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Law & Tax

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Budget Day 2024: changes to payroll taxes for Dutch employers

On Budget Day 2024, 17 September 2024, the Dutch government presented the 2025 Tax Package to the House of Representatives. The Cover Letter of the 2025 Tax Package (*Cover Letter*) indicates that not all tax changes have yet been included in the 2025 Tax Package. These changes will be included in an amendment to the 2025 Tax Package (*nota van wijziging op het wetsvoorstel Belastingplan 2025*). Several of the legislative proposals included in the 2025 Tax Package are related to payroll taxes and could therefore be relevant for employers and employees. Moreover, on 6 September 2024, the government announced that the enforcement moratorium (*handhavingsmoratorium*) under the Employment Relationships Deregulation Act (*DBA Act*) will be terminated as of 1 January 2025. We will not elaborate on the technical adjustments announced in the 2025 Tax Package in this newsletter.

Please find below an overview of several tax changes related to payroll taxes that enter into effect as of 1 January 2025.

1. Enforcement moratorium will be terminated as of 1 January 2025

The enforcement moratorium under the DBA Act will be terminated as of 1 January 2025. This means that as of 1 January 2025, the Dutch tax authorities will actively enforce against pseudo self-employment. From this date, the Dutch tax authorities can impose correction obligations, additional tax assessments and fines. In cases where there is no malicious intent, the Dutch tax authorities cannot impose corrections further back than 1 January 2025.

Interested in finding out more? Read our newsletter about the termination of the enforcement moratorium.

N.B.: the termination of the enforcement moratorium was not announced on Dutch Budget Day 2024. Due to the practical relevance, we have included this topic in this newsletter as well. Hereafter, this newsletter only contains legislative proposals announced on Dutch Budget Day 2024.

2. Reversing the scaling back of the 30%-ruling and the introduction of the 27%-ruling

The 30%-ruling is a tax facility for foreign employees with specific expertise working in the Netherlands. Under this scheme, subject to conditions, employers can provide up to 30% of the employee's capped salary up to the WNT-standard (WNT-norm) (**Capped Wage**) tax-free. The facility has been scaled back during the past years.

One of these measures concerns the gradual scaling back of the 30%-ruling to a 10%-ruling, which entered into force on 1 January 2024. As a result, for new applications as from 1 January 2024, the 30% tax-free allowance will only be provided in the first 20 months of the term. In the following 20 months, the maximum tax-free allowance will be 20% of the salary and in the last 20 months of the term, this percentage will drop to 10%.

The introduction of the scaling back of the 30%-ruling to a 10%-ruling evoked many reactions within the Dutch business community. In response to these reactions, the Ministry of Finance conducted a research on the 30%-ruling and the ET-scheme earlier this year. This research showed that the gradual scaling back of the 30%-ruling to a 10%-ruling has a negative effect on the Dutch business climate.

In the Cover Letter, the Dutch government announced that this gradual scaling back of the 30%-ruling will be reversed. For the years 2025 and 2026, the flat rate will be 30% of the Maximum Salary of all employees. As of 1 January 2027, the flat rate will be reduced to 27%. As a result, the 30%-ruling will become a 27%-ruling from that moment on. Transitional rules apply for incoming employees who have applied the 30%-ruling before 2024.

Moreover, the Dutch government announced that the regular salary criterion for the application of the 30%-ruling will be increased from € 46,107 to € 50,436 (amount to be indexed). The salary criterion for employees under the age of 30 with a qualifying master's degree will be increased proportionately. Transitional rules will also apply to the increase of the salary criterion.

The abolishment of the partial foreign taxpayer status, effective as of 1 January 2025, will proceed as planned. Additionally, the capping of the 30%-ruling to the Capped Wage, which entered into effect on 1 January 2024, will remain in effect.

3. Other tax changes relating to payroll taxes as of 1 January 2025

In the 2025 Tax Package, the government has also announced the following measures:

Changes in tax rates for employees

- The payroll and income tax brackets will be extended as of 2025 up to and including 2031, reducing the tax burden for mid-income earners. An additional payroll and income tax bracket will be introduced as of 1 January 2028.
- The thresholds for the accrual and phase-out of the labor levy rebate (*arbeidskorting*) will be revised.

Changes in tax rates for employers

- The Aof premium will be increased by approximately 0.03%.
- The AWf premium will be increased by 0.1%.
- The final levy for company vans that are continuously available made to different drivers will be increased from € 300 to € 438 and will be indexed as of 1 January 2026.

Introduction of withholding tax on employees of legal entities governed by public law

Employees of a Dutch public legal entity working exclusively outside of the Netherlands, are currently not considered employees under the current Wage Tax Act 1964 (*Wet op de loonbelasting 1964*) (**Wage Tax Act**). The Dutch government has announced that the definition of an employee under the Wage Tax Act will be expanded to include this group, requiring wage taxes to be withheld from their salaries.

Amendment of legislation on taxation law under tax treaties

The Dutch government has announced that the Income Tax Act 2001 will be amended to effectuate that the Netherlands can enforce its taxing rights under national law, insofar the Netherlands has taxing rights over employment income based on a tax treaty. This will be relevant for employees working from home and certain seafarers.

The proposals mentioned in this newsletter are to be discussed and adopted by the Dutch Parliament, and therefore are subject to changes before enacted into law.

Contact

After reading this newsletter, do you need further clarification on the potential consequences? Or are you interested in a no-obligation consultation? If so, please contact your Loyens & Loeff adviser or one of our tax advisers from our Employment & Benefits team. We will be happy to assist you.