WHY INVEST IN HOLLAND?

...because Holland offers a highly competitive fiscal climate

Introduction

For centuries, the Netherlands has been a nation of traders. To ensure that this longstanding tradition endures, the Dutch government has created a competitive tax regime that stimulates entrepreneurship and foreign investment in the Netherlands. Not only the corporate tax rates are lower in relation to most of its European neighbors, there are also numerous features that make it attractive for foreign companies to locate operations in the Netherlands.
In comparison with other (EU) countries, the Netherlands is known for its very competitive tax climate resulting from its far-reaching tax treaty network, its system of bonded warehouses, and the possibility to conclude so-called advance tax rulings, in which certainty in advance is given to a company with respect to its future tax liability.

Attractive features of the Dutch tax regime include:

- Relatively low statutory corporate income tax rate of 25% (20% for first 200,000 Euro)
- Possibility of obtaining advance tax rulings from the Dutch tax authorities giving certainty on future tax position
- Innovation box resulting in an effective corporate tax rate of 5%
- Tax incentive for R&D activities (WBSO)
- Favorable participation exemption regime
- Fiscal unity regime to freely set off profits and losses among group members
- Transfer pricing practice in accordance with OECD Transfer Pricing Guidelines
- The possibility to carry forward losses for nine years and to carry them backward for one year
- Wide tax treaty network reducing withholding taxes on dividends, interests and royalties (for interest and royalties often to 0%)
- No statutory withholding tax on outgoing interest and royalty payments
- Favorable tax treatment for foreign employees (30% tax ruling)
- VAT deferment upon importation: no upfront payment of VAT
- Dutch Customs Authorities: practical and pro-active approach
- Dutch Tax Authorities: relationship enhancement by horizontal monitoring

Source: NL Agency

Low statutory corporate income tax rate

Corporate income tax is levied at the following rates (2011):

- € 0 - € 200,000 20%
- € 200,000 and more 25%

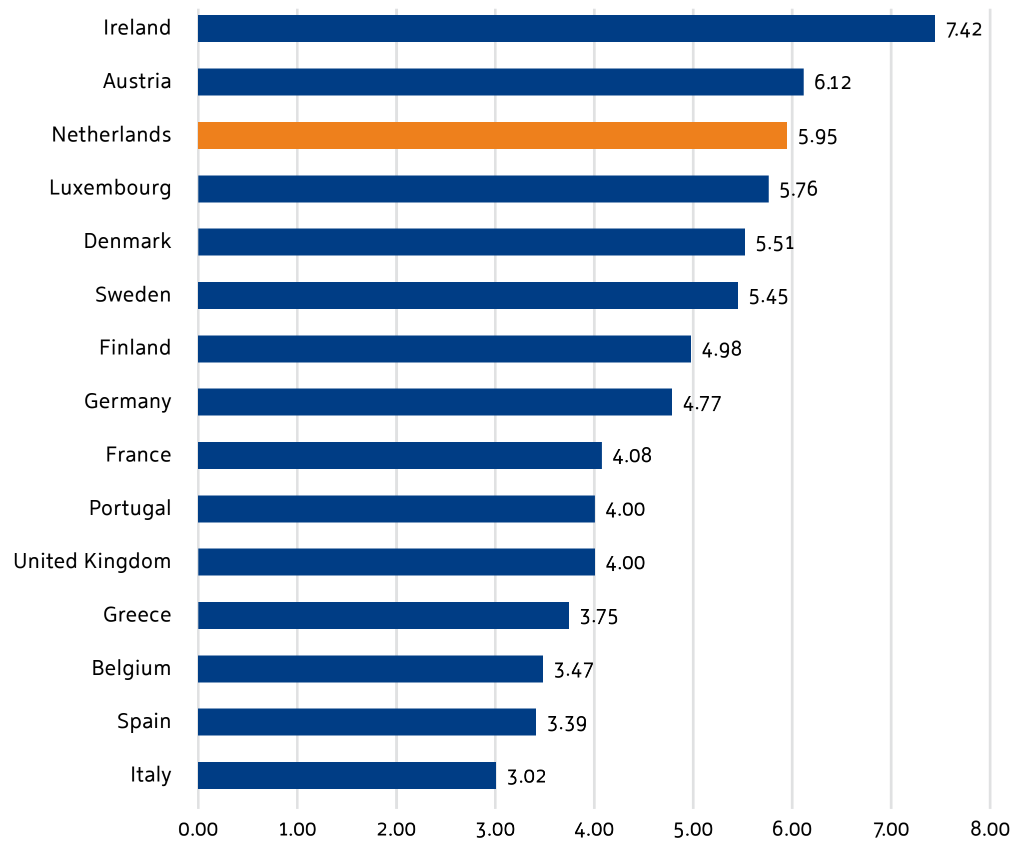
A special optional tax rate may be elected for (patented) intangible assets (Innovation Box, see page 7). In this box, the net income from intellectual property will be taxed at an effective tax rate of 5%.

