Reduction of the income tax rate when surrendering pensions that have been accrued in own company

Oranjestad, Aruba
January 2020

The Minister of Finance, Economic Affairs and Culture recently issued policy in which Directors with a substantial interest of shares in a company and who have accrued a self-administered pension in that company are now able to surrender this pension at a reduced income tax rate.

Policy in general

In principle, it does not matter whether or not the pension has commenced and whether it has been placed within a directors' pension entity or a professional (external) insurer, unless a national ordinance or contractual provision does prohibit such a surrendering.

Based on the policy a 10 percent income tax rate applies as far as the lump sum payment, as a result of the surrendering of the pension, is received between January 1 and June 30, 2020. If the pension is surrendered between July 1 and December 31, 2020, a rate of 25 percent applies. As of January 1, 2021 a pension surrendering will be taxed at a progressive rate.

To qualify for the policy, a number of conditions must still be met and a request must be submitted to the Tax Inspector, in which the total value of the surrendered pension should be added.

Conditions policy

The most important conditions are as follows:

- The lump sum payment must be included in the payroll tax return in the month the surrendering of the pension takes place and the corresponding income/wage tax and social premiums due should be withheld and paid.
- The pension capital must be calculated on the basis of fiscally acceptable principles.
- Wage increases that are not included in the wage tax and social premiums returns filed before December 18, 2019, are not taken into account.
- Back service, that is to say, years for which no pension has yet been accrued, is only permitted insofar this is stated in the last profit tax return filed before December 18, 2019.
- Accrual of pension after January 1, 2020, to the extent already permitted, is also not taken into account.

Consequences for the company

The policy also states that the surrendering of the pension will not have any adverse profit tax consequences for the company itself, as the surrendering will not lead to a release of the pension provision.

Please note that the policy entered into force on January 1, 2020. The implementation and correct application of the relevant tax and civil laws and regulations are complicated. We will contact you shortly in order to be able to come to an optimal settlement of your pension based on your circumstances.

Our Tax & Legal team is happy to assist.

NAME	E-MAIL
Andrea Bruyning	andrea.bruyning@catc-hcc.com
Damia Croes-Arends	damia.arends@catc-hcc.com
Geert Weber	geert.weber@catc-hcc.com
Hannah Wever	hannah.wever@catc-hcc.com
Jordann Bruyning	jordann.bruyning@catc-hcc.com
Joseph Loaiza	joseph.loaiza@catc-hcc.com
Kiala Kock	kiala.kock@catc-hcc.com
Mireille de Miranda	mireille.demiranda@catc-hcc.com
Rehu Klatt	Rehu.klatt@catc-hcc.com
Reint Roossien	reint.roossien@catc-hcc.com
Robin Roossien	robin.roossien@catc-hcc.com
Yandry Novoa	yandry.novoa@catc-hcc.com