

Netherlands

Tax System

Tax Unit

The dutch income tax system has been subject to a stepwise individualisation since 1984.

Nevertheless, it still bears the characteristics of both the individual and the household (breadwinner) model. But it seems to be of importance, that cohabitant couples are equally treated as married couples.

A personal allowance is deducted from the total net income before tax is levied. The level of this allowance is determined by the tax class to which a person is assigned. This level depends on the individual circumstances. The basic personal allowance is Dfl. 7.102. For married or single persons with a spouse or partner without an income the personal allowance is Dfl. 14.204.

When two people live together, one with a high income and one with a marginal income, mostly the one with the high income gets the personal allowance for the couple (Dfl. 14.204), while the other pays 37,3% taxes on every guilder earned. It's also possible both get an allowance of Dfl. 7.102. In that case the person with the marginal income won't pay taxes over the first Dfl. 7.102 earned. If the partner has a taxable amount of more than Dfl. 45.960, this is however not the most profitable way for the couple due to the progressive tax-rate. In the model calculations the high income gets therefore the total tax allowance of Dfl. 14.204.

Tax bands

Income tax is levied on the taxable amount. This is a progressive tax. The rates are:

- 37,3% on the first Dfl. 45.960;
- 50% on the next Dfl. 51.462;
- 60% on the remainder.

The 37,3% rate is comprised of 5,05% tax and 32,25% social security contributions, whilst the 50% and 60% rates consists solely of tax. A rate of 15,55% is applicable to persons aged 65 and over, as they are no longer liable for several social security contributions.

Taxable Income

Income tax is a tax on a person's annual income. The tax year for persons is the calendar year. Income tax is levied at a progressive rate. Personal circumstances are taken into account when making the assessment of the amount of tax to be paid and certain expenses are tax-deductible. The scheme provides for a personal allowance, the amount of which is dependent on the individual circumstances. There are three tax rates, of which the first rate includes both tax and national social security contributions. The upper two rates consist solely of tax.

Income tax has two advance levies, which are a salaries tax and a dividend tax. The salaries tax and the national social security contributions are levied jointly on earned income or benefits. The employer

or body paying the benefit deducts the tax and contributions directly from the salary or benefit and pays these to the tax authorities. Many persons pay only salaries tax and are not subject to income tax. For persons with a high income or many tax-deductible items, the salaries tax serves as an advance levy and they are subsequently issued with an income tax return and an assessment.

The other second advance levy for income tax is the dividend tax. The corporation paying the dividend withholds dividend tax at a rate of 25% and pays the tax to tax authorities. Shareholders are liable for income tax on the gross dividend they receive. An amount of this dividend is exempted from income tax (Dfl. 1.000 for single persons and Dfl. 2.000 for married persons).

The Income Tax Act distinguishes five different sources of income, which together comprise the total gross income. The five categories are:

- profits from business or professional activities;
- net income from employment and services rendered outside employment;
- net income from capital;
- income in the form of periodic payments;
- income from a substantial holding.

In this project we focus on net income from employment. Income from present employment includes salaries, payments, gratuities, tips, certain periodic payments received under social security legislation, the free use of a private car and free housing paid for by the employer. Income from past employment includes pensions and invalidity, disablement and unemployment benefits. Salaries, wages and certain periodic payments received under social security legislation are subject to the salaries tax.

In principle expenses incurred in connection with employment are deductible from the income. The deduction is equal to the actual expenses less reimbursements or, subject to upper and lower limits, 8% of the gross salary, whichever is larger. A fixed sum is tax deductible for travel between home and work. This sum is related to the actual distance the employee must travel and the average number of days worked in a week. These deductions are not taken into account with the model calculations.

Employees are taxed on their total gross income, which is the income from all five named sources less the associated expenses. As seen this income may be further reduced by certain deductions and allowances not directly related to a specific source of income. The balance is the total net income. This total net income is further reduced by the deduction of a personal allowance before tax is levied. The result is the taxable amount. Because of the social security contributions which are levied at the same time as the salaries and income tax, the gross income consists of a "transfer-addition" on the salary of the employee. By this "transfer-addition" part of the contributions are reimbursed by the employer or the benefit-paying organisation. This transfer amounts to a maximum of Dfl. 7.791.

Child Benefit

In the Netherlands no taxes or contributions have to be paid over the child benefit. Households receive a net quarterly benefit per child which is independent of the height of the income of the parents and has no effect on payments for tax or social security.

