

## Budget Day 2024: changes to payroll taxes and labor market developments

On Budget Day, September 17, 2024, the government presented the 2025 Tax Plan package to the Lower House of Parliament. In the memorandum we address the most important proposed changes to payroll tax and social security contributions in the 2025 Tax Plan, the bill Other Tax Measures 2025 and the Taxation Miscellaneous Provisions Act 2025. The proposed changes are intended to take effect on January 1, 2025, unless another date is explicitly stated in this memorandum. We also focus on some of the changes that have already been adopted and on several labor market developments.

### 1. Tax rates and tax credits in the 2025 Tax Plan

As of January 1, 2025 a new first bracket will be introduced with a lower rate. The rate in the first bracket will therefore be reduced by 1.15% compared to 2024. The top rate of 49.50% applying in 2024 will remain unchanged in 2025.

The rates for employees who have not yet reached the statutory retirement age (in 2025: 67 years) will be as follows:

Taxable salary of more than	But not more than	Tax rate	National Insurance Contributions	Combined rate
	€ 38,441	8.17%	27.65%	35.82%
€ 38,441	€ 76,817	37.48%	-	37.48%
€ 76,817	-	49.50%	-	49.50%

#### *The general tax credit*

The amount of the general tax credit is dependent on a person's income in Box 1. The higher the income, the lower the general tax credit. The general tax credit will be reduced from EUR 3,362 to EUR 3,068. The maximum tax credit will be reached at an income of EUR 28,406.<sup>1</sup> For income above that amount, the general tax credit will decrease by 6.337% to nil.

#### *The labor tax credit*

As of January 1, 2025 the maximum labor tax credit will increase from EUR 5,532 to EUR 5,599. The amount of the labor tax credit is dependent on a person's income from current employment. The labor tax credit gradually increases up to employment income of EUR 43,071.<sup>2</sup> For income above that amount, the labor tax credit will decrease by 6.51% to nil.

<sup>1</sup> A provisional amount; the point at which the general tax credit starts to decrease is linked to the statutory minimum wage, including vacation allowance, and is only definite after it has been determined in November 2024.

<sup>2</sup> A provisional amount; the point at which the labor tax credit starts to decrease is linked to the statutory minimum wage, including vacation allowance, and is only definite after it has been determined in November 2024.

## **The income-related contributions for health insurance under the Health Insurance Act**

As of January 1, 2025, the income-related contributions for health insurance under the Health Insurance Act payable by employers will be reduced from 6.57% to 6.52%. As of January 1, 2025 the maximum contribution base for the purposes of the Health Insurance Act will be EUR 75,860 (2024: EUR 71,624). Despite the decrease in the contribution percentage, the increase in the maximum contribution base will create an additional expense item for employers of EUR 260 (rounded-off) for each employee earning more than the maximum contribution base.

### **2. Tax changes announced in the 2025 Tax Plan package**

The 2025 Tax Plan package contains several proposed changes to payroll tax and social security contributions. If these are adopted, the schemes and rules will be as follows.

#### **Changes to the 30% ruling**

The 30% ruling is a scheme that offers employers the option to pay a tax-free allowance of no more than 30% of an employee's salary to employees recruited from abroad with specific expertise that is scarce in the Dutch labor market, and to do so for a maximum of five years. A decision from the Dutch tax authorities is required for this. The allowance is intended to cover the additional costs these employees incur for their stay outside their land of origin (the extraterritorial expenses, such as travel and accommodation expenses). Each year employers can opt to either apply the 30% ruling or reimburse employees for the actual extraterritorial expenses incurred.

#### *Previous scaling back: 30-20-10-ruling*

As of January 1, 2024 the 30% ruling was scaled back to a 30-20-10 ruling. Employees who meet the conditions receive 30% of their salary tax-free during the first 20 months. During the next 20 months they receive 20% tax-free and during the last 20 months 10% tax-free. Transitional rules apply to employees who had already been granted the 30% allowance in December 2023. The scaling back of the tax-free amount will not affect them. This therefore applies to both employees with a 30% ruling and to foreign employees whose employment in the Netherlands started before December 31, 2023.

