

Netherlands

Netherlands		2004			
The tax/benefit position of single persons					
	Wage level (per cent of APW)	67	100	167	67
	Number of children	none	none	none	2
1. Gross wage earnings		21638	32457	54095	21638
2. Standard tax allowances:					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		377	1005	1650	377
Work-related expenses					
Other					
	Total	377	1005	1650	377
3. Tax credits or cash transfers included in taxable income		1461	1991	0	1461
4. Central government taxable income (1 - 2 + 3)		22722	33443	52445	22722
5. Central government income tax liability (exclusive of tax credits)		676	2856	11017	676
6. Tax credits :					
Basic credit					
Married or head of family					
Children					
Other					
	Total	91	91	91	197
7. Central government income tax finally paid (5-6)		585	2765	10926	479
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		1035	1761	1650	1035
Taxable income (net of credits)		4415	6625	6625	991
	Total	5450	8386	8274	2027
10. Total payments to general government (7 + 8 + 9)		6035	11151	19200	2506
11. Cash transfers from general government					
For head of family					
For two children		0	0	0	1716
	Total	0	0	0	1716
12. Take-home pay (1-10+11)		15603	21306	34895	20848
13. Employers' compulsory social security contributions		3582	5291	4511	3582
14. Average rates					
Income tax		2.7%	8.5%	20.2%	2.2%
Employees' social security contributions		25.2%	25.8%	15.3%	9.4%
Total payments less cash transfers		27.9%	34.4%	35.5%	3.7%
Total tax wedge including employer's social security contributions		38.1%	43.6%	40.5%	17.3%
15. Marginal rates					
Total payments less cash transfers: Principal earner		47.8%	45.4%	52.0%	43.4%
Total payments less cash transfers: Spouse		n.a.	n.a.	n.a.	n.a.
Total tax wedge: Principal earner		55.6%	50.7%	52.0%	51.9%
Total tax wedge: Spouse		n.a.	n.a.	n.a.	n.a.

Netherlands		2004			
		The tax/benefit position of married couples			
Wage level (per cent of APW)		100-0	100-33	100-67	100-33
Number of children		2	2	2	none
1. Gross wage earnings		32457	43276	54095	43276
2. Standard tax allowances:					
Basic allowance					
Married or head of family					
Dependent children					
Deduction for social security contributions and income taxes		1005	1005	1382	1005
Work-related expenses					
Other					
	Total	1005	1005	1382	1005
3. Tax credits or cash transfers included in taxable income		1991	2721	3451	2721
4. Central government taxable income (1 - 2 + 3)		33443	44993	56165	44993
5. Central government income tax liability (exclusive of tax credits)		2856	2972	3532	2972
6. Tax credits :					
Basic credit					
Married or head of family					
Children					
Other					
	Total	156	187	207	161
7. Central government income tax finally paid (5-6)		2701	2785	3325	2810
8. State and local taxes		0	0	0	0
9. Employees' compulsory social security contributions					
Gross earnings		2149	2284	2797	2284
Taxable income (net of credits)		4531	7261	10217	8084
	Total	6680	9545	13014	10368
10. Total payments to general government (7 + 8 + 9)		9380	12330	16339	13178
11. Cash transfers from general government					
For head of family					
For two children		1716	1716	1716	0
	Total	1716	1716	1716	0
12. Take-home pay (1-10+11)		24792	32661	39472	30098
13. Employers' compulsory social security contributions		5291	7031	8873	7031
14. Average rates					
Income tax		8.3%	6.4%	6.1%	6.5%
Employees' social security contributions		20.6%	22.1%	24.1%	24.0%
Total payments less cash transfers		23.6%	24.5%	27.0%	30.5%
Total tax wedge including employer's social security contributions		34.3%	35.1%	37.3%	40.2%
15. Marginal rates					
Total payments less cash transfers: Principal earner		45.4%	45.4%	45.4%	45.4%
Total payments less cash transfers: Spouse		27.3%	24.9%	47.8%	24.9%
Total tax wedge: Principal earner		50.7%	50.7%	50.7%	50.7%
Total tax wedge: Spouse		37.3%	35.3%	55.6%	35.3%

The national currency is the euro (EUR). In 2004, EUR 0.81 was equal to USD 1 (average of eleven months daily exchange rates). In that year, the Average Production Worker earned EUR 32 457 (Secretariat estimate).

