

Memorandum on the Dutch 30% (expat) tax ruling



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1 In general

An expatriate transferred to the Netherlands will become subject to Dutch income tax. Such transfer will often incur significant additional costs (like double housing costs, relocation costs, losses on the sale of assets, etc.) due to a temporary stay outside the home country. Since it may be difficult for an expatriate to prove the deductibility of said costs, the Dutch tax authorities have created the 30%-ruling.

2 The Allowance for Extraterritorial Expenses

The 30% facility allows an employer to grant an expatriate a tax-free allowance to defray the expatriate for the additional ("extra") costs incurred in connection with his or her temporary stay outside the home country. These additional costs are defined as "Extraterritorial Expenses" and can be reimbursed up to the amount of actual expenses incurred (which have to be substantiated) or as a fixed tax-free allowance of up to 30% of the normal wages taxable (without having to provide any evidence), to be referred to as the "30%-allowance". The allowance amounts to 30% of the gross salary. In order to benefit from the 30%-ruling, the annual salary should exceed € 38.347 (2020).

3 Extraterritorial Employee

The 30%-ruling is generally available for expatriates from abroad who perform employment activities that are liable to taxation in the Netherlands. The expatriate must be employed by a Netherlands resident employer or a foreign employer appointed as wage tax agent in the Netherlands and must have been recruited outside the Netherlands or seconded to the Netherlands. The key condition for qualification is that the expatriate has special skills or knowledge not readily available on the Dutch labor market (termed 'the specialists test'). It is not necessary for the expatriate to work in the Netherlands on a temporary basis or stay in the Netherlands. In addition, Dutch nationals may qualify for the 30%-ruling provided that they have spent at least 25 years outside the Netherlands before returning to the Netherlands.

The condition that the employee has specific expertise which is scarce in the domestic labour market, can only be met if the employee earns a minimum annual salary of € 38.347 (2020) exclusive the 30%-ruling. For scientists there is no minimum annual salary. For the employee less than 30 years old who has a master degree the minimum annual salary required is € 29.149 (2020) exclusive 30%-ruling. The State secretary does not accept that part-time wage is recalculated to a wage which would have been earned if the employee would have worked full-time.

Dutch nationals may qualify for the 30%-ruling provided that they have spent at least 25 years outside the Netherlands before returning to the Netherlands. The Dutch Supreme Court has confirmed in 2016 that the 25 year condition is compliant with EU free movement of workers principle.

Employees living within 150 km from the Dutch border, during two thirds of the last 24 months before their employment in the Netherlands, are not entitled to the ruling. The Dutch Supreme Court has confirmed in 2016 that the 150 km condition is compliant with EU free movement of workers principle.

It may be possible to obtain the ruling for young employees who took a Ph.D. in the Netherlands and thereafter obtained a job here. For these employees the required minimum salary will be € 29.149 (2020) exclusive the 30% ruling.



4 Changes in 2019

As of 1 January 2019, a change has been made to the duration of the 30%-ruling.

The maximum duration of the 30%-ruling has been reduced with 3 years from 8 to 5 years for both new and existing cases. However, transitional law is applicable:

For cases where the 30%-ruling ends in this year, the current end date of the 30%-ruling will be maintained.

When the current end date of the ruling falls in 2021, 2022 or 2023, the new end date will be 31 December 2020.

For rulings granted with an end date during or after 2024, there is no transitional law. The duration of the ruling will be reduced to 5 years.

In other words, for existing cases in 2018 the changes will only have effect as of 2021.

5 Employment contract

The employment contract (or an appendix thereto) should specifically refer to the 30%-ruling. The remuneration package should be drafted in the employment agreement in such a manner that the 30% tax-free allowance will be paid in addition to the wage from current employment relating to the employment activities in the Netherlands as an extraterritorial employee. The wage from current employment includes not only the fixed salary elements like the gross salary and the holiday allowance, but it also includes incidental and flexible reimbursements such as bonuses. Since the "30%-ruling" is calculated based on the wage from current employment income, the 30%-ruling is not applicable to indemnity payments in case of dismissal or retirement. It also does not apply to severance payments.

6 The application and the term of the "30%-ruling"

The application for the 30%-ruling is a mutual request by the employer and the employee and must be filed to the tax office in Heerlen within four months after the start of the employment activities in the Netherlands. If the application is not made within four months, the facility will only be granted as of the first day of the month following the month in which the application is filed. In that case the total duration of the scheme will be less than 5 years.

Periods of previous stay and employment with an employer in the Netherlands are deducted from the 60 months. This is not the case if since this previous period, the expatriate has not worked (twenty working days per calendar year are disregarded) or stayed (stays of in total less than six weeks for family reunion, vacation etc are disregarded plus an extra long stay for one year in the last 25 years not exceeding three months) in the Netherlands for at least 25 years before commencing his current employment in the Netherlands.

An expatriate can enjoy the 30% facility before the tax inspectorate has granted its approval to it. In case the 30%-ruling is denied by the tax authorities, no taxation of the allowance will take place in case it still concerns a reimbursement for extra-territorial costs (e.g. double housing, flight tickets for visiting family in the home country). If not, the employer has to claim back the taxes on the 30% tax-free allowances paid in the past.