#### *Changes*

The previous scaling back (the 30-20-10 ruling) will be reversed by means a Memorandum of Amendment to the bill on the 2025 Tax Plan. As of January 1, 2027 the ruling will become a 27% allowance ruling. For 2025 and 2026 the percentage of 30% will still apply. The published documents mention a constant percentage of 27%. It is unclear what the scope of that is.

The salary threshold for incoming employees will be increased from EUR 46,107 (2024) to EUR 50,436 (after application of the 30% ruling). The salary threshold for incoming

employees younger than 30 years of age with a Master's degree will be increased from EUR 35,048 (2024) to EUR 38,338.

#### *Transitional rules*

Transitional rules apply to both the change to a 27% ruling and the higher salary threshold. If the 30% ruling for 2024 is applied to incoming employees, the percentage of 30% will continue to apply until the end of the term of the ruling (as stated in the decision) as well as to the old (inflation-adjusted) salary thresholds.

#### **Changes to public transport exemption**

The 2024 Tax Plan expanded the specific exemption in the work-related costs rules to cover public transport passes and off-peak passes (hereinafter: public transport pass). The expansion made it possible for such public transport passes to always be reimbursed, provided or made available to employees tax-free, provided the employee uses the public transport pass ('to whatever extent') for business travel; this in any case includes commuting to work.

Currently, a right to free travel with public transport (right to free travel) or a right to a reduction of the price of public transport passes (right to discount) may include the following:

- a public transport pass that the employer has bought for the employee;
- a public transport pass that an employee has bought themselves and for which they can submit an expense claim to the employer. The public transport pass entitles the holder to free travel, free travel on a fixed route, to free travel during certain hours/days or gives a discount on travel;
- the option offered to employees by the employer to, for example, use public transport without a specific pass, for example with a mobility card or app, but where the transport company directly charges the costs to the employer;
- the option offered to employees by the employer to, for example, use public transport without a specific pass, for example with a mobility card or app, but where the costs are paid in advance by the employer (for example, a public transport pass with a balance);

#### *Changes*

If the employer offers the employee the option to travel for free or with a discount (at the expense of the employer), these costs fall under the specific exemption in the work-related costs rules. This is subject to the condition that this is 'to some extent' also business travel. The specific exemption does not however apply to private travel made with a personal public transport pass. After all, the employer does not reimburse, provide or make that public transport pass available to the employee. However, the specific exemption does apply if the personal public transport pass is used for business travel. The specific exemption will also no longer be restricted to Dutch public transport.

The proposed changes aim to ensure that the employer does not have to keep a register of public transport use by its employees as long as there is at least some business use of the public transport pass.

### **Maximum income assessable for social security for the purposes of employee insurance schemes to be increased**

A maximum income assessable for social security purposes applies to employer contributions to employee insurance schemes. This means that contributions for employee insurance schemes are no longer payable on income above that maximum. For 2024 that maximum was EUR 71,628 per annum. As of 2025 this maximum will be increased to EUR 75,860. In addition, the contributions for the various employee insurance schemes will increase slightly. For employees who earn (at least) the maximum income assessable for social security purposes, this increase means that the employer has to pay more employee insurance scheme contributions on a tax base of EUR 4,000.

### **Higher final levy company delivery van**

If an employee uses the company delivery van for personal travel, the benefit derived from this personal use should be included in the taxable salary. The addition to income for the private use is set annually based on a percentage of the list price of the car.

If delivery vans are constantly used by various employees, the benefit per employee is more difficult to determine. The personal benefit has been set at a fixed amount of EUR 300 per annum. The employer pays this amount via a final levy.

#### *Change*

The final levy has not been inflation-adjusted since 2006 and will therefore be increased to EUR 438 per annum as of January 1, 2025. As of January 1, 2026 this amount will be adjusted for inflation annually.