Social Security system

Structure and Contributions

The social security system can be divided in national insurance schemes and employees insurance schemes. All persons residing in the Netherlands are required by law to be insured under the national insurance schemes. The employees insurance schemes are only for persons in paid labour. All employees are compulsory insured under the insurance schemes for employees; civil servants and self-employed persons are not. Next to these insurance schemes there are also social provisions which supplement (family) incomes, bringing them up to the minimum guaranteed income level depending on the particular domestic situation.

Under all social security acts unmarried couples living together receive the same treatment as married couples. This also applies to two brothers or sisters who live together and to a grandparent and a grandchild who live together. Only those people who live together with parents or children are considered to be single. Married persons who are separated are also counted as single persons, unless they live together with someone else. A lone parent is a person who has a child under the age of 18 as part of his or her household and for whom he or she receives child benefit.

The national insurance schemes are:

- General Old Age Pensions Act (AOW);
- General Surviving Relatives Act (Anw);
- General Act on Exceptional Medical Expenses (AWBZ);
- General Disablement Pensions Act (AAW);
- General Child Benefit Act (AKW).

The employees insurance schemes are:

- Disablement Benefits Act (WAO);
- Sickness Benefits Act (ZW);
- Health Insurance Act (ZFW);
- Unemployment Benefits Act (WW).

Contributions remitted to the social security agencies are as follows (1 July 1997):

	Employees insurance schemes			
	WAO	ZFW	WW	ZW
<i>Contribution rate (%)</i>				
Employer	-	5,55	5,75	-
Employee	8,45	1,35	2,50	-

Contributions for the national security schemes are levied together with taxes to the tax authorities. They are paid in relation to the level of income, irrespective of the working-time schedule. Contributions for the employees insurance schemes are remitted to the social security agencies. They are also paid in relation to the level of income, but take into account the working-time schedule of the employee (average number of days worked in a week).

Benefits

Social provisions are financed from tax revenues. Social provisions which are important for this project are:

- Supplementary Benefits Act (TW);
- Act on Income Provisions for Older, Partially Disabled Unemployed Persons (loaw);
- Act on Income Provisions for Older, Partially Disabled Formerly Self-employed Persons (loaz);
- National Assistance Act (Abw).

The TW provides assistance to unemployed or disabled persons receiving benefit under the WW, AAW, WAO or ZW schemes if their income (plus that of their partner) falls below the minimum guaranteed income. Supplementary benefit equals the difference between the applicable minimum guaranteed income level and the total income of the beneficiary and his or her partner. The minimum guaranteed incomes are set at the following gross amounts (1 July 1997):

	Gross income per month
Single persons aged 23 or over	Dfl. 1.570,66
Lone parents	Dfl. 2.019,42
Married persons and couples living together	Dfl. 2.243,80

The Abw provides a minimum income for everybody in the Netherlands with inadequate financial resources to meet their essential living costs.

The Abw sets out three national assistance levels for people aged 21 and older:

- married people or co-habitants;
- lone parents;
- single people.

For married people and co-habitants the national norm is 100% of the net minimum wage. For lone parents it is 70% and for single people it is 50%. The relevant municipality can provide a supplement of no more than 20% of the net minimum wage.

Assumptions for model calculations

The model calculations are based on the average income for men and women separately. The AI's which are used are the average gross annual wages for full-time men and women respectively inclusive special payments which are only paid once a year (like vacation allowance, emoluments, bonus, etceteras). Pension and early retirement contributions are also included in this income. The average gross annual wages for full-time men and women respectively are presented in the following table (numbers at December 1995):

	Men	Women	Men and women
Full-time	Dfl. 62.800	Dfl. 46.200	Dfl. 59.400
Total (full-time and part-time combined)	Dfl. 56.000	Dfl. 30.100	Dfl. 45.700

Source: Centraal Bureau voor de Statistiek

Concerning the model calculations the AI has been seen as a synonym for a full-time job five days per week. The factors 0,25, 0,5 and 0,75 have been seen as (flexible) part-time jobs with respectively two, three and four working days per week. The marginal job has been seen as a job of one day per week. Compressed working weeks can profit from the contribution system for social security (with at the same time difficulties with the level of insurance), but these are not taken into account.

In the model calculations tax deductions are not taken into account. These deductions vary in each individual situation. Before the income tax has been calculated, the personal tax allowance is deducted from the gross income. This allowance is important for the distribution of the net income among working partners. It also gives a married couple with a sole earner a higher net income than a single person with the same gross income.

