

## **Introduction of temporary free depreciation scheme 2023**

The temporary free depreciation scheme 2023 was introduced in the [2022 End-of-year Regulation](#). Under this scheme, a taxpayer can in 2023, broadly and subject to conditions, [freely depreciate](#) in one go up to a maximum of 50% of the purchase or production costs of a designated operating asset. There was also a similar scheme in 2013.

### ***The scheme***

Free depreciation means that a business itself decides how much of an investment will be deducted from the profit for tax purposes. The maximum free depreciation is 50% of the depreciation potential. The remainder of the depreciation potential is depreciated normally, even in the investment year. The total depreciation in 2023 can therefore be more than 50%. Insofar as the portion that can be freely depreciated is not depreciated in 2023, it will be included in the normal depreciation in subsequent years.

Ultimately the same amount of tax is paid as would be paid without free depreciation, but the scheme may provide a liquidity advantage. Under the free depreciation scheme, businesses in loss situations that (for the time being) have not been able to set off these losses, can in 2023 opt to not depreciate for tax purposes the portion that falls under the scheme. This will leave the depreciation potential available for future use and the normal depreciation in the years after 2023 will be higher. In view of the loss set-off rules, this can certainly provide a liquidity advantage, since taxable profits above EUR 1 million can only be set-off for 50%.

### ***Qualifying operating assets and other conditions***

Operating assets qualify for the scheme if the commitments or the production costs were incurred in 2023 and the operating assets have not previously been put into use. The following operating assets are excluded from the temporary free depreciation scheme:

- buildings, ships and aircraft;
- mopeds, pedal-assisted bicycles, motor vehicles and low-speed mobility vehicles;
- passenger cars not intended for commercial road transport, with the exception of zero-emission cars;
- intangible assets and animals;
- roads and paths open to public traffic, including any bridges, viaducts, culverts and tunnels on those roads and paths;
- operating assets made available to third parties (unless made available for a short period of time to consecutive lessees);
- operating assets that are already freely depreciated under another scheme.

This is subject to the condition that the investment, for example a machine, is put into use before January 1, 2026. If it is not, the free depreciation will be reversed, unless the taxpayer convincingly demonstrates that its commissioning was delayed due to special circumstances.

The amount of the free depreciation before the operating asset was put into use must not exceed the amount that was paid or the amount incurred in production costs.

Specifically, this means that in order to take full advantage of the free depreciation, based on a residual value of nil, at least half of the qualifying investment must be paid in 2023.

In contrast to the free depreciation of environmental assets, the temporary scheme does not require the submission of applications or notifications. This therefore means that when determining the tax position/tax return for 2023, the extent to which a business wishes to make use of the free depreciation option can be considered. It is of course advisable to clearly identify which invested amounts are actually eligible in 2023 and to do so on time.

***Relevance of the 2013 scheme***

At the time of the 2013 scheme, the Dutch Tax and Customs Administration published examples showing how 50% free depreciation can be applied together with normal depreciation and how the payment criterion affects this. These examples are still current and enclosed with this memorandum. Please be aware that in 2013 free depreciation only applied to the period July 1 through December 31, 2013, while in 2023 free depreciation applies to the entire year.

If you would like more information about free depreciation in 2023 and how this will affect your situation, feel free to contact your advisor at KPMG Meijburg & Co.

KPMG Meijburg & Co  
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## **Appendix: Examples from the website of the Dutch Tax and Customs Administration July 12, 2013**

(...)

Also under this free depreciation scheme, if you have not yet put the operating asset into use, the free depreciation will be limited to the amount that you have paid. If, as a result, you are not able to freely depreciate in a financial year in which the period July 1 through December 31, 2013 falls, it will not be possible to freely depreciate thereafter.

### **Example 1**

Your financial year corresponds to a calendar year. On July 1, 2013 you make an investment of EUR 110. The residual value is EUR 10. A normal depreciation period of five years applies. You put the operating asset into use immediately.

#### How this works out in practice

Maximum free depreciation in 2013:  $\text{EUR } 100 \times 50\% = \text{EUR } 50$ .

Normal depreciation EUR 50: Over five years this is EUR 10 per annum.

In 2013 the amount of depreciation is:

Free depreciation: maximum of EUR 50

Normal depreciation:  $(\text{half a year} \times \text{EUR } 10) = \text{EUR } 5$

Total maximum depreciation in 2013: EUR 55

In 2014 and subsequent years the amount of depreciation is EUR 10; in 2018 (the last year) EUR 5.

### **Example 2**

Your financial year corresponds to a calendar year. On July 1, 2013 you make an investment of EUR 110. The residual value is EUR 10. A normal depreciation period of five years applies. You put the operating asset into use on January 1, 2015. You pay EUR 30 in 2013 and EUR 80 in 2014.

#### How this works out in practice

Maximum free depreciation in 2013: EUR 30 (paid)

Normal depreciation EUR 70: Over five years this is EUR 14 per annum

In 2013 the amount of depreciation is:

Free depreciation: maximum of EUR 30

Normal depreciation: EUR 0 because the operating asset has not yet been put into use

Total maximum depreciation in 2013: EUR 30

In 2014 the amount of depreciation is:

Free depreciation: EUR 0 because 2014 is not the year in which the investment was made

Normal depreciation: EUR 0 because the operating asset has not yet been put into use

Total maximum depreciation in 2014: EUR 0

In 2015 the amount of depreciation is:

Free depreciation: EUR 0 because 2015 is not the year in which the investment was made

Normal depreciation: EUR 70: Over five years this is EUR 14 per annum.

Total maximum depreciation in 2015: EUR 14

In 2016 through 2019 the amount of depreciation is EUR 14.

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