

Self employed in The Netherlands



www.expatax.nl

Contents

1. Information about becoming self employed
2. Registration
3. Income tax
4. VAT
5. Conclusion
6. About Expatax

1. Information about becoming self employed

You have a great idea and you would like to exploit it commercially. But what needs to be done for this? Whether you want to provide a service or sell goods you wonder what the tax man will want from you. The red tape seems enormous. But if you arrange everything the right way you will see that you can focus on doing business instead of worrying about your administration and tax obligations.

When you have worked out what you are going to do, who your clients will be, how much you are going to charge etc. you can start your activities officially. You can make a business plan but this will only be for your own interest if you don't need external financing.

In this brochure you will find more information about the registration procedure, consequences for income tax and VAT and the independency question. If you would like to set up a limited company please check our brochure "Setting up a limited company in the Netherlands".

2. Registration

In the Netherlands registration in the trade register of the Chamber of Commerce is compulsory for every company and almost every legal entity. In general freelancers are also obliged to register, unless the activities are extremely limited.

Important is then that your activities are registered with the tax authorities who will provide you with the relevant tax numbers and send you the applicable tax returns. As a freelancer you will already have a BSN (called sofi-number in the past). If you won't have employees the tax authorities will only have to give you a VAT number.

Make sure you have the required diploma's and permits. If you provide a service it's normally not required to have specific diploma's. But in certain situations there may be an exception. Important is though that you have a legal right to stay and work in the Netherlands. If you are not an EU citizen there will be certain requirements which must be met in order to gain a residence permit as a freelancer.

3. Income tax

Freelancers are charged income tax on their income. The three categories of income tax are:

- Business profits: if the tax authorities consider you to be self-employed, you can declare your freelance income as business profits. You are eligible for self-employed persons' tax allowances.
- Freelancing as a secondary activity: Income from work which cannot be considered either as salary or as business profits is known as income from other activities.
- Salary from employment contract: if you have an employment contract, the client (= employer) deducts income tax from the freelancer's salary and pays this to the tax authorities.

The tax authorities use four criteria to determine whether you are self-employed: independence, sustainability, profit motive and the number of clients. The decision regarding the type of income is made in a so called VAR declaration.

Relevant to determine whether you are employed instead of self employed are for example:

- there is a relationship of authority between the client and you (or the work is done in the client's office, you have an email address of the client etc.)
- the client gives (specific) instructions with respect to your work
- the client pays wages during holidays or during illness
- you have only one or two clients, or one big client for which the majority of the time is spent besides one or two (very) small clients

In this brochure we assume that the income is treated as business profit or income from other activities.

The freelance income will have to be declared in your annual income tax return, so for this there is no separate tax number or tax return required. This is only different in case you run your business through a limited company.

The administration will be the basis also for your income tax return which will be filed after the end of the year. In this income tax return the applicable tax credits can be claimed too. The most important requirement to claim a tax credit is that you have worked at least 1,225 hours for your business in the calendar year. This includes direct working hours but also hours you spent on traveling, market research, administration, education etc. The first year it might be wise to keep an administration of the hours spent, especially if you also have a paid job besides your freelance activities. Once you work a full year and make a decent turnover the tax authorities won't doubt anymore that you worked 1,225 hours for your business. Besides the general self employed tax credits there are also specific tax credits for which different rules apply.

Some expenses can be claimed as business expenses. You can think of costs related to for example:

- advertising
- travel
- communication (phone, internet, postage)
- registrations
- equipment
- services hired from third parties
- etc.

Difficulties concern usage of your own car and a home office. If you use a car you can decide to keep it in private and claim business kilometers against 19 cents per kilometer or you can put the car on your business balance, claim all the costs and make an adjustment in your income tax return for the personal use. Which option is more beneficial depends on your specific situation.

Then there is the question whether you are allowed to work from home or need an external office. As long as you won't have a lot of clients visiting you the municipality will not bother that you work from home. But still if you have clients visiting you an external office could be a wise decision, not only because the costs of such an office are tax deductible. The costs of an office at home are not deductible unless there is a separate entrance from outside and the office has separate facilities.

4. VAT

Anyone who practices a profession independently is considered to be self-employed for the purposes of VAT.

Depending on the expected turnover and profit the tax authorities will determine how often you will have to file a VAT return and whether they will send you a provisional tax assessment for income tax. That's why it is important that the estimates which are made during the registration are accurate.

