THE OECD TAX-BENEFIT MODEL FOR THE NETHERLANDS

Description of policy rules for 2018

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BETTER POLICIES FOR BETTER LIVES

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Description of policy rules for 2018

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BETTER POLICIES FOR BETTER LIVES

Social Policy Division and Jobs and Income Division

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Directorate for Employment, Labour and Social Affairs

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Preface

The OECD Tax-Benefit model (**TaxBEN**) incorporates detailed policy rules for tax liabilities and benefit entitlements as they apply to individual families across OECD member countries. Its main use is to calculate the amount of taxes that people are liable to pay, and the government transfers they are likely to receive, in different family and labour-market situations. The model includes legal policy rules that are relevant for people of **working age** (from 18 years old until the statutory retirement age) and their dependent children. Income tax liabilities and benefit entitlements are calculated for a broad set of *stylised* families ("vignettes", e.g. a married couple of 40 years old adults with two children aged 4 and 6 respectively). Model users are free to change many of these characteristics, including the age and number of children, activity status of adult members, hours of work, current and past earnings levels, unemployment duration, social contribution records, and housing-related costs. The model has been updated annually since the early 2000s for most OECD countries.

TaxBEN's policy scope includes the main taxes on employment income (earnings), social contributions paid by individuals and by employers, as well as the main cash and near-cash benefit programmes, including unemployment benefits, family benefits, guaranteed minimum-income benefits, cash housing benefits, and employment-conditional benefits. Disability benefits and support for non-parental childcare are included for a sub-set of countries and years. The most important policy areas that are outside the scope of the model include taxes on wealth (e.g. taxes on immovable and unmovable properties, including local taxes), indirect taxes (e.g. VAT), early-retirement benefits, sickness benefits and in-kind transfers (e.g. free school meals, subsidised transport and free health care).

This report describes the taxes and benefits that are included in the model and focuses on the rules that are relevant for family, individual and labour-market circumstances that are within its scope. The **Annex** provides information on other cash benefits and taxes on employment incomes that can be relevant for some members of the working-age population, but which are not included in the TaxBEN model.

Reading notes and further details on the scope and content of this report

- The **reference date** for policy rules described in this report is **January 1, 2018**.
- **Guidelines for completing and updating this report** are provided here.
- Further information on the model, model results, and references to reports and analytical uses is available on the project website. A methodology document provides a full description of the assumptions underlying the model as well as the model choices that users can make. The symbol ⓘ in the text provides a link to a glossary of technical terms.
- Section titles provide the names of taxes and benefits as they are known in the country: first, direct translation into English, then (in brackets) the name in the national language.
- In order to facilitate transparency between the policy descriptions and the associated code in the model, the variable names are indicated in the text in square brackets using the following format: **[variable name]**, for instance: **[AW]** for the average wage.

The OECD tax-benefit model for the Netherlands: Policy rules in 2018

1. Reference wages

The 2018 average wage **[AW]** is EUR 52,233.[1]

The minimum wage **[MIN]** in January 2018 is EUR 1578.00 per month and EUR 1704.24 per month including the 8% holiday bonus. The annual minimum wage is computed by multiplying the minimum monthly wage (as of January 1, 2018) by 12, and adding the 8% holiday bonus i.e. EUR 1578 * 12 * 1.08 = EUR 20,450.88.

2. Unemployment benefits

The unemployment benefit system in the Netherlands is contribution-based, providing a short-term and medium-term benefit (based on the *Werkloosheidswet, WW*). A supplement based on the Supplementary Benefits Act (*Toeslagenwet, TW*) is possible if the benefit is below the minimum income. Both are described together in Section 2.1. Elderly unemployed can receive an additional benefit after exhaustion of regular unemployment insurance benefits (*Inkomensvoorziening Oudere Werklozen, IOW)*, which is described in Section 2.2.

2.1. Unemployment insurance (Werkloosheidswet and Toeslagenwet)

Variable names: **[UB; UI_p; UI_s; TW_p; TW_s]**

This is an unemployment insurance benefit. It is contributory, partly means-tested and taxable.

2.1.1. Eligibility conditions

The **regular unemployment benefit** (*Werkloosheidswet, WW*) includes two types of benefits:

1. the short term earnings related benefit (3 months)

2. the earnings related benefit (4 months up to 38 months depending on employment record; from 2015 onwards diminished to a maximum of 24 months in April 2019).

Contribution/employment history: Insurance is compulsory for employees.

1. Short-term earnings-related benefit: worked 26 weeks in the last 36 weeks immediately preceding unemployment.

2. Earnings-related benefit: worked 26 weeks in the last 36 weeks immediately preceding unemployment, plus worked during four of the last five years. Each year gives an entitlement to one month benefit. From 2016 onwards each extra year after 10 years of employment counts for 0,5 additional months of benefit. A year is counted when the person

[1] AW refers to the Average Wage estimated by the Centre for Tax Policy and Administration. For more information on methodology see the latest Taxing Wages publication.

has worked 52 days a year before 2013 or 208 hours a year as from 2013. Calendar years during which the person cared for children under age 5 count for 50% of this requirement. From 2007 onwards years spend on intensive care for ill or handicapped people also count for 50% of labour years.

