TAXATION ON OVERTIME, BONUSES AND OTHER EXTRAS

Advisory Handbook 2025

Why do I pay so much more tax on compensation for my overtime, bonuses, and other extras compared to my regular salary? As an employer, you may have received this question from your employees. So, what is the real situation?

Employees sometimes complain that working overtime is not worthwhile because they feel that almost nothing remains. This perception is not only limited to overtime compensation. Bonuses and other extra payments also seem to be taxed more heavily.

The feeling is understandable. However, in reality, it is not the overtime compensation or bonus that is taxed more heavily. Instead, the total tax on the entire salary increases. The income tax rate generally rises as the salary/income increases. Additionally, the tax credits (reductions on the tax owed) decrease beyond a certain income level.

In other words, the extra salary from overtime or a bonus is not taxed more heavily, but the total salary is subject to higher tax. This is because the total income has increased.

Is this clear so far? It is a complex system that has even been debated in politics. However, we still have to deal with it for now. This advisory handbook aims to provide a clear explanation for both employers and employees.

EXPLANATION OF WAGE TAX

Before an employer can pay wages to an employee, they must first calculate wage tax and national insurance contributions. Together, these are known as wage tax. The employer deducts this amount from the gross salary and pays it to the Dutch Tax and Customs Administration. The calculation of this wage tax consists of a rate (percentage) reduced by so-called tax credits. These tax credits are a key factor in making the wage tax calculation less transparent. An explanation follows below.

TAX RATES

The applicable tax rate depends on the employee's income level. In 2025, the rate for an employee who has not yet reached the state pension age (AOW age) is:

- 35.82% for an annual income up to €38,440.
- 37.48% for an annual income between €38,441 and €76,817.
- 49.50% for an annual income above €76,817.

TAX CREDITS

In addition to calculating the tax rate, the employer must also consider the so-called tax credits. Tax credits are amounts that reduce the tax owed – effectively, they are discounts on the tax due. The employer first calculates the tax and national insurance contributions based on the applicable rate. Then, the tax credits are deducted from this calculated amount. The remaining amount must then be deducted by the employer from the employee's gross wages and paid to the Tax Authorities.

Example

An employee earns €2,200 per month. The amount the employer must withhold is €788 (35.82% of €2,200). If this employee is entitled to €694 in tax credits for this month, the employer will withhold €94 (€788 minus €694).

As a result, the employee takes home €2,106 (€2,200 minus €94) net. Although the actual rate is 35.82%, the employee experiences an effective tax and social insurance rate of 4.27% (€94 divided by €2,200, multiplied by 100).

APPLICATION OF TAX CREDITS TO REGULAR SALARY

Tax credits are always fully applied when calculating the tax on the employee's regular monthly salary. This ensures that each employee can make full use of their entitlement to tax reductions. If someone is entitled to €694 in tax credits in a month, the full €694 will be deducted, as shown in the previous example.

However, this means that if an employee receives additional income in a month (such as payment for overtime or a bonus), no additional tax credit is applied. The total entitlement to tax credits has already been fully applied when calculating the tax on the regular salary.

Example

The employee from the previous example receives an additional €500 in March as payment for overtime. This increases their total salary for the month to €2,700 instead of €2,200.

Calculation

- The amount the employer must withhold is €967 (35.82% of €2,700).
- The employee’s entitlement to tax credits for this month is €692.
- Therefore, the employer withholds €275 (€967 minus €692).
- As a result, the employee receives €2,425 (€2,700 minus €275) net.

Although the applicable rate is also 35.82% in this case, this employee experiences a tax and premium burden of 10.19% (€275 divided by €2,700 multiplied by 100%).

The tax and premium burden on the total salary increases because the total salary has become higher. The additional salary is not taxed at a higher rate, but the average rate on the total salary increases. For comparison, an employee with a regular salary of €2,700 per month also has €275 in tax and premiums withheld. This employee also experiences a tax and premium burden of 10.19%.

So it is not the case that incidental additional income is taxed more heavily than a fixed higher salary.

TAX CREDITS ARE NOT FIXED AMOUNTS

In the previous examples, the entitlement to tax credits dropped from €694 at a salary of €2,200 to €692 at a salary of €2,700. This is because tax credits are not fixed amounts. Instead, they are dependent on the level of income. This means that tax credits may decrease as the total salary increases. It also means that, as a result of additional salary, the total tax credits may be reduced.

GENERAL TAX CREDIT

One of the tax credits, the general tax credit, in 2025 amounts to €3,068 per year for an annual salary of up to €28,405. The general tax credit decreases by €0.06337 for each euro above €28,405. For an annual salary of €76,817 or more, there is no entitlement to the general tax credit in 2025.

EMPLOYENT TAX CREDIT

Another tax credit, the employment tax credit, initially increases in 2025 to a maximum of €5,599 per year for an annual salary of €43,071. However, it decreases by €0.0651 for each euro above this amount. Once the annual salary reaches €129,078, there is no entitlement to the employment tax credit.

These gradual increases and decreases in tax credits also impact the tax and premium burden experienced by an employee.

Note!
Tax credits may also affect whether an employee is still liable for income tax and social insurance contributions (hereafter: income tax). The wage tax withheld by the employer is an advance on the income tax. For an employee with one employment relationship, the withheld wage tax is generally equal to the income tax, except for personal circumstances such as homeownership or alimony. This employee typically does not owe any income tax.

For employees with multiple employment relationships, the total wage tax withheld by multiple employers is often lower than the income tax. These employees must then pay the difference through their income tax return.

This difference can occur because multiple employers may have taken the tax credits into account, while each employee is ultimately entitled to these credits only once. Another reason could be the difference in tax rates between separate salaries and the total salary (higher rate for higher total income).

IMPACT ON OTHER ALLOWANCES

Employees should be aware that various schemes depend on income (with wages being part of this income). Examples include various allowances (childcare allowance, healthcare allowance, rent allowance) and the child-related budget. A higher salary/income may reduce or eliminate eligibility for these schemes.

An employer has no insight into an employee's personal situation and, therefore, cannot account for these effects. Employees themselves must assess the impact of a higher salary on other schemes.

Tip!
On the Nibud website, various useful tools are available for employees. For example, employees can gain more insight into the impact of working more hours on their net salary using the Working Hours Calculator.

If an employee wants to know which schemes they may be entitled to, they can use the Calculate Your Entitlements tool.

Employees should also be made aware of other tools on the Nibud website, such as the Pension Plan (for pension insight) and the Budgeting for Families tool (for information on schemes and subsidies for families with children).

FREE SPACE IN WORK-RELATED COSTS SCHEME

If an employer chooses to designate an extra allowance within the free space, this can be beneficial for the employee. The employee's tax credits or eligibility for other schemes are not affected. Amounts designated within the free space are not counted as wages for the employee, neither for tax credits nor for other schemes.

Note!
However, it is not permitted to designate wages within the free space without conditions. Certain conditions apply. For instance, it must be customary to designate certain allowances, provisions, and facilities.

Moreover, in 2025, the free space is limited to 2% on the first €400,000 of the total wage sum and 1.18% on the excess. If the total of these allowances, provisions, and facilities exceeds this free space in a year, the employer pays an 80% final levy on the excess.

FINAL REMARKS

Calculating wage withholding tax on salaries is not straightforward. The text and examples above aim to simplify the topic as much as possible. Please note that the examples do not reflect the actual taxes, tax credits, and net wages, and the actual situation may differ slightly.

CONTACT

For more information on this topic, please contact us; we will be happy to help!

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