

# SNV

## Remuneration policy expatriates Tax & Social security implications



September 2008



# Contents

1. Basic assumptions of future policy
2. Hypo tax in new build-up mechanics
3. Basis for hypotax
4. Conclusions of policy decision on hypotax for Dutch and non-Dutch expatriates
5. Specific tax rules in case of working abroad
6. Social security
7. Summary

## Head Office Net Approach

- All expats treated as if they were Dutch nationals
- Deduction for hypo Dutch tax and hypo Dutch social security
- Deduction for employee pension premium
- Net-salary in Netherlands is the basis for net host income

<b>Proposed build-up mechanics</b>
<b>gross salary</b>
- hypothetical tax
- social security (for All)
- pension premium
(net salary)
- host housing contribution (withholding by employer)
<b>variable host spendable income</b>
+ host spendable income differential (COL index)
+ interregional mobility incentive
+ premium for non accompanied duty station
<b>net host income</b>

Basic assumptions of future policy

## Head Office Net Approach

This results in

- No gain no loss as if working and living in the Netherlands
- Equal treatment for all expats regardless of host country, circumstances such as host tax jurisdiction, cost of living, housing, etc.

Basic assumptions of future policy

## Head Office Net Approach

Therefore

- SNV withholds hypo Dutch tax & social security premiums (Dutch expats and in future also for non-Dutch expats). In return,
- SNV pays expat's individual income tax in host country and home country of origin
- SNV pays for continuation of social security coverage which would normally be paid by employee him/herself

Most companies (78.1%) retain an estimated hypo tax

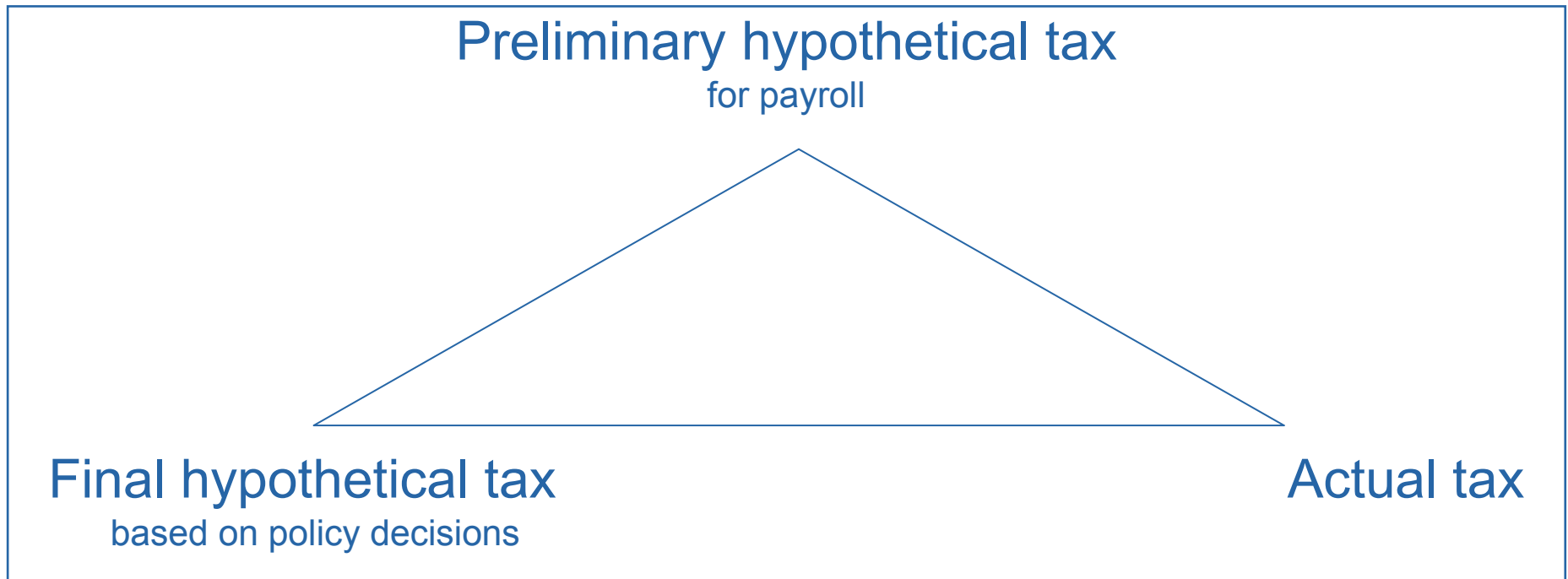
Most companies (49.3%) charges a hypo social tax