The vehicle definitions for tax purposes differ from the definitions that the National Vehicle and Driving License Registration Authority (*Dienst Wegverkeer*; RDW) has laid down in the vehicle registration register. For example, a motor vehicle may qualify as a passenger car for tax purposes, although it is registered as a delivery van in the vehicle registration register. This is undesirable and therefore as of 2027 the definitions as laid down by RDW in the vehicle registration register will also be used for tax purposes (the motor vehicle taxes and thus also payroll tax and personal income tax). This may mean that a small number of passenger cars will from now on qualify as delivery vans.

### **Reparation tax loophole crew on seagoing vessels**

With regard to crew on seagoing vessels who i) live in Belgium, ii) work for a Dutch employer, iii) perform their activities entirely outside the Netherlands, and iv) whereby the Netherlands-Belgium tax treaty assigns the right to tax the wages of the crew to the Netherlands, the Dutch tax authorities have taken the position that no personal income tax is payable in the Netherlands. This means that the right to tax is not

effectuated and when the exemption method to avoid double taxation is applied, there is a double exemption of tax. Employers remit payroll tax in accordance with the Knowledge Group position of the Dutch tax authorities, but because the employees fulfill their employment entirely outside the Netherlands, no personal income tax is payable. The withheld payroll tax can be reclaimed via the personal income tax pursuant to Section 15 General Taxes Act.

The above may also occur in other countries if the Netherlands has the exclusive right to tax under the tax treaty for the avoidance of double taxation.

#### *Change*

In order to prevent the Dutch right to tax not being able to be effectuated, thus resulting in a double exemption, it is proposed to include in Chapter 7 of the Personal Income Tax Act 2001 (PITA 2001) that the employment is deemed to have been fulfilled in the Netherlands, even if it is fulfilled entirely outside the Netherlands. This applies insofar as the right to tax the wages in such a situation is assigned to the Netherlands under a tax treaty or other international regulation.

### **Anticipating the introduction of working from home days**

Changes to tax treaties for the avoidance of double taxation are expected if the Netherlands makes agreements on the right to tax salary that is attributable to working from home days.

Currently, the Netherlands and Germany are negotiating a protocol to amend the Netherlands-Germany tax treaty. Agreements are being made for the situation where i) an employee lives in Germany, ii) has days where they work from home but works in the Netherlands, and iii) has no withholding agent in the Netherlands pursuant to the Payroll Tax Act 1964 (PTA 1964). In this situation, the Netherlands is currently not able to effectuate the right to tax the working from home days. Specifically, the Netherlands and Germany are considering a threshold scheme under which a cross-border worker works from home on a certain number of days (for example 34) per calendar year, but the right to tax does not shift to the country of residence as a result of this.

#### *Change*

It is proposed to include in Chapter 7 PITA 2001 that the employment – if it is partly or entirely fulfilled outside the Netherlands – is deemed to have been fulfilled in the Netherlands. The right to tax the days worked from home in the country of residence will thus accrue to the Netherlands.

### **3. Previously adopted tax changes with effect from 2025**

#### **Enforcement moratorium self-employed persons to end as of January 1, 2025**

As of January 1, 2025 the enforcement moratorium will end and the Dutch tax authorities will return to fully monitoring the qualification of employment relationships, and thus also pseudo self-employment. The enforcement moratorium will remain in

effect until January 1, 2025. Consequently, even if the Dutch tax authorities qualify the employment relationship with a self-employed person as (deemed) employment, they will not impose any supplementary payroll taxes assessments. However, that does not apply if there is malicious intent or if instructions from the Dutch tax authorities are not promptly (often within three months) followed up.

#### *Status of model agreements*

It was also announced that the Dutch tax authorities will no longer approve model agreements. The current approved model agreements will still remain in effect until the end date of the agreement. The last end date is in 2029. Parties can therefore still use the currently approved model agreements until the end date of the approval. The approved model agreements only offer certainty if the client and the contractor also actually work as agreed in the model agreements.

