# Rate Advantage Salary Split.

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When an employee is employed in different countries, he may choose to divide the income earned between the countries. This is called a salary split. In order to be able to do so certain conditions have to be fulfilled. As the employment in our example is performed within the Kingdom, the Tax arrangement for the Kingdom (in Dutch 'Belastingregeling voor het Koninkrijk, BRK) should be consulted. For certain cases of double taxation, the BRK stipulates which country may levy taxes. The use of a salary split can prevent double taxation and an advantage may occur.

**Main rule**

The main rule is that employment income is assigned to the country of residence of the employee, unless the employment is exercised in another country (the working state). In other words, if the employment is performed in another country than the country of residence, the working state is authorized to levy. If the employment is only partly performed in the working state, the working state is authorized to levy over that part of the income. To this rule there is one exception.

The working state is not allowed to levy if:

- The employee stays less than 183 days during a period of 12 months in the country of residence, and
- The salary of the employee is not paid by a resident (employer) of the working state or is deducted from the profit of a permanent establishment established in that country.

**Tax deduction double taxation**

An employee from Bonaire is generally entitled to a tax deduction in Bonaire for employment income taxed outside of Bonaire. The tax deduction is roughly equal to the total income tax payable based on the world income, multiplied by the part of foreign income to the world income.

foreign income
------------------------ x tax due over world income = deduction taxed elsewhere
total world income

The taxation in the foreign country is usually based on the income earned in that country. Because of the tax-free sums and the progression of the tax rate, in general the taxation in the foreign country is lower than the tax deduction double taxation in Bonaire. A salary split would result in a rate advantage.

**Example**

Mr. A is employed by Company B on Bonaire and Company D on Curacao. His world income amounts to USD 100,000, of which USD 40,000 is earned on Curacao. Suppose that on Bonaire approximately USD 35,000 income tax is levied on that USD 100,000. The tax deduction amounts to 40,000/100,000 x USD 35,000 = USD 14,000. And suppose that on Curaçao USD 10,000 wage tax is levied. The saving amounts to approximately USD 4,000.

Points of attention! To make a split payroll effective, the foreign employment should have appropriate documentation. Paper is willing, but certainly insufficient for the realization of the previously mentioned advantages. For a salary split it is required that the employee actually works abroad, that these activities take place for the company and under the authority of the foreign employer and that the salary is consistent with the quality and quantity of work performed. Furthermore, it is essential that the foreign salary is paid by the foreign entity (and not passed on to the company on Bonaire). It is advisable to gather and keep evidence on file, to prove the amount of days abroad. These include boarding cards, calendars, correspondence and hotel bills.