



## End of year tax tips

The government plans to introduce a number of changes to the tax system this year, although some will not come into effect until 2020 or later. Here's a quick overview of the changes.



### Expats/individuals

#### 1. 30% ruling

The maximum term of the 30%-ruling will decrease from 8 to 5 years as from January 1<sup>st</sup> 2019. In principle the 30% ruling will now terminate after 5 years unless this period is reached in 2019 or 2020. In this case the 30% ruling will terminate as per the original 30% decision or latest January 1<sup>st</sup>, 2021.

It is important to be aware of the impact of the termination of the 30% ruling. Apart from the 30% tax free component of your salary, it would also affect your assets. As long as you or your partner make use of the 30% ruling, you can opt for partial non-domestic taxation. This involves that assets – with the exemption of Dutch real estate – do not need to be stated in the income tax return. When the 30% ruling comes to an end however, you will have to declare your worldwide assets in your Dutch tax return. You may be able to request for double taxation deduction on foreign property.

If you wish to know the exact tax consequences in your situation of the termination of the 30% ruling or check if there are possibilities to reduce the additional tax burden please contact one of our advisors.

#### 2. Income tax

The current income tax system has four brackets; 36,55% (income maximum € 20.142); 40,85% (income maximum € 34.404); 40,85% (income maximum € 68.507); 51,95% (income above € 68.507). These rates apply to salary income amongst others.

In 2019 these 4 tax bracket rates will be reduced to: 36,65%; 38,10%, 38,10% and 49,50%. From 2021 the tax system will have only two brackets of 37,05% and 49,5%, the top rate starting from approx. € 68.000.

The tax rates for box 2 income are also adapted. Box 2 relates to income out of substantial shareholdings, such as dividends and other gains on shareholdings of more than 5%. The current rate of 25% will be increased to 26,9% in 2021. This increase relates to the decrease of Corporate Income Tax rates, please refer to the corporate section.

### **3. Box 3 changes in 2019**

The tax free threshold for box 3 is slightly increased from € 30.000 to € 30.360 per person (€ 60.720 for fiscal partners).

The box 3 rates also change in 2019. The first bracket of up to € 71.650 will be taxed at 0,58% (2018: 0,6%). The second bracket between € 71.650 and € 989.736 will be taxed at 1,34% (2018: 1,3%). The third bracket above € 989.736 will be taxed at 1,68% (2018: 1,61%).

### **4. Mortgage tax deduction and other deductions limited**

Tax deductions such as gifts to charities, mortgage interest, business facilities and alimony will ultimately no longer be deductible at the top tax rate. This change will take effect over the coming years, starting in 2019. Eventually deductions will then take place at the base rate of 37,05%. In 2018 the mortgage tax rate for incomes above € 68.507 is 49,50% and 51,95% for the other mentioned deductions. These will both be gradually reduced to 37,05% in 2020. People with an income below € 68.507,-- will not be affected by this measure.

### **5. Several changes in the levy rebates**

The general levy rebate will be increased from 2019 till 2021 for people with an income up to € 50.000. and the old age rebate will increase. Also the employment rebate will increase from 2019 till 2021 which is supposed to make working more profitable for people with an income between € 20.000 and € 60.000. The payment of the levy rebate to the non-working spouse will be decreased further.

The system which once knew mainly fixed levy rebates has now changed into a system which encourages earning a moderate employment income. Generally it will have a positive effect on the levy rebates if you have employment income between € 20.000 and € 60.000. Once your income reaches approx. € 100.000 most levy rebates will have decreased to nil.

### **7. The monument cost deduction will disappear completely**

Currently owners of listed historic houses may deduct their maintenance and renovation costs as compensation for keeping a historic building in a good condition. Instead of the deductions in the income tax return the government plans to introduce

a subsidy system. The subsidy amounts to 35% of the eligible costs. This change will take place in 2019. A subsidy takes more effort and will most likely lead to a lower overall refund. There are several restrictions such as you can only request for a subsidy during two months per year and only once a year. It is only possible for houses which are used as primary residence. The costs need to be more than € 1.000.

If you have already planned maintenance work at your monument house, you could consider doing this before the end of the year. As long as the payment is done before 1<sup>st</sup> January 2019 it will yet fall under the existing tax deduction.

## **8. Low rate Value-added tax increased**

The low VAT/GST/BTW rate will increase from 6% to 9% as per January 1<sup>st</sup>, 2019. This means that daily groceries will become more expensive. The low tax rate also applies to water, books, flowers, hairdresser, but also museums and amusement parks. Finally the 9% rate will also be used for painting, plastering and isolation activities. It is wise to have this done still in 2018.

## **9. Changes in tax reduction on energy tax**

Per January 1<sup>st</sup> 2019 the Dutch government increases energy tax on natural gas (with € 0,03 per M2) and reduces energy tax on electricity (with € 0,72 per kWh). Also per household the tax reduction on energy tax will be € 51 lower per year. If you have an average use of energy you will approximately pay € 130 per year extra. Depending of course on your use of gas or electricity.

### **Amnesty ruling**

In the general opinion the amnesty ruling ('inkeerregeling') has been abolished. This is actually not correct. It is still possible to use this ruling, with the exception that a fine will always apply for the last two years.

Therefore we strongly recommend to contact our office if you are unsure as to whether a Dutch or foreign asset, bank account, real estate, shares etc. should be included in your Dutch tax return. If the tax authorities notice that you have undeclared foreign bank accounts you cannot make use of the amnesty ruling anymore and a fine of up to 300% will apply.