#### *What does this mean in practice?*

As of 2025 the Dutch tax authorities will be able to impose supplementary tax assessments during (regular) audits if companies and organizations hire 'self-employed persons' who actually work as if they were employed by those businesses and organizations. In 2025 the Dutch tax authorities may only impose supplementary tax assessments with retroactive effect to January 1, 2025, the date on which the enforcement moratorium ends.

During the year 2025 the Dutch tax authorities will be lenient when imposing offense penalties on employers if they can prove that they have taken steps within the company or organization to tackle pseudo self-employment. Default penalties can however be imposed.

#### **Addition to income for private use of company car to increase**

If employees travel more than 500 kilometers per year with a company car for personal purposes, an addition to income must be taken into account. The addition to income is calculated as a percentage of the list price of the car.

#### *Changes*

As of January 1, 2025 the addition to income for fully electric cars will increase from 16% to 17% of the list price up to EUR 30,000. Insofar as the list price is higher, the normal addition to income percentage of 22% will apply.

#### **Low-income benefit discontinued**

As of January 1, 2025 the low-income benefit (LIB) will be discontinued. This tax benefit was originally introduced to encourage employers to employ and retain workers in a vulnerable position on the labor market. However, the LIB only makes a minimal contribution to the chances of this target group.

This change may affect companies who employ a large number of low-income workers. Employers may be faced with higher payroll costs. The government has however indicated that the money released from discontinuing the LIB will be used for other measures to support low-income groups.

#### **4. Miscellaneous - announced tax changes that are not part of the 2025 Tax Plan**

##### **Withholding of payroll tax for employees of Dutch legal entities governed by public law who work in the Netherlands**

A person who i) does not live in the Netherlands and ii) fulfills their employment entirely outside the Netherlands, is not an employee as referred to in the PTA 1964. An exception to this is the employee who is employed by the State of the Netherlands.

##### *Changes*

Pursuant to Dutch case law from 2008, reference is however no longer made to "employment with the State of the Netherlands", but to "employment with a Dutch legal entity governed by public law". In 2008 Chapter 7 of PITA 2001 had already been amended in this respect. Although this is also important for the withholding of payroll tax, due to an oversight this amendment was however not included in the PTA 1964.

In order to bring the PTA 1964 in line with PITA 2001, the narrower term "the State of the Netherlands" will be replaced by "a Dutch legal entity governed by public law".

##### **International transfer of accrued pension**

On November 16, 2023 the Court of Justice of the European Union (CJEU) ruled in two judgments that the Netherlands was restricting the free movement of workers in violation of EU law by imposing specific conditions on the international transfer of accrued pension capital. The CJEU ruled that the following two conditions cannot be imposed:

1. The foreign pension plan must not have a broader commutation prohibition than is permitted in the Netherlands.
2. The foreign pension administrator must conclude an agreement with the Dutch tax authorities stating that if the pension is nevertheless commuted, the pension administrator will be liable for the Dutch tax and the deemed interest.

##### *Changes*

The bill Other Tax Measures brings the Tax Collection Act 1990 and the Pensions Act into line with the ruling of the CJEU, after the Deputy Minister of Finance had already done so in his policy statement<sup>3</sup>.

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<sup>3</sup> Policy statement of March 21, 2024, *Government Gazette* 2024, 10467.



### **Tightening of recipients' liability (employment agency sector)**

Under recipients' liability in the Tax Collection Act 1990, the hirer can be held liable for the unpaid payroll tax, social security and national insurance contributions and the VAT that should have been paid by the supplier. This also applies to taxes and contributions payable by the intermediate recipient if a worker is made available. Hirers can limit their liability risk, subject to certain conditions, by transferring part of the amount due to a G account.

In practice, holding hirers liable is a time-consuming and complex process, because the precise amount of the liability is often difficult to determine and requires extensive research. To speed up this process and take more effective action against abuses in the employment agency sector, the government wants to simplify the holding liable of hirers in two respects and further promote the use of the G account.

