



## NL GAAP Focus

Summary of changes to Dutch Accounting Standards for medium-sized and large 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<sup>1</sup>. This publication contains the main amendments known as of 1 September 2024.

For all amendments, earlier application is recommended.

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### Sustainability reporting

On 5 January 2023, the Corporate Sustainability Reporting Directive (hereafter: CSRD) entered into force. It is expected that the CSRD will be transposed into Dutch legislation by the end of 2024. For reporting periods beginning on or after 1 January 2025, large entities will be required to include a sustainability report within their management board report in accordance with article 2:391a of the Netherlands Civil Code (NCC) and the 'Implementation Decree on Sustainability Reporting Directive' (*Implementatiebesluit Richtlijn openbaarmaking winstbelasting*). The sustainability report must be prepared in compliance with this decree and the reporting standards adopted by the European Commission. These standards are known as the European Sustainability Reporting Standards (ESRS). Sustainability reporting is already mandatory for large public interest entities ('OOBs') as defined in article 2:398 NCC with an average of more than 500 employees, for reporting periods beginning on or after 1 January 2024.

This NL GAAP Focus will not elaborate further on sustainability reporting according to the aforementioned decree. We refer the reader to a separate publication on this topic that we will release at the end of 2024.



### Report on income tax payments (for entities with a consolidated revenue of more than EUR 750 million)

On 22 June 2024, the 'Implementation Decree Income Tax Disclosure Directive' (*Implementatiebesluit Richtlijn openbaarmaking winstbelasting*) came into effect. The bill manages the implementation of EU Directive 2021/2101 on the disclosure of income tax information by certain companies. The legal basis for this decree is included within article 2:391a NCC. The purpose of this legislation is to promote the transparency of income tax payments made by multinational companies worldwide. The aim is to ensure that companies behave responsibly in the area of income taxation and contribute to welfare by paying their fair share of tax where they carry out their activities and make their profits. Companies with a consolidated revenue of more than EUR 750 million to annually prepare and publish a separate report on income tax payments for financial years beginning on or after 22 June 2024.

The Dutch Accounting Standards addresses this report in DAS 500 'Country-by-country reporting'.

<sup>1</sup> Specific industries in the DAS include banks, insurers, pension funds, premium pension institutions, investment institutions, cooperatives, commercial foundations and associations, not-for-profit organisations, housing corporations, fundraising organisations, healthcare institutions, and educational institutions.



## Benefits during employment: vitality plans

Partly in response to questions from practitioners, DAS 271 'Employee benefits' 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. For such arrangements, it must be assessed whether there is:

- a benefit where rights are accrued; or
- a benefit where no rights are accrued.

This assessment is made based on the economic reality of the arrangement. This assessment takes place primarily on the basis of the conditions that need to be met in order for the employee to make use of the plan.



### Example: Vitality plan where rights are accrued (extracted from DAS 271.204b)

A vitality plan allows that employees from the age of 65 can choose to continue working 80% of their standard hours for 90% of their salary while retaining 100% of their pension accrual. A condition for making use of the plan is that the employee has been continuously employed for the previous 5 years (i.e., from the age of 60).

In principle, because of the service requirement, this arrangement is assessed as a plan where rights are accrued.

#### *Recognition where rights are accrued*

If there is a plan where rights are accrued, the right to paid absence is assessed as compensation for work performed during the period from the time the rights accrue until the relevant conditions are met. Or in short, compensation for work performed during the period in which the rights in substance accrue. A liability is recognised over that period. Normally, this refers to the period of a service requirement. In the example above, the period between reaching age 60 and age 65. The liability is measured at the best estimate of the expected costs. This expectation takes into account uncertainties such as the likelihood of the employee remaining in employment (including or excluding the likelihood of death), and the likelihood of the employee making use of the scheme. If the effect of the time value of money is material, the liability should be measured at present value.

