Handout 'Tax matters - local employees and supplement recipients'

This handout sets out the main points of the 'Tax guidelines for local employees and supplement recipients'.

<u>Legal status of local employees and supplement recipients</u>

Local employees are employed at a Dutch mission (an embassy, consulate or permanent mission) outside the Netherlands as government employees on the basis of employment contracts. These contracts, concluded with the State of the Netherlands, are subject to local law. Supplement recipients are ex-employees or their surviving dependants.

The legal status of local employees is regulated in the Legal Status (Local Employees) Regulations 2020 (LSR 2020), the mission version for the country where they work and their individual employment contract. The conditions for receiving supplementation are also set out in the LSR 2020 and the mission version. These documents can be consulted at the mission.

<u>Taxation of salaries and supplements</u>

Employees receive remuneration from current employment. People entitled to a supplement receive remuneration from previous employment. Tax is owed on both kinds of remuneration. Usually tax is owed locally, but sometimes it is owed in the Netherlands or in both countries. This depends on local and Dutch tax legislation, tax treaties and reciprocity arrangements. The rules can be complex. They are set out as simply as possible below.

<u>Taxation if a tax treaty exists</u>

The Netherlands has agreed tax treaties with more than 90 countries for the avoidance of double taxation and the prevention of tax evasion. These treaties contain specific provisions on taxation of the earned income of government employees and on taxation of income from supplements paid to former government employees and their surviving dependants. In tax treaties, taxing rights are usually allocated between the parties to the treaty in such a way that income tax is owed in only one of the countries. These tax treaties can be consulted at the relevant missions and are available online in the treaty languages.

<u>Taxation if reciprocity arrangements exist</u>

If no tax treaty is applicable, tax must in principle be paid on remuneration in both the country of residence and the Netherlands. However, the Netherlands has agreed with certain countries to waive the right to levy tax on remuneration from current employment. These agreements are known as reciprocity arrangements. The employer is not required to remit salaries tax to the Dutch authorities on the condition that the host country does not require salaries tax to be remitted to its tax authorities for its own local employees in the Netherlands (reciprocity). In such cases, tax is only levied by the country in which the individual is resident. If the country in question does not have a diplomatic or consular mission in the Netherlands, reciprocity may in some cases be presumed. In this case, too, tax is only levied in the country of residence.

How is ‘remuneration’ defined for tax purposes?

In the Netherlands ‘remuneration’ is defined for tax purposes as all payments from current or previous employment. This includes taxable allowances and social security contributions. Other countries may use different definitions. Every country can pass national legislation defining remuneration and setting out how it is taxed (if the country has taxing rights on it).

Gross and net salary

The difference between gross and net salary as a result of taxation remittances can be explained as follows:

- If a tax treaty assigns the taxing right to the country where you live (country of residence) or reciprocity arrangements (or presumed reciprocity) apply to you, you will receive your salary net. The employer will deduct from your gross salary the tax and social security contributions owed locally and remit these to the local authorities. If the employer is unable to remit these amounts, you will receive your salary gross and you will be responsible for remitting these amounts yourself and required to show each year that you have done so.
- If the taxing right has been assigned to the Netherlands by a tax treaty, you will also receive your salary net. Your net salary is calculated by deducting from your gross salary amount the social security contributions payable locally and the amount of tax that you would owe locally on your salary if the local tax authorities levied the tax payable locally. This is done without taking into account any personal deductions you or your family members would have been entitled to. The employer then remits the salaries tax owed in the Netherlands (as employer’s contributions) to the Dutch tax authorities.

The rates of Dutch salaries tax do not affect the amount of local salaries tax and therefore do not affect the amount of net salary received locally.

You will receive an annual statement stating the salary paid by the employer, the salaries tax withheld and the tax credits applied. You can refer to this annual statement when filing your income tax return. Only a small number of local employees and supplement recipients are required to submit an income tax return in the Netherlands.

If there is no tax treaty and no reciprocity (whether presumed or agreed), your salary may be taxable both in your country of residence and in the Netherlands. Pursuant to the LSR 2020, in such cases the employer pays and remits the salaries tax owed in the Netherlands. You will only have to pay and remit the tax owed locally.

Tax guidelines for local employees and supplement recipients

Further details about tax matters are set out in the ‘Tax guidelines for local employees and supplement recipients’. These guidelines are available in Dutch, English, French, German and Spanish. The document provides an in-depth explanation of the effects if you are liable to pay tax locally, if you are liable to pay tax in the Netherlands and in the event of double tax liability. The various appendices to the guidelines provide digital access to the tax treaties agreed by the Netherlands and an overview of the countries with which reciprocity has been agreed or with which reciprocity is presumed.

Questions?

If after referring to the tax guidelines you still have questions about tax matters, you can put them to the operational manager at your mission. The operational manager can pass on complex questions to 3W via SSP.

If you have a question that relates specifically to your personal situation, you can also contact:

- **Tax Information Line** (0800 0543). The Tax Information Line can answer general questions from people liable to tax in the Netherlands. It can also be reached from abroad by calling the BZ numbers +31 70 348 4030 or +31 70 348 4130 (calls are automatically forwarded by the switchboard).

- **Tax Administration – Department of International Issues** (+31 555 385 385) This department deals with questions about Dutch income tax from non-resident taxpayers.

Always clearly state that you have an employment contract with the State of the Netherlands that is subject to local law or that you receive a supplement from the State of the Netherlands, and that you are not a civil servant posted abroad. Have your citizen service number (BSN) ready. If you are liable to tax in the Netherlands, your BSN will be given on your annual statement.

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