#### *Intended changes as of January 1, 2026*

The simplification of recipients' liability means that the Dutch tax authorities no longer have to carry out a detailed investigation into the amount of the liability. Instead, a legal presumption will be introduced whereby the tax and contribution debt is set at 35% of the invoiced sum. This presumption will be included in a new Section in the Tax Collection Act 1990. The Dutch tax authorities can hold the hirer liable for this part of the invoiced sum, unless that amount has been deposited in the G account of the supplier or intermediate recipient. If less than 35% of the invoiced sum has been deposited, the hirer may be held liable for a lower amount.

This simplified approach will allow the Dutch tax authorities to hold parties liable more quickly and more often, which will increase the chances that the taxes and contributions due can be collected. The Dutch tax authorities have the freedom to either hold the hirer liable under the current recipients' liability (Section 34 Tax Collection Act 1990) or to do so under the new Section 34a Tax Collection Act 1990. The hirer can produce rebuttal proof by, for example, providing documents from its own accounts and records showing the actual ('lower') debt.

In addition to this, a second presumption will be introduced: a company that is registered in the public register (WAADI Check) will be presumed to be a supplier according to the rules of recipients' liability for tax purposes. This makes it clearer when these rules apply.

Lastly, the government wants to encourage the use of the G account by introducing a policy indemnity for hirers who hire workers from suppliers or intermediate recipients with an authorization and who deposit 35% of the invoiced sum in the G account.

### **Compensation transition fee limited to small employers**

As of July 1, 2026 the compensation paid to employers for employees who are dismissed as a result of long-term incapacity for work (after the end of the two-year obligation to continue to pay wages and salaries) will be limited to small employers



(less than 25 employees). Employers with 25 or more employees will no longer be compensated.

### **Partial foreign taxpayer status abolished as of January 1, 2025**

Employees who live in the Netherlands and who fall under the 30% ruling can make use of the partial foreign taxpayer status. This means that they are treated as non-residents/foreign taxpayers for the purposes of Box 2 (income from a substantial interest) and Box 3 (income from savings and investment), despite the fact that they live in the Netherlands.

#### *Change*

As a result of an adopted amendment to the 2024 Tax Plan, the partial foreign taxpayer status will be abolished as of January 1, 2025. Under the transitional rules, employees who were already using the 30% ruling in the last salary period of 2023, can still benefit from the partial foreign taxpayer status through to 2026.

## **5. Other labor market developments**

### **Transfer general tax credit for single-earners**

As of January 1, 2028 a specific group of single-earners will be able to transfer the general tax credit to their partner. The reason for the (re-)introduction of this measure is that, as a result of a complex combination of tax rules, allowances and social security, certain single-earner households, often with disability benefits, have lower disposable income than a couple who receives welfare. In anticipation of the introduction of this measure, a temporary scheme will be introduced to accommodate these households in the years 2025 through 2027.

### **Early retirement**

Currently, early retirement is possible without the employer having to pay a final levy of 52% under the early retirement scheme (*Regeling Vervroegde Uittreding*; RVU). This exemption means that:

- Employers may pay employees who are within three years of reaching the state retirement age a benefit upon early retirement that is, after payroll taxes and social security contributions have been withheld, equal to the net state pension. This benefit is exempt from the RVU levy.
- The scheme applies to the years 2021 through 2025. If an RVU was agreed in writing no later than December 31, 2025, transitional rules allow for benefits to still be paid, subject to conditions, during the years 2026 through 2028.
- If an employer pays out an early retirement amount to an employee before they are within three years of reaching the state retirement age, the normal RVU levy of 52% will be payable. The employer will also have to remit the 52% RVU levy on that part of the amount exceeding the exemption.

The RVU exemption will end on December 31, 2025. Currently trade unions are in talks with the government about continuing an exemption for an early retirement scheme.

KPMG Meijburg & Co  
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