Foreign assets do not have to be declared when you are a non-domestic tax payer (C-form) or if the 30%-ruling applies. Please note that from termination of the 30%-ruling onwards you are usually classified as a domestic tax payer who has to declare worldwide income and wealth.

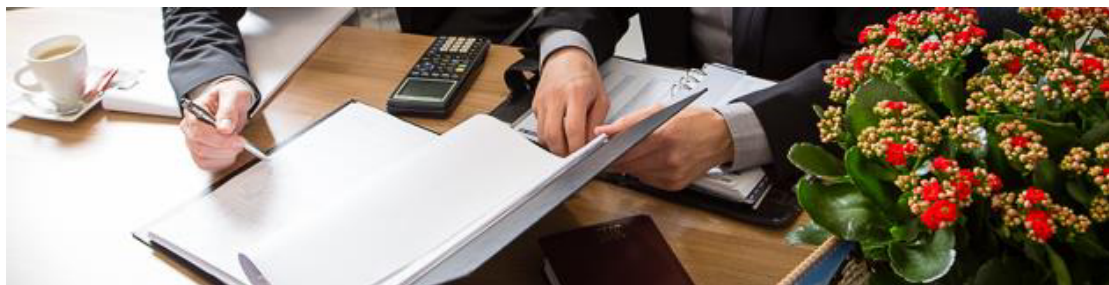
### **Reduce box 3 taxation with BV company or OFGR**

As of 2017 the box 3 taxation has increased for a capital exceeding € 250.000. If you have capital of, say, more than € 500.000 sitting on bank accounts with no or very little interest, it could be worthwhile to look at other possibilities, such as the BV or OFGR (open fonds voor gemene rekening).

In this 'entity' there is no tax on a fictitious income. The actual rental income is taxed with corporate tax, and costs are deductible. We can calculate whether establishing this entity (or a BV) makes sense in your case.

**Further points:**

- Move substantial payments planned in January 2019 to December 2018 to save on box 3-levy; this also includes tax payments; This is especially the case for low VAT/BTW items, such as books/food/paintwork for example, as this rate will increase from 6% to 9% as of January 1<sup>st</sup>, 2019;
- If you have not yet submitted a 2013 tax return and you think you might be entitled to a refund for that year, this tax return can be submitted until the end of this year. In 2019, 2013 tax returns can no longer be submitted.
- Cluster deductible expenses such as charitable gifts or health expenses into one year as much as possible. The expenses will then earlier lead to actual tax deduction as the threshold will only apply once.



## Self-employed/corporate

### 1. Changes in business income taxes

The government already intended to decrease the corporate income tax for profits above € 200.000 step by step from 25 to 22,5% and for profit under € 200.000 from 20 to 16%. With the new plans the rates will decrease further to 20,5% respectively 15% in 2021. This measure is one of the measures replacing the plan to abolish the dividend tax.

Also the box 2 rate which is applied when taking dividends out of your company will be increased from 25% to 26,9% which partly compensates the reduction of the Corporate Income Tax. These changes will take place over a period of three years, starting from 2019.

Business owners with a business in the form of a sole proprietorship (eenmanszaak) or partnership (VOF) profit from the lower Income Tax rates. However for the businesses in the high tax rate this advantage is largely undone by the fact that the business facilities are only deductible against the lower tax rate.

The box 2 rate over dividends is somewhat increased, but on balance taxes for shareholders of BV companies are becoming considerably lower. Especially for higher profits the BV will sooner become favourable than a sole proprietorship.

## **2. 6% VAT rate increased to 9%**

The low VAT rate which applies to food, water, books, flowers, hairdresser, museums, amusement parks, painting, plastering and isolating will be increased from 6% to 9%. Entrepreneurs selling these goods or services should prepare their admin system and take into account this change in their price offers for 2019. If a service or product will be delivered in 2019 but was already paid in 2018, the 6% VAT rate will count.

## **3. Change in small business VAT reduction**

From January 1st 2020 the small business VAT reduction will be modernized. If an entrepreneur expects to make less than € 20.000 turnover per year he or she can choose for an exemption of the VAT. This would save administrative work since the quarterly VAT returns can be skipped. But in that case VAT paid on expenses is not reclaimable either.

### **Loss compensation**

Tax losses in BV companies may be compensated with profits in the previous year as well as the 9 future years. The period that the losses may be utilized will be reduced from 9 to 6 years. It is a pity that the government limits this at the expense of the important fiscal principle that all losses and profits are taxable during the life of a business. For Income Tax businesses (self-employed) the current 9 years remain.

### **Major shareholders with high debt to company**

The government has announced changes in the treatment of major shareholders with a high debt of at least € 500.000 to their BV company. Exact details yet will have to be worked out, but it is important to bear this in mind and prepare for this measure. For those with a high debt position, they could either pay back amounts, or pay 25% dividend tax on the debts.

### **Dividend tax not abolished**

The plan to abolish dividend tax has not gone through eventually. Instead the government has taken a number of alternative measures to support the Dutch business climate and make it more attractive to foreign companies and expats. The Corporate Income Tax rates have been reduced further. A transition arrangement has been made for existing users of the 30% ruling, giving them another two years, even if the 5 year period has lapsed. Apart from that more funds are available for business innovation and employers social contributions.

### **Electric business vehicles**

From 2019 high value electric cars will become less attractive to business owners and employees. Fully electric cars make use of a 4% private use tax as opposed to other cars at 22%. From 2019 the lower tax will only apply up to a car value of € 50.000. If a vehicle is more expensive the amount above € 50.000,-- will have to use the 22%. If you purchase a vehicle still this year, you may make use of the current rules for another 5 years.