Many companies (39.4%) retains no hypo social tax when the expats continues in the home social system

PWC Global International Assignment Policy survey 2007 EMEA All Industries

Hypo tax in new build-up mechanics

## Relevant moments



**Current situation: Preliminary hypothetical tax only with SNV payment of actual taxes in increasing number of countries**

## What could – generally - be considered for final hypothetical tax calculation

Mortgage interest

Alimony

Levy rebate spouse

Child benefit

Personal income

Note that expat can rent out house to compensate for loss, or Dutch expats can continue mortgage interest deduction under certain conditions

When included in final hypo tax, additional policy decisions may be required on how to deal with inequality for non-Dutch expats without such tax benefits in their original home country.

Alternative: no final hypo tax calculation but use hypo average tax benefits in preliminary hypo tax calculation

Few companies (14.3%) include personal income in the hypo tax

Most companies (62.5%) do recalculate the hypo tax at the end of the year to include disregarded items such as itemized deductions

PWC Global International Assignment Policy survey 2007 EMEA All Industries

## What could be considered for final hypothetical tax calculation

EXCLUDE	INCLUDE	
<ul style="list-style-type: none"><li>• Administratively easy</li></ul>	<ul style="list-style-type: none"><li>• Most in line with the actual personal Dutch tax situation</li></ul>	<b>PRO</b>
<ul style="list-style-type: none"><li>• Expats own responsibility to protect him/herself against this loss (if any)</li></ul>	<ul style="list-style-type: none"><li>• Administratively complex</li><li>• Inequity between Dutch and non-Dutch home owners; if Dutch home owners are compensated, this may have consequences for comparison between non-Dutch home owner and Dutch non-home owners (difficult to communicate and explain)</li></ul>	<b>CON</b>

## How to deal with employment income versus personal income

Protected or equalized on employment income only

SNV already has access to all relevant data to make tax calculations based on employment income only

Protected or equalized on employment + personal income

Expatriate needs to disclose all personal related income to enable tax calculation

Most companies (57.5%) do not offer any protection with respect to personal income or losses

PWC Global International Assignment Policy survey 2007 EMEA All Industries

### Tax protection:

The expatriate is reimbursed for taxes in excess of the amount the expatriate would have paid had s/he remained in the Netherlands. The expatriate would retain the windfall in those countries where that actual taxes are lower than what the expatriate would have paid had s/he remained in the Netherlands.

### Tax equalizations:

The expatriate is expected to pay taxes at a level similar to what s/he would have paid if they had remained in the Netherlands. S/he would not be allowed to retain any tax windfalls that are the result of the assignment.

### Laissez-faire:

The employer does nothing to assist the expatriate with the home and/or host country tax obligation under the theory that this is the expatriate's personal responsibility.

## How to deal with employment income versus personal income for host country tax protection or equalization

Employment income only	Employment + Personal	
<ul style="list-style-type: none"><li>• Administratively easy</li><li>• Conform market practice</li></ul>	<ul style="list-style-type: none"><li>• Most in line with the actual personal Dutch tax situation</li></ul>	PRO
<ul style="list-style-type: none"><li>• May be difficult for expat with high personal income to move to high tax country</li></ul>	<ul style="list-style-type: none"><li>• Administratively complex</li></ul>	CON

## Basic assumptions of future policy

Policy decision: hypotax on SNV income only, with SNV reimbursement of actual taxes on SNV income

