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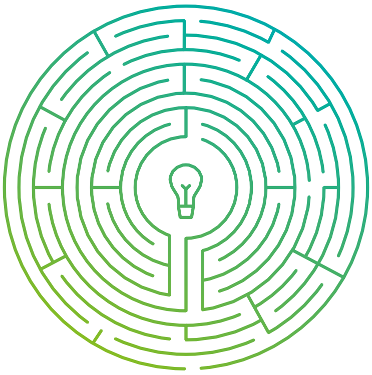

NL GAAP Focus

Summary of changes to Dutch Accounting Standards for micro-sized and small entities effective for financial years starting on or after 1 January 2025

This summary outlines the main changes to the Dutch Accounting Standards (DAS) for financial years beginning on or after 1 January 2025. Please note that the industry-specific amendments are not addressed in this overview[1]. This publication contains the main amendments known as of 1 September 2024.

For all amendments, earlier application is recommended

Contents

Early retirement plans

In response to questions from practitioners, the Dutch Accounting Standards Board has developed new standards for early retirement plans. These are included in the Dutch Accounting Standards for medium-sized and large entities. DASsmall B14 'Employee Benefits' indicates that the recognition and measurement aspects of those standards also apply to micro-sized and small entities.

An early retirement plan is defined as a plan that (almost) exclusively aims to provide one or more benefits payable by the entity to bridge the period until the retirement date and during which time no work is performed by the employee. Early retirement plans are of a different nature than benefits during employment (such as the vitality plans discussed below) and pensions. For this reason, early retirement schemes are dealt with separately within the standards.

Characteristics of employee early retirement plans are in general:

- the discretion that employees have whether or not to use the arrangement;
- a temporary benefit that runs until the retirement date;
- possibly a certain connection with the employee's past service with the entity or with other employers in the relevant industry or sector;
- limited duration of the arrangement.

The starting point for recognition in the financial statements is to recognise the expense in profit or loss in the period in which the work required to benefit from the plan is performed. This requires the recognition of a liability during the period in which the benefit entitlement in substance is accrued. That accrual period is determined based on the economic reality of the plan. The economic reality of the plan is determined by: (1) the conditions that apply to be able to make use of the plan and (2) the duration of the plan for which a constructive obligation is incurred. An appendix to DAS 271 provides examples of the application of this principle.

1 Specific industries in the DAS include small not-for-profit organisations, small fundraising organisations, and small health care institutions.

Example: Accrual period of an early retirement plan (1) (extracted from DAS 271)

For a temporary 5-year plan, an employee is entitled to early retirement upon reaching the age of 65, provided that the employee has been continuously employed by the entity for at least the previous 3 years.

For a 60 year old employee, the right is therefore accrued during the 3 years prior to reaching the age of 65 and the liability is recognised over these 3 years – i.e., from the age of 62.

Example: Accrual period of an early retirement plan (2) (extracted from DAS 271)

For a temporary plan with a duration of 5 years, there is no service length requirement, and all employees are entitled to early retirement from the age of 65.

There is still in essence, an accrual of rights, because at each reporting date, the period over which services must be rendered in order to benefit from the plan decreases. Therefore, the period over which the rights are in substance accrued is the remaining service period until the age requirement is reached. Because of the duration of the plan (being 5 years), the period that the rights accrue begins from the attainment of age 60.

Measurement of liabilities
The liability recognised on the balance sheet should be measured at the best estimate of the amounts needed to settle the obligations as of the reporting date. If the effect of the time value of money is material, the liability should be measured at the present value.

The liability to be recognised on the balance sheet relates to:

- employees who have already opted to use the scheme;
- employees who can already opt to use the existing scheme but have not yet done so; and
- employees who are not yet able to opt in, but may do so in the future during the term of the plan for which a constructive obligation has been incurred.

For the first two categories, the liability to be recognised is the full amount of the best estimate of the expected expenditure (at present value). For the third category, the liability is recognised during the accrual period described above.

Introduction or extension of a plan
If a plan is introduced or extended, that includes a service requirement, a liability is recognised at the time the plan is introduced or extended for the full amount of the best estimate of the expected expenditure for those employees who have already met the service requirement. For employees who must remain in service for a period of time during the life of a plan in order to qualify for the plan, the expense is recognised over the remaining service period until they reach the age required to participate in the plan. As a result, for these employees, the liability is recognised over the remaining period of service from the time the plan is introduced or extended.

Years of service with another employer
Any service requirement that applies before an employee can make use of an early retirement plan may relate to years of service with the employer itself and/or years of service in the industry or sector – i.e. with another employer. Years of service with another employer are only considered in estimating whether an employee can participate. The allocation of expenses based on the best estimates of the amounts necessary to settle the related obligations as of the reporting date is done solely on the basis of years of service with the entity.

Presentation and disclosure
By their nature, liabilities for early retirement plans usually qualify as provisions, since in most cases there is uncertainty about the amount of the liability. In accordance with article 2:384(5) NCC, the principles of measurement and the determination of the profit or loss are disclosed in the notes. The entity may consider including the other disclosures set out in the Dutch Accounting Standards for medium-sized and large entities.