Male average Income for men and women:

Income after taxes and social security contributions: Average income (AI man & AI woman) = 62.800

										Social Security contributions						Net income after tax and soc. sec.			
	Total gross income			income tax			income tax in %			Health									
										ZFW	WAO	ZFW	WAO	WW	WW				
	A	B	A+B	A	B	A+B	A	B	A+B	A		B		A	B	A	B	A+B	%
Single	62800	0	62800	17723	0	17723	28,2		28,2	2000	3066	0	0	1570	0	44199	0	44199	70,4
Married																			
Sole earner	62800	0	62800	17723	0	17723	28,2		28,2	4000	3066	0	0	1570	0	42199	0	42199	67,4
Full time/part time																			
marginal	62800	6280	69080	17723	2208	19932	28,2	35,2	28,9	2000	3066	295	82	1570	157	44199	4075	48274	69,9
0,25 AI	62800	15700	78500	21274	2790	24064	33,9	17,8	30,7	2000	3066	422	430	1570	393	40648	12990	53638	68,3
0,5 AI	62800	31400	94200	21274	8395	29670	33,9	26,7	31,5	2000	3066	634	1309	1570	785	40648	23178	63827	67,8
Both full-time																			
0,75 AI	62800	47100	109900	21274	14310	35584	33,9	30,4	32,4	2000	3066	846	2187	1570	1178	40648	32909	73557	66,9
AI	62800	62800	125600	21274	21274	42549	33,9	33,9	33,9	2000	3066	2000	3066	1570	1570	40648	40648	81297	64,7

Male average Income for men and women:

Income after taxes and social security contributions: Hifh Income (2 * AI ma & woman = 125.600)

	Total gross income			Income tax			Income tax in %			Social security contributions						Net income after tax. and soc. sec.			
	A	B	A+B	A	B	A+B	A	B	A+B	Health				Unemployment		A	B	A+B	%
										ZFW	WAO	ZFW	WAO	WW	WW				
	A	B	A+B	A	B	A+B	A	B	A+B	A		B		A	B	A	B	A+B	%
Single	125600	0	125600	50697	0	50697	40,4		40,4	2000	4218	0	0	1911	0	74565	0	74565	59,4
Married																			
Sole earner	125600	0	125600	50697	0	50697	40,4		40,4	4000	4218	0	0	1911	0	72565	0	72565	57,8
Full time/part time																			
marginal	125600	12560	138160	54958	1604	56562	43,8	12,8	40,9	2000	4218	380	613	1911	314	70304	70304	80989	58,6
0,25 AI	125600	31400	157000	54958	8220	63178	43,8	26,2	40,2	2000	4218	634	1757	1911	764	70304	70304	93188	59,4
0,5 AI	125600	62800	188400	54958	21014	75972	43,8	33,5	40,3	2000	4218	2000	3962	1911	1147	70304	70304	110692	58,8
Both full-time																			
0,75 AI	125600	94200	219800	54958	37435	92393	43,8	39,7	42	2000	4218	2000	4218	1911	1529	70304	70304	127113	57,8
AI	125600	125600	251200	54958	54958	109916	43,8	43,8	43,8	2000	4218	2000	4218	1911	1911	70304	70304	140608	56

Male average Income for men and women:

Income after taxes and social security contributions: low income

	Total gross income			Income tax			Income tax in %			Social security contributions						Net income after tax. and soc. sec.			
										Health				Unemploy- ment					
										ZFW	WAO	ZFW	WAO	WW	WW				
	A	B	A+B	A	B	A+B	A	B	A+B	A		B		A	B	A	B	A+B	%
Single	47100	0	47100	11845	0	11845	25,1		25,1	846	1739	0	0	1178	0	35867	0	35867	76,2
Married																			
Sole earner	47100	0	47100	11845	0	11845	25,1		25,1	846	1739	0	0	1178	0	35867	0	35867	76,2
Full time/part time																			
marginal	47100	4710	51810	11845	1679	13524	25,1	35,6	26,1	846	1739	274	0	1178	118	35867	3049	38915	75,1
0,25 AI	47100	11775	58875	14494	1512	16006	30,8	12,8	27,2	846	1739	369	99	1178	294	33218	10514	43732	74,3
0,5 AI	47100	23550	70650	14494	5509	20003	30,8	23,4	28,3	846	1739	528	645	1178	589	33218	18265	51483	72,9
Both full-time																			
0,75 AI	47100	35325	82425	14494	10012	24506	30,8	28,3	29,7	846	1739	687	1192	1178	883	33218	25843	59061	71,7
AI	47100	47100	94200	14494	14494	28988	30,8	30,8	30,8	846	1739	846	1739	1178	1178	33218	33218	66436	70,5