The Netherlands and its competitors

Country	Tax rate 2011 (trading income)
Ireland	12.50%
Netherlands	**20.00%-25.00%**
Austria	25.00%
Denmark	25.00%
Finland	26.00%
Sweden	26.30%
Italy	27.50%
United Kingdom	28.00%
Norway	28.00%
Spain	30.00%
Germany	30.00%-33.00%
Belgium	33.00%
France	33.33%

Source: OECD 2011

Real corporate taxes do not discourage entrepreneurial activity (Europe-15)



Source: IMD World Competitiveness Online 1995-2010 (Updated: May 2010)

Ruling Practice: certainty in advance

The possibility of obtaining an Advance Tax Ruling (ATR) or an Advance Pricing Agreement (APA) is one of the most attractive features of Dutch tax law. The aim of the Dutch tax ruling policy is to attract international investors to the Netherlands by providing them certainty about their future tax position.

- The Dutch Tax Administration has a dedicated APA/ATR-team operating out of Rotterdam.
  - An Advance Pricing Agreement provides certainty in advance on the fiscal acceptability of the price (transfer pricing) that the Dutch group company pays to or receives from a foreign group company for receiving or delivering services or goods.
  - An Advance Tax Ruling is an agreement on the tax characterization of international corporate structures, such as certainty in advance on the application of the participation exemption.

'… the country is well organized business-wise, especially with regard to taxes.' Cryocath Technologies (September 2008)

Source: Netherlands Board of Tourism and Conventions

Innovation Box: effective tax rate of 5%

- Companies can benefit from an effective tax rate of only 5% for R&D income from self-developed patented intangible assets and also from self-developed unpatented intangible assets which qualify for the so-called WBSO (see page 8).
- Intangible assets developed by another party for the risk and account of a Dutch taxpayer also qualify for the Innovation Box.
- The main features of the Innovation Box are:
  - The net proceeds derived from self-developed intangible assets for which one or more patents or WBSO statements have been acquired are taxed at an effective rate of 5%. The lower tax rate of 5% is claimed in the corporate income tax return filed by the taxpayer. The low tax rate is actually an exemption of 80% of the profits that can be allocated to the Innovation Box. By applying the general Dutch corporate income tax rate of 25% this gives an effective rate of approximately 5%.
  - Losses/expenses incurred in respect of intangible assets to which the Innovation Box applies are deductible at the normal tax rate of 25%, i.e. the Innovation Box will only apply after recovery of those losses and expenses at the regular rate.
  - As of 2010, there is no longer a cap on the amount of profits that can be allocated to the Innovation Box, however, a taxpayer should be able to substantiate that the profit is related to the qualifying intangible assets. It is generally advised to agree upon the method used with the Dutch tax authorities in advance. The Dutch tax authorities are accustomed to do so upon request.
  - The application of the Innovation Box is optional.

Innovation BV - a stylized case for the Innovation Box		
Development costs intangible asset in previous years	€ 500.000,00	fully deductible at 25%
Annual loss year 1 (i.e. qualified part of total reported income) [1]	€ 200.000,00	fully deductible at 25%
Total costs deducted against 25% (‘threshold’ for future tax returns)	**€ 700.000,00**	
Annual profit year 2 [1]	€ 300.000,00	fully taxable at 25%
Remaining ‘threshhold’	**€ 400.000,00**	
Annual profit year 3 [1]	€ 500.000,00	
	of which:	
	€ 400.000,00	taxable at 25% [2]
	€ 100.000,00	taxable at 5%
Annual profit year 4	€ 700.000,00	fully taxable at 5%

Calculation effective tax rate:			
Net total profit generated with intangible asset [3]	A	€ 800.000,00	
Net total taxes paid [4]	B	€ 40.000,00	
Effective tax rate	B/A	5%	

[1] percentage of total income (losses or profits) agreed upon in advance with the tax authorities, that qualifies for the Innovation Box tax return regime, e.g. 80%

[2] making the total taxation against 25% sum up to € 700,000 (300,000 + 400,000) and exactly matching total previous deductions against 25%