Behavioural requirements and related eligibility conditions:

Further conditions for unemployment benefit are:

- to be involuntary unemployed,
- loss of at least 5 or half of the working hours per week,
- timely registration with the Institute for Employee Benefit Schemes (UWV).
- to be capable for work,
- to be available for work,
- below the legal retirement age (66 years in 2018),
- seeking employment,
- residence in the Netherlands,
- application for benefit on the first day of unemployment.

2.1.2. Benefit amount

In the first two months recipients receive 75% of the gross wage most recently earned, thereafter 70%, up to a maximum daily wage of EUR 203.85 (5 days per week).

Supplementary Benefits Act *(Toeslagenwet, TW)*
The TW provides assistance to people who get a benefit from one of the employee insurance schemes (such as the WW, WAO/WIA (disability benefit), or ZW (sickness benefit) 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.

Minimum guaranteed incomes, 2018

Family situation	Per cent of minimum wage
Single person	70%
Married persons and couples living together	100%

The term “income” covers all work-related earnings, including most social security benefits, of claimants and their partner. Any property such as a private home, or capital such as savings, is disregarded.
For two years at most, part of the work-related income (up to a maximum of 15% of the minimum wage) is disregarded. The maximum period of two years does not account for persons older than 57.5 years.

Supplementary benefit will never be more than the difference between the daily earnings or the basis on which the benefit has been calculated and the benefit to recompense for loss of income.
There is no entitlement to supplementary benefits:

- For unmarried persons under 21 living with their parents.
- For persons living with a partner (either married or not) born after 31 December 1971 who do not have any children under 12 living at home.

2.1.3. Benefit duration

The duration of the earnings-related benefit varies with the employment record. In this table it is assumed that the person has been working full time from 18 years of age onwards. Starting from 1 January 2016, the maximum duration is gradually reduced by 1 month per quarter from 38 months to 24 months in April 2019, i.e. in January 2018 it was 30 months. Also starting from 1 January 2016, after 10 employment years the unemployment benefit is prolonged with 0.5 months per extra year. That is, e.g. for a 40 year old person who has been working full time from 18 years onwards (22 years of employment), the maximum duration in January 2018 was 22 months + (22-10)*0.5 months = 28 months.

Duration of the benefit

Employment (years)	Duration
1	3 months
2	3 months
3	3 months
4	4 months
5	5 months
6 to 30 and higher	6 to maximum 30 months
11 and higher	plus 0.5 months per extra year of employment

2.1.4. Means test

See Sections 2.1.2 and 2.1.7.

2.1.5. Tax treatment

Unemployment insurance benefit is taxable.

2.1.6. Interactions with other components of the tax-benefit system

2.1.7. Combining benefit receipt and employment/starting a new job

Gross benefit is reduced by 70 per cent of any earnings received from a new job.

2.2. *Unemployment assistance* (*Inkomensvoorziening Oudere Werklozen*)

Variable names: **[UB; UA_p; UA_s]**

Income provision for older unemployed (*Inkomensvoorziening Oudere Werklozen, IOW)* will be continued until 1 January 2020. For beneficiaries aged 60 or over on the first day of receiving unemployment benefit, IOW (70% of minimum wage) is paid until the legal retirement age (66 years in 2018) after exhaustion of regular unemployment insurance benefits. Cumulation with other income or benefits is not possible.

3. Social assistance and housing benefits

In the Netherlands, a social assistance benefit is provided under the Participation Act (*Participatiewet*). There is also a housing benefit (*Huurtoeslag*). Social assistance is described in Section 3.1, the housing benefit in Section 3.2.

3.1. *Social assistance* (*Participatiewet*)

Variable name: **[SA]**

This is a non-contributory benefit which is means-tested and taxable.

The Dutch Participation Act guarantees a minimum income to any Dutch inhabitant who does not have sufficient means of existence. Beneficiaries are mainly persons who are no longer entitled to benefits under the social insurance schemes such as unemployment insurance benefits and disability benefits and persons without a work record.

3.1.1. *Eligibility conditions*

Conditions for receipt of social assistance are in general:

- Persons legally residing in the Netherlands with inadequate financial resources to meet their essential living costs.
- Social assistance is a supplementary allowance that can be used for topping up for instance low unemployment benefits or low earnings.
- Obligation of job-search and work-availability.[2]

3.1.2. *Calculation of gross benefit*

General social assistance payments are all in payments which are intended to cover normal essential costs of living, including the costs for food, housing, heating, furniture and recreation. The Dutch national government specifies minimum basic benefit payment rates based on age, family composition and the number of persons sharing the same dwelling, the so called ‘cost sharing standard’ according to which the rate of social assistance is

[2] This extends also to the spouse or cohabiting partner of the benefit claimant. Claimant and spouse have a shared responsibility for their means of existence. When spouse or partner does not comply with the obligations the municipality may reduce or stop the allowance. Lone parents must start looking for work if their youngest child is 5 years or older. If the child is 5 years old or younger the lone parent may request dispensation from the obligation to look for work. The parent is however obliged to attend training courses.

lowered with every additional co-resident. Starting at 50% of the subsistence minimum when two people share a house, the amount per person is subsequently lowered with every added resident. The minimum is 30%. Students and youth under the age of 21 are excluded from the cost sharing standard.

