

## Netherlands publishes 2019 budget: VAT proposals

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### Executive summary

On 18 September 2018, the Dutch Government published its tax budget proposals (the Proposals) for fiscal year 2019.

The Proposals are generally in line with earlier announcements by the Dutch Government, the consultation documents that were opened for public consultation in 2017 and the fiscal policy agenda that was released in 2018.<sup>1</sup>

This Alert summarizes the Value Added Tax (VAT) proposals in the 2019 Tax Plan.

### Detailed discussion

#### **Increase in the reduced VAT rate**

The Tax Plan states that the reduced VAT rate will be increased from 6% to 9% as of 1 January 2019. The reduced rate currently applies to - for example - food, non-alcoholic beverages and the granting of entrance to museums, theater performances and concerts.

For supplies made after 31 December 2018 but for which consideration was paid and received before 1 January 2019, the current reduced VAT rate of 6% applies. In contrast to previous VAT rate increases, this time the tax authorities will not impose an additional assessment of the rate difference (of 3%). This means that businesses will have the option to apply the current 6% rate to future performances.

Furthermore, it is relevant for businesses to timely prepare the necessary adaptation(s) in their ERP systems. The 6% rate cannot simply be replaced by the "new" reduced rate of 9%. Products purchased at the current 6% rate and returned after 31 December 2018 will have to be taken back/credited with the application of the original VAT rate of 6%, which means that businesses will have to operate two lower VAT rates in their systems for a certain period after 31 December 2018.

### Expansion of the sports exemption for VAT

The Dutch VAT exemption for sport and sport-related activities will be expanded as of 1 January 2019. As a result of European developments, the Netherlands was forced to adjust its domestic implementation of this exemption. Consequently, more activities will be exempt from VAT.

One of the practical consequences of the proposed amendment is that it will be (much) more difficult to keep sports facilities outside the exemption, which in fact means that VAT will become an actual cost for the construction and maintenance of sports complexes. The published documents show that the Government wants to reduce this additional cost. The Ministry of Health, Welfare and Sports intends to stimulate the development, maintenance and maintenance of sports facilities by 1 January 2019 by means of a new subsidy scheme for sports clubs and a specific allowance for municipalities.

Transitional measures also apply, for example with regard to the application of the capital goods scheme to VAT on certain investments that were made before 1 January 2019 or investments agreed and works started before that date.

### Simplification of VAT rules for electronic services

Whereas all businesses currently need to charge foreign VAT to their private customers in the European Union (EU) when they perform electronic services, a threshold will be introduced for this as of 1 January 2019. This simplifies matters for smaller businesses: if their revenues from such services are less than €10,000 per year, they may charge the VAT of the country in which they are established. The invoicing rules for such services will also be simplified.

Under the current rules, businesses that provide electronic services to private customers within the EU must charge their customers the VAT of the country where these customers are established. This VAT can be accounted for and paid through a specially designed digital declaration system in the country of residence for all other EU Member States where the customers are established. Experience shows that this is not easy for many, often smaller, businesses, as they have to determine the place of establishment of each customer on the basis of specifically prescribed rules. These rules will also be simplified as of 1 January 2019.

This measure concerns EU legislation that must be implemented in all EU Member States by 1 January 2019. It is part of a larger palette of changes, the most important of which will take effect on 1 January 2021.

### Simplification of the VAT small business scheme

The small businesses scheme (in Dutch: *kleineondernemersregeling* or KOR) will be adjusted as of 1 January 2020. This is set out in a proposal to change the current VAT rules for small businesses. If a business that is based in the Netherlands expects to generate turnover of less than €20,000 per year (in the Netherlands), it may opt to be "exempted" from VAT from 1 January 2020 onwards. This new KOR is less complex than the current VAT scheme that is in place for small businesses. The applicability of the new scheme will be extended to, for example, foundations, associations and private limited liability companies.

Under the new KOR, small businesses do not charge VAT to their customers and therefore no longer state VAT on their invoices. Furthermore, these small businesses will be exempted from filing VAT returns and from the corresponding administrative obligations. The VAT that is charged to these small businesses cannot be deducted if they choose to apply the KOR. The KOR applies only to the supply of deliveries and services performed in the Netherlands. The scheme remains optional.

This proposed rule will take effect on 1 January 2020. Businesses can let the Dutch Tax Authorities know about their choice to apply the new KOR from 1 June 2019.

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## Endnote

1. An internet consultation about the implementation of the ATAD was held and draft legislation was published on 10 July 2017. Furthermore, the Dutch Government published its fiscal policy agenda for future years on 23 February 2018.

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