1. Personal income tax system (central government)

1.1. Central government income tax

There are three categories (“boxes”) of taxable income:

- Taxable income from work and owner-occupied housing.
- Taxable income from a substantial interest in a limited liability company.
- Taxable income from savings and investments.

This description is limited to most relevant aspects of taxable income from the first category, “taxable income from work and owner-occupied housing”, because of its relevance for the APW.

1.11. Tax unit

Husband and wife are taxed separately on their personal income, which includes, besides income from business, profession and employment, all pensions and social security benefits. Certain parts of income may be freely split between husband and wife, such as the net-income from owner-occupied housing and the income from savings and investments.

1.12. Tax allowances

1.121. Standard allowances

Related to wage earnings:

- Employees’ social security contributions (see Section 2.1) are deductible with the exception of the health insurance contribution. The employers’ health insurance contribution is subject to tax.

1.122. Non-standard allowances applicable to APW

Related to wage earnings:

- For distances of more than 10 km between home and work, forfaitary amounts for *travel expenses* with public transportation are deductible. The maximum deduction for employees who travel by public transport is EUR 1 816 for distances of more than 80 km. If the travel expenses are reimbursed or the employer provides transport, there is no deduction; the reimbursement is untaxed (also for employees who travel by car) if below certain specified amounts.
- Employee contributions to private (company provided) pension schemes.

Related to owner-occupied housing:

- Excess of *mortgage interest* over net imputed rent.

Related to personal circumstances:

- *Medical expenses and other exceptional expenses*: for a single person the expenses are deductible in excess of 11.2 per cent of the income if the income is more than EUR 6 804 and less than or equal to EUR 53 000. If the income is lower than or equal to EUR 6 804 the non-deductible limit is EUR 762 and if the income is higher than EUR 53 000 the non-deductible limit is EUR 5 936. For a person with a partner, the joint income is used to determine the non-deductible amounts.
- *Some educational expenses*: in direct connection with vocational education. Expenses above the threshold of EUR 500 are deductible. Expenses above EUR 15 000 are not deductible.
- Donations to certain institutions (charity) that serve the public good are deductible if in excess of 1 per cent of the income and in excess of EUR 60. No more than 10 per cent of the income may be deducted in this way.

1.13. Tax schedule

The tax schedule for income from work and owner-occupied housing is as follows:

Slice of taxable income (EUR)	Tax rate (%)	Social securities contributions	
		< 65 years	> 65 years
0-16 265	1.0	32.4	14.5
16 265-29 543	7.95	32.4	14.5
29 543-50 652	42	–	–
50 652 and over	52	–	–

The contributions for the general social security schemes are levied on the first and second slice of income from work and owner-occupied housing. These social security contributions are not deductible for income tax purposes. Individuals of 65 years and over pay 14.5 per cent (for widows and orphans pensions and exceptional medical expenses) and individuals younger than 65 years pay 32.4 per cent (for widows and orphans pensions, exceptional medical expenses, and old age income provision). For further information see Section 2.1.

1.14. Tax credits

1.141. Standard tax credits

The tax credits are applied to the combined amount of income tax levied and premiums paid for the general social security schemes (see Section 1.13). The share of the credit attributed to tax is related to the ratio of the tax rate to the sum of the tax rate and the social security contributions rate in the first bracket of the tax schedule. As that ratio is currently 2.8 per cent ($= 1.0\% / (1.0\% + 32.4\%)$), only 3.0 per cent of the (tax) credit is attributed to tax; the remaining 97.0 per cent being attributed to the social security contributions. In the country tables the social security contributions on taxable income are net of credits.

- *General tax credit*: This credit amounts to EUR 1 825.
- *Work credit*: This credit is the sum of 1.753 per cent of the income from work with a maximum of EUR 142 and 11.213 per cent of the income from work with a franchise of EUR 8 101. The maximum work credit is EUR 1 213.