General social assistance rates (Participatiewet) in 2018

Family situation	Proportion of the subsistence minimum	Gross yearly benefit incl. Holiday allowance	Corresponding net yearly benefit Holiday allowance: Excluded	Included
Couples (with or without children)	100%	19665	16157	17008
Single or lone parent, 21 or older	70%	15193	11310	11905
Cost Sharing Standard	30% - 50%			

Note: TaxBEN assumes single, lone parent or couple households, i.e. the 'cost sharing standard' is not applied in the model.

Young people until 27 years of age are deemed to be in work or education. Furthermore, until the age of 21 parents are supposed to provide financial support to their children. Therefore, municipalities are only obliged to provide benefits to applicants in this age group in exceptional circumstances. There is a waiting period of 4 weeks in which the claimant younger than 27 years of age is required to look for work and education and in which the claimant is not yet entitled to social benefits. The benefit claim is refused if there are opportunities in the regular education system (Student Finance Act) for the claimant.

General social assistance rates (Participatiewet) for young persons in 2018

Family situation	Gross yearly benefit Including holiday pay	Net yearly benefit Excluding holiday pay	Net yearly benefit Including holiday pay
Single < 21 years with children	2939	2799	2939
One is >21 years and one is <21, with children	16255	14138	14844
Both <21 years old, with children	9279	8838	9279
Single <21 years, no children	2939	2799	2939
Both <21 no children	5878	5598	5878
One>21 one<21, no children	11443	10898	11443

Note: TaxBEN assumes the same age for partners living in a couple household.

3.1.3. Benefit amount

See Section 3.1.2.

3.1.4. Benefit duration

As long as there is a need. Once benefits have expired, one can re-apply when the need occurs again.

3.1.5. Means test

No income disregards; one-to-one income-test using the household net income. Family benefits and individual housing benefits are excluded from the income-test.[3]

3.1.6. Tax treatment

The level of general assistance is defined on its net value; a net income level is guaranteed. The income taxes on the social assistance benefit are not paid by the recipient, who thus receives a net benefit, but are transferred to the tax inspector by the municipality that is administering the benefit.

3.1.7. Interaction with other components of the tax-benefit system

Social assistance can be used as unemployment benefit top-up or as low income top-up.

3.1.8. Combining benefit receipt and employment/starting a new job

See Section 3.1.5.

*3.2. **Housing benefit** (Huurtoeslag)*

Variable name: **[HB]**

This is a non-contributory benefit, means-tested and not taxable.

Housing benefit is based on rent levels restricted by minima and maxima and taxable family income. Housing benefits must be applied for separately from social assistance. They are

[3] Three remarks: 1.) Savings and assets (which are not modelled in TaxBEN) worth over EUR 6020 (EUR 12040 for couples and lone parents) are taken into account. The own dwelling is disregarded only up to a certain maximum EUR 50,800. If the value of the house minus the mortgage exceeds this maximum, the recipient can get social assistance as a loan.

2.) The exception to the rule of the one-to-one income test is for social assistance recipients who start working. The municipality can decide that a social assistance recipient is allowed to keep a certain amount of earnings from work: during 6 month 25% of the earnings up to a maximum of EUR 202 per month. It is up to the municipality to decide this and to decide the level of disregard. After six month the general rule of one-to-one income testing is resumed. Given the discretion of the municipality, this is not modelled in TaxBEN.

3.) All income is taken into account. However for claimants aged 27 or older 25% of income from work can be left untouched during the first 6 months of entitlement. Additionally lone parents aged 27 or older can earn up another 12.5% during a period of 30 months. It is up to the municipality to decide this and to decide the level of disregard. Therefore, this is not modelled in TaxBEN.

also separately paid and calculated from social assistance benefits. However, the social assistance income level is generally that low that all benefit recipients should be entitled to housing benefits as well, if they apply for it. Housing benefits will be calculated from the social assistance benefit or the gross unemployment benefit as reference for the income.

3.2.1. Eligibility conditions

No specific conditions apart from means-test and rent limits; see Section 3.2.2.

3.2.2. Calculation of gross benefit

Housing benefit is based on current rent levels and taxable income. The underlying principle is that every household always pays part of the rent itself. This is referred to as the "standard rent" (*basishuur*). In 2018 the monthly standard rent for people with a minimum income is EUR 221.45 (households with two or more people older than the age of retirement), EUR 223.26 (a person older than the age of retirement living alone) and EUR 225.08 (households only containing people under the age of retirement). The table below shows accordant yearly minimum incomes. There was a higher standard rent for people with a higher income. The age of retirement is settled at the age of 66 years in 2018.

