Summary and conclusion

In this report we examine the financial consequences of incorporating rules on homeworking into the Netherlands' tax treaties with its neighbours, Belgium and Germany. These consequences concern taxpayers' net income and employers' social insurance contributions.

The following picture emerges based on the scenarios analysed in this report:

- In situations where homeworking rules that confer a right to tax on the state of employment effectively apply, a homeworking employee's net income will be the same as that of an employee who does not work from home at all, provided there is no change in the applicable social security system. If the threshold for the maximum number of homeworking days is exceeded, however, tax will be levied as it is in the current situation without homeworking rules.
- The homeworking rules have virtually no impact on the net income of people in the lowest earning category.
- The homeworking rules have greater impact on the other income categories. In most cases, the homeworking rules have an adverse effect on the taxpayer's net income. This is because the taxpayer's income is no longer divided between two countries for tax purposes and, consequently, the taxpayer no longer benefits from their income falling into the lowest tax band in both countries.
- In a limited number of scenarios, homeworking rules do have a positive impact on the taxpayer's net income. One such scenario applies to married residents of the Netherlands who are employed in Germany and earn €100,000. In addition, in some situations the taxation of a taxpayer's entire employment income in the state of residence is advantageous compared with the current situation, especially if that same taxpayer is covered by the social security system of the country of employment. However, this does result in incongruity between the country whose systems apply for the purposes of salaries tax and social security.

As a rule, the decision on whether or not to introduce homeworking rules comes down to a trade-off between administrative simplicity and tax advantages. In a number of scenarios, however, the homeworking rules actually result in a tax advantage compared with the current situation without homeworking rules.

A taxpayer who has to pay salaries tax and/or income tax in two countries bears a heavier administrative burden than a taxpayer who only has to pay tax on their income in one country. Homeworking rules will only ease this administrative burden to a limited extent. If the homeworking rules result in the state of employment having the exclusive right to levy tax, an income tax return will often still have to be filed in the country of residence as well. If the homeworking rules result in the state of residence having the exclusive right to levy tax, it is possible that the employer will not perform any payroll accounting activities. In that case, employees themselves would need to remit salaries tax, possibly via a provisional assessment in the Netherlands. If the country where an employee pays salaries tax and the country where they pay social insurance contributions are not the same, the administrative burden will be higher than it would be in an entirely domestic situation.

If a taxpayer is fully liable to tax and covered by social security in the state of employment, their net income will be comparable to that of a colleague who earns the same income and both lives and works in the state of employment. If the taxpayer is fully liable to tax and covered by social security is the state of residence, their tax and social security position will be the same as that of other taxpayers in the country of residence, but their net income will differ from the net income of their colleagues in the state of employment.

Taxation is determined by a combination of tax rates and the base upon which tax is computed. Each country has its own, specific rules and exemptions that affect the tax base and therefore significantly determine the tax ultimately levied on an individual. Cross-border workers are confronted with different tax regimes. As a result, an employee's income situation as viewed from one country may appear different from the other country. Differences arise in particular if an employee works partly from home and is simultaneously subject to two different tax regimes.