- *Child credit*: A single person with children below 18 years of age receives a credit of EUR 110 if his or her income does not exceed EUR 59 612. A taxpayer with a partner is only entitled to the child credit if his or her income exceeds the income of the partner and the joint income does not exceed EUR 59 612.
- *Additional child credit*: If a person receives the ordinary child credit and the joint income does not exceed EUR 28 097, he or she is also entitled to the additional child credit of EUR 547; If the joint income is above EUR 28 097 but below EUR 29 807 the additional child credit amounts to EUR 363.
- *Combination credit*: A taxpayer with children below the age of 12 years is entitled to a combination credit of EUR 224, if his/her income from work exceeds EUR 4 306.
- *Additional combination credit*: A taxpayer who is entitled to the combination credit and who is either a single parent or the partner with the lowest income receives an additional credit of EUR 290.
- *Single parent credit*: A single parent under certain conditions is entitled to the single parent credit of EUR 1 381.
- *Additional single parent credit*: A single parent who is entitled to the single parent credit receives an additional credit of 4.3 per cent of his or her income from work, with a maximum of EUR 1 381.

The amount of the tax credit is limited to the amount of tax and premiums payable (wastable). If, however, a taxpayer with insufficient income to fully exploit his/her tax credit has a partner with a surplus of tax and premiums payable over his/her own tax credit, the tax credit of the former taxpayer is increased by (at most) the surplus tax and premiums payable by his/her fiscal partner. As a consequence, the tax credit of the former taxpayer will exceed tax and premiums payable, resulting in a payout of the residual tax credit to the taxpayer by the tax authority.

1.2. State and local income taxes

These are not used in the Netherlands.

2. Compulsory social security contributions to schemes operated within the government sector

2.1. Employees' contributions

Schemes for employees:

- Unemployment: 5.8 per cent of the gross earnings between EUR 15 138 and EUR 43 578 (this contribution is only for the general unemployment fund).
- Public insurance for medical care if gross earnings are below EUR 32 600: 1.25 per cent of the gross earnings below EUR 29 493 plus a fixed amount of EUR 388 a year for each adult.

General schemes (levied combined with income tax on income from work and owner-occupied housing; see Section 1.13):

- Old age pension: 17.9 per cent of taxable income in the first and second tax bracket. This scheme does not apply to individuals aged 65 or over.
- Widows and orphans pension: 1.25 per cent of taxable income in the first and second tax bracket.

- Exceptional medical expenses and disability: 13.25 per cent of taxable income in the first and second tax bracket.

2.2. Employers' contributions

Schemes for employees:

- Unemployment: 1.55 per cent of the gross earnings between EUR 15 138 and EUR 43 578 for the general unemployment fund and a contribution of 1.89 per cent of the gross earnings below EUR 43 578 for the industrial insurance associations redundancy payments fund.
- Invalidity: 7.45 per cent of gross earnings below EUR 43 578.
- Public insurance for medical care if gross earnings are below EUR 32 600: 6.75 per cent of gross earnings below EUR 29 493.

3. Universal cash transfers

3.1. Transfers related to marital status

None.

3.2. Transfers for dependent children

Families with children receive a tax free benefit, depending on the number and age of the children. For a family with two children in the age group of 6 to 12 years the total benefit amounts to EUR 1 716 a year.

4. Main changes in the tax/benefit systems since 2000

In 2001 the tax system has been changed thoroughly. The tax rates have been lowered; the basic allowance and its supplements have been transformed into tax credits. The deduction for labour costs has also been replaced by a tax credit. Certain other deductions have been reduced or abolished. Extra tax credits for households with children were introduced.

In 2002 and 2003 the tax system has only changed marginally, after the tax reform of 2001.

In 2004 the additional combination credit was introduced.

5. Memorandum items

5.1. Identification of the APW and calculation of the APW's gross earnings

The calculation of the annual gross earnings of an APW is based upon data on gross earnings of full-time workers in the manufacturing industry. These data have been obtained through a yearly sample survey carried out by the Central Bureau of Statistics. Included in the APW annual salary are irregular payments, such as holiday allowances, loyalty payments, and bonuses. Payments for working overtime are not included. Because the Central Bureau of Statistics does not report separate figures for manual workers in the manufacturing industry, the wage for manual workers is estimated by taking 90 per cent of the wage for all workers, including white collars workers and supervisors.

As the figures for 2004 are not yet available, the 2002 figure was taken, adjusted for the wage increase in 2003 and 2004 by the OECD Secretariat based on wage increase estimates from the most recent issue of the *OECD Economic Outlook*.

