

GMS Flash Alert

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Netherlands - New Budget Features Further Changes to 30% Ruling

On Budget Day, 20 September, the Dutch Ministry of Finance announced¹ two changes with regards to the 30% ruling:

1. As of 2024, the 30% ruling may only be applied on a maximum amount of employment income. This amount is the maximum income for government employees ("WNT norm"), €216,000 in 2022 (subject to indexation each year).
2. An election must be made annually to either apply the 30% ruling or reimburse actual extraterritorial expenses tax-free.

WHY THIS MATTERS

What can arise from these changes are:

- An increased Dutch income tax liability for high-income earners. This could, for example, increase the Dutch income tax liability on one-off payments such as bonuses or equity-based compensation (if the one-off payments result in exceeding the ceiling). In case the employee is covered by a tax equalisation policy, this may also increase the employer's cost of an assignment.
- In some cases, where employers are now performing a year-end payroll review to determine whether reimbursing the actual extraterritorial expenses is more beneficial than applying the 30% ruling, this will no longer be possible as of 2023 because the election must be made at the beginning of the year and cannot be revoked anymore during the year.

Background

The Netherlands has an expatriate tax concession: the 30% ruling. Eligible employees from abroad who meet the conditions and are granted the 30% ruling, may receive 30% of their gross employment income as a tax-free allowance. Consequently, the effective income tax rates are reduced with 30%. For example, the top rate is 49.5%, with application of the 30% ruling, the effective top rate is reduced to 34.65% (as 30% of the wages is tax-exempt). (For prior coverage of changes to the 30% ruling, see [GMS Flash Alert 2022-107](#), 25 May 2022.)

Application to a Maximum Amount of Employment Income

The 30% ruling is now applicable to total employment income. This means that for eligible employees, the effective top income tax rate is 34.65%.

As of 2024, the 30% ruling may NOT be applied on employment income exceeding the WNT-norm, which is € 216,000 in 2022 (and the tax-free allowance 30% ruling therefore is capped at €64,800). Consequently, the top income tax rate will increase from 34.65% to 49.5% to the extent the employment income exceeds €216,000.

In case an employee may only apply the 30% ruling during a part of the year (either in the year of arrival in the Netherlands or in the year the term of grant expires), the WNT-norm has to be prorated on a time apportionment basis.

Anti-avoidance rules will be introduced to prevent employees avoiding the WNT-norm by splitting their pay over various group companies.

A grandfather rule will be implemented for employees who are already benefitting from the 30% ruling in December 2022, the cap for these employees will only be introduced as of the year 2026 (instead of the year 2024 for all other employees).

Annual Election Must Either Apply 30% Ruling or Reimburse Actual Extraterritorial Expenses Tax-Free

The tax-free allowance under the 30% ruling is a deemed and fixed reimbursement of extraterritorial expenses, i.e., additional costs effectively connected with the temporary stay outside the country of origin and employment in the Netherlands (for example: home-leave trip or cost-of-living allowance). It is therefore not allowed to reimburse actual extraterritorial expenses incurred tax-free and simultaneously apply the 30% ruling.

As of 2023, the employer (withholding agent) must make an election at the beginning of the year to either apply the 30% ruling or reimburse the actual extraterritorial expenses tax-free. This election is made by applying either method in the payroll administration; no form has to be submitted to the Dutch Revenue Service. One is not allowed to change the election during the year.

In case of a new employee arriving in the Netherlands or a change of employer (not within a related group of withholding agents), the election only has to be made after four months of the start of the new employment (i.e., at the start of the fifth month of employment). The reason is that an application for the 30% ruling must be submitted to the Dutch Revenue Service within four months after the start of the Dutch employment (but the Service will then grant the 30% ruling with retroactive effect).

We also note that the election for the deemed nonresident status under the 30% ruling will continue to apply.

MEIJBURG & CO. NOTE

A resident of the Netherlands has to report worldwide income whereas a nonresident only has to report Dutch-source income. Under the 30% ruling, a qualifying employee can elect to file as a deemed nonresident. If this election is made, only worldwide employment income and personal income from Dutch sources has to be reported (for example: income derived from Dutch real property). This can result in a tax saving as personal income from non-Dutch sources is not subject to Dutch income tax.

We understood that the Dutch Ministry of Finance contemplated revoking the election for the deemed nonresident status under the 30% ruling, but this is not the case for the year 2023.

FOOTNOTE:

1 *Belastingplan 2023* and *Memorie van Toelichting Belastingplan 2023* published on 20 September 2022. See: <https://www.rijksoverheid.nl/onderwerpen/belastingplan> .

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Please Consider Participating in the KPMG Global Assignment Policies and Practices (GAPP) Survey

Participation in the survey allows you to benchmark your organisation in relation to other survey participants on numerous aspects of a global-mobility program including: assignee selection and assessment, assignment preparation and planning, automation and robotics, talent and performance management, assignment compensation and allowances, administration and outsourcing, immigration compliance, the use of data and analytics, assignment-management technology as well as tax-reimbursement approaches. Click [here](#) to begin the survey.

Key highlights of the 2022 KPMG Global Assignment Policies and Practices Survey will be made available later in the year.

Contact us

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