Yearly minimum income in housing subsidy calculations

	2016	**2017**	**2018**
Single household < age of retirement	15400	15675	15925
More persons household <age of retirement	19925	20275	20600
Single household > age of retirement	16900	17075	17325
More persons household > age of retirement	22625	22850	23200

<u>The process for awarding housing benefits 2018 – 6 Steps</u>

Step 1: Determines the kind of household

The standard rent (*basishuur*) is the minimum amount of rent a household has to pay themselves. It depends on the size of the household and the age of the inhabitants. The following kinds of households are defined:

- Single person household (single on 1-1-2018 and younger than the age of retirement);
- More person household (min 2 persons; all persons younger than the age of retirement on 1-1-2018)
- Single person household (single older than the age of retirement on 1-1-2018)
- More person household (min 2 persons; at least one person older than the age of retirement on 1-1-2018).

The composition of the household and the age of the inhabitants is of importance for the own contribution (standard rent or *basishuur*) and the capping limit (*aftoppingsgrens*; the level at which no subsidy or only 40% of the subsidy can be awarded) and the maximum means level (*vermogensgrens*).

Step 2: Determines the capping limit (*aftoppingsgrens*)

The capping limit for a full benefit is the rent above which level in principle no subsidy is paid. For a one- or two person household the maximum rent level is EUR 597.30, for a household with 3 or more persons it is EUR 640.14.
If the rent is higher than the capping limit, only 40% rent subsidy is paid for the exceeding amount, and only if it considers a single person household or a household with at least one person above the retirement age or a handicapped person in adjusted accommodation. Monthly house rents up to EUR 710.68 qualify for housing benefits.
Note that the maximum rent level for a person younger than 23 years is EUR 417.34.

Step 3: Determines the calculated income

In order to determine the rent subsidy a specific calculated income (*rekeninkomen*) is estimated. This is the total taxable income of the persons belonging to the household in the current year (2018) including:

Taxable income:

- income from work and accommodation
- rent from capital income
- interests

Afterwards, the (estimated) taxable income is confronted with actual taxable income. The difference in actual and estimated income may lead to a different rent subsidy, which will be recalculated and settled with the receiver.

Step 4: determine the standard rent

All income of the household is summarized. For children up to 23 years an amount of EUR 4827 is excluded from the calculations. The standard rent has to be calculated with a formula. The formula is:
Standard rent = a*Y*Y + b*Y

In which Y = taxable household income, and a and b specific parameters depending on the different household types:

	a	**b**
Single household < retirement age	0.000000684366	0.002171483654
More persons household < retirement age	0.000000387746	0.002116315615
Single household > retirement age	0.000000985639	-0.005167396290
More persons household > retirement age	0.000000587777	-0.004821329602

Step 5: Determine the calculated rent (*rekenhuur*)

The calculated rent forms the basis for the rent subsidy. It consists of the net rent including a few service components such as cleaning service.

Step 6: Calculate the amounts to be subsidized at 100%, 65%, and 40%

Three levels of benefit are paid in the case of rents above the standard rent:

- The difference between the standard rent and the "quality allowance limit" (EUR 417.34 in 2018) is paid completely (=100%).
- 65% of the costs of any additional rent above the "quality allowance limit" are paid. The idea behind this is that people should pay a contribution if they rent a more expensive (and therefore better quality) home.
- The amount by which the rent exceeds the "cap" (in 2018 this is EUR 597.30 for one and two person households and EUR 640.14 for three or more person households, see Step 2) is only eligible for benefit in the case of people older than the retirement age, people living alone and the handicapped. They receive a benefit amounting to 40% of the regular subsidy.

Monthly house rents up to EUR 710.68 qualify for housing benefits.

3.2.3. Benefit amount

See Section 3.2.2.

3.2.4. Benefit duration

As long as eligibility conditions are fulfilled.

3.2.5. Means test

Households are eligible for housing benefits if their yearly income is lower than EUR 22,400 for a single younger than the retirement age, or EUR 30,400 for a household (all persons must be younger than the retirement age), or EUR 22,375 for a single older than the retirement age, or EUR 30,400 for a household if at least one person is older than the retirement age. Next, their capital must be lower than EUR 30,000 for a single or EUR 60,000 for a household (capital income is not taken into account in TaxBEN).

3.2.6. Tax treatment

The benefit is not taxable.

3.2.7. Interaction with other components of the tax-benefit system

3.2.8. Combining benefit receipt and employment/starting a new job

See Section 3.2.5.

4. Family benefits

In the Netherlands, there exists one universal child benefit under the General Child Benefit Act (*Algemene Kinderbijslagwet, AKW*), and one targeted additional child benefit (under the *Wet op het kindgebonden budget, WKB*). Both are described in Section 4.1.

*4.1. **Child benefits** (Algemene Kinderbijslagwet and Wet op het kindgebonden budget)*

Variable names: **[FB; CB; ADD_FB]**

AKW is a non-contributory benefit, not means-tested and not taxable. *WKB* is non-contributory, means-tested and not taxable.

