



SWITCHING TO A PRIVATE LIMITED COMPANY (BV)

Advisory Handbook 2025



Do you currently operate as a sole proprietorship, partnership, or general partnership (vof)? It may be worth considering switching to a private limited company (BV). Whether this is the right choice for you depends on various factors. What are the key differences?

WHEN TO SWITCH?

Determining whether and, if so, when it is advisable for you as a small or medium-sized enterprise (SME) owner to switch to a BV is not a straightforward question. It depends on several individual factors. These include aspects such as liability and other legal considerations. Traditionally, taxation has also played a significant role in this decision, as a business owner in personal income tax is taxed differently compared to a business operating through a BV. We will primarily focus on these tax aspects, but it is essential to always consider them in the overall context.

The tax aspect of whether or not to switch to a BV has changed significantly in 2025. This is mainly due to a change in the rate in Box 2, which covers the profit distributed by the BV to the director and major shareholder. This changed rate means that in 2025, distributed profit up to €67,804 will be taxed at 24.5%, while any amount above this will be taxed at 31%. Since tax partners are allowed to distribute income in Box 2 between them, the 24.5% rate applies to up to 2 x €67,804, or €135,608 for taxpayers with a partner. Only when more profit is distributed does the 31% rate apply for directors and major shareholders with a partner over the excess amount.

Due to the change in the rate in Box 2 as of 2024, the complete accumulation of profit has become fiscally unattractive. Consequently, it can no longer be said that the BV is appealing for indefinitely accumulating surplus profits. On the contrary, distributing profits becomes more attractive when taxed at the lower rate of 24.5%. Compared to 2024, distributing profit above €67,804 for directors and major shareholders without a partner has become cheaper in 2025, as this rate was 33% in 2024. For directors and major shareholders with a partner, this applies from a distributed profit of €135,608.

PROFIT

Profit Taxed in the Sole Proprietorship, Partnership, or General Partnership (vof)

If you currently operate as a sole proprietorship, partnership, or general partnership, you pay the progressive personal income tax rate on the full profit. Accumulating profit tax-free is therefore not an option.

However, you are entitled to several business facilities that reduce the tax burden.

Self-Employment Deduction

The most important of these is the self-employment deduction. This is a fixed amount of €2,470 applicable for 2025. To qualify for the self-employment deduction, you must spend at least 1,225 hours per year on activities for your business, and this must constitute more than half of the total number of working hours. This is known as the hours criterion. This latter requirement does not apply to start-ups.

Note!

The self-employment deduction will be gradually reduced to €900 by 2027.

Note!

Start-ups are eligible for an additional self-employment deduction of €2,123. This remains unchanged for the time being.

You may deduct the self-employment deduction from the profit, in 2025 against a maximum rate of the second income tax bracket, namely 37.48% (2025).

SME Profit Exemption

Another important facility for business owners in personal income tax is the SME profit exemption. This exemption means that 12.7% (2025) of your profit remains tax-free. Similarly, 12.7% of any loss is non-deductible.

This deduction is also capped in 2025 at the maximum of the second income tax bracket of 37.48%. Due to the SME profit exemption, you pay a maximum of 44.67% tax on the achieved profit, reduced by the business facilities.

Profit Taxed in the BV

In the BV, you pay corporate income tax on the achieved profit – simply put. The salary paid to the director and major shareholder is a deductible expense. For the first €200,000 of profit, the BV pays 19% corporate income tax in 2025, while for any amount above that, the rate is 25.8%. Only when the remaining profit, after tax, is distributed to the director and major shareholder does the director and major shareholder pay additional personal income tax in Box 2 (see above). This means that the total profit is taxed at 38.85% to 48.80%. This rate is only reached after the profit is distributed, and you can choose when to distribute this profit. This means it may be beneficial to retain a portion of the profit in the BV and only distribute it when this can be done at the lower rate of 24.5%. As previously mentioned, whether you have a tax partner is also relevant.

A GENERAL NUMERICAL EXAMPLE*

Tax in the Sole Proprietorship, Partnership, or General Partnership

With a profit of €200,000, you first deduct the self-employment deduction and SME profit exemption up to the maximum deduction in personal income tax. As a result, you are taxed on €172,444. This amounts to €78,800. You also pay €3,990 income-related contribution under the Healthcare Insurance Act (Zvw premium), totalling €82,790.

