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About Prinsjesdag

The third Tuesday of September is traditionally known as 'Prinsjesdag' in The Netherlands (In English: "Little Prince Day") as it was originally used to celebrate the birthdays of the Princes of Orange. On Prinsjesdag, or Budget Day as it is called abroad, King William-Alexander gives the Speech from the Throne. The Speech from the Throne sums up the state of the nation, and outlines the government plans for the coming year. After the speech, the Minister of Finance presents the Chair of the House of Representatives with the National Budget and the Budget Memorandum. These documents describe how the Dutch government plans to execute its plans, and how much of the budget is allotted to each plan.

The National Budget, the Budget Memorandum, the Tax Plan and other official Prinsjesdag documents can be found on <https://www.rijksoverheid.nl/onderwerpen/prinsjesdag>

17 September 2020

SUMMARY OF PROPOSED CHANGES IN THE DUTCH BUDGET FOR 2021

In this alert, we focus on the proposed changes in the 2021 Budget.

Please note that the plans announced on 15 September 2020 still need to be adopted by the House of Representatives and the Senate ('Tweede en Eerste Kamer'). They will only become effective after implementation of a General Administrative Policy ('Algemene Maatregel van Bestuur' or 'AMvB') or a ministerial decree, and then still need to be published in the Law Gazette ('Staatsblad' or 'Staatscourant').

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1. Wage tax

Expansion of the 'free space' under the Work Costs Scheme ('WKR')

The free space under the Work Costs Scheme ('WKR') is the amount of the company's total taxable wages that employers can dedicate to providing or reimbursing compensation items and perks to their staff free of tax. As of 2020, this free space was increased to 1.7% of the company's taxable wages of up to € 400,000, plus 1.2% of the company's remaining taxable wages. Companies whose total taxable wages remained below € 400,000 therefore proportionally benefitted the most from this measure.

In connection with the COVID-19 crisis, the Dutch government has decided to increase the percentage of 1.7% temporarily to 3%. In 2021, the percentage of free space for the company's taxable wages of over € 400,000 will be reduced from 1.2% to 1.18%. The free space for wages of up to € 400,000 will be reset at 1.7% in 2021.

In addition, the WKR provides for specific tax exemptions for benefits such as schooling costs. For 2021, qualified schooling costs can be reimbursed free of tax also to former employees. This can e.g. be part of a social plan that applies in case of termination of employments.

Job-related investment incentive ('BIK')

The Dutch government wants to help employers who invest in their businesses. For this purpose, a new incentive will be introduced: the job-related investment reduction ('BIK'). If a company makes an investment, (for example purchasing a new machine) it will be able to deduct part of such expenditure from its payroll taxes due. Details of this scheme are to be published in the future.

Transitional regime for life-course savings scheme

As of 2012, employees could no longer participate in so-called life-course savings schemes. Employees who had already participated in such scheme before 2012, will now be able to continue their participation provided certain additional requirements are met.

Pensions: lump sums, Early Retirement Scheme ('RVU') and leave savings schemes

In a separate proposal dated 3 September 2020, the following changes were published in the field of pensions:

1. Under certain conditions, it will be possible for (former) employees to take out 10% of the value of their pension entitlements free of tax at the start of their pension. As yet, it is still unclear what the consequences of this take-out right will be in cross-border situations (e.g. for the application of tax treaty provisions).
2. The rules relating to the punitive levy on Early Retirement Scheme ('RVU's) will be relaxed.
3. Leave savings schemes will be facilitated further. Under current tax law, entitlements to holiday and compensation leave are not taxed, provided that at the end of the calendar year, such entitlements do not exceed the number of working hours per week, as calculated over a maximum period of fifty weeks. In 2021, the Dutch government intends to increase this maximum to 100 weeks.

One-off net bonus for healthcare personnel

The Dutch government wants healthcare professionals and support staff, who have contributed to the fight against COVID-19, to receive a net bonus of € 1,000 provided certain conditions are met.

Amended treatment of share options for start-ups (not included in the 2021 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 employees 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 was to have this change take effect on 1 January 2021, but this was postponed until 2022. A new and amended plan will be conceived, and internet consultation will be conducted next year (2021).

