

## Number 8, volume 12, Budget Day 2009

### In this issue of Watson Wyatt Update

- Budget Memorandum 2010: various tax measures
- Budget Memorandum 2010: various social security measures

### Budget Memorandum 2010: various tax measures

Below is a selection of a number of measures, taken from sources that include the Tax Plan 2010 (*Belastingplan 2010*), the Miscellaneous Tax Measures Bill 2010 (*Overige Fiscale Maatregelen 2010*) and the Uniform Wage Definition Act (*Wet Uniformering Loonbegrip*), as presented by the Government on 15 September 2009 (Budget Day). The selection focuses on subjects related to pensions and wage tax.

We would like to point out that the proposals have yet to be approved by the Lower and Upper Houses of Parliament. If approved, the measures will take effect from 1 January 2010, unless stated otherwise.

#### Payment into and drawdown of life-course savings and application of the deferred taxation system

Under the current legislation, payments by employee into the life-course savings scheme are deductible for the purposes of wage tax/national insurance contributions and means-tested healthcare insurance contributions, but not for the purposes of employee insurance contributions. For the purposes of wage tax/national insurance contributions and means-tested healthcare insurance contributions, the employer's contribution is not part of the wages but does count as part of the employee insurance contributions. On the other hand, drawdowns against the life-course savings balance are not liable for employee insurance contributions.

Unlike in the present system, the proposal is to apply the deferred taxation system for the purpose of employee insurance contributions, in accordance with the method that is also used for pension contributions. Application of the deferred taxation system means that payments into the life-course savings scheme will reduce the daily wage for the purpose of any benefit payments under an employee insurance scheme.

#### Replacement of the employer's charge for the means-tested healthcare insurance contribution with the employer's levy

The charge payable by the employer for the means-tested healthcare insurance contribution to be withheld from the employee's wages will be abolished and replaced with a levy on the employer payable to the Healthcare Insurance Fund. These payments will be made without involving the employee or the employee's pay slip.

#### Relaxation of rules on self-administered pensions

Under the Wages and Salaries Tax Act 1964 (*Wet LB '64*), major shareholders as referred to in the Pensions Act (*Pensioenwet*) can still accrue a self-administered pension. At

the moment, pension can be accrued with a body other than a professional insurer, provided that this body has its registered office in the Netherlands. Furthermore, the self-administering body must classify the accrued pension commitment among the domestic business assets for corporate income tax purposes. The Government is not sure at present whether the aforesaid requirements are compatible with the freedom of establishment within the meaning of the EC Treaty and the EEA Agreement. For this reason, self-administered pensions may also be placed with a body that has its registered office in another EU or EEA (member) state. However, the same points of departure will apply to these EU/EEA self-administering bodies as apply to domestic self-administering bodies. This means, among other things, that the commitment must be classified among the domestic business assets in the country concerned as well, and must also be subject *de jure* and *de facto* to a profits-based tax which results in a levy that is realistic by Dutch standards.

The foreign body must be designated as an approved provider and must commit itself in advance vis-à-vis the tax inspector to meet the conditions regarding the provision of information on the administration of the scheme and the determination of the body's profits. The foreign body must also accept liability under an agreement with the tax collector for the collection of the tax owed by the major shareholder in the case of improper transactions (commutation). These designation conditions correspond to the current conditions for designating foreign pension funds and insurers as approved providers. The above option will also apply to the self-administration of periodic payments replacing loss of income.

The amendment will have retroactive effect to the day on which the Bill was submitted to the Lower House.

#### Adjustment to concurrence of life-course leave and deferred pension bonus

During the parliamentary debate on the introduction of the deferred pension bonus, the Government promised that it would investigate whether it was possible and feasible in practice to prevent the concurrence of life-course leave and work-related tax credits.

The Government now proposes to prevent the concurrence of life-course leave and the deferred pension bonus by amending the life-course savings scheme. The measure is based on the assumption that the aim of taking life-course leave with effect from a calendar year in which the employee was already aged 61 or over at the start of the year is to end active participation in the labour market. Because the wages under the life-course savings scheme for persons aged 61 and over will be classified as wages from previous employment, the employee can no longer claim a work-related tax credit.

#### Extension of tax-efficient bank savings scheme

From 1 January 2008, it has been possible to save for a tax-friendly retirement provision in the third pillar by means of a bank savings facility. The Government is now also going to introduce a bank savings facility for periodic payments replacing loss of income and for funeral products.

## **Budget Memorandum 2010: various social security measures**

Budget Day 2009 was all about the economic recession. The Government will take the necessary measures in 2010 to counteract the consequences of the economic downturn and the rising level of unemployment. Here, we will discuss the principal measures in the area of social security.

### **Recovery period for funds**

For many pension funds, the credit crunch has caused such a deterioration in their financial position that they no longer meet the statutory coverage ratio. Minister Donner considered it irresponsible to postpone the necessary recovery measures, and therefore decided in the first quarter of 2009 to extend the recovery period to 5 years. The Government, in consultation with the social partners, will review this decision in mid-2010. On that occasion, the parties will assess whether the more lenient period must be maintained or shortened.

### **Investigation into pension funds**

Two committees are investigating pensions at the Government's request. The Investment Policy and Risk Management Committee is checking whether pension funds invested prudently in recent years and whether the current pension system provides sufficient coverage of risks. The Committee on Future-Proofing Supplementary Pension Schemes is assessing whether the current pension system is future-proof in view of the ageing population. Both committees will report their recommendations to Minister Donner by 1 January 2010. Based on these findings, the Government will decide in mid-2010 whether adjustments are required.

### **Flexibility in retirement age**

A Bill has been submitted to the Lower House which aims to introduce greater flexibility in the retirement age. In addition, the Government will remove obstacles under employment law which make it difficult to defer retirement.

### **Flexibility in working hours and leave arrangements**

The Government is looking into the possibility of introducing greater flexibility in working hours and leave arrangements so as to facilitate the combination of work and care. As a result, people will not only work more but will also work more hours. The Government will introduce a specific Bill in mid-2010.

### **Part-time unemployment**

The part-time unemployment scheme has been in force since 1 April 2009. This is a scheme aimed at retaining specialist employees for companies which, despite a current shortage in orders and turnover, are sufficiently healthy to survive the economic crisis. Since 20 July 2009 there has been a new, tighter part-time unemployment scheme that facilitates a more efficient application of the scheme, extending it to a larger number of companies and making it less susceptible to fraud. The Cabinet has allotted a gross amount of 1 billion euros for this scheme for the 2009-2011 period (see also: Update number 6, 2009).

### **State pension**

To help resolve the problems with regard to pensions, the Government, in the supplementary policy agreement 'Working together, living together' ('Working on the future'), decided to raise the state pension age to 67. The Social and Economic Council (SER) has been given until 1 October 2009 to propose equivalent alternatives.

The state benefit partner allowance scheme will be subject to an age restriction, which means that only partners aged 55 or over will be eligible for this scheme in the future. This is an intermediate measure, since the partner allowance will be completely abolished as from 2015. In this way, the Government is trying to encourage younger partners of state pension recipients to keep working. This measure is expected to generate 27 million euros by 2011.

### **More information**

For more information on the matters covered in this issue of the Watson Wyatt Update, please contact Eric Heemskerk (Budget Memorandum 2010: various tax measures) or Pauline Bakker (Budget Memorandum 2010: various social security measures).