

Folkeringa&Partners is pleased to inform you regarding the status and proposals of tax rules and legislation.

TAX RULES AND LEGISLATION

Proposed tax rules and legislation

A tax reform is discussed in Aruba between the government of Aruba and the employers and employees organizations (the social dialogue). Recently a social dialogue is signed between parties. It is expected that the outcome will be laid down in legislation. The date of introduction of the proposed rules is not yet published but for your tax position it might be important to anticipate on these proposed rules.

Below we will summarize the proposed rules:

INCOME TAXES

Interest on loans for a house

Currently interest on loans related to the purchase or construction of a house is tax deductible. It is proposed to limit this deduction with an amount of Afl. 50,000 per year as per 2014.

Elderly deduction

An additional annual deduction is proposed for elderly in the income tax of Afl. 3,500 up to a maximum income of Afl. 35,000. For persons who will only receive the AOV pension it is proposed to increase the ("reparatie toeslag") compensation of Afl. 50 to Afl. 100 per month.

"Reparatie toeslag" private sector

For persons working in the private sector it is proposed to increase the compensation ("reparatie toeslag") to an amount which will vary between Afl. 50 and Afl. 100 per month

WAGE TAXES / INCOME TAXES

Chain liability rules (in Dutch: "ketenaansprakelijkheid")

It is expected that chain liability rules will be introduced as per 2013 based these rules the contractor can be held liable for the payments of wage taxes and social premiums for all subcontractors to whom he and his subcontractors has outsourced work to, when one of them is in default. We will keep you updated regarding the introduction of these rules.

Expat regime

In order to stimulate a knowledge based economy a new expat regime is proposed as per 2013. That regime would provide wage tax and income tax benefits if persons with special skills are hired from abroad. Certain conditions have to be met to apply for this system. The following conditions are mentioned:

- The regime can apply for a period of 4 - 6 years
- A local employee should be trained. There would be restrictions in replacing an expat by another expat.
- An annual income of at least Afl. 150,000 would be required.

If the conditions are met the following benefits could apply:

- Tax free reimbursements up to Afl. 15,000.
- Reimbursements for costs of school to Afl. 25,000 per child.
- Reimbursements for housing up to Afl. 2,500 per month.
- If a net salary is agreed upon the gross salary will be grossed up only once.

CORPORATE INCOME TAX SYSTEM

A payment on return system (in Dutch: voldoening van de belasting bij aangifte)

In the current situation the corporate income tax is due after an assessment is raised. Normally, the assessment will be based on the filed tax return. Based on a payment on return system the corporate income tax has to be paid together with the filing of the tax return. The introduction of this system will have a large impact on the payment terms of companies.

IMPUTATION PAYMENT COMPANY (IPC regime)

Currently, qualifying hotels and investment companies can apply for the IPC status if certain conditions are met. The following changes of the IPC regime are proposed:

- The corporate income tax rate would be 10%.
- The corporate income tax rate for qualifying hotels will depend on the Rev Par and can vary between 10% and 15%.
- An exemption of the dividend withholding tax is introduced for companies with the IPC status.
- To abolish the special audit for companies with the IPC status.
- Current existing companies with the IPC status can benefit from a transitional regime.

Deduction of interest for the purchase of a participation

Currently the interest on a loan which is entered to buy the shares of a company which will qualify as "a participation" is not tax deductible. There are rules proposed as per March 2013 to allow a certain deduction on the interest on loans after a period of two years after the date of the acquisition of the shares.

Investment allowance of 6%

The rules to allow an investment allowance of 6% for locally purchased capital assets will be continued taking a maximum annual investment amount of Afl. 20,000,000 into consideration.

GAMING TAXES

It is proposed to change the taxable basis for the gaming tax. The gaming tax would be based on this proposal change from 4% of the drop to a certain percentage of the win. The percentage of the win still has to be determined. It is the intention to keep this budget neutral compared with the figures of 2011.

TOURIST LEVY

It is proposed to change the tourist levy for all inclusive hotels. The tourist levy is due on the rental of rooms to tourists will be changed for all inclusive hotels.

- As of March 1, 2013: from 40 to 45% of the total all inclusive price.
- As of January 1, 2014: from 45% to 50% of the price of the stay package.

IMPORT DUTIES FOR HOTELS

In order to stimulate the hotel sector it is proposed to reduce the import duties as per March 2013 on furniture and fixtures from 22% to 11% if more than USD 10,000 will be invested per room.

ECONOMIC ZONE IN SAN NICOLAS

In order to stimulate the business in the San Nicolas area it is proposed to create a special taxation zone in San Nicolas for the stimulation of the business in San Nicolas. The requirements will be published later.

OBLIGATORY PENSION INSURANCE

The minimum premiums of the obligatory pension insurance for employees for 2013 will be 2% for the employer (tax exempt) and 2% for the employee (tax deductible), which is in 2012 1% / 1%.

FILING OBLIGATION FINANCIAL STATEMENTS

Within eight (8) months of the end of the financial year (no later than the end of August 2013), the Management has to prepare financial statements (2012), at least consisting of a balance sheet, a profit and loss account, and explanatory notes to these documents. The period may only be extended by six months at most based on special circumstances. The request for extension of the period set has to be submitted in writing to the Chamber of Commerce and Industry.

We will keep you updated regarding the status of the introduction of recently proposed amendments of the tax rules and legislation. If you have at this moment any questions feel free to contact us.

We would be pleased to inform you further and to discuss the opportunities these rules can have for your position.

We wish you happy holidays and we look forward to work with you in 2013.

Jelle Folkeringa