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WHY THE NETHERLANDS

The Netherlands: Competitive Tax Climate

A country's tax policy choices can significantly affect the tax costs of doing business in that country. Although the European Union is a single market with regard to many other aspects, taxes are regulated by the member states themselves and vary widely by country, specific tax and type of business.
The Netherlands offers:
- **a competitive tax climate**
- **a far-reaching tax treaty network**
- **advance tax rulings**
- **a pro-business and facilitating approach by Dutch Tax Authorities and Dutch Customs making it an attractive location for European supply chain operations.**

Corporate Income Tax

The Netherlands has a very attractive corporate income tax system for foreign investors. Public companies (NVs) and private companies (BVs) pay corporation tax. Foundations and associations also pay this tax if they carry on a business. If a business incurs a loss, it can deduct it from its taxable profit:
- for the previous year (carry back);
- for up to the next nine years (carry forward).

The Dutch corporate income tax rate is 25%[1], which is below the average in the EU.

Tax rates 2014			
Country	**Corporate Tax (%)**	**Maximum Income Tax Rate (%)**	**Standard VAT rate (%)**
Belgium	33.99	50	21
France	33.33	45	19.6
Germany	15.825 corporation tax + 7-17.15 trade tax	45	19
Ireland	12.5	41	23
Netherlands	25	52	21
United Kingdom	23	45	20

[1] 20% for the first EUR 200.000

The Dutch ruling practice
One of the specific features of the Dutch tax system is the possibility to discuss in advance the tax treatment of certain operations or transactions. Upfront approval can be obtained from the Dutch Tax Authorities. The Dutch Tax Authorities conclude Advance Pricing Agreements (APA) as well as Advance Tax Rulings (ATR). Both are binding for the taxpayer and the Dutch Tax Authorities and are OECD and EU law compliant.

Horizontal monitoring
Another specific feature in the Netherlands is that the Dutch Tax Authorities allow businesses, under certain conditions, to benefit from 'horizontal monitoring' (enhanced relationship). This means the Dutch Tax Authorities rely on a company's compliance monitoring, and less on their own tax audits. The benefits of this arrangement for businesses are numerous. It provides more certainty about the company's level of compliance and total tax burden. Tax audits will happen less often and will be less intrusive under horizontal monitoring.

Far-reaching tax treaty network
Furthermore, the Netherlands has a very good tax treaty network, which helps international companies avoid double taxation on income and capital in more than 80 countries, including the United States.

Participation Exemption
According to the Participation Exemption, foreign business profits (dividends as well as capital gains) derived from subsidiaries are not taxed.

Fiscal Unity
If more entities are established in the Netherlands, it is, under certain conditions, possible to form a 'fiscal unity'. The advantages of the fiscal unity include:
• Filing a single CIT return;
• Offsetting of losses;
• Elimination of inter-company transactions.

Innovation box
A special regime applies with respect to profits, including royalties, derived from a self-developed intangible asset. In the innovation box, the taxpayer may opt for the application of a lower effective rate on taxable profits derived from these intangible assets. The effective tax rate of the innovation box is 5%.

Tax incentives
The Netherlands is a very attractive place for performing research and development work and for investment. The Dutch tax system features several tax incentives to stimulate innovation and business activities.

Research and development incentives
- Reducing wage costs: conducting certain R&D activities on applied new technology is subsidized by a reduction of wage tax due on the wages of employees engaged in R&D of technologically new products. For the year 2014, the reduction of the payroll tax and social security contributions amounts to 35% of the first EUR 250,000 in R&D wage costs and 14% of the excess costs.
- Reducing other costs: For 2014, the additional R&D deduction amounts to 60% of the costs (other than wage costs) and expenses directly related to R&D activities performed by the taxpayer.

Energy-efficient and environment-improving assets
An investment in a new energy-efficient asset may qualify for an additional deduction (EIA). The EIA amounts to 41.5% of the qualifying investments.

A similar tax incentive is available for investments in new environment-improving assets. Such an investment may qualify for an additional deduction up to 36% of the qualifying investments (MIA).

Tax on wages

There is a progressive tax on wages, profits, social security benefits and pensions.

Tax rates 2014			
Income (EUR)	**Tax rate (%)**	**Social security (%)**	**Total (%)**
0 - 19,645	5.1	31.15	36.25
19,645 – 33,363	10.85	31.15	42
33,363 - 56,531	42	none	42
> 56,531	52	none	52

30% ruling

In the Netherlands for some expatriates it's possible to claim the 30% ruling. This may be very beneficial since their taxable income will be reduced. What does the 30% ruling mean? The employer can reimburse the extra territorial costs of the employee tax free. To be able to do this the employee must hand over all the receipts and the employer must check and approve them. This can lead to a lot of work, especially if more employees are in a similar situation. To make it easier employer and employee can request the tax office (foreign tax office in Heerlen) to grant the 30% ruling to the employee for his activities for the employer. This way the employer can, once granted, pay out a tax free allowance of (roughly said) 30% of the salary of the employee. The 30% allowance will be included in the salary in such way that the costs for the employer will not be higher, while the employee has a higher net salary. The allowance will therefore not be paid on top of the earlier agreed gross salary. If a net salary agreement was made then the benefit will go to the employer.