[3] - 500,000 - 200,000 + 300,000 + 500,000 + 700,000

[4] 5% of 100,000 + 5% of 700,000

Tax incentive for R&D (WBSO): 50% / 18% wage tax reduction

- The WBSO provides a fiscal incentive (hereafter R&D allowance) for companies that conduct R&D work (i.e. technical/scientific research, the development of technologically new physical products or physical production processes, and the development of technologically new software).
- The R&D allowance takes the form of deductions of wage tax and social-insurance contributions. As a rule, the R&D allowance amounts to 50% of the first EUR 220,000 of the wage bill for R&D per calendar year, and 18% of the remaining R&D wage bill. The maximum allowance per calendar year is EUR 14 mln. for each company (or corporate entity).
- The R&D allowance for start-ups (so-called techno starters) amounts to 64% of the first EUR 220,000 of the wage bill for R&D per calendar year, and 18% of the remaining R&D wage bill. The maximum allowance per calendar year is EUR 14 mln. for each company (or corporate entity).

Participation Exemption: drive for European Headquarters

The participation exemption, one of the most important provisions of Dutch corporate income tax legislation, explains the tremendous number of European Headquarters in the Netherlands. The objective of the exemption is to avoid double taxation when the profits of a subsidiary are distributed to its parent company.

- Under the participation exemption, dividends and capital gains/losses are fully exempt from corporate income tax (i.e. for capital gains, this means that gains are not taxed while capital losses are not deductible, except for qualifying liquidation losses).
- The participation exemption may be applicable without additional requirements for shareholdings of 5% or more provided that the shareholding is not considered to be held as a portfolio investment.
- A shareholding is generally not considered to be held as a portfolio investment if the shares are not held for a return that may be expected from normal asset management (motive test). This is e.g. based on the functions and assets of the shareholding. The test is based on long-standing Dutch case law and will provide for a flexible basis to obtain tax rulings regarding the application of the Dutch participation exemption.
- If the non-portfolio investment condition is not met, the Dutch tax payer may still benefit from the participation exemption, if
  - the passive shareholding itself is subject to a tax rate of 10% or more; or
  - the assets of the subsidiary do not largely (more than 50%) consist of low taxed (less than 10%) portfolio investments.

‘When it comes to global trade, the Dutch government and administrative agencies are very cooperative. They offer a stable political and financial climate, as well as advantageous tax and customs codes.’ Abbott (September 2008)

Fiscal Unity Regime: consolidated tax returns

- This provides for a tax consolidation of companies within a group by filing a consolidated tax return. A fiscal unity is allowed only if both the parent company and subsidiary are resident companies for Dutch tax purposes.
- One of the main advantages is that losses of one company can be set off against profits of another.
- Within the fiscal unity assets can be transferred from one company to another without levying corporate income tax.
- Transactions between companies which are part of a fiscal unity are not subject to corporate income tax.

Transfer Pricing: arm's length principles

- Dutch corporate tax law contains the provision that intra-company pricing for goods and services must be at arm's length.
- Guidelines for intra-company pricing are given by extensive policy based upon the arm's length principles for intercompany pricing as contained in the OECD model tax treaty and the OECD transfer pricing guidelines.
- It is possible to obtain Advance Pricing Agreements (APA) on transfer pricing issues.

Carrying Losses: up to nine years

- Loss carry-over facilities in the Netherlands are liberal.
- Both resident and non-resident taxpayers have a loss carry-back possibility of one year and an carry-forward possibility of nine years. The losses need to be confirmed by the tax inspector by means of a loss decree.
- Limitations for loss carry-over can apply when there is a significant change in ultimate shareholders.
- A significant change occurs when a company ceases its business activities or reduces its business by more than 70%.
- As part of the measures taken with regard to the economic crisis, for the tax years 2009 and 2010, taxpayers may file a request to extend the current one-year term for carrying back losses to a three year term. However, two limitations apply:
  - The loss carry-forward period upon election is limited to six years (2008: nine years);
  - The maximum amount of loss carry-back to the second and third preceding year is limited to EUR 10 million per year.

'Today, we like the Netherlands for a number of reasons: the quality of the workforce, the very 'international' attitude of the country, our great relationship with the government, favorable tax climate, and the fact that the government is very supportive of continuing education.' Nike (October 2008)

Wide Tax Treaty Network: avoidance of double taxation

- The Netherlands has one of the most extensive tax treaty networks in the EU, having concluded treaties for the avoidance of double taxation on income and capital with more than 80 countries.