Tax in the BV

In the BV, you first reduce the profit of €200,000 by the standard salary of the director and major shareholder. We set this at €56,000. You, as the director and major shareholder, pay €14,272 in personal income tax and €2,945.60 Zvw premium on this amount. The BV pays 19% corporate income tax on the remaining amount, which is €27,360. If the BV distributes the remaining profit of €116,640 to you as the director and major shareholder, you pay an additional 24.5% tax, assuming you have a partner, which is €28,577. In total, you and the BV together pay €73,154.60 in tax if the profit is distributed immediately. This is €9,635.40 less than in personal income tax.

*(To keep calculations simple, pension premiums are not included.)

OTHER POINTS TO CONSIDER WHEN SWITCHING TO A BV

Beyond the calculation of whether it is fiscally beneficial to switch to a BV, other aspects are also important:

- The director and major shareholder is an employee
- Liability
- Retirement provision
- Conducting business with the BV

THE DIRECTOR AND MAJOR SHAREHOLDER IS AN EMPLOYEE

Unlike a self-employed entrepreneur, the director and major shareholder is sometimes considered an employee for tax purposes, but sometimes not. For wage tax purposes, they are considered an employee, which means that wage tax and Healthcare Insurance Act (Zvw) contributions must be withheld from the salary. However, for social security, a director and major shareholder is generally not regarded as an employee.

Compulsory Salary

The compulsory salary scheme applies to anyone who has a substantial interest in a company and also performs work for that company. If you have a BV, you, as a director and major shareholder, are required to withdraw a minimum amount of salary from the BV.

This compulsory salary must be set in 2025 at the highest of one of the following amounts:

- The salary of the most comparable employment, or
- The salary of the highest-paid employee in your BV or affiliated BVs, or
- €56,000.

The compulsory salary is taxed in Box 1, which means it is subject to progressive taxation.

Note!

The higher the compulsory salary you withdraw or must withdraw, the less you benefit from the lower corporate income tax rate of 19% and the lower Box 2 rate of 24.5% on the first €67,804, or €135,608 if you have a tax partner.

Compulsory Salary for Start-Ups

Directors and major shareholders of newly established BVs can, under certain conditions, assign themselves a lower compulsory salary. One condition is that the BV cannot afford a higher compulsory salary, for example, because it has made significant investments and, as a result, has insufficient financial resources. A lower compulsory salary for start-ups can be paid for a maximum of three years. If a sole proprietorship has been converted into a BV, the period during which you operated as a sole proprietorship must be deducted from the three-year period. A lower compulsory salary than the minimum wage is possible if the continuity of your BV is at risk.

Compulsory Salary for Loss-Making BVs

Under certain conditions, a lower compulsory salary can be assigned to the director and major shareholder of a loss-making BV. The condition is that the loss endangers the continuity of your business. This does not apply in the case of an incidental loss. Furthermore, it must be clear that your business can no longer pay its bills, and this should not be due to an increasing current account debt, distributed dividend, or other withdrawals.

Tip!

In principle, the director and major shareholder can also benefit from the schemes that apply to 'normal' employees. These primarily include expense allowances and the use of the work-related cost scheme. According to this scheme, in 2025, 2% of the taxable wage bill up to €400,000 can be spent on tax-free allowances and provisions, and 1.18% on the portion of the wage bill above this amount.

Note!

Expense allowances may only be settled through the work-related cost scheme if it is customary for any potential tax charge to be paid by the employer. The burden of proof rests with the BV and the director and major shareholder. Up to an amount of €2,400, this customary practice automatically applies. However, you must determine the maximum tax-free space based on the actual wage bill, which may therefore be lower than €2,400.

LIABILITY

One advantage of the BV is that the liability of the director and major shareholder is limited to the amount invested in the BV, or the value of the shares. Formally, the director and major shareholder is therefore not liable for the debts of the BV, unless there is misconduct or other forms of directors' liability. Liability may also arise towards the Dutch Tax and Customs Administration if certain obligations are not met, such as timely reporting of payment incapacity.

Important!

In practice, banks may require the director and major shareholder to co-sign in a personal capacity when providing financing for the BV. If the BV can no longer meet its obligations, these debts can then be recovered from the personal assets of the director and major shareholder.

INSURANCE ASPECTS

Unlike a regular employee, the director and major shareholder is generally not insured under employee insurance schemes. If there is no subordination, no relationship of authority, and the director and major shareholder cannot be dismissed against their will, there is no obligation to pay employee insurance contributions. In that case, they must arrange their own insurance for disability and unemployment, although the latter is quite difficult.