2. Income tax

Box I rate (work and home-ownership)

The tax rate in the first bracket (taxing income of up to € 68,507) will be reduced from 37.35% to 37.10% in 2021. It is expected to be reduced to 37.03% in the following years. The top tax rate remains the same at 49.50%.

Increase of general, labour levy, elderly rebate ('algemene heffingskorting', 'arbeidskorting' and ouderenkorting)

These rebates of tax will be increased, which leads to a higher post-tax amount for income of up to € 68,507.

Decrease of tax-free allowances for entrepreneurs (self-employed business owners or 'ZZP's)

If you are eligible for the Dutch private business ownership allowance ('zelfstandigenaftrek'), you do not have to pay income tax on € 7,030 of your profit. From 2021, this tax deduction will be scaled back. In 2021, you can deduct € 6,670 from your profit. In the following years, the private business ownership allowance will be reduced in subsequent steps, to € 3,240 in 2036.

Reduction of deduction rate (based on Budget 2020)

E.g. for mortgage interest, alimony

	2020	2021	2022	2023
Deduction rate	46%	43%	40%	37,05%

Box II rate (substantial interest)

The tax rate is 26.9% (currently 26,25%)

Box III tax rate (private savings and investments)

Box III income tax is due by resident taxpayers on their world-wide savings and investments. Non-resident taxpayers, as well as most expatriates who benefit from the so-called 30% facility, are subject to Box III tax only on a limited number of sources (e.g. holiday homes in The Netherlands).

The system with a deemed yield remains in place instead of actual yield or capital gain.

Taxpayers whose net savings and investments are worth less than € 50,000 (or less than € 100,000 together with their fiscal partner), no longer need to pay box III tax on those assets. The overall tax rate will however increase from 30 to 31%.

In the notes to the law, it is mentioned that certain taxpayers may elect to establish a savings vehicle ("BV") to reduce their box 3 tax burden. Witscraft can assist in doing so, if requested.

3. Corporate income tax

Tax rates

The rate of Dutch corporate tax will be reduced from 16.5% to 15% in 2021. In the future, more small and medium enterprises ('MKB') will fall under the scope of this reduced rate. At the moment, the lower rate applies to profits of up to € 200,000. As of 2021, this amount will be raised to € 245,000. The threshold will go up to € 395,000 in 2022. The regular rates for larger companies remains at 25%.

2021	
€ 0 - € 245,000	15%
€ 245,000	25%

2022	
€ 0 - € 395,000	15%
€ 395,000	25%

Innovation box

Innovation box rate from 7% (2020) to 9% (2021).

Corona reserve

Companies subject to corporate income tax have the possibility to create a so-called 'corona reserve' in their 2019 corporate tax return for the losses they are expected to incur in FY 2020 as a result of the COVID-19 crisis. This makes it possible to take losses into account more quickly than would be the case under regular loss-offsetting rules.

4. Investments (Real Estate) “overdrachtsbelasting”

First-time buyers on the housing market and investors

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- ⇒ The government aims to increase the possibilities for first-time buyers to buy their own home. It relates to an exemption from transfer tax for first-time buyers between the ages of 18 and 35 who buy a home for their own use.
- ⇒ For other purchasers of owner-occupied homes, the rate will remain 2%.
- ⇒ Investors who buy a home for investment will need to pay a tax of 8%.

5. Various

Income and wage tax amendments

- Reduction of addition to income for certain environmentally friendly cars
- Codification of other COVID-19 related measures

Corporate income tax amendments 2021 or developments for the future

- Restriction of liquidation loss rules
A separate proposal that introduces additional restrictions for the deductibility of a loss incurred when liquidating a subsidiary on which the Dutch participation exemption applies has been submitted to parliament for approval. (as of 2021)
- Guidance on application anti-abuse rules (2021)
- Limitation on offsetting tax losses (as of 2022)
- Amendments to the arm's length principle (as of 2022)
- Potential dividend withholding tax on exit (separate bill)
- Limitation of creditability withholding tax on portfolio dividends for Dutch resident companies (Sofina case) (2021)

Disclaimer

The information provided in this document is general information only, so it does NOT take into account your specific situation and is not meant as advice.