If such an arrangement is introduced or extended, the following applies:

- for employees who have already satisfied the service requirement (and any other conditions) at the time the plan is introduced or extended, a liability is recognised for the full amount of the best estimate of the expected expenses; and
- for employees who have not satisfied the service requirement and are required to remain service for a further period during the term of such a plan in order to qualify, the costs are recognised over the further period until the conditions required are met. As a result, the liability is recognised over the remaining period of service from the time the plan is introduced or extended.

#### *Recognition where no rights are accrued*

If there is an arrangement where no rights are accrued, the entity recognises the costs in the period in which the employees make use of the scheme. In this case, the right to paid absence is assessed as compensation for work performed after the relevant conditions are met. Accordingly, no liability is recognised. In the example above, if every employee could make use of the scheme from the age of 65 (i.e. there is no service requirement) and there is no accrual of rights, the costs are recognised from age 65. This only relates to the employees who make use of the plan. From that moment on, for these employees, it is a question of 'expensive wages'.

#### *Presentation and disclosure*

The key features of arrangements such as vitality plans should be disclosed, including whether it is a plan where rights are accrued or not, based on the economic reality of the plan.

In the case of a plan where rights are accrued, a liability is recognised – as described above. By their nature, these liabilities usually qualify as provisions, since in most cases there is uncertainty about the amount of the liability. This means that the general presentation and disclosure requirements of DAS 252 'Provisions' apply. Additionally, the discount rates used and other significant policies and assumptions must be disclosed in the notes.



## Early retirement plans

In response to questions from practitioners and because the existing paragraph 'Early retirement plans and other non-activity arrangements' within DAS 271 'Employee Benefits' is no longer up to date, the Dutch Accounting Standards Board has developed new standards for early retirement plans. 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 above) 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.



### 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.

Due to the differing nature of early retirement plans, an age requirement may, for example, be assessed differently in certain cases than in a vitality plan. The reason is that in an early retirement plan, no work is performed when the scheme is used by the employee. This is not the case with a vitality plan. In the case of an early retirement plan, no expenses can be attributed to work performed during the period that the plan is used (since there is none), while this is the case with a vitality plan.

#### *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. This means that the general presentation and disclosure requirements of DAS 252 'Provisions' apply. Additionally, the discount rates used and other significant policies and assumptions must be disclosed in the notes.



### **Amendments to Standard 271 'Employee Benefits' following 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.

Following the Wtp, the paragraph 'Pensions' of DAS 271 'Employee Benefits' has been amended. The amendments are not indented to change the substance – the principles of the obligation approach of this section (i.e., 'obligation-to-pension fund approach' and 'obligation-to-employee approach') remain unchanged. The amendments involve updating a number of definitions and provisions with terms and/or references to the pension law amended by the Wtp. In addition, the examples of possible pension obligations have been updated.

During the transition period until 1 January 2028, both plans that comply with the provisions of the Wtp and those that do not yet comply can exist. In addition, it is possible that existing plans may be closed. For these closed plans, the provisions of pension law applicable until 1 July 2023 will continue to apply after 1 January 2028. The amended 'Pensions' paragraph applies to all Dutch pension 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.



### Disclosure of revenue from construction contracts

It has been included within DAS 221 'Construction contracts', that entities must disclose the nature of the significant performance obligations in the notes. In addition, it has been clarified that the following disclosures should be included for each significant performance obligation:

- the method used to account for contract revenues in profit or loss; and
- the method of allocating revenue to reporting periods, including how to determine the stage of completion of contracts.

These amendments align the disclosure requirements for contract revenue with the disclosure requirements for revenue from sales of goods and rendering of services included within DAS 270 'Profit and loss account'.



### Classification and disclosure of non-current loans with loan terms

DAS 254 '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.

If during the financial year, or after the reporting date (but before the preparation date of the financial statements) (1) loan terms are no longer met and this leads to the loan being repayable on demand, or (2) that situation is close to being met, the amount of the relevant debt must also be disclosed. It will no longer be sufficient to explain that the situation has arisen and state the content of the main terms and conditions.

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