Tax treaties with the following countries are in force/have been signed:		
Albania	India	Portugal
Argentina	Indonesia	Qatar
Armenia	Ireland	Romania
Aruba	Israel	Russian Federation
Australia	Italy	Saudi Arabia
Austria	Japan	Serbia
Azerbaijan	Jordan	Singapore
Bahrain	Kazakhstan	Slovak Republic
Bangladesh	Korea	Slovenia
Barbados	Kuwait	South Africa
Belarus	Latvia	Spain
Belgium	Lithuania	Sri Lanka
Bosnia-Herzegovina	Luxembourg	Surinam
Brazil	Macedonia	Sweden
Bulgaria	Malawi	Switzerland
Canada	Malaysia	Taiwan
China	Malta	Thailand
Croatia	Mexico	Tunisia
Czech Republic	Moldova	Turkey
Denmark	Mongolia	Uganda
Egypt	Montenegro	Ukraine
Estonia	Morocco	United Arab Emirates
Finland	Netherlands Antilles	United Kingdom
France	New Zealand	United States
Georgia	Nigeria	USSR*
Germany	Norway	Uzbekistan
Ghana	Oman	Venezuela
Greece	Pakistan	Vietnam
Hong Kong	Panama	Zambia
Hungary	Philippines	Zimbabwe
Iceland	Poland	

* The Dutch fiscal administration has indicated that the USSR treaty applies to all of the new republics that comprised the former USSR.

Withholding Taxes: treaty-based tax rate reductions

- A Netherlands-based establishment is taxable on its worldwide income. However, effectively it does not pay tax on certain types of foreign-source income mainly due to the many tax treaties signed by the Netherlands (see page 10).
- Double taxation is usually avoided by means of tax exemptions, tax credits or deduction of taxation, either based on the tax treaties or by unilateral measures.
- The Dutch statutory dividend withholding tax rate is 15%. The tax rate is reduced when a dividend distribution is made to a tax treaty protected shareholder or to a shareholder who is resident of Aruba or the Antilles. Additionally some exemptions apply.
- The Netherlands does not levy any withholding tax on interest payments or royalty payments by a Netherlands based establishment. Additionally, tax treaties usually reduce or eliminate the foreign withholding tax on interest or royalties paid to a Netherlands-based establishment.
- The EU Interest and Royalty Directive eliminates the withholding tax on foreign/EU interest, if certain conditions are met.

30% Ruling: special tax regime for expats

- The Netherlands has a special tax regime for expatriates, the so-called 30% ruling, which provides a substantial income tax exemption of up to 30%, for a period of up to 120 months. This is viewed as a reimbursement for the extra costs involved in living abroad.
- According to this rule, the employer may grant the employee a tax-free allowance of up to a maximum of 30% of his or her remuneration. The remuneration includes incidental and flexible forms of income such as bonus payments and stock options. Termination and pension payments are excluded.
- In order to qualify for the 30% ruling, the following conditions must be met:
  - The employer must make a reasonable case that the employee possesses specific expertise that is not available, or is scarce in the Dutch labor market
  - The employee must be recruited from abroad
  - The employer must be a Dutch wage tax-withholding agent
- The exemption is available for a period of 10 years (120 months). After a period of five years, the tax authorities can request that the employer demonstrate that the employee still meets the conditions.

'The '30 percent ruling' is a powerful recruiting tool that allows the company to pay less for global talent.' NetApp (March 2010)

Gross income	€ 100,000	€ 100,000
30% tax ruling	€ 30,000	
Taxable base	€ 70,000	
€ 18,628 - 33% tax & contributions € 14,808 - 41.95% tax & contributions € 22,258 - 42% tax € 14,306 - 52% tax	€ 6,147 € 6,212 € 9,348 € 7,439	
Total taxes & contributions	**€ 29,147**	**€ 29,147**
Net income		**€ 70,853**

Gross income	€ 100,000	€ 100,000
Taxable base	€ 100,000	
€ 18,628 - 33% tax & contributions € 14,808 - 41.95% tax & contributions € 22,258 - 42% tax € 44,306 - 52% tax	€ 6,147 € 6,212 € 9,348 € 23,039	
Total taxes & contributions	**€ 44,747**	**€ 44,747**
Net income		**€ 55,253**

VAT Deferment: cash-flow advantages

- Based upon its special position as a distribution country in the EU, the Netherlands has implemented a so-called deferment system, which gives a complete deferment until the quarterly VAT return.
- This system leads to a situation in which the VAT due at import is not paid at that moment but is deferred until filing of the quarterly VAT return. On the VAT return, the VAT has to be declared but it can be deducted on the same form, thus preventing cash-flow complications.
- To obtain the license required to use this deferment system, a company has to be registered for VAT in the Netherlands as a domestic entrepreneur or as a foreign entrepreneur with a permanent establishment for VAT in the Netherlands and have regular imports to the Netherlands.

VAT-Rates in EU countries

The following table shows the VAT rates per EU country (including new EU Member States).

