

Taxation for UK contractors working in Europe

When UK contractors go to work in the 28 Member States of the EU, they will still find 28 different tax regimes to which they have to adapt.

"This may change soon, if there is further harmonisation of EU tax structures, but for now each country is different, and contractors should be aware of how best to operate in each one," says Bob Sinclair, director of the London-based contractor services firm [Global K](#).

UK Tax Issues?

First of all, UK contractors who decide to work abroad should be aware that they may still have tax liabilities in the UK. In general, a contractor has to remain abroad for a full tax year before being in a position to claim exit from the UK tax system to the one in the chosen country, at least in terms of income earned from contracting. This is a complex area, and contractors should definitely seek advice from a professional to sort out what has to be paid here at home and what doesn't.

"But if you choose to work through your UK limited company, then you can become liable for corporate taxes in the country you choose to work in. As these may well be higher than those in the UK, that is probably not the best choice," Sinclair explains.

Then, depending on what country is chosen, there are different systems.

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Bob Sinclair-Global K

Germany

Germany is a popular destination for UK contractors, but working there requires some administrative adaptation.

According to German labour law, no individual may work directly for a company of which he or she is not an employee, unless he or she is hired to that company by an umbrella or temporary agency which is the holder of a German "labour hiring" (known in German as "AUG") license.

Therefore to work legally as a contractor, one is legally obliged to work for a licensed temporary agency or umbrella company. These companies are subject to strict inspections to ensure that agency workers are not abused. So contractors rights are best protected by registering with one of these companies.

It is true that some German companies still ignore these rules, but one is safest remaining compliant if it is possible.

France

It is perfectly possible to work as a self-employed contractor in France. One does have to register with the French version of the Inland Revenue, the Direction Generale des Impots. You will be subject to a complex tax regime, however.

But you should be careful here. Contractors with only one client do not meet the self-employment criteria determined by French labour regulations. If you only work for one client, then employment is the appropriate legal option. Preferably by a French registered Temporary Labour Company—this can also be an umbrella.

Netherlands

In the Netherlands, there are thousands of contractors, however on the whole they work through a Dutch registered payroll company. Every worker must be employed by a Dutch BV. This makes seeking an umbrella company the only possible route, short of starting your own company there.

But there are some advantages. You can apply for Expatriate Tax Status in the Netherlands, and obtain a 30% tax break on all income earned there. Further, if you talk to a Dutch advisor, such as your umbrella, you may be eligible for a certain number of tax breaks. If you are, the Dutch Tax Authority will repay you a portion of the withholding from your salary in advance of your filing a tax return. So if you choose to work in the Netherlands, you should definitely get good advice before starting as it can save you a lot of money.

Belgium

The regime regarding all foreign employees coming to Belgium has changed in the past year in Belgium, and it is now necessary for foreign contractors to register with the Belgian tax authorities. This new regulation, which is referred to as LIMOSA, has its own Web site where contractors can complete the formalities in French or Flemish. Contractors will be subject to Belgium's extremely complex tax regime, and it is recommended to take advice or to use an umbrella company to simplify this exercise.

Luxembourg

This tiny country is a major international financial centre, and happily has a relatively liberal regime governing contractors. If you choose to become resident, the process becomes more complex though, and here you should take advice.

Italy

This country has very strict rules regarding the use of agency workers of all kinds. The problem is that very often these rules are ignored. Enforcement is also weak, and bureaucratic hassles can be endless.

It is best to work closely with your client or with an advisor of some kind here to avoid eventual problems.

Spain

Special rules govern the use of contractors in Spain. Spanish nationals, and Spanish-speaking contractors from countries like Argentina, enjoy a special status. Of course, discrimination against other EU nationals is not permitted, but bureaucratic restrictions on independent contractors are considerable, and the use of an advisor is effectively essential.

Eastern Europe

This region, large as it is, is still in the process of working out rules and regulations both for contractors, and for everything else. It can be a bit of what the French like to call a 'Wild West.'

The best course here is to work closely with your client and an advisor to ensure that you are at least safe and unlikely to be troubled with any administrative challenges.

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