4.1.1. Eligibility conditions

The General Child Benefit Act (*AKW*) offers people living and/or working in the Netherlands a financial allowance (child benefit) for the costs of care and maintenance of children up to the age of 18. The amount of the child benefit depends on the age of the child.[4]

To receive the additional child benefit (*WKB*), a means-test has to be passed (see Section 4.1.2.).

4.1.2. Benefit amount

Child benefit ***AKW*** is payed per quarter:

On January 1st 2018:

Aged 0-5	€ 201.05
Aged 6-11	€ 244.13
Aged 12-17	€ 287.21

Every six months the child benefit amounts can be adjusted to the price developments.

The additional child benefit ***WKB*** was introduced in 2008. Parents who receive child benefits for children up to the age of 18 can qualify for *WKB* if their income and their capital do not exceed a certain ceiling. The *WKB*-amount depends on the income of the parent(s), the number of children and the age of the children. For children between 12 and 18 and for lone parents there is an extra allowance. Parents whose household income does not exceed €20,451 (2018) receive the maximum amount of *WKB*. The benefit amount decreases as income rises.

WKB is not payable if the household income is above a certain ceiling per year.

The benefit has a maximum value per year.

The maximum monthly amounts of the allowance per child are (2018):

1st child: € 96.00

2nd child: € 81.42

3rd child: € 24.00.

4th child and further: € 24.00

[4] Double amounts can be paid if the child is not living at home because of study or disability if the conditions of the General Child Benefit Act are met, or if the parent(s) provide home care for their severely disabled child (aged 3 to 18) in need of extensive care. A single parent or single earner providing such home care can receive an extra amount. This is not modelled in TaxBEN.

The maximum amounts of the extra allowance are:

12-15 years: € 19.66

16-17 years: € 35.08.

Single parents receive an additional benefit up to a maximum of € 3.101 per year (in 2018).

The whole child-related allowance is paid in advance on a monthly basis.

The benefit is withdrawn at a rate of 6.75% when the family's yearly taxable income exceeds EUR € 20,451.

4.1.3. Benefit duration

As long as the eligibility conditions hold.

4.1.4. Means test

For *WKB* only, see Section 4.1.2.

4.1.5. Tax treatment

AKW and *WKB* are not taxable.

4.1.6. Interaction with other components of the tax-benefit system

None.

4.1.7. Combining benefit receipt and employment/starting a new job

See Section 4.1.2

5. Childcare for pre-school children

The **reference date** for the policy rules described in this section is **January 1, 2018.**[5]

A new law, the *Childcare Act*, went into effect on January 1st 2005. This law reformed the childcare system. 'Demand-side funding' provided via parents replaced 'supply-side funding' mainly provided by the municipal authorities. The direct subsidising of facilities has ceased as a result. This means that childcare organisations are subject to market forces. Childcare facilities compete in terms of price and quality, since parents will be able to opt for a different care establishment if the price is too high or if the quality is found wanting. This law applies to day care centres (0-4 years), day care outside school hours (4-12 years) and family day care. Primary education starts at 4 years and is mandatory at 5.

In 2013 43% of the children in the age up to 4 years visit subsidized day care and 21% of the children in the age of 4-12 years visit subsidized after-school care.[6]

[5] The childcare module of TaxBEN is updated every three years (next update: 2021).

[6] In 2013 for families with a total income from 118,189 EUR the first child in childcare was not subsidized, in contrary to the forgoing years. Only subsidized children in child-care are registered.

The Childcare Act provides a new method of financing childcare. The act assumes that parents, employers and government collectively bear the costs of childcare. The employer's contribution was meant to be voluntary and part of collective labour agreements. The target figure was that in 2008 90% of employees would be able to receive a full contribution for childcare from their employer. Monitoring of the development of collective labour agreements on employer's contributions to childcare led to the conclusion that this target would not be reached. Therefore an obligatory employer's contribution was introduced in 2007. Since 2006 the costs for parents have been reduced by increasing the subsidy from the government. On a macro-level, parents (all together) pay 40% of the costs, the government and employers about 60% in 2013.

Through the Tax Department parents receive the subsidy that the government contributes to childcare themselves, this includes also the employer's contribution. The amount parents receive depends on their income.

5.1. Gross childcare fees

Variable names: **[NLcc_cost]**

See Section 5.3.

5.2. Fee discounts and free provision

None.

5.3. Childcare benefits for formal centre-based care (Kinderopvangtoeslag)

Variable names: **[cc_subsidy/ cc_benefit]**

Parents pay the costs for childcare themselves, and receive a subsidy from the government (the 'childcare benefit'). The childcare benefit is calculated as a percentage of the total costs of the childcare and varies with the income of the parents: the lower the income, the higher the benefit. In 2018, the benefit starts with a contribution of 94.0% of the costs at an annual income up to € 18,849 going down in 69 steps to 33.3% at an income more than € 183,976 for the first child; and a contribution of 95.0% of the costs at an annual income up to € 18,849 going down in 69 steps to 64.0% at an income more than € 183,976 for next children.[7]

See the table below for the average costs for parents per hour for three different levels of income:

