WITSCRAFT TAX NEWS ALERT

Summary of proposed changes in the 2020 Budget
In this alert, we focus on the proposed changes in the 2020 Budget for Dutch personal income tax as well as Dutch wage tax purposes.

1. Personal income tax
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b. Private dwelling and mortgage interest;
c. Levy rebate and self-employed persons' allowance
d. Cancelation of the education facility;
e. No voluntary disclosure for box 2 and box 3 income;
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2. Wage tax
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e. Insurance tax exemption for self-insurers;
f. Indexation of the volunteer scheme;
g. No final levy for administrative penalties;
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i. Amended treatment of share options for start-ups (not included in the 2020 Budget);
j. Company bicycle (not included in the 2020 Budget);
k. Labour Market Balance Act (WAB, not included in the 2020 Budget).

1. Personal income tax

a. Rates and tax credit
The proposed income tax measures aim to reduce the tax burden on labour, as well as to increase the purchasing power. The Dutch government proposes to accelerate the introduction of the two-bracket tax system. In the proposals, the introduction that would initially take place in January 2021 will now be realized as from 1 January 2020. As a result, the top tax rate will already be reduced to 49.5% in 2020 (income over EUR 68,507). The lower tax rate will be 37.35%.

Simultaneously, the maximum deduction rate for dedicated base-reducing items will be 46% in 2020. Furthermore, the proposals increase the general tax credit. This increase is in addition to the policy increase that was already included in the existing legislation. The increase in the general tax credit is designed to improve the purchasing power of lower incomes in particular.

b. Private dwelling and mortgage interest
The deemed income for principal residences with a value exceeding EUR 75,000 is lowered to 0.6% of the so-called WOZ value. Up to 2023, this deemed income will be gradually lowered to 0.45%. The deemed income for principal residences with a value exceeding EUR 1,080,000 remains at 2.35%. The maximum deduction rate for mortgage interest deduction will be limited to 46% in 2020. In future years, the mortgage interest deduction will be limited further by three percent point per year, to the base rate of 37.1% in 2023.

c. Levy rebate and self-employed persons' allowance
The proposal increases the so-called employment levy rebate from 2020 in three steps, as compared to the existing plans. Both self-employed and employees are expected to benefit from this. On the other hand, the government proposes to reduce the self-employed persons' allowance (currently EUR 7,280) as of 2020 by eight steps of EUR 250, and one step of EUR 280 to EUR 5,000 in 2028. This means that the future self-employed persons' allowance will be around two thirds of the current level.

d. Cancelation of the education facility
The government proposes to abolish the income tax deduction for educational expenses. This deduction will be replaced by the so-called STAP budget subsidy scheme (learning and development budget to stimulate an individual's labour market position) for natural persons with a link to the Dutch labour market. The draft regulation is to be proposed shortly. The purpose of this proposal is a more effective and efficient use of budget resources for (additional) training.

e. No voluntary disclosure for box 2 and box 3 income
Currently, taxpayers who have failed to report income or capital may limit the amount of an administrative fine by submitting a so-called voluntary disclosure. The voluntary disclosure scheme however does not apply insofar as it concerns non-reported income from savings and investments (box 3) that has arisen abroad. The Dutch government now intends to broaden the scope of this exclusion. As per the proposals, it will no longer apply for substantial interest (box 2) income, nor for box 3 income that has arisen domestically, either.

f. Continuation of the transitional rules for annuities predating 2001
The current transitional rules for annuity products predating 2001 will in principle end on 31 December 2020. On that date, these annuities are to transfer from box 1 to box 3. However, the 2020 Tax Plan contains a proposal to continue the transitional rules as from 1 January 2021 for certain balance-annuities as well as for certain foreign pensions. It also aims for the abolition of the so-called settlement obligation under the law.

g. Box 3 taxation of savings (not included in the 2020 Budget)
On 6 September 2019, the government announced a major change of the taxation in box 3. From 2022, the actual distribution between savings and investments of individual taxpayers will be taken into account.

A return on savings is then calculated that matches the actual interest rate as much as possible. The change in law means that taxpayers with only savings up to approximately EUR 440,000 will not owe any box 3 income tax. However, investments and debts will be treated in such way that this may lead to higher taxation in box 3. As a result, the government expects that approximately 1.35 million savers will effectively no longer be subject to the deemed capital yield tax of box 3. While technically not part of the Budget Day proposals, the bill will be submitted to the Dutch Lower House before the summer of 2020.