The director and major shareholder is, however, insured under the Healthcare Insurance Act (Zvw) and must, like a self-employed entrepreneur, pay the contributions themselves. For 2025, the income-related contribution under the Healthcare Insurance Act is set at 5.26% of the taxable income, up to a maximum income of €75,860. The maximum income-related contribution under the Zvw is therefore

€3,990. This contribution applies to both self-employed entrepreneurs and directors and major shareholders.

RETIREMENT PROVISION

For some time now, the maximum deductible amounts for building up a retirement provision have been limited. Both business owners in personal income tax and directors and major shareholders may be affected by this. The basic principle is that the maximum pensionable salary may not exceed €137,800 (2025). If you wish to build up a higher pension, this is no longer fiscally facilitated.

Additionally, as of 2023, the allowance for the retirement reserve (FOR) for self-employed entrepreneurs has been abolished. There is no longer an option to add to an existing retirement reserve, but there is no immediate need to settle it with the tax authorities.

On the other hand, from 2023, the possibility of making deposits into annuity premiums or savings in a bank savings product that are tax-deductible from profits has been significantly increased. This allows entrepreneurs and directors and major shareholders to save for retirement on a tax-advantaged basis for a substantial annual amount. However, an important drawback is that you cannot access the deposited amounts without tax consequences, unlike the retirement reserve.

LIMITATION ON DEPRECIATION OF BUSINESS PREMISES

Since 2019, depreciation on all business premises used by BVs has been limited to 100% of the WOZ value (property tax value). This means BVs can no longer fully depreciate their business premises. This limitation has applied since 2024 to business owners in personal income tax concerning buildings in personal use. Some business owners have a limited transitional arrangement, namely as long as they have not yet depreciated for three years on a building.

CONDUCTING BUSINESS WITH YOUR BV

If you have a BV, you can also engage in business transactions with it as a director and major shareholder. You are essentially comparable to an independent third party. For instance, you can borrow money from your BV for a major purchase or obtain a (mortgage) loan through your BV for the purchase of a home. The profit that your BV earns from this benefits the BV rather than your bank. Furthermore, the interest you pay on a home financing loan may be deductible under specific conditions in your personal income tax return. However, be aware that loans from the BV have been capped at €500,000 as of 2024. Any amount borrowed beyond this limit is taxed as deemed income in Box 2. Qualifying loans for owner-occupied homes are not included in this limit.

Note!

Owner-occupied home loans taken out with your own BV from 2023 onward are only exempt from this limit if a mortgage right has been established on the home.

Also, ensure that such transactions are conducted under commercial terms. Consider the interest rate, collateral, and the possibility of early repayment. It is advisable to engage an advisor to assist you with this.

TAX-FREE TRANSFER (GERUISLOOS DOORSCHUIVEN)

If you wish to switch from an enterprise subject to personal income tax to a BV, you are generally required to settle with the tax authorities over any accumulated (hidden) reserves, including the balance of the retirement reserve (FOR). For instance, the book value of your property may be lower than its actual value.

There is an option to avoid this settlement by opting for a tax-free transfer (geruisloos doorschuiven). This allows the BV to continue with the same book values as those used when the enterprise ceased in personal income tax.

However, a drawback of this approach is that the BV cannot claim an investment allowance and can only depreciate on lower values. Whether tax-free transfer is advantageous for you depends entirely on your situation. An alternative to tax-free transfer is negotiating an annuity with your own BV, a bank, or an insurer. In this case, the taxable cessation profit is offset by the deduction of the premium paid for the annuity product (which does not need to be paid in the case of your own BV). However, this is not available for unlimited amounts.

Important!

In the case of tax-free transfer, you will still need to settle over the accumulated reserves at a later date, typically upon the sale of the BV, unless your successor also opts for tax-free transfer. In this way, the tax claim can be deferred (indefinitely). Nevertheless, tax-free transfer is not always possible or desirable.

Tip!

In this Advisory Handbook, we have outlined the main aspects of switching to a BV. However, it is impossible to cover all aspects adequately in this format. Moreover, the situation is always dependent on individual circumstances. If you are considering switching to a BV, please contact us. We are happy to provide advice to help you make your decision.

CONTACT

Email: info@esj.nl

Phone: +31 (0)88 0 320 600

Disclaimer

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