KPMG Meijburg & Co
Tax Lawyers

Special Dutch tax regime for expatriates: the 30% ruling

The Netherlands has a favorable tax ruling for employees hired from abroad. When certain conditions are met, these inbound expatriates benefit from a significant tax break. In the case of net salary agreements the tax saving is for the benefit of the employer. Below we briefly explain the benefits, the conditions and how we provide you with added value in this respect.

What are the benefits?

On the basis of Dutch tax law, the extra costs of a temporary stay outside the home country (extraterritorial costs) can be reimbursed tax-free. Qualifying employees are deemed to incur extraterritorial costs amounting to 30% of their employment income. As a consequence, the employer is allowed to pay 30% of the employment income as a tax-free allowance during a maximum period of currently eight years.

However, a bill has been introduced to limit the term of grant to five years as of January 1st, 2019. No transitional rule has been proposed, i.e. employees benefiting from the 30%-ruling on January 1st, 2019, will not be grandfathered and their term of grant will also be limited to five years. Actual extraterritorial costs may not be reimbursed tax-free in addition to the 30% allowance. The main benefits of the 30% ruling are as follows:

30% tax-free allowance

The 30% ruling provides for a maximum reduction of the taxable income of 30% of the employment income. As a result, the effective marginal top income tax rate is reduced from 51.95% to 36.365% (= 70% x 51.95%). For a gross annual salary of EUR 80,000, the annual tax saving amounts to approximately EUR12,468.

Tax exemption for income from most savings and investments

Under the 30% ruling, the employee can elect for the partial non-resident status. This status in principle results in taxation only on income from employment, Dutch real estate and substantial interest (more than 5% of the shares) in a Dutch company. Interest, dividend and capital gains are exempt from Dutch taxation as long as they do not relate to a substantial interest in a Dutch company. The taxpayer is however entitled to personal deductions, including the deduction of mortgage interest on the principal residence.

Tax-free reimbursement of international school fees

The employer can reimburse international school fees in addition to the 30% tax-free allowance. These fees are defined as fees for an elementary or secondary school based on a foreign school system.

Who will qualify?

The 30% ruling is only available for qualifying employees. In order to qualify for the 30% ruling, at least the following conditions have to be met:

- The Dutch taxable wage, after application of the 30% ruling, should amount to at least EUR 37,296 (figures 2018). However:
  - For Masters graduates up to the age of 30, the Dutch taxable wage, after application of the 30% ruling, should amount to at least EUR 28,350 (2018 figures)
  - No salary requirement for scientists of universities or recognized institutions
- Living at least 150 km from the Dutch border during at least 16 of the 24 months directly preceding the start of the Dutch employment.

Any periods of previous stay and employment in the Netherlands that ended in the 25 years prior to the commencement in the Netherlands reduce the maximum applicable period. However, certain short visits to the Netherlands may be disregarded in this respect.

The correct implementation of the 30% ruling in the payroll can be complicated. With proper planning it is possible to optimize the benefits of the 30% ruling. In addition to the application for the 30% ruling, we can assist with the optimization of an employment structure.

How can Meijburg & Co be of service?
For more information, please contact our People Services specialists.