2. Wage tax

a. Free space under the work costs scheme (Werkkostenregeling)
Research has shown that in particular SMEs offering low wages and / or employing many part-timers find the limitation of the so-called 'free space' for reimbursements and benefits under the Dutch work costs scheme (WKR) to be a constraint. To alleviate this issue, as per 2020 the free space in the work costs scheme will be expanded to 1.7% of the taxable wage wages up to EUR 400,000, plus 1.2% of the remaining taxable wages. Companies with a total taxable wages of less than EUR 400,000 therefore proportionally benefit the most from this measure.

b. Work costs scheme tweaks
Application fees reimbursed for a Certificate of Good Behaviour (VOG) will no longer reduce the free space under the work costs scheme, the method of determining the value of sector-specific products is adjusted and employers are given more time to determine any final levy amounts due under the work costs scheme.

c. Fiscal addition to income for environmentally friendly cars
The fiscal addition to income for new environmentally friendly automobiles, such as electric cars, will double in 2020 to 8% on the first EUR 45,000 of the list price. The addition is subsequently increased in 2021 to 12% on the first EUR 40,000 of the list price, 16% in 2022, and 17% in 2025. From 2026, for the entire list price of an environmentally friendly car a 22% addition to income applies, just as for a conventional car.

d. Application procedure for the R&D withholding tax credit
The government will examine whether the application procedure for the R&D withholding tax credit can be simplified and shortened, whereby the basic system will not change. It is proposed to increase the number of moments per year at which an R&D statement can be applied for from three to four, and to adjust the application deadline.

e. Insurance tax exemption for self-insurers
The government is introducing an exemption from insurance tax for insurance by self-insurers of obligations for sickness benefits, Reinstatement of Partially Disabled Workers (WGA), and death benefits.

f. Indexation of the volunteer scheme (vrijwilligersregeling)
The maximum amounts for the volunteer scheme (currently EUR 170 per month and EUR 1,700 per calendar year) will be indexed annually at the start of the calendar year.

g. No final levy for administrative penalties
The government intends to render it impossible to pay a final levy on reimbursements and provisions in respect of administrative penalties, amounts for penal orders and comparable foreign penalties and amounts. Such wage components will mandatorily be considered taxable wages, on which the employee is liable to pay wage tax. The measure does not apply to periodic penalty payments and amounts imposed or forfeited before 1 January 2020.

h. Definition of permanent establishment
According to the government, possibilities currently exist to circumvent the qualification as a *permanent establishment* artificially*,* in order to avoid taxation. Against that background, it is proposed to align the definition of permanent establishment for income tax, wage tax and corporate income tax purposes with the definition in the applicable tax treaty, or - as the case may be - the OECD standard treaty.

i. Amended treatment of share options for start-ups (not included in the 2020 Budget)
Under current wage tax law, the taxation of stock option rights granted to employees occurs at the time of exercise or alienation of the option. This applies even if the employee has no cash available to pay the taxes. The Dutch government wants to adjust the current rules, so that it becomes more attractive for talent to work for a start-up or scale-up company. The idea is to move the taxable moment from the moment of exercise of the stock options to the moment of disposal of the shares that the employee has obtained with his options. The aim is to have this change take effect on 1 January 2021.

j. Company bicycle (not included in the 2020 Budget)
As of 1 January 2020,there will be a new tax scheme for employer-provided bicycles (including electronic bicycles). A fiscal addition of 7% of the recommended retail price of the bicycle will be taken into account as employment income, in which no distinction is made between the various types of bicycles.

k. Labour Market Balance Act (WAB, not included in the 2020 Budget)
Separate from the 2020 Budget, the Labour Market Balance Act (WAB) will take effect on 1 January 2020. It has several effects on employment contracts as well as on the social security contributions due by employer. We highlight two measures here:

- The WAB stipulates that employers pay a *lower* unemployment insurance contribution (WW-premium) for employees on a permanent employment contract than for employees on a fixed-term employment contract. The difference will be 5%. The nature of the employment contract will be shown on the employees' payslips.

- Currently, only an employee whose employment contract is terminated at the employer's initiative and who has been employed for at least 24 months is entitled to the statutory transition fee. Under the WAB however, employees will be entitled to a transition fee from the very start of their employment contracts, i.e. also during probationary periods. Moreover, for each year of employment, the transition fee will amount to one third of a monthly salary.

Source:
https://www.rijksoverheid.nl/onderwerpen/belastingplan/belastingplanstukken
https://www.government.nl/documents/parliamentary-documents/2019/09/17/letter-to-parliament-on-2020-tax-plan

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