



Extraterritorial Costs

What does the Extraterritorial Costs (ET Scheme) entail?

Foreign employees who come to work in the Netherlands are entitled to tax benefits related to the maintenance of a second home and the additional living costs in the Netherlands.

The 'ET' in ET Scheme stands for Extraterritorial Costs. The ET Scheme is a tax scheme that makes it possible for foreign employees with temporary work in the Netherlands to receive tax-free reimbursement for costs incurred while doing temporary work abroad. The ET Scheme is used to reduce taxable wages.

Agreement with the Dutch tax authorities

The employer or temporary employment agency must sign an agreement with the tax authorities to be able to apply the ET Scheme. This agreement enables the employer and employee to enter into agreements on the exchange of part of the reimbursement of extraterritorial costs. In this situation, the employee gives up the taxed portion of his/her wages in exchange for tax-free allowances.

The following components may be exchanged:

- Part of the periodic salary
- Holidays that exceed the statutory minimum
- Allowances for irregular working hours and overtime
- Compensation hours

Application of the ET Scheme

The application of the tax benefits and the exchange are permissible if the employee meets the following requirements:

- Double living costs (home country and the Netherlands)
- Travel expenses from the address in the home country to the Netherlands and back
- Extra living costs

The wages can be converted into tax-free allowances if the employee meets the following requirements:

- The agreement must be in writing (for example in an employment contract);
- The tax-free allowance granted under these provisions is limited to the actual costs incurred;
- The amount of the wage, after conversion, may not be less than the statutory minimum wage;
- The wage conversion is limited to a maximum of 30% of the actual wage;
- Conversion of part of the wages does not affect the basic rates for overtime and bonuses applicable to irregular working hours;
- The exchange of periodic wages and holidays may not exceed a maximum of 81% of the extraterritorial costs (exchange factor 0.81). The conversion factor of 81% does not apply to the conversion of allowances for irregular working hours, overtime and compensation hours;
- The converted portion of the salary does not form the basis for the calculation of reserves, such as holidays, holiday pay, short leave, special leave and public holidays;
- The exchanged part of the salary is the basis for the calculation of pension entitlement.

The ET Scheme does not apply to people residing in the Netherlands on a permanent basis and who are registered in the GBA (Municipal Personal Records Database).

Calculation of the ET Scheme

This document was compiled to clarify the ET Scheme and is specifically intended for informational purposes. The tax tables used to calculate the ET Scheme differ from country to country and are subject to change. The contents of this document cannot be used for calculations.

For further information on extraterritorial costs, please consult the website of the Dutch Tax Authorities.

https://www.belastingdienst.nl/wps/wcm/connect/bldcontentnl/belastingdienst/zakelijk/internationaal/personeel/u_bent_niet_in_nederland_gevestigd_loonheffingen_inhouden/als_u_loonheffingen_gaat_inhouden/extraterritoriale_kosten_en_de_30procentregeling/inhoud_van_de_regeling/extraterritoriale_kosten