	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018
Average costs per hour for daycare (in EUR)[1]	5.97	6.16	6.32	6.43	6.54	6.71	6.86	6.97	7.18	7.45
Average costs per hour for after school care (in EUR)	5.95	6.10	6.17	6.30	6.44	6.61	6.72	6.81	6.69	6.95
Costs per hour (after school care; in EUR) for first child for parents with an income of:										

[7] https://wetten.overheid.nl/BWBR0017321/2018-01-01

- 130% minimum	0.43	0.44	0.71	0.82	0.91	0.94	0.96	0.56		
- 1,5 x average income	1.20	1.22	1.65	1.91	2.12	2.11	2.16	1.77		
- 3 x average income	3.33	3.27	4.13	4.24	5.24	5.25	5.36	5		
Costs per hour next child (in EUR) for parents with an income of:										
- 130% minimum	0.21	0.22	0.26	0.45	0.46	0.48	0.49	0.41		
- 1.5 x average income	0.32	0.32	0.39	0.78	0.79	0.82	0.84	0.45		
- 3 x average income	0.52	0.52	0.63	1.42	1.45	1.50	1.53	1.14		

1. This is the fee implemented in TaxBEN.

5.3.1. Eligibility

Parents have to meet the following conditions in order to be eligible for childcare benefits:

- Working parents, including single working parents;
- Parents in a reintegration course to work;
- Parents who follow education;
- Immigrants taking part in an integration course;
- Childcare is needed because of social-medical reasons.

5.3.2. Benefit amount

See above.

5.3.3. Benefit duration

As long as eligibility criteria are fulfilled.

5.3.4. Means test

Benefit amount dependent on income, see above.

5.3.5. Tax treatment

The childcare benefit is not taxable.

5.3.6. Interaction with other benefits

5.3.7. Combining benefit receipt and employment/starting a new job

5.4. Childcare allowance for children not using child care centres

Childcare benefit can also be received if the child is taken care of by a private childminder. This is not considered in TaxBEN.

5.5. Tax concessions for childcare expenditures

None.

6. Employment-conditional benefits

Variable names: **[IW; IW_p; IW_s]**

There are no specific employment-conditional benefits in the Netherlands. However, the Work credit and the Income dependent combination credit are dependent on work, of which the latter is currently classified as an in-work benefit **IW** in TaxBEN. For further details, see Section 8.1.

7. Social security contributions and payroll taxes

7.1. Social security contributions

Variable names: **[SC; F_SOCSEC_p; F_SOCSEC_s; CARE_ben; SSCR; SSCR_general_p; SSCR_general_s; SSCR_NTCP_p; SSCR_NTCP_s]**

Ceilings for social security contributions: Employee and/or employer social security contributions are payable until a maximum of gross earnings of EUR 54 614 for Unemployment, Health and Invalidity insurance. Different ceilings apply to Old age pension, Widows and orphans pension and Exceptional medical expenses, as indicated.

Contributions payable by employees:

- **Unemployment**: 0% of the gross earnings (this contribution is only for the general unemployment fund); employees do not have to pay an unemployment premium in order to reduce administration costs. Employers pay both an unemployment premium and a premium for invalidity for their employees (see below).
- **Health**: Each adult in the Netherlands makes a payment for basic health insurance to a privately-managed health insurance company. The average payment in 2018 was EUR 1 312. Employees might obtain a compensation for this nominal contribution depending on their family situation and taxable income through the 'health care benefit'. Both this benefit and the basic health insurance premium are included in the non-tax compulsory payments (NTCP) calculations in TaxBEN.[8] The care benefit is calculated as follows:
    - *Single parent households*: 1546 – 1.990% * 20 451–13.49% * (taxable income – 20 451)
    - *Married couples*: number of adults * 1546 – 4.750% *20 451– 13.49% * (taxable income principal and spouse – 20 451).

  In addition a payment of 6.90% of gross earnings net of employees' pension premiums and unemployment social security contributions is paid to the Health Care Fund. Until 2012, this payment was made by the employee and reimbursed by the employer. Since 2013, it has been paid by the employer (see below). This is also modelled as a NTCP. The expenditure of this fund mainly compensates private

[8] NTCPs refer to compulsory payments made by employers or employees in connection with the employees' labour activity that do not qualify as taxes and social security contributions. See the "Associated paper: non-tax compulsory payments" to the latest OECD *Taxing Wages* report for more details on NTCPs.

insurance companies for their (public) obligation to insure individuals with a high health risk.