Social security contributions

Dutch national insurance rates 2014			
National insurance programme	**Maximum income (EUR)**	**Rate (%)**	**Maximum Employee Contributions (EUR)**
AOW	33,363	17.90	5,972
ANW	33,363	0.60	200
AWBZ	33,363	12.65	4,220
AKW	-	-	
Total		**31.15**	**10,392**
Less: general levy rebate (national insurance part)			(1,174)
Less: employment levy rebate (national insurance part)			(315)
Total net costs			**8,903**

The contributions are levied in a lump sum together with the tax on salaries on a maximum taxable income of EUR 33,363 per annum.

The general levy rebate for national insurance purposes is available to each individual covered under the Dutch social security scheme during (part of) the year. This levy rebate is prorated when the individual is only covered by the Dutch system for part of the year. The general levy rebate (national insurance part) is EUR 1,174 for employees with an income higher than EUR 56.531 and EUR 1,807 for employees with an income lower than EUR 19,645. The general levy rebate is reduced gradually (with 2% of the employment income above EUR 19,645) when the income is between EUR 19,645 and EUR 56.531.

The employment levy rebate (national insurance part) is EUR 315 for employees with an income higher than EUR 83,498 and 1,802 for employees with an income between EUR 29,646 and EUR 40,248. The employment levy rebate is reduced gradually (with 4% of employment income) when the income is between EUR 40,248 and EUR 83,498.

Dutch health insurance rates 2014					
Health Insurance Act	**Maximum income (EUR)**	**Rate (%)**		**Maximum Contribution (EUR)**	
		Employer	Employee	Employer	Employee
ZVW	51,414	7.50	0.00	3,856	0.00

The contribution for the ZVW is paid on a maximum amount of EUR 51,414 on an annual basis. In principle, the ZVW is paid by the employer. In addition, the employee should pay a fixed contribution per year (the so-called *"nominale premie"*) per adult. This amount varies per health care insurance company (average for 2014:
EUR 1,101). People who are not employed pay at a rate of 5.4%.

The average Dutch employees' insurance rates 2014					
Employees Insurance Programme	**Maximum income (EUR)**	**Rate (%)**		**Maximum Contribution (EUR)**	
		Employer	**Employee**	**Employer**	**Employee**
WW					
> Awf	51,414	2.15	0.00	1,105	0.00
> Whk (average)	51,414	2.68	0.00	1,378	0.00
WIA					
> basic	51,414	4.95	0.00	2,545	0.00
> diff. (average)	51,414	1.03	0.00	529	0.00
> Surcharge	51,414	0.5	0.00	257	0.00
Total				5,814	0.00

The year 2014 contains 260 social security days, 21.67 days per month.

Unemployment Benefits Act (WW)

- The WW contribution consists of two separate components: one part is paid into the General Unemployment Fund (Awf); the other part into the agency's Redundancy Fund (Whk).
- Contribution is paid on a maximum amount per wage period (EUR 4,284.50 per month or EUR 197.74 per day in case of a different period).
- The actual Whk (sectorpremie) differs per branch of industry and can therefore differ from the above-mentioned figure.

Disablement Benefits Act (WIA)

- This contribution consists of two separate components:
  1. the basic contribution (the same for all employers).
  2. the differentiated calculated contribution (differs per employer and is related to the number of employees receiving WIA).
- WIA contribution is paid on a maximum amount per wage period (EUR 4,284.50 per month or EUR 197.74 per day in case of a different period).
- In addition a surcharge (opslag) will be levied from all employers as compensation for the Child support.

Dutch dividend withholding tax

The Dutch dividend withholding tax rate is 15%. The Dutch Cooperative, which is often used as holding company, is not subject to Dutch dividend withholding tax in case of non-artificial structures.

Employee education and training subsidy

If employees complete education programs and/or training, the employer may be eligible for a subsidy.

"The option rule" (keuzeregeling)

Non-resident tax payers who earn at least 90% of their income in the Netherlands, could opt for the same fiscal treatment as resident tax payers.

AOW	=	General Old Age Pensions Act
ANW	=	General Surviving Relatives Act
AWBZ	=	General Act on Exceptional Medical Expenses
AKW	=	General Child Benefits Act
ZVW	=	Health Insurance Act
WW	=	Unemployment Benefits Act
WIA	=	Disablement Benefits Act

Value Added Tax (VAT)

The standard VAT rate in the Netherlands is 21%. The reduced VAT rate in the Netherlands is 6%. The reduced rate is applied to many common supplies of goods and services, such as food and drink, agricultural products and services, medicines, books, daily newspapers and magazines.