Benefits during employment: vitality plans

Partly in response to questions from practitioners, the Dutch Accounting Standards for medium-sized and large entities was amended to include standards on vitality plans. These are plans that entitle employees to paid absences for part of their working time while retaining (part of) their salary and/or pension accrual. Usually, the employees must first meet certain conditions before they can make use of the plan. For example, there could be a service length requirement, i.e. a minimum number of years an employee must have been in employment.

Vitality plans, as described above, involve conditionally granted rights that, in principle, lead to a liability. In the case of benefits that involve conditionally granted rights, micro-sized and small entities may choose to recognise the expense for benefits during employment, in the year of the benefit. If that choice is made, it means that no liability is recognised. Medium-sized and large entities do not have this choice, and must recognise a liability in certain cases. As micro-sized and small entities may choose not to recognise a liability, the Dutch Accounting Standards Board did not consider it necessary to include similar provisions for micro-sized and small entities as in the Dutch Accounting Standards for medium-sized and large entities. However, micro-sized and small entities are permitted to apply those standards. In that case, the expense is taken into account in the period that the rights are accrued. During the accrual period, a liability is recognised at each reporting date. For more details regarding this, we refer to the publication 'NL GAAP Focus – Summary of changes to Dutch Accounting Standards for medium-sized and large entities starting on or after 1 January 2025'.

Impact of the Future Pensions Act

On 1 July 2023, the Future Pensions Act (*Wet toekomst pensioenen*, 'Wtp') entered into force. Since this date, it is no longer permitted to establish new pension plans that do not comply with the Wtp. Entities have an opportunity during a transition period until 1 January 2028, to adapt their pension plans to the new legislation. The existing pension plans can either (1) be incorporated into the adjusted plan (*'invaren'*) or (2) be closed after which no active pension accrual takes place in them. The Dutch Accounting Standards Board has examined the implications for the pension standards.

They have determined that the Dutch Accounting Standards for micro-sized and small entities do not need to be amended as a result of the Wtp. The provisions on pensions already included in these standards in DASsmall B14 'Employee benefits' apply to all Dutch pensions plans, i.e. both plans under the pension law applicable until 1 July 2023 and plans under the Wtp – including plans under the transitional law of the Wtp.

As a result of the transition to the Wtp, pension liabilities may arise that must be recognised in the financial statements at the time the related obligation is incurred. This will often be at the time when employers and employees have agreed the transition plan required under the Wtp, and, if applicable, it is likely that this plan will be approved by the pension fund board and the regulator DNB. This concerns, for example, compensation measures to be financed by the employer for transitional arrangements that will be made for the transition of existing plans to the new system. For example, if an entity, as an employer, enters into an obligation to make a one-time deposit into the pension fund at the transition.

For compensation payments that are not yet due to the pension provider as of the reporting date, and are contingent on continued employment, no liability to the pension provider or to the employee is recognised as of the reporting date.

Example: Compensation payments contingent on continued employment

As an employer, an entity agrees with employees that the entity will pay additional pension premiums for a period of up to 10 years for employees disadvantaged by the introduction of the Future Pensions Act (Wtp). The additional pension premium will only be paid upon continued employment. As a result, on the reporting date, the entity is not yet obliged to make compensation payments that relate to the period after the reporting date.

The entity does not recognise a provision for future compensation payments promised to existing employees that are not yet due to the pension administrator at the reporting date. Such compensation payments represent awards for future work performance during the continued employment. The cost thereof is charged to profit or loss in the period in which the related services are provided.

Classification of non-current loans with loan terms

DASsmall B9 'Debt' has long provided that if loan terms are not met at reporting date that make a debt payable on demand, it should be classified as current. However, the question arises as to how classification should take place in the situation where the loan terms of the long-term loan agreement are met on reporting date, but it is expected that they will no longer be met within 12 months after the reporting date. The Dutch Accounting Standards Board has clarified that in such a situation, the debt is classified as non-current, with the alternative approach being to classify the debt as current. The application of this alternative is required to be disclosed. Classification as non-current debt does justice to the fact that the loan terms are met at the reporting date. According to the Dutch Accounting Standards Board, classification as short-term debt can increase the insight into the liquidity of the entity.

Clarification of the scope of the 'Guide to the application of tax accounting principles'

The Dutch Accounting Standards Board has clarified the scope of the 'Guide to the application of tax accounting principles' by micro-sized entities (DASsmall D3.1) and small entities (DASsmall D3.2).

It has been clarified that a participation entity[2] is excluded from the application of the micro regime under Article 2:398(6) NCC, but that it may apply the exemptions that apply to small entities. As a result, a participation entity that falls under the small regime can apply the tax accounting principles.

In addition, it has been clarified that pension funds cannot apply tax accounting principles and therefore fall outside the scope of this Guide under Article 146 of the Pension Act (*Pensioenwet*).

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2 These are financial holding undertakings as defined in the EU Accounting Directive (Directive 2013/34/EU). According to this EU Directive, these are entities or companies 'the sole object of which is to acquire holdings in other undertakings and to manage such holdings and turn them to profit, without involving themselves directly or indirectly in the management of those undertakings, without prejudice to their rights as shareholders'. This corresponds to the concept of a participation entity as defined in Article 6(3) of the Decree on annual accounts format (BMJ) and DAS 940, namely 'an entity or company whose activity is limited to exclusively or almost exclusively participating in other entities or companies without involving itself in their management, except by exercising shareholder rights'.