Country	Standard VAT-rate
Luxembourg	15.00%
Spain	18.00%
Netherlands	**19.00%**
Germany	19.00%
France	19.60%
Austria	20.00%
Italy	20.00%
United Kingdom	20.00%
Belgium	21.00%
Ireland	21.50%
Finland	23.00%
Greece	23.00%
Portugal	23.00%
Denmark	25.00%
Sweden	25.00%
New EU member states	
Cyprus	15.00%
Malta	18.00%
Estonia	20.00%
Czech Republic	20.00%
Slovak Republic	20.00%
Bulgaria	20.00%
Slovenia	20.00%
Lithuania	21.00%
Latvia	22.00%
Poland	23.00%
Romania	24.00%
Hungary	25.00%

Source: European Commission 2011

Dutch Customs Authorities: practical and pro-active approach

Goods that are brought into the European Union (EU) are, from the time of their entry, subject to Customs supervision, meeting the requirements laid down in the EU customs legislation. The Dutch Customs authorities are well known for their practical and pro-active approach towards facilitating international trade and optimizing customs procedures. This fact underlies the Netherlands' preferred status as a country in which to base importing activities. Below, the advantageous aspects of working with Dutch Customs, as attested to by many foreign companies that have chosen the Netherlands, are listed.

- **Cargo handling**
  The Dutch Customs Authorities have a great deal of experience with logistical processes given the country's central position, its ports, including Rotterdam, the largest in the EU, and Schiphol , a main EU gateway.
- **VAT deferment upon importation: no actual payment of VAT**
  Upon the importation of goods into the Netherlands, customs duties and 19% import VAT are officially due. Unlike most other EU Member States, though, the Dutch have set up a deferment system for VAT under which import VAT is declared on the quarterly return but deducted on the same form. As a result, no VAT is actually paid (also see page 13).
- **Beneficial regimes**
  It is easier in The Netherlands than in other EU Member States to obtain Customs licenses for beneficial regimes. The Dutch Customs Authorities negotiate the level and manner of their control with the company in question; this often leads to a situation where Customs exerts mainly administrative control.
- **Flexibility**
  The Dutch Customs Authorities are highly flexible in the interpretation and implementation of customs provisions. Their approach can be described as practical rather than formal.
- **Proactive attitude of customs authorities**
  The Customs Authorities are willing to discuss 'real-life scenarios' at a preliminary stage with enterprises that intend to import into the Netherlands. Such early communication allows companies to present/ explain their specific situations and ascertain whether this scenario is acceptable to Dutch customs up front, as opposed to being hit with costly assessments at a later stage.
- **Ruling policy; establishing the lowest amount of customs duties due**
  In contrast to other EU Member States, it is relatively easy for entrepreneurs to obtain specific rulings from the Dutch Customs Authorities on, among other issues, customs valuation.
- **Experienced and specialized Customs and Tax officers**
  The Dutch Customs and Tax Authorities have created dedicated teams of specialists. Specific client coordinators are assigned to individual companies to ensure efficient and adequate communication and interaction between the Authorities and the businesses concerned. In many cases, the officers of the Dutch Customs and Tax Authorities are also willing to discuss and communicate with foreign companies in the English language, thus allowing for faster communication.

Dutch Tax Authorities: relationship enhancement by Horizontal Monitoring

- The Dutch Tax Administration has a cooperative attitude towards taxpayers and aims for an enhanced relationship based on trust, transparency and mutual understanding. For this purpose the Netherlands introduced a voluntary 'Horizontal Monitoring'-program.
- The greatest advantage of Horizontal Monitoring is that certainty in advance on tax issues is given as early as possible. As a result, fewer checks afterwards are necessary and the administrative burden is reduced.

About the NFIA

The NFIA (Netherlands Foreign Investment Agency) is an operational unit of the ministry of Economic Affairs, Agriculture and Innovation. The NFIA helps and advises foreign companies on the establishment, rolling out and/or expansion of their international activities in the Netherlands. The NFIA was established more than 30 years ago, and has since then supported more than 2,600 companies from 42 countries in the establishment or expansion of their international activities in the Netherlands. Besides its headquarters in The Hague, the NFIA has its own offices in the United Kingdom, Turkey, North America, Asia and the Gulf Region, as well as a representative office in Brazil. Additionally, the NFIA works together with Dutch embassies, consulates-general, and other organizations representing the Dutch government abroad, as well as with a broad network of domestic partners. More information: www.nfia.nl.

'... found the NFIA and the Dutch government in general to be very willing to get in dialogue and, for example, give clarity on the environmental, tax or other regulatory issues.' VistaPrint (July 2008)

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