ASSOCIATION OF INTERNATIONAL LIFE OFFICES

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The Expatriate Financial Guide to the Netherlands

Dutch Tax Facts

Introduction	In the Netherlands individuals are taxed at a national level. Taxation is administered by the Ministry of Finance.
Tax Year	1st January – 31st December
Assessment Basis	All individuals are required to file a tax return and spouses or legally recognised partners are assessed separately although they can choose their own allocations from certain income and deductions.
Income Tax	Dutch residents are subject to tax on their worldwide income. Taxable income is split between 3 'Boxes' and each Box is assessed separately with regards to tax rates. There are a series of personal deductions available depending on personal circumstances eg maintenance payments, study expenses and exceptional expenses. These are deducted from taxable income in Box 1 and if this income is insufficient Box 2 and 3 income can be used. Any remaining balance may be carried forward to the next year. In addition to the personal deductions there are a series of tax credits or levy rebates applied to the tax due. These rebates relate to where compulsory social security contributions are paid, unemployment, low incomes and personal/family circumstances. Box 1 relates to all income from employment including benefits in kind and deemed income from owning a home in the Netherlands. It is subject to deductions for income related expenses, mortgage interest, personal allowances and child care expenses. Total taxable income is then taxed at progressive rates starting at 1% rising to 52% over 4 brackets (also see social security contributions). Tax is withheld at source.
Taxation of Investment Income	Box 2 relates to income from a 'substantial holding' in a company and is only taxed if the individual's holding, together with that of their spouse or other close relative is at least 5% of the company's share capital. The rate applicable is a flat rate of 25% which is applied to the benefits derived from the substantial interest. These benefits include dividends and gains from transferring shares less allowable losses. Dividends are subject to a 25% withholding tax. Box 3 relates to the value of savings and investments such as deposits and equities from non substantial holdings. The amount of 'income' due for taxation assumes a 4% fixed return on investments on the net value of the assets included in Box 3. Such deemed taxable income is taxed at a flat rate of 30%. The value of the investment is calculated after deduction of certain debts. For Dutch tax residents part of the taxable base is exempt and several specific deductions apply.
Tax on Property Rental Income	Property which is not used as a principal residence is taxed under Box 3 irrespective of the actual income received.
Wealth Taxes	There are no specific wealth taxes in the Netherlands
Capital Gains Tax	Capital gains as such are not taxable except as recorded in boxes 2 and 3.
Inheritance/Gift Tax	Inheritance and gift taxes are levied on the fair market value of assets transferred by way of gift or inheritance less an exempt amount which varies on the relationship with the donor. The tax rate levied (5% to 68%) also depends on this relationship. The liability to the tax generally falls upon the beneficiary, unless the tax cannot be recovered from the beneficiary, in which case the tax will be payable by the donor.
Property Taxes	This is a municipal tax which is levied on all immovable property based on the value of property as determined by the municipality.
Stamp Duty/Transfer Tax	The transfer of immovable property or certain rights thereto (eg. buildings, houses, shares in real estate companies) is subject to a 6% transfer tax payable by the new owner.
Sales Tax	Sales tax (BTW) of 19% is generally added to the sale price of goods. A reduced rate of 6% applies to some goods, whilst other goods are exempt.

Social Security Contributions

Employee national insurance and insurance contributions tax are levied under a number of different regulations.

Under the national insurance tax regulations the employee's contribution rate is 32.4% of taxable income up to €29,543 per annum, covering the first two income tax brackets. At present the amount is capped at €9,571 per annum. From this amount several levy rebates may be deducted varying from €107 to €1,770.

Under the employee insurance regulations contributions are levied on income up to a maximum of €43,754. The contribution rate depends on the line of industry the employee belongs to, but on average the contributions are capped at €1,656 for the employee and €4,468 for the employer.

Taxation of Expatriates Living in **the Netherlands**

Dutch residents are liable for income tax on their worldwide income. Non-residents are taxed only on income arising from the Netherlands. Under Dutch tax law the place of residence depends upon a number of criteria. The most important being:

- Where a permanent home is maintained;
- Where employment duties are performed;
- Where the individual's family resides;
- Where the individual is registered with the local authorities;
- Where bank accounts and other assets are maintained; and
- The intended length of stay in the Netherlands.

In practice an expatriate is generally considered a Dutch resident if:

- As a married person, his family accompanies him to the Netherlands; or
- As a single person, he stays in the Netherlands for more than one year.

A special tax regime exists for expatriates who arrived in the Netherlands on or after 1st January 2001. It is known as the '30% ruling' and is generally available for employees assigned to the Netherlands, or recruited abroad for the purpose of employment in the Netherlands. The employee must be employed by a Netherlands-resident employer or a foreign employer who is a wage tax withholding agent in the Netherlands. The key condition for qualification is that the employee must have specialised skills or knowledge not readily available on the Dutch labour market ('the specialist test').

