornton can assist expatriates and their employers in identifying Dutch tax planning opportunities and can assist with their global tax compliance.

Introduction

Tax Year
For individual taxpayers, the Dutch tax year is equal to the calendar year.

Pre-arrival Procedures
The employers of non-EU nationals are usually required to apply for a work permit and a residence permit prior to the employee taking up employment in the Netherlands. Further, it is important that the expatriates employment contract and benefit package is structured in a tax efficient manner before the start of the assignment.

Visas
A work permit and a residence permit must be acquired to allow the expatriate to live and work in the Netherlands. When the expatriate is an EU national the above procedure is usually not required.

Tax Return Deadline
The tax year-end is December 31st. Personal income tax filing should be done before April 1st of the year following the tax year. However, when certain conditions are met, extension of the deadline up to one year is possible.

Basis of Taxation

Residence and Domicile

The taxation of individuals in the Netherlands is based on residency for income tax purposes.

Resident of the Netherlands

A resident of the Netherlands is taxable for his worldwide income. Whether an individual can be considered as a resident for Dutch tax purposes depends on the facts and circumstances. Important criteria are location of a permanent home, intention of the individual, registration in a municipal register and the individual's economic and social ties with the Netherlands.

Non-resident of the Netherlands

A non-resident of the Netherlands is only taxable for certain types of Dutch source income. The most relevant ones are employment performed in the Netherlands and real estate located in the Netherlands.

Income from Employment

Wages earned while working in the Netherlands are in principle subject to Dutch wage withholding tax. The wage tax rates are similar to the Dutch income tax rates and the wage tax may be credited against Dutch income tax. Dutch wage withholding tax applies to all income from employment including weekly/monthly wages, annual salaries, bonuses, commissions, director's fees, non-approved pensions and any other cash earnings or benefits in kind. A foreign employer is in principle not obliged to withhold tax on wages unless that employer has a so-called permanent establishment in the Netherlands. A foreign employer may also voluntarily apply to act as a Dutch wage withholding tax agent.

Benefits in Kind

Most benefits in kind provided by an employer will be subject to Dutch wage or income tax. For example, the usage of a company car is considered taxable income in the Netherlands. Stock options are taxed upon exercise. Stock options granted during the employment in the Netherlands and exercised after leaving the Netherlands can still be considered Dutch taxable wages.

Investment Income

The Dutch tax residency rules will determine whether someone is subject to tax on savings and other investment income. Investment income is taxed at a flat tax rate of 30% if the income exceeds the exempted amount of € 30,000 (2018). The actual earnings on investments are not relevant for Dutch income tax. Instead, individuals are taxed on deemed income from investments, which depends on the total value of all assets and liabilities on January 1 of each year and is calculated as follows:

Bracket	Taxable base income from savings and investments*	Deemed income percentage: 0.36%	Deemed income percentage: 5.38%
1	0 - 70,800	67%	33%
2	70,801 - 978,000	21%	79%
3	> 978,000	0%	100%

Relief for Foreign Taxes

The Netherlands has an extensive network of tax treaties with other countries. Relief to avoid double taxation may be claimed on the basis of tax treaties or the unilateral regulations

Deductions against Income

In the Netherlands, an employee is not allowed to deduct any business expenses from his taxable income. On the other hand, an employer has numerous possibilities to reimburse business related costs tax free (see below "Dutch labor cost regulation"). The total salary package should, therefore, be structured carefully.

Contributions to a non-Dutch pension plan borne by the employee are tax deductible if the pension scheme qualifies for Dutch tax purposes (so called "corresponding approval").

Mortgage interest paid by the employee for the main residence is in principle tax deductible via his personal income tax return. This also the case, within certain limits and criteria, with charitable and life insurance contributions and medical costs.

Finally, certain levy rebates may be applicable.

