

# Shock tax demand for half a million freelancers

**The sudden switch to paying tax in advance is not realistic for 500,000 freelancers who have always paid tax in arrears. And it will cause widespread damage to the economy. Please change this policy immediately.**

In 2015, 500,000 freelancers in the Netherlands who were previously paying income tax in arrears are being forced to switch to payment in advance via a 'voorlopige aanslag'. This has happened **without prior warning**, leaving all these freelancers suddenly having to find the money for 2 years' tax payments within a single year.

Because voorlopige aanslag effectively requires freelancers to **pay tax in advance of receiving income**, it is an unreasonable expectation in any case. For those who were previously paying tax in arrears, the switch places them in an impossible financial situation.

In addition, a ruling added to the Algemene wet inzake rijksbelastingen in 2014 makes it possible for the tax office to impose large fines on freelancers who fail to provide accurate forecasts of their earnings for the year ahead. This insufficiently publicised clause places a completely **unreasonable burden** on people who are simply working hard to earn a living, while already advancing money to the government.

The billions of Euros the government hopes to raise through doing this, assuming the freelancers concerned are able to pay and don't end up having to file for bankruptcy, will completely bypass the economy, damaging many other businesses along the way.

## **Tax before income.**

The voorlopige aanslag is calculated on an estimated income for the year ahead. If the freelancer's income turns out to be lower, which is always possible, they are having to **pay tax on money they haven't earned**.

The voorlopige aanslag has to be paid in equal monthly instalments. But a freelancer's income isn't the same each month. Sometimes there isn't much work available. Often clients pay late. There is a high probability that the tax payments will get ahead of the income received. So the freelancer is being asked to **pay tax on money they haven't received**.

Taxation is not based on income received over a 12-month period, or even on invoices raised over a 12-month period, but on work executed during that 12-month period. Freelancers typically get paid only 2, 3 or 4 months after doing their work. Sometimes even later. The voorlopige aanslag requires immediate monthly payment, which means freelancers are being asked to **pay tax on money they have not received**.

Freelancers already have to do this with VAT by advancing payments to the tax office each quarter, regardless of whether or not the invoices we are collecting on have already been paid. This is already an unjust system. **How does the government justify expecting freelancers to forward taxes on income they have not received?**

## An unwinnable gamble.

Artikel 67cc added to the Algemene Wet Inzake Rijksbelastingen in 2014 expects freelancers paying by voorlopige aanslag to precisely forecast their earnings for the year ahead. Failure to get this right can, at the discretion of an individual tax inspector, result in a 100% tax fine on the inaccurate portion of the earnings.

Freelancers' earnings are unpredictable to the very last day of the year. So accurate forecasting is an **impossible expectation**. Getting the forecast wrong, either by too much or too little, risks a fine. However much a freelancer manages to earn in a year, the government can always decide to charge extra tax.

At best for the freelancer, they could reach their estimation and then just stop working. This would mean letting clients down and damaging our reputations. So in this situation we may be better off working for nothing. Rather than handing a 100% fine over to the government, we would more likely choose to not charge our clients. It's more in our interests to keep them happy than the government.

At worst for the freelancer, they may not reach the estimated income and then still get fined, because their overestimate is judged by the tax inspector to have been contrived to increase tax relief on their mortgage. A double penalty, having already forwarded taxes on income they haven't earned.

Either way, this practice is effectively an additional optional tax on freelancers which can be imposed at will. It is completely **unfair and unjustified, and impossible** for freelancers to be sure of avoiding.

## The concertina effect: Double taxation.

For freelancers who were previously billed in arrears, switching to the voorlopige aanslag means having to find a much larger amount of money in a shorter space of time. If tax was previously paid in arrears during the following tax year, for example in October, then combining the 2014 arrears payment with the 2015 voorlopige aanslag means having to find the money for **2 years' income tax in one year**. How can anybody reasonably be expected to do this?

Yes, you could argue that the freelancer should have been saving as they went along. In reality, that's not so simple. When getting a new business established, freelancers often have to survive on a very low income – with no support from the government – and it's hard to make ends meet. With the best will in the world, it's really difficult to put enough money for income tax aside from day 1. So you are always behind, often for years. The fact that it was previously permitted to pay income tax in arrears, as late as October, shows that the government understood this. Or at least they used to.

The earliest that arrears tax previously had to be paid was April, which at least allowed enough time for freelancers to collect payment on their previous year's work. Even if you apply the strictest criteria, settling of **the tax bill has been brought forward by 4 months**. In common practice, it has been **brought forward by 10 months**. Where do you expect people to find this money from?

## **Damage to the economy.**

The additional tax burden on these 500,000 freelancers will cause billions of Euros to bypass the economy. Local and national businesses will suffer. Market confidence will be damaged. Because businesses have not been made aware of this reduction in spending power, they are unable to adjust their strategies accordingly. They may face their own financial difficulties, unaware that it wasn't because of their own failures or unexpected market conditions, but because of something the government orchestrated. The knock-on effect could be widely damaging.

## **Freelancers are the economy's heroes.**

Freelancers are the economy's hardest-working people. We bring in taxes without getting anything in return. We don't get sick pay or holiday pay or unemployment benefit. We have to innovate and fight for survival at every turn, because we have zero job security and nobody to support us when something goes wrong.

On top of paying for our own compulsory health insurance policies, we also have to pay massive premiums to fund the Dutch healthcare system via the 'zorgverzekeringswet', as we don't have an employer to pay this for us. Yet we are the people who cannot even afford to take time off with health issues.

If we work at home, we have much higher utility bills, but we cannot offset these against tax. Freelancers carry the responsibility and workload of at least 5 people: in addition to doing the job we actually get paid for, we are also our own sales people, bookkeepers, administrators and IT managers. We have to put in lots of unpaid hours to get this all done. Freelancers provide high-quality services – we'd never survive if we didn't – which maintain diversity and challenge standards. We keep the money flowing among real people, instead of being absorbed by big corporations. We give our clients the flexibility to operate efficiently by only commissioning us when they require a specialist. The Netherlands needs its freelancers!

## **But we are not superheroes.**

Freelancers work extremely hard. But we are only human. We also have to have a work-life balance, so that we have enough energy to do our jobs well. If we are squeezed financially to the point where we have to do even more work (presuming we can find it) just to make ends meet, working weekends and never taking a break, never mind a holiday, we will burn out. We will become "overspannen". And not in the way this condition gets overused by over-protected employees who can use it to get out of going to work for a year or two and still get paid. For us it will be genuinely catastrophic. We will stop generating income for the economy, we will default on our loans and mortgages. We won't be able to afford our rent or utility bills. We may end up on the streets. **How does that help the economy?**

## **Don't kill the goose that lays the golden eggs.**

Please consider the consequences of switching half a million freelancers to the 'voorlopige aanslag' system, and revoke this policy and its punitive fines immediately, so that hard-working freelancers can continue to benefit the Dutch economy.

## **#HandsOffOurFreelancers**