

Rate reduction for severance payments

Due to the current economic and international circumstances, the Minister of Finance, Economic Affairs and Culture of Aruba announced an extension of the temporary tax facility for severance payments.

Temporary measure

Current legislation provides for a reduced individual income tax rate of 25% in certain circumstances in case of lump sum payments in respect of loss of earnings. The Minister of Finance, Economic Affairs and Culture of Aruba has previously issued a policy based on which severance payments related to loss of employment paid in 2019 will only be taxed at an income tax rate of 15%. This includes lump sum severance payments, compensations and allowances that are awarded to an employee and are directly related to the resignation.

On January 17, 2020, this beneficial policy has been extended to include severe payments made in 2020. The measure has retroactive effect to January 1, 2020 and will remain in effect until December 31, 2020.

Exception

However, there is an exception. The policy does not apply to severance payments by entities in which the employee holds shares that qualifies as substantial interest for individual income tax purposes. This is the case when the employee holds at least 25% shares in the company that pays the severance payment. In this situation the regular rate of 25% applies on severance payments.

Please contact us if you would like to be informed in more detail.

Legal Jurisdiction

Any dispute or other legal matter resulting from this correspondence shall be governed by the jurisdiction of the Common Court of Justice of Aruba, Curaçao, Sint Maarten and of Bonaire, Sint Eustatius and Saba.

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