

HR & Tax Alert



The Netherlands: Budget Day 2006

September 2006

Executive Summary

True to tradition, on 19 September, the third Tuesday in September, the Dutch government unveiled its plans for the coming year in its Budget Memorandum and Tax Plan 2007. There are a number of new proposals in the Tax Plan 2007 that will affect employment conditions and administrative duties for businesses in the Netherlands. No major changes affecting the taxation of expatriate employees were announced. This Alert provides further details on the government's most important proposals.

Trends in the Budget Memorandum

The government expects salaries and income tax revenues to increase by € 4.2 billion in 2007. The increase will be due to a rise in employment and higher salaries (both fixed and variable).

The Budget Memorandum also announced that tax inspections would be intensified. "More visible", "on site" and "higher chance of being caught" were the key terms used.

The government expects purchasing power to increase across the board in 2007 thanks to increases in the general tax credit, the employed person's tax credit and the supplementary combination tax credit. The tax rate on the first two income brackets will increase but the contribution rate will decrease so that the joint rate on the first two brackets will be lower in total.

Tax Plan 2007

Tax and social insurance contribution rates 2007

Taxable income exceeding	Taxable income not exceeding	Tax rate	Contribution rate	Joint rate
–	€ 17,319	2.5%	31.15%	33.65%
€ 17,319	€ 31,122	10.25%	31.15%	41.40%
€ 31,122	€ 53,064	42%	0%	42%
€ 53,064	–	-52%	0%	52%

Compulsory Employer's Contribution to Childcare Costs

With effect from 2007, all employers will have to make a compulsory contribution towards the cost of childcare regardless of whether their employees pay for childcare or not. Employees can apply to the Tax and Customs Administration to receive a childcare allowance. The current compensation scheme for employees and the self-employed who receive little if any contribution from their employers will be abolished as of 1 January 2007.

For employers who currently do not contribute towards childcare costs, the change represents a considerable cost increase, especially if their employees do not incur childcare costs.

Owner/Managers and Health Insurance Contributions

It is proposed that the tax rate on the first € 250,000 of box 2 income (such as dividend payments) be reduced for owner/managers from 25% to 22%. This will provide temporary compensation for the disadvantage to owner/managers of their health insurance contributions not being reduced from 6.5% to 4.4% until 1 January 2008 (entrepreneurs already pay just 4.4%).

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Artists and Professional Sportsmen

The artists and professional sportsmen scheme will be abolished in respect of professional sportsmen resident in the Netherlands and for non-resident professional sportsmen, artists and theatre companies that reside in a country with which the Netherlands has concluded a tax treaty. For many professional sportsmen, artists and theatre companies that reside in a country with which the Netherlands has concluded a tax treaty, there will be no tax liability in the Netherlands and the administrative burden will accordingly be lighter.

In Conclusion

The proposed changes described above are just a few of the proposed changes due in 2007. Human Capital in the Netherlands can provide further details and explanation of the changes and proposals detailed in the Budget.

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