5.2. Main employers' contributions to private pension, health and related schemes

In addition to the obligatory contributions to social security schemes many employers pay contributions to private pension schemes. Employers have to pay at least 70 per cent of the gross wage of their sick employees for up to a year. In practice, most (collective) labour contracts stipulate that in the case of illness the employee is entitled to 100 per cent of his gross wage. Most employers have insured themselves privately for the risks of their employees being sick.

5.3. Wage-cost-reduction for employers

If a full-time employee earns less than EUR 17 806 the employer is entitled to a reduction of EUR 1 093 of the wage tax paid as withholding tax. For part-time employees a pro rata amount can be calculated. Similar reduction schemes exist with respect to employees, who receive a vocational training in addition to their job. The employer has a right to a reduction of EUR 2 500 of the wage tax paid as withholding tax, as long as the full-time employee annual salary does not exceed EUR 20 793. If an employer qualifies for both wage-cost reductions, then the sum of reductions is restricted to a maximum of EUR 3 405.

2004 Parameter values

	Ave_earn	32 457	Secretariat estimate	
Social security contributions	SSC_ceil	43 578		
Employees' schemes	Unemp_rate1	0.058		
	Unemp_franchise1	15 138		
Medical care	Med_rate	0.0125		
	Med_limit	32 600		
	Med_ceil	29 493		
	Med_adult	388		
	Med_child	0		
General schemes	Old_rate	0.179		
	Wid_rate	0.0125		
	Ex_med_rate	0.1325		
	Gen_Schemes_thrsh	29 543		
	Unemp_empr1	0.0155		
	Unemp_empr2	0.0189		
	Unemp_unempr_franchise1	15 138		
	Unemp_unempr_franchise2	0		
	Inv_empr_rate	0.0745		
	Inv_empr_franchise	0		
	Med_empr	0.0675		
	Med_franchise	0		
	Tax schedule	Tax_sch	0.01	16 265
		"tax_sch_lowest"	0.0795	29 543
"tax_thrsh_1"		0.42	50 652	
		0.52		
Tax credits	Gen_credit	1 825		
	Emp_credit1	142		
	Emp_credit2	1 071		
	Emp_credit1_thr	8 101		
	Emp_credit2_thr	17 652		
	Ch_credit	110		
	Ch_credit_thr	59 612		
	Ex_ch_credit	363		
	Ex_ch_credit_thr	29 807		
	add_ex_ch_credit	184		
	add_ex_ch_credit_thr	28 097		
	Comb_credit	224		
	Comb_credit_franchise	4 306		
	add_comb_credit	290		
	Sing_par_credit	1 381		
	Ex_sing_par_credit_per	0.043		
	Ex_sing_par_credit_max	1 381		
Family cash transfers	Ch1_trans	854		
	Ch2_trans	1 715.71		

2004 Tax equations

The equations for the Netherlands system in 2004 are mostly repeated for each individual of a married couple. But the tax credit of the spouse depends also on the tax paid by the principal if the spouse's income is zero or very low, and the cash transfers are calculated only once.

The functions which are used in the equations (Taper, MIN, Tax etc) are described in the technical note about tax equations. Variable names are defined in the table of parameters above, within the equations table, or are the standard variables "married" and "children". A reference to a variable with the affix "_total" indicates the sum of the relevant variable values for the principal and spouse. And the affixe "_spouse" indicates the value for the spouse. No affixe is used for the principal values. Equations for a single person are as shown for the principal, with "_spouse" values taken as 0.

Part of the tax credit is attributed to income tax; another part to Social Security Contributions.

