

# Tax news

## Penshonado regulation For Curaçao



### ***You can be a penshonado if you are at least 50 years of age***

#### Highlights

At a glance .....	1
Requirements .....	2
Tax and social security.....	2
Income from foreign sources.....	3
Optional arrangement .....	4
Prohibition to work/ exceptions .....	4
Penshonados on the BES islands .....	5

This tax news applies to Curaçao. St. Maarten also has a penshonado regulation but as the tax rates and premiums are different from those on Curaçao we have published a separate tax news for the penshonado regulation of St. Maarten.

On the BES islands (Bonaire, St. Eustatius and Saba), a transitional regime applies for penshonados resident on the islands before October 10, 2010. This regime applies until 2014.

#### ***At a glance***

The penshonado or pensioner's regulation has been in force for over twenty years. The penshonado regulation, using a 10% rate applies to foreign source income, plus interest on local bank accounts. Please do note that aside from the income tax, social security premiums will be due, such as exceptional medical expenses (AVBZ) and until the age of 65, old age pension (AOV). Exemptions may apply.

The penshonado regulation can be requested if you have reached the age of 50 and have lived outside Curaçao at least 60 months before filing a request for application of the penshonado regulation. Within 18 months after taking up residence you must own a house for own use worth at least ANG 450.000 (USD 255.000).

The penshonado tax rate applies to foreign source income. It also applies to interest on a local bank account.

# 01 & 02

***You will need a house with a value of at least ANG 450.000***

## ***Requirements***

Application of the new penshonado regulation depends on the following conditions:

- taxpayer must have lived outside Curaçao respectively at least 60 months before filing a request for application of the penshonado regulation;
- taxpayer must have reached the age of 50;
- taxpayer must have reported to the tax inspector within two months after registration in the municipality register;

- taxpayer must own a house for own use worth at least ANG 450,000 within 18 months after registration in the municipality register;
- taxpayer and spouse may in principle not have any income from dividends and business profits or labour from sources within Curaçao respectively (notwithstanding the exceptions to be mentioned hereinafter)

The penshonado tax rate is only applicable to foreign source income.

***Tax and social security***

## ***Social security premiums***

Please note that aside from the 10% income tax, residents of Curaçao must also pay social security premiums. These are the AOV (Old age benefits) the AWW (Survivor benefits) and AVBZ (Exceptional medical expenses). Since 2013, Curaçao also has a General Health Insurance (BVZ), however, there are exemptions so please check whether this may apply to you.

Residents below the age of 65 pay:

- 16% premium AOV/AWW up to ANG 100,000 (maximum for the year 2014), and above that income 1% for AOV;
- 12% premium BVZ (if applicable) up to ANG 100.000 (income cap for 2014);
- 2% up to ANG 444,204 (income cap for 2014).

Residents above 65 pay:

- 10% premium BVZ (if applicable) on income up to ANG 100,000 (income cap for 2014)
- 2% up to ANG 444,204 (income cap for 2014).

# 03

## *Income from foreign sources*

For application of the penshonado regulation, the following net income is considered foreign source income:

- income from current or former employment or from other work performed outside Curaçao unless it concerns income from current employment as a managing or supervisory director of a local legal entity;
- income from a business abroad, for example by means of a permanent establishment or through permanent representatives or proxies;
- income from foreign real estate or rights to foreign real estate;
- income from bank balances and other debt, except for:
  - debt secured by mortgage, established on real estate located on Curaçao;
  - debt, other than bank balances paid by a resident of Curaçao;

- income from rights to shares in the profit, other than those as a shareholder, of a business conducted outside Curaçao;
- income from shares or profit-sharing certificates received from a foreign-based corporate entity;
- profit from the alienation of shares that are part of a substantial interest or profit-sharing certificates of a foreign-based corporate entity;
- periodic payments you receive from a foreign debtor;
- the capital benefit from life insurance you receive from a foreign debtor.

Other sources of income will be taxed at the regular rate of 12-49%.



# 04 & 05

## ***Optional arrangement***

The penshonado regulation includes the option to report a fixed income of ANG 500.000 at the standard rate instead of using a 10% rate on the income from foreign sources, resulting in a tax burden of ca. ANG 245.000, which is inclusive of contributions under the acts regarding AOV/AWW and AVBZ. From the age of 65, the tax burden is ca. ANG 230.000.

In case the taxpayer decides to use the fixed income option, the protection offered by the Kingdom Tax Regulation with the Netherlands (KTR) does not apply.

It is not possible to change from year to year. Should a penshonado choose for the KTR protected option, he/she may then only invoke the option of the fixed income of ANG 500.000 after three years. It is therefore advisable to consider all alternatives thoroughly before making a choice.

## ***Prohibition to work/ exceptions***

If, in any year, a penshonado or his/her spouse benefits from local employment or receives income from self-employment or from acts, work or services of any nature whatsoever, the penshonado regulation will not be applicable in that year (notwithstanding the exceptions mentioned hereinafter). In other words, the normal progressive rates will fully be applied to local as well as foreign source income.

Please note:

If you receive the aforementioned employment income in two consecutive years, the penshonado regulation will cease to apply completely.

The prohibition to work does not apply if:

- there is an employment relationship between a penshonado and a local corporate entity, in which the penshonado holds, either directly or indirectly, at least 40% of the nominal paid in capital;
- a penshonado serves as a supervisory director of a local corporate entity.

# 06

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## ***Penshonados on the BES islands***

As a consequence of the dissolution of the Netherlands Antilles on 10-10-2010, the BES islands have become a public body of the Netherlands. On the BES islands the penshonado regulation no longer applies. However, penshonados who were already a resident of the BES islands per 10-10-2010, are entitled to a transitional arrangement based on which until the year 2014 the income tax rate will remain 10% for the income above about USD 41,000. As of 2015 the general tax rate of 30.4-35.4% will apply.