- **Old age (public – first pillar) pension**: The age is adjusted such that elderly will receive Old age (state) pension at the age of 66 years in 2018 and at 67 years in 2021. The Old age premium percentage is 17.9 per cent of taxable income in the first and second tax bracket (i.e. up to gross earnings of 33 994, see Section 8.1.3). This scheme does not apply to individuals above the current pension age.
- **Old age (private – second pillar) pension**: In the Netherlands, compulsory contributions under collective labour agreements are paid by employees and employers to privately–managed pension funds. All company sectors[9] are obliged to have a pension arrangement for their employees. Capital is built up and invested to create an acceptable rate of return. The pension premiums vary between companies. On average employees working in the private sector pay a pension premium of 5.91%[10] of gross earnings net of the pension franchise of EUR 13 076 in 2018. These pension premiums are considered as NTCPs in TaxBEN. The pension franchise is built into the pension scheme to prevent an employee whose wage is too low to obtain a second pillar pension (and so receives only the first pillar pension) from having to pay pension premiums in the second pillar. The employee does not have to pay personal income tax on the pension premiums but the pension payments will eventually be taxed when the employee retires. This exemption from personal income taxes is limited to gross earnings of EUR 105 075 in 2018. Pension premiums paid over gross earnings above this threshold are taxed. The premiums of the employee qualify as a standard tax relief.
- **Widows and orphans pension**: 0.10 per cent of taxable income in the first and second tax bracket.
- **Exceptional medical expenses and disability (long-term care)**: 9.65% of taxable income in the first and second tax bracket.

<u>Contributions payable by employers:</u>

- **Unemployment**: 2.85% of gross earnings for the general unemployment fund and a contribution of 1.286% of gross earnings for the industrial insurance associations redundancy payments fund, net of employees' NTCP pension premiums.
- **Invalidity**: 7.99% of gross earnings;
- **Health:** For medical care employers contribute 6.90% of gross earnings net of employees' NTCP pension premiums and unemployment social security contributions.
- **Old age (private – second pillar) pension**: On average employers in the private sector pay a pension premium of 12.71% of gross earnings of their employees exclusive of the pension-franchise of EUR 13 076 in 2018. The compulsory pension premiums of employers to privately-managed funds are NTCPs.

[9] Very small companies do not have pension arrangements for their employees. If a company offers a pension arrangement to one of its employees, it has to offer the same arrangement to all of its employees. Nearly all SME's (approximately 95 per cent) have pension arrangements for their employees.

[10] This is an estimated value. Final information regarding the pension premium contributions for employees and employers in Sectors B-N (ISIC Rev. 4), as a percentage of average earnings, becomes definitive only after three years. This implies that currently definitive information regarding the contribution rates is only available for 2012 and prior years.

7.2. Payroll taxes

None.

8. Taxes

8.1. Personal income tax

Variable name: **[IT; F_INCTAX_p; F_INCTAX_s]**

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 (not applicable in TaxBEN).

8.1.1. Tax allowances

Variable names: **[ALLOW; SS_UNEMP_p; SS_UNEMP_s]**

Related to wage earnings:

- Employees' social security contributions are partly deductible (see Section 7).[11]

[11] Other non-standard tax allowances not modelled in TaxBEN:

- Employee contributions to private (company provided) pension schemes.
- For distances of more than 10 km between home and work, fixed amounts for travel expenses with public transportation are deductible. The maximum deduction for employees who travel by public transport is EUR 2 090 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 it is below certain specified amounts.

Related to owner occupied housing:

- Excess of mortgage interest over net imputed rent.

Related to personal circumstances:

- Medical expenses and other exceptional expenses: Fiscal deduction of exceptional health expenses will be reduced to the specific costs as a result of the chronic illness. As specific costs are seen medical treatment (not paid for by insurance company), diet costs, special medicine described by a doctor, extra domestic care, special expenses for clothing and transportation costs. Visual tools and insurance premiums are not seen as specific costs and are therefore no longer deductible. As from 2014, expenses for wheelchairs, scooters for the disabled and home adjustments made because of a chronic illness are no longer deductible. All expenses except for medical treatment expenses may be increased by a factor. This factor is income and age dependent. The factor amounts to 1.4 if the person is below the legal pension age and has an income on or below EUR 34 404. The factor amounts to 2.13 if the person is on or above the legal pension age and has an income on or below EUR 34 404. People with an income above EUR 34 404 cannot apply the factor.
- For a single person: the specific expenses (after multiplication with the factor) in excess of 1.65% of income are deductible if income exceeds EUR 7 647 and is below EUR 40 691. If income is lower than or equal to EUR 7 647, the non-deductible limit is EUR 131 For a person with a

8.1.2. Tax base

Variable names: **[TAX_INC; TAX_INC_p; TAX_INC_s]**

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.

TaxBEN assumes the definition of taxable income from the first category, 'taxable income from work and owner-occupied housing', because of its relevance for the AW (while income from owner-occupied housing is assumed away).

8.1.3. Income tax schedule

The 2018 tax schedule for income from work and owner-occupied housing is as follows:

Taxable Income (EUR)	Tax Rate (%)	Social security contributions	
		< 65 years	*> 65 years*
0–20 142	8.90	27.65	9.75
20 142–33 994	13.20	27.65	9.75
33 994–68 507	40.85	-	-
68 507 and over	51.95	-	-

The contributions for the general social security schemes (for widows and orphans pensions, exceptional medical expenses, and old age income provision) are levied on income from work (and owner-occupied housing) in the first and second income tax bracket. These social security contributions are not deductible for income tax purposes. Individuals at or above the current pension age pay 9.75 per cent (for widows and orphans pensions, and exceptional medical expenses). Individuals younger than the current pension age pay 27.65 per cent, (for widows and orphans pensions, exceptional medical expenses, and old age income provision).

partner: the joint income is used to determine the non-deductible amounts and the non-deductible limit is EUR 262.