In case the tax authorities deny the granting of the 30%-ruling, it is still possible to reimburse expenses tax-free as long as the expenses qualify as extraterritorial expenses. Please bear in mind that the expenses should be actually incurred by the expatriate and reimbursement should only be taken place after handing over receipts and invoices to the employer.



7 Change of employer

An employee who already has the 30%-ruling can switch to a new employer and on request benefit from the 30%-ruling again for the remaining duration. This is only possible if the employee still meets the salary criterion and provided that the period between the end of the employment by the old employer and the conclusion of the employment contract with the new employer does not exceed 3 months.

8 End of employment in the Netherlands

An employee who has stopped working in the Netherlands might receive some additional payments. The 30%-ruling can only be benefit from during the one following month after the contract end date. On payments received after this month, the 30%-ruling is no longer applicable and these payments will be taxed against normal tax rates.

9 Pension and Employee Insurances schemes

Qualifying employees should be aware that the pension and employee insurance schemes are on the basis of the remuneration package (gross salary, bonuses and all taxable benefits) after the split for the 30%-allowance. This means that the contributions to the pension and general insurance schemes are levied on a lower base and will result in lower future benefits. This can lead to pension- and disability gaps. However, as of 2015 the labour costs scheme has been introduced as a mandatory scheme. This makes it possible to add the 30%-allowance to the basis of the pensionable salary, which means that the pension can be build up against a higher salary. Please note that in the pension plan there specifically needs to be mentioned that the 30%-allowance can be part of the pensionable wage.

10 Tax treatment of reimbursements separately from the "30%-Allowance"

Foreign service premiums, cost of living allowances, tax and social security equalization payments and reimbursements for losses on the sale of assets due to the transfer, cannot be paid without taking out taxes in addition to the 30%-allowance. The 30%-allowance is meant to cover these payments and will lower the amount of the 30%-allowance with an equal amount.

In case expenses qualify as "extraterritorial expenses", they can be reimbursed tax free, but at the same time they lower the amount of the 30%-allowance with an equal amount. The period for which this is possible is reduced to 5 years as of 2019. Relocation expenses are not regarded as extraterritorial expenses. This in contrast to double housing costs which are regarded as extraterritorial costs and therefore not tax allowable separately from the 30%-allowance. Double housing costs can occur in case the expatriate uses a temporary dwelling in the Netherlands and has his permanent dwelling outside the Netherlands. Other examples of extraterritorial costs are home leave, flights for visiting partner or family, storage furniture, language courses in Dutch and extra costs for housing (extra costs for a permanent dwelling in the Netherlands).

For practical reasons the State Secretary of Finance has approved that 18% of the income from current employment (excluding the rental income) should be considered as a normal expense for housing. In case the costs related to housing are more than 18%, the additional amount above the 18% will be regarded as extra-territorial costs and the 30%-allowance should be lowered for the extra costs of housing. Housing costs for a permanent dwelling in the Netherlands under the 18% are taxable wage. Our advice to employers is to increase the level of income of the expatriate for the costs of housing so that the expatriate should pay for the rent from his net salary including the 30%-allowance paid on top of the higher gross income.



In addition, under the Work Related Cost scheme (in Dutch: werkkostenregeling) an employer may reimburse actual expenses tax-free separately from the 30%-allowance if they incur wholly in connection with the expatriate's employment and should be incurred by Dutch employees under similar circumstances, for example:

- moving expenses at the beginning and end of the assignment period (€ 7,750 plus transport costs);
- professional expenses incurred on business trips;
- a limited fixed allowance for commuting other than public transport;
- the actual expenses incurred for public transport;
- professional education expenses in connection with employment.

11 School fees

In addition to the 30% tax free reimbursement, the actual costs of attending at an international primary or secondary school in the Netherlands, or elsewhere, reimbursed by the employer will not be considered taxable income for Dutch tax purposes, based on the assumption that the allowance is limited to tuition fees and transport. The school fees do not include the cost of boarding schools, the reimbursement of which will be considered taxable income.

A school is regarded to be an international school in case:

- the education is based on a foreign school system;
- the school in principle only accepts children from foreign employees.

12 Choice resident taxpayer: "Partial Non-Resident status"

An expatriate who, by using the normal residence rules (i.e. changed the center of his or her social life to the Netherlands), is considered a resident for Dutch tax purposes, may, for the duration of the facility, opt to be treated as a partial non-resident for Dutch income tax. The choice can be made when applying for the 30% facility, but ultimately in the tax return. The choice can be revised each year.

The partial non-resident status implies the following:

- the partial non-resident will only be subject to personal income tax on worldwide income derived from labour-, self-employed- and/or entrepreneurship activities subject to relief from double taxation under a tax treaty;
- interest and dividend income is not considered taxable income except for so called income derived from companies located in the Netherlands in which the expatriate owns more than 5% of the outstanding shares, directly or indirectly;
- income relating to real estate located outside the Netherlands is not subject to Dutch tax;
- interest related to a mortgage loan can only be deducted if related to a house located in the Netherlands and when it is occupied as primarily dwelling;
- payments related to alimony, life annuity premiums, qualified child care and extra-ordinary expenses are deductible from the taxable base.

Opting for the partial non-resident status is advantageous when an expatriate is wealthy. The choice for the partial non-resident status eliminates the tax burden on interest, dividend and rental income.

The period for which the partial non-resident can choose this status is reduced to 5 years as of 2019.