Tax Planning Opportunities

Important tax planning opportunities in the Netherlands are:

30,0%

36,37 %

51,95%

Special Tax Regime for Expatriates

Expatriates may be eligible for a special tax regime. If all the relevant conditions are met, 30% of the gross remuneration may be paid out free of tax to the expatriate. The bottom-line effect is that the top tax rate is reduced from 51.95% to 36.37%. In addition, several cost items may be reimbursed tax-free. Careful planning is recommended.

Dutch Labor Cost Regulation

The Dutch labor cost regulation is mandatory and allows employers to provide their staff with allowances and/or benefits in kind tax free up to 1.2% of the total taxable payroll amount ('the 1.2% budget'). If the allowances and benefits exceed the 1.2% budget, the excess is considered taxable wages and is taxed at source at a rate of 80%, which is levied at the level of the employer or will be taxed otherwise.

There are several exceptions to this rule and employers and employees also need to meet several conditions when using the 1.2% budget. For instance, when the employer wants to provide staff with fixed allowances those allowances need to be substantiated by conducting an investigation of the actual business costs before paying out those fixed allowances.

Noteworthy is that when an assignee working in the Netherlands receives employment income from a non-Dutch employer who does not have a Dutch payroll/wage tax filing obligation, the employee may apply the 1.2% budget in his Dutch personal income tax return. However, any (fixed) allowances or benefits in kind received, should be treated as taxable income in such a case.

Stock Option Planning

Dutch stock option legislation has changed frequently the last years. Under the current legislation, stock options are in principle regarded as income from employment when the stock options are exercised. Previous stock option legislation and/or interim provisions might be applicable. The tax approach of the Netherlands regarding cross border stock option taxation is in line with the official OECD commentary, which means an allocation of the stock option benefits may be applicable.

Compensation package structuring

Tax planning and structuring of the remuneration package in a tax efficient way is possible.

Earnings description	Compensation Structuring
Base salary	Y
Bonus	Y
Club membership	N
Company car	Y
Cost of living allowance	Y
Education / schooling	Y
Equity incentives	Y
Foreign service premiums	N
Housing	Y
Home leave	Y
Medical expenses	Y
Moving expenses	Y
Pension scheme / 401-K plan	Y

Employment Income Tax Rates & Social Security

Income Tax Rates - 2018

Taxable Income (€)	Rate (%)	Cumulative tax
1 – 20,142	8.90	1,792
20,143 - 33,994	13.20	3,620
33,995 – 68,507	40.85	17,718
Over 68,507	51.95	>

Social Security 2018 - 'National Insurance Contributions'

Taxable income (€)	employer	employee
1 – 33,994	nil	27.65%
over 33,994	nil	nil

Social Security 2018 - 'Employee Insurance Contributions'

Earnings per year	employer	employee
Disability (WIA)	6.27%	nil
Re-employment (Whk)	0.14-14.7%	nil
Unemployment (WW)	2.95%	nil
Health Insurance (Zvw)	6.90%	nil
Child care	0.50%	nil

The maximum premium income for the employee insurance contributions is capped at EUR 54,614 for the year 2018. The percentages for Whk premiums differ per industry and the total annual fiscal wages of the employer.

Exemption from Netherlands' Social Security

Apart from the EU regulation on social security, the Netherlands has concluded an extensive network of social security treaties with other countries. On the basis of these regulations and treaties, a foreign employee working in the Netherlands who has a Certificate of Coverage or an A1 (EU) may be exempt from making contributions to the Netherlands' social security programmes. Careful planning is required.

Miscellaneous

Capital Gains
There is no capital gains tax in the Netherlands.

Local Taxes
There are several local taxes such as council charges, asset tax, water board tax and sewage fees.

Wealth Tax
There is no wealth tax in the Netherlands.

Substantial interest
Dividends distributed by a corporation in which the shareholder has a so-called substantial interest (i.e. 5% or more of the shares), are taxed at a flat rate of 25%

Inheritance & Gift Tax
A liability to Dutch inheritance and gift tax depends on the individual's Dutch tax residence and domicile position.

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