- If income exceeds EUR 40 691 the specific expenses in excess of 1.65% of EUR 40 691 increased with 5.75% of income above EUR 40 691 are deductible.
    - Some educational expenses: in direct connection with vocational education. Expenses above the threshold of EUR 250 are deductible. Expenses above EUR 15 000 are not deductible; PM still the same amounts?
    - Donations to certain institutions (charity) that serve the public good are deductible if in excess of 1% of the income and in excess of EUR 60. No more than 10% of the income may be deducted in this way.

8.1.4. Tax credits

Variable names: **[TAX_CREDIT; F_TAX_CRED_p; F_TAX_CRED_s]**

The tax credits are deducted partly from the income tax liability and partly from the contributions that are made to the general social security schemes. For most families, 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. In 2016, this ratio was 24.35% (= 8.90 % / (8.90 % + 27.65 %), implying that 22.98% of the (tax) credit is attributed to the personal income tax and the remaining 75.65% to social security contributions. If the individual's total tax credit is higher than the total tax and social security contributions levied on the first tax bracket, the shares of the residual amount of the tax credit that are attributed to the personal income tax and social security contributions are based on the rates of deduction in the second tax bracket in order that the employee can benefit from the full amount of the credit where the level of income allows it. As a result, the ratio of the tax rate to the sum of the tax rate and social security contribution rates is increased to 32.31 % for the residual amount in 2018 (i.e. 13.20 %/(27.65 %+13.20 %)).

Division of credits for tax and social security contributions is essential in the OECD publications. In the Netherlands no division is made in the general tax scheme between tax and SSC.

Note that the table above shows the total amount of social security contributions net of the credits that are claimed.

- *General tax credit*: The general tax credit is made dependent on income since 2014, meaning that higher incomes receive less general tax credit. Since 2018, the general tax credit is fully phased out, meaning that higher incomes receive no general tax credit. This credit amounts at it maximum EUR 2 265 when no reduction is applicable and taxable income is below or equal to EUR 20 142. For incomes above this threshold, the general tax credit is fully phased out at a rate of 4.683% (per euro). So incomes above EUR 68 507 receive no general tax credit.

  The transfer of the general tax credit of the spouse to the principal will diminish with 6.67% per year in the period 2009-2023, such that in 15 year time the general tax credit for a non-working spouse cannot be capitalised against the tax paid by the principal. In 2018, 33.33% of the general tax credit can be transferred, i.e. 755 EUR. This reduction of the transfer of the general tax credit started in 2009. In 2023 the general tax credit can only be capitalised against the tax and premiums paid on own earned income. In 2012 a reduction of the general tax credit for non-working spouses born after 31 December 1962 and before 1 January 1972 is introduced. The reduction will be equal to the reduction of non-working spouses born before 1 January 1963 in year 2015.

- *Work credit:* The amount of work credit depends on taxable income from work and is phased in on two trajectories; the first one runs from EUR 0 till EUR 9 468. On this first trajectory, work credit equals 1.764% of taxable income from work. On the second trajectory, which runs from EUR 9 468 till EUR 20 450, the work credit equals EUR 167 plus 28.064% of the part of income that is above EUR 9 468. So at an income of EUR 20 450, the maximum of EUR 3 249 is reached. The work credit stays at its maximum till an income of EUR 33 112. After this threshold, the work credit is fully phased out at a rate of 3.6% (per euro) so that incomes above

EUR 123 362 receive no work credit. 2016 is the first year in which higher incomes receive no work credit. See also Section 6.

- *Combination credit and additional combination credit:* Abolished in 2009.
- *Income dependant combination credit:* The additional combination credit is replaced with the income dependent combination credit. A taxpayer who is either a single parent or the partner with the lowest income, who has children below the age of 12 and has his/her taxable income from work exceeding EUR 4 934, is entitled to an income dependent combination credit of EUR 1 052 plus an extra combination credit of 6.159% of taxable income above EUR 4 934. The maximum total combination credit is EUR 2 801 (reached at an income level of EUR 33 331).[12]
- *Single parent credit*: Abolished in 2015: The single parent credits have stopped and instead the cash transfers become more important. TaxBEN models an extra cash transfer for single parents with children and a low income (as part of family benefits; see Section 4.1.2).
- *Additional single parent credit*: Abolished in 2015, see explanation above.

The amount of the tax credit is limited to the amount of tax and premiums payable (non-refundable tax credit). 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. This only applies to the work credit and the income dependent combination credit. This rule will be abolished from 2019.

[12] This credit is classified as an in-work benefit **IW** in TaxBEN. See also Section 6.

Annex: Other benefits and direct taxes

This section provides a brief description of other cash benefits and taxes on employment incomes in the Netherlands that are relevant for some members of the population below the statutory retirement age, but which are not included in the OECD tax-benefit model.

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