Line in country table and intermediate steps	Variable name	Range	Equation
1. Earnings (gross)	gr_earn		
Earnings (net)	earn	B	gr_earn
2. Social security contributions	SSC_al	B	SSC_f(earn;Unemp_rate1;SSC_ceil;Unemp_franchise1)
3. Credits in taxable income	taxbl_cr	B	IF(earn>Med_limit;0;SSC_f(earn;Med_empr;Med_ceil;Med_franchise))
4. CG taxable income	tax_inc	B	earn-SSC_al+taxbl_cr
5. CG tax before credits	CG_tax_excl / tax_liable	B	Tax(tax_inc;Tax_sch)
Tax credits	tax_cr	P	MIN(CG_tax_excl+SSC_taxinc, Gen_credit+Emp_credit(tax_inc)+IF(Children>0, IF(tax_inc+tax_inc_spouse<add_ex_ch_credit_thr, Ch_credit+Ex_ch_credit+add_ex_ch_credit, IF(tax_inc+tax_inc_spouse<Ex_ch_credit_thr, Ex_ch_credit+Ch_credit, IF(tax_inc+tax_inc_spouse<Ch_credit_thr, Ch_credit, 0))))+IF(AND(Children>0, earn>Comb_credit_franchise), if(married=0;Comb_credit+add_comb_credit;comb_credit), 0) + IF(AND(Children>0, Married=0), Sing_par_credit+MIN(Ex_sing_par_credit_max, Ex_sing_par_credit_per*tax_inc), 0))
	tax_cr_spoouse	S	IF(Married>0;MIN(CG_tax_excl_spouse+SSC_taxinc_spouse+CG _tax_excl+SSC_taxinc- tax_cr;Gen_credit+Emp_credit(tax_inc_spouse)+IF(AND(Children >0;earn_spouse>Comb_credit_franchise);Comb_credit+add_comb credit;0));0)
6. Tax credits income tax	tax_cr_inc	B	tax_sch_lowest/ SUM(Old_rate+Wid_rate+Ex_med_rate+tax_sch_lowest)*(tax_cr +tax_cr_spouse)
7. CG tax	CG_tax	B	tax_liable-tax_cr_inc
8. State and local taxes	local_tax	B	0
9. Employees' soc security' based on earnings	SSC_earn	P	SSC_f(earn;Unemp_rate1;SSC_ceil;Unemp_franchise1)+SSC_f(ea rn;Unemp_rate2;SSC_ceil;Unemp_franchise2)+IF(earn>=Med_lim it;0;SSC_f(earn;Med_rate;Med_ceil;Med_franchise)+(1+Married*I F(earn_spouse=0;1;0))*Med_adult)
	SSC_earn_spouse	S	SSC_f(earn_spouse;Unemp_rate1;SSC_ceil;Unemp_franchise1)+ SSC_f(earn_spouse;Unemp_rate2;SSC_ceil;Unemp_franchise2)+I F(earn_spouse>=Med_limit;0;Med_rate*MINA(earn_spouse;Med _ceil)+IF(earn_spouse=0;0;Med_adult))
based on taxable income	SSC_taxinc	B	(Old_rate+Wid_rate+Ex_med_rate)*MINA(tax_inc;Gen_Schemes_ thrsh)

Line in country table and intermediate steps	Variable name	Range	Equation
Total employees' soc security	SSC_liable	J	SSC_earn+SSC_taxinc+SSC_earn_spouse+SSC_taxinc_spouse
	tax_cr_SSC	J	SUM(Old_rate+Wid_rate+Ex_med_rate)/ SUM(Old_rate+Wid_rate+Ex_med_rate+tax_sch_lowest) * (tax_cr +tax_cr_spouse)
Total	SSC	J	SSC_liable-tax_cr_SSC
10. Total payments	total_payments	J	CG_tax+local_tax+SSC
11. Cash transfers	cash_trans	J	IF(Children=1;Ch1_trans;IF(Children=2;Ch2_trans;0))
12. Net pay and cash transfers	take_home_pay	J	gr_earn_total-total_payments+cash_transfer
17. Employer's soc security	SSC_empr	B	taxbl_cr+SSC_f(earn;Unemp_empr1;SSC_ceil;Unemp_unempr_fr anchise1)+SSC_f(earn;Unemp_empr2;SSC_ceil;Unemp_unempr_ franchise2)+SSC_f(earn;Inv_empr_rate;SSC_ceil;Inv_empr_franc hise)

Key to range of equations:

B calculated separately for both principal earner and spouse.

P calculated for principal only (value taken as 0 for spouse calculation).

J calculated once only on a joint basis.

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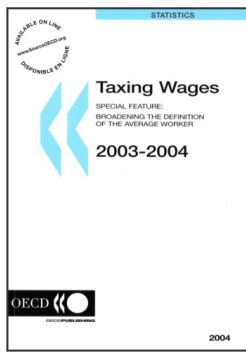
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