Year-end payroll audit for employees with the 30% ruling.

As the year-end approaches, it is time for those responsible for payroll administration to conduct a year-end review of payroll processing. At the same time, preparations for the new year must be made. For employers with employees benefiting from the 30% ruling, this tax facility becomes increasingly important year by year. Relevant laws and regulations have changed considerably in recent years, with more expected changes in the future.

1. Salary threshold

When the 30% ruling is applied in the payroll administration, employers must ensure throughout the (calendar) year that the salary threshold (the so-called "continuity test") is met. The salary threshold is indexed annually. Whether the salary threshold is met can be verified by the Dutch Tax Authorities. If the threshold is no longer met, the 30% ruling will end, potentially retroactively from the beginning of that year.

It is not always easy to determine if the salary threshold has been met, especially for employees whose salaries are close to that threshold. The following situations require extra attention for these so-called high-risk employees and other employee groups:

- An employee joins or leaves during the year, which requires prorating the salary threshold. The Dutch Tax Authorities uses a specific calculation method that also considers if and when certain entitlements, such as holiday pay, are paid.
- An employee's contract ends during the payroll period.
- The duration period of the 30% ruling ends within the payroll period, for instance before the end of the month. For this, it is relevant when the salary is received for tax purposes, such as before or after the end of the 30% ruling duration period.
- An employee takes leave, resulting in reduced salary. Depending on the type of leave, this may affect the salary threshold.
- An employee with a (qualifying) master's degree turns 30 years of age.
- An employee is partly subject to Dutch tax because they work partly in the Netherlands or, for other reasons, are partly taxed abroad.
- An employee has additional employment income, for instance, from another employer.
- An employee has exchanged gross salary for a tax-free allowance. Since the salary threshold is based on taxable income, this may affect the maximum 30% allowance.

The primary importance is to ensure that the salary threshold is met so that, as an employer, you are not confronted with corrections from the Dutch Tax Authorities later on. At the same time, it is advisable to pursue an accurate calculation of the maximum 30% allowance, meaning that it is applied optimally. If the allowance is set too low while there is some more space, the employee is being deprived.

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As of January 1, 2024, the salary thresholds are as follows:

- High: more than € 46,107
- Low: more than € 35,048 (for employees under 30 with a master's degree at university level or a foreign master's degree equivalent to a Dutch university master's degree).
- No salary threshold applies for scientific researchers at scientific research institutions.

Note!

The 2024 salary threshold is based on annual taxable income, which must be *more than* the specified amounts above. Please ensure that the income is not below the threshold, nor exactly at it; it must be above it.

2. What should employers consider this year?

In addition to checking whether the annual salary threshold has been met, there are several other points of attention. We highlight the following (not exhaustive):

Capping

As of January 1, 2024, the application of the 30% ruling is capped according to the "Balkenende norm", introducing an upper limit. The maximum tax-free 30% allowance is € 66,900 annually (€ 233,000 x 30%). For employees who started in 2024, this amount is prorated based on time. However, transitional law applies for employees for whom the 30% ruling was applied to the salary in the last pay period of 2022. For these employees, the upper limit will only apply as from January 1, 2026. Whether the transitional law is applicable must be assessed on a case-by-case basis for each individual employee.

30%/20%/10%-scheme

In the Budget Plan 2025, it has been proposed to repeal the 30%/20%/10%-scheme and instead reduce the maximum percentage to 27% starting January 1, 2027. If the Budget Plan is approved, the aforementioned scheme will not apply.

US national opting for partial non-resident tax treatment

For Americans opting for partial non-resident tax treatment, wage tax withholding may only be based on the salary over which the Netherlands is entitled to levy tax according to the tax treaty. This group often has an interest in not having wage tax withheld on their entire salary, as they are already required to pay taxes in advance in the United States when additional payments are due there, for instance for income on which the Netherlands do not have taxation rights. Therefore, payroll adjustments can be made at year-end to accommodate these employees. This can still be done for 2024. As from 2025, it is not possible to elect for partial non-resident tax treatment anymore with the exception of those subject to transitional law in which case they can benefit from this scheme until the end of 2026.

Garden leave, exemption from work

The 30% ruling can no longer be applied to salary from current employment received after the pay period following the period in which employment ended, as is the case with garden leave. For example, if an employee leaves at the end of October but has been exempt from work since mid-August, the 30% ruling can be applied until the end of September. After that, it cannot be applied anymore. Therefore, ensure to review for employees who have left whether there has been a continued payment of salary during a period in which the employee was exempted from work in anticipation of the end of the employment relationship.

Work-related costs scheme (“WKR”)

For employees with the 30% ruling, a choice must be made each year to reimburse the actual extraterritorial costs (ET costs) or to apply the 30% reimbursement. Employers usually opt for the latter. However, in such case it is important to ensure that the ET costs are not inadvertently reimbursed tax-free. Employers will often have designated such costs under the work-related costs scheme (“WKR”) they apply, and it may even fall within the tax free space, meaning no final tax is owed. This designation must be evident from the maintained records. Therefore, do not forget to include such costs in the “WKR” annual review and calculation.

3. Preparations for 2025

Preparations must also be made for the new year. We will inform you on this soon. For now, we would like to inform you about the preliminary salary thresholds for 2025 (these are subject to final determination).

- High: more than € 46,660
- Low: more than € 35,469 (for employees under 30 years old who hold a master's degree at the university level or a foreign master's degree equivalent to the Dutch master's at the university level).
- There is no salary standard for scientific researchers at scientific research institutions.

The new 'Balkenende norm' as relevant for the capping scheme for 2025 is also known, amounting to € 246,000.

4. In conclusion

We understand better than anyone that reviewing whether the 30% ruling was correctly applied in the payroll administration is no easy task. Therefore, we are happy to assist you with this. Please feel free to contact us. We would be pleased to explain how we can help you.

Do you have questions? Our 30% team is happy to assist you.

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