The expatriate and their employer should file the application for the 30% ruling within four months of arriving in the Netherlands. Once approved, this allowance applies for up to ten years, with an interim test to determine whether the expatriate still meets the conditions.

The 30% ruling allows for a tax free allowance of 30% of salary for qualifying expatriate employees in respect of the extra costs associated with moving and living in a new country. If the actual costs are higher, they may be reimbursed free of tax e.g. the school fees paid for children to attend an international school may be reimbursed free of tax in addition to the lump-sum allowance for the extraterritorial costs. The continuation of the 30% ruling is in doubt although no significant reform or abolishment has occurred or been proposed to date.

Taxation of 'Non-Residents' Living in **the Netherlands**

Non residents are subject to tax on their Dutch based income and assets and, similar to residents, are taxed under the box system.

The Dutch tax authorities have broadened their right to levy tax on employment income under Box 1. In practice, this implies that a non-resident who is employed by a Dutch employer and who performs some of their duties in the Netherlands and some outside is deemed to have carried out all those duties in the Netherlands. As a consequence the non-resident is liable to pay Dutch income tax on their total employment income. Subject to double taxation treaties between the Netherlands and other countries, the deemed country of employment provisions do not apply to the income earned from employment abroad if this income is subject to taxation in the foreign country in question.

A non resident taxpayer is only entitled to a limited number of Dutch tax deductions including social security contributions, employment expenses, child care expenses and mortgage interest. However, a non-resident taxpayer is not entitled to any of the tax rebates afforded to resident tax payers.

Some non-resident individuals can elect to be treated as residents for tax purposes. This does mean they will be taxable on their worldwide income but they will also be entitled to the full tax deductions and rebates. This option is only available to EU residents and residents of those countries whose tax treaties with the Netherlands include information exchange provisions.

Non-residents are generally covered by the Dutch social security system, and hence make contributions, if they are employed in the Netherlands and subject to wage withholding tax. If a non-resident is not subject to social security contributions the tax burden is the same as that for residents, except that the tax on Box 1 income is levied at the 'lower' tax rates due to the exclusion of the social security tax rates.

Social security agreements between the Netherlands and some countries may entitle an employee to exemption from Dutch social security as long as the employee remains subject to social security in their home country.

Under Box 2 if a non-resident has a 'substantial holding' in a Dutch company they are liable to a dividend withholding tax of 25%, in principle, on returns from a holding of more than 5% in a company, although treaty protection may be available. Where there is a tax treaty, a 15% dividend withholding tax is normally due in the Netherlands.

Under Box 3 If an individual is a non-resident in the Netherlands, the taxable income from savings and investments will include only a limited number of assets:

- immovable property situated in the Netherlands;
- rights to immovable property situated in the Netherlands;
- rights to shares in the profit of a business in the Netherlands.

The tax in Box 3 for non residents is the same as if the taxpayer was resident except that they will not be able to benefit from the tax free allowance.

Non-residents are liable for inheritance, gift and transfer tax on property acquired from residents of/located in the Netherlands. For inheritance and gift tax the rates depend on the amount of the taxable gift or inheritance and the family relationship between the persons involved. Transfer tax is applied in the same way as it applies to residents.

Expatriate **Financial Planning**

As a whole, the Dutch tax regime is less onerous for expatriates who are not resident in the Netherlands, compared to the regime for individuals who are resident, with generally only Dutch sources income and gains and being subject to Dutch tax.

In addition, if you are an expatriate currently living in or considering moving to the Netherlands, you should review your finances with a suitably qualified financial advisor. In particular, if you are about to move to the Netherlands, you should plan and review your finances before making the move. You may wish to consider offshore investments, including offshore life products, in order to manage your tax liability and/or control when tax charges are made, as well as considering options available to you for estate planning.

Whilst the specific benefits of an offshore life product will depend upon your individual circumstances they do offer a number of potential benefits:

- Investments in an offshore life product grow virtually free of tax throughout the time the product is held, suffering only a small amount of irrecoverable withholding tax on investment funds located in certain countries.
- They allow you, in general, to manage when you take benefits and potentially to defer the benefits to a period that may be more advantageous to you from a taxation perspective.
- Offshore products often feature a strong range of the life company's own individual offshore funds and managed offshore funds specifically tailored to fit with the spread in clients' attitudes to risk. Offshore products also offer access to household name fund managers, including many international and specialist fund managers.
- An offshore product has the flexibility to adapt to changes in your individual circumstances, including changes in your residency status.
- Most companies offering offshore life products are subsidiaries of global financial services companies.
- The offshore life companies are regulated in first class jurisdictions which benefit from strong regulatory controls.

Your independent financial adviser can help you ensure that you maximise the financial benefits of your expatriate status and help you to assess if offshore life products are right for your individual circumstances.