### Implications:

- Hypotax withholding to Dutch level on gross salary
- Actual tax liability (home and host country) on net SNV income plus allowances for the account of SNV
- Applies for both Dutch expats and non-Dutch expats (example: SNV tax reimbursement may therefore also include US taxes on SNV income for a US national on assignment)
- Additional procedures may need to be established to deal with the non-Dutch assignees

## Basic assumptions of future policy

# Hypotax on SNV income only: example (balance sheet)

	Hypothetical tax	Actual tax
Gross annual salary	100	
Deduct: hypothetical tax	-30	
Deduct: social security / pension premium	pm	
Deduct: host housing contribution	-7	
Net	63	63
Add: COL index (say)		+10
Add: mobility incentive		+20
Add: premium non accompanied duty station		pm
Net host income before gross up		93
Host income tax (gross up at rate 35%)		50

Special tax rules in case of working abroad

## Dutch (tax) rules for employees working abroad

- Residency decisive for applicable tax rules
- Working abroad: implications for Dutch real estate
- Working abroad: implication for other income/expenses
- De-registration formalities in the Netherlands

## Residency

- Resident tax-payer (center of vital interest is in the Netherlands). A resident tax-payer is taxable in the Netherlands for his world-wide earned income in the Netherlands.
- Non-resident tax-payer(center of vital interest is outside the Netherlands). A non-resident tax-payer is taxable in the Netherlands for limited sources of income.
- In short: residency is test of facts and circumstances. Registration with local authorities is not decisive

## Resident tax-payer – Non-resident tax payer

	<b>Resident</b>	<b>Non-resident</b>
<b>Income</b>	world-wide	Dutch workdays
<b>House</b>	Interest deductible	Value house taxable
<b>Alimony</b>	deductible expense	Non-deductible expense
<b>Levy rebate</b>	Applicable	Not applicable

## Other countries

### Transfer from countries other than the Netherlands:

- In general, similar as in the Netherlands, taxable in home country for home country source income only
- Possibilities to deduct, for example, mortgage interest, needs to be reviewed on a country by country basis
- US nationals will always be regarded as US resident taxpayers for US tax purposes

## House in the Netherlands

### Main rule:

**mortgage interest in principle not deductible for a non-resident,  
rental income is not taxable**

### Exception 1 (interest remains deductible):

- Individual owns the house for at least one year; and
- The individual is temporarily not living in his house; and
- The house is not rented to another individual.

### Exception 2 (interest remains deductible):

- Individual owns the house at least during the calendar year; and
- The house is empty; and
- The individual should prove that the house is currently in the market for sale

Social security

## Dutch social security

Includes:

- AOW General Old Age Pension Act
- ANW General Surviving Relatives Act
- AWBZ General Act on Exceptional Medical Expenses
- AKW General Child Benefits Act
- ZVW Health Insurance Act
- WW Unemployment Benefits Act
- WIA Disablement Benefits Act

## Social security

### How to deal with social security

#### Dutch expats

Possibility of “voluntarily” insurance (excl. WW, AWBZ). No equalization agreements between Netherlands and SNV countries

#### Alternatives for non-Dutch expats

- Continuation of home social security, or
- Insured through private insurers, or
- No hypo social security deduction for non-Dutch expats and social security own responsibility

When continuation home social security is possible, additional policy decision required on premium paid by SNV, e.g. max same as Dutch premium?

When private insured, Dutch or original home country social security?

Equality in premium or in benefit?

## Social security

# How to deal with social security

Dutch social security	Home social security	
<p>Dutch voluntary social security for Dutch expats:</p> <ul style="list-style-type: none"><li>• No loss no gain for Dutch expats</li><li>• Administratively easy</li></ul>	<ul style="list-style-type: none"><li>• Most in line with no loss no gain starting principle for non-Dutch expats</li></ul>	<b>PRO</b>
<p>Dutch social security level through private insurers for non-Dutch expats:</p> <ul style="list-style-type: none"><li>• Dutch social security may be inappropriate for non-Dutch expats</li><li>• May create unintended loss or gain for non-Dutch expats</li></ul>	<ul style="list-style-type: none"><li>• Home social security continuation may not always be possible in original home country</li><li>• Administratively complex</li></ul>	<b>CON</b>