When the tax numbers are provided by the tax authorities you will also receive the first VAT return(s) for the past period. Normally a VAT return must be filed every quarter, in case of high turnovers this may be changed to monthly. If the turnover is very low every year it can also be changed to annually.

The first VAT return will have to be done on paper. In this VAT return you can claim back the VAT charged to you on expenses made before you registered your activities. The expenses must have been made with the intention to use the goods/services for your freelance activities. So if you bought a computer 6 months ago which you used to do market research before starting as a freelancer, then the investment in the computer can still be treated as a business expense.

After the paper VAT return has been filed the tax authorities will send you a VAT assessment confirming the amounts you declared. It is important that the VAT return is filed before the deadline and that if you have to pay an amount that you also arrange payment a couple of days before the deadline. The tax authorities are very strict concerning VAT.

You can be fined for filing late and for paying late. Fines start at 1% and go up every next time with a certain maximum. Filing and payment must be arranged before the end of the month after the end of the quarter. So you have one month to arrange everything. If you don't file the tax authorities will estimate an amount which will normally be much higher than it really should be. The following VAT returns must be filed online using a digital ID and password which you will get from the tax authorities. If we arrange the filing of your VAT return we will use our own digital signature instead.

You will have to charge VAT on the invoices you send to your clients. A business client will be able to deduct this VAT in their VAT return again but an individual client won't be able to do this. The VAT rate is 0%, 6% or 19% depending on the goods you sell or the service you provide. General VAT rate is 19% though. If your clients are outside the EU it may be possible to send an invoice without VAT. For ecommerce special rules apply.

The invoice must (in general) contain certain information like date of issue, invoice number, full name and address of you and your client, description of the goods sold or the services provided, the charged amount excluding VAT, the VAT rate, the VAT amount, the total amount and in EU situations your VAT number and the client's VAT number and also your Chamber of Commerce number.

To be able to file the VAT returns it is important that you keep an administration and save all the invoices you receive and send to your clients. VAT can only be claimed if you have an invoice showing the VAT amount, for income tax it is enough that the payment can be proved. It is advised that you use a separate bank account for your freelance activities. This way you can keep all business related transactions separate from your personal situation. This will make it easier to keep an administration and may prevent that the tax authorities want to see all your bank accounts during an audit. There is no obligation to have any information or document certified by a registered accountant. You can deal with the administration yourself or ask us to assist you.

Income and expenses will have to be declared in the quarter in which the invoice is sent. The real payment date is not relevant. So if your client pays in the next quarter you still have to declare the VAT in the current quarter. This means there is a liquidity risk. Keep that in mind when you invoice a client, although you should invoice a client before the 15th of the month after the month in which the goods were sold or the service was provided.

5. Conclusion

Make sure you register your activities and keep a proper administration. If you don't feel comfortable to do it yourself you can hire Expatax to arrange this for you. This way you can prevent a lot of discussions and problems and it helps you focusing on your freelance activities. Expatax employs fully licensed public accountants, which means we can prepare all possible reports and accounts and are subject to ongoing monitoring of the quality which we provide.

6. About Expatax

Expatax was set up in 2001 and has grown to a fully licensed tax and accountancy firm employing several qualified advisors. These advisors come from Big 4 firms, have a solid background and are interested in the client. Permanent education is part of our policy, which means that our advisors stay up to date.

We are specialized in assisting expatriates and foreign businesses who want to work and do business in the Netherlands.

Our approach is very personal and direct. Lines are short and we do all we can to find a solution around the client's needs. By focussing on the international tax advice we can keep our knowledge high, the procedures clear and the fees reasonable.

Due to our client base all our outgoing correspondence like tax reports, annual accounts, etc. are prepared in English. Specifications are provided so that you can see exactly what we have done and what the result will be.

Services

Besides assistance with the preparation of a tax return we provide the following services:

- application of the 30% ruling (www.expatax.nl/30ruling)
- setting up a company in the Netherlands (www.expatax.nl/startingbusiness)
- accounting (www.expatax.nl/bookkeeping)
- providing payroll solutions (www.expatax.nl/payrolling)
- financial advice (www.expatax.nl/financial_advice)

Cooperation's

Cooperation's have been set up with other specialized advisors:

- activpayroll Ltd: worldwide payroll solutions
- VeDeVe legal: international labour law, pension rights and social security
- Berkenhout Finance: financial planning
- Rothwell International BV, contracting agency

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