VAT rates applied in the EU Member States				
Member State	**Super reduced rate (%)**	**Reduced rate (%)**	**Standard rate (%)**	**Parking rate (%)**
Belgium		6/12	21	12
Bulgaria		9	20	
Czech Republic		15	21	
Denmark			25	
Germany		7	19	
Estonia		9	20	
Greece		6.5/13	23	
Spain	4	10	21	
France	2.1	5.5/10	20	
Croatia		5/13	25	
Ireland	4.8	9/13.5	23	13.5
Italy	4	10	22	
Cyprus		5/9	19	
Latvia		12	21	
Lithuania		5/9	21	
Luxembourg	3	6/12	15	12
Hungary		5/18	27	
Malta		5/7	18	
Netherlands		6	21	
Austria		10	20	12
Poland		5/8	23	
Portugal		6/13	23	13
Romania		5/9	24	
Slovenia		9.5	22	
Slovakia		10	20	
Finland		10/14	24	
Sweden		6/12	25	
United Kingdom		5	20	

Import VAT deferment system (art. 23-license)
In contrast to most other EU member states, the Netherlands has a system that provides for the deferment of VAT at the time of import. Instead of paying VAT when the goods are imported into free circulation within the EU, the levying of import VAT will be shifted from the moment of import to the periodical Dutch VAT return. The VAT due on import transactions should be accounted for on the Dutch VAT return. Since this import VAT can in principle simultaneously be fully deducted in the same return, there is effectively no payable Dutch import VAT.

The bottom line is that there is no actual payment of VAT at import, so that companies can realize cash-flow and interest earning benefits.

Having been cleared in for example Rotterdam, the goods are free and without any further customs interference. Now the goods can be stored and transported quicker and freely. A condition for the art. 23-license is that the client imports goods into the Netherlands on a regular basis and has such an administration, that the Dutch Tax Authorities can easily determine all relevant information regarding the imported goods (e.g. invoices, bill of loading, transportation documents).

Companies do not need to be established in the Netherlands in order to be able to apply for an art. 23-license. Should foreign companies wish to obtain an art. 23-license, then they need to appoint fiscal representative. They can choose between appointing either a fiscal representative with a general license (GFR) or a fiscal representative with a limited license (LFR).

General fiscal representation

A GFR acts on behalf of the client with respect to all transactions performed in/from the Netherlands (local, EU and import transactions). The GFR will have to apply for a separate license with the Dutch Tax Authorities in order to act as a GFR. In this respect the Dutch Tax Authorities require that a guarantee (either via bank or direct deposit) is made by the GFR for acting as a fiscal representative. The GFR and the client are jointly liable for the VAT, interest and penalties due by the client.

If a GFR has been appointed, the GFR can apply for an art. 23-license on behalf of its client. Any Dutch resident taxable person (also an affiliated Dutch resident entity) can be appointed as a GFR.

Limited fiscal representation

A LFR can only be appointed if a company does not perform any other activities than importing goods followed by the subsequent supplies of these goods in/from the Netherlands (a LFR can e.g. not be used in case of regular intra-Community acquisitions of goods, regular local purchases of goods). In practice a number of Dutch customs agents/logistic providers render this service under an existing license.

When appointing a LFR the non-resident companies will use the art. 23-licenses granted to the LFR (and will thus not get its own art. 23-license, this is different from a GFR).

VAT grouping

2 or more companies may register as a VAT group if certain criteria are met. There can be various advantages. Businesses do not need to account for VAT on goods and services supplied between group members. Furthermore, a VAT group can choose to file one VAT return for the whole group.

Customs

Customs warehousing

Goods imported into the European Union (EU) will have to be released into free circulation (i.e. to be cleared by customs) before they can be traded freely within the EU. This means that Value Added Tax (VAT) and customs duties will have to be paid upon import. However, it is also possible to store the goods in a customs warehouse (also known as “bonded warehouse”). By doing so, a company can postpone the customs clearance and the payment of VAT and duties, or avoid payment altogether for goods that are destined for customers outside the EU.

Because the majority of the customs warehouses in the Netherlands are administratively controlled, the number of physical checks by the Customs Department is limited; making it is possible to operate a European Distribution Center (EDC) 24 hours a day, 7 days a week, 365 days a year. Many HIDC members offer bonded warehousing services to their customers.

Import procedures

Goods entering the Customs area of the EU from a non-EU country are subject to a number of rules. The main rule is that these goods must be given a 'customs designation'. You can give these goods a customs designation by placing them under a 'customs procedure', for example. There are various customs procedures (for example customs warehousing).

Upon import, the import duty rate is based upon the classification (commodity code), the value and the origin of the products.

Classification

Based on how the goods are classified in the EU Combined Nomenclature (the EU list of codes and duty rates for customs purposes), goods can be subject to ad valorem customs duty rates (i.e. a set percentage of the value) or to specific customs duty rates (e.g. a set amount per volume) or no customs duties at all (i.e. a zero rate).

There are situations in which it may be difficult to determine the correct classification of a product. In such cases, it is recommended to apply for a binding tariff information (BTI), i.e. a ruling on the classification. The holder of a BTI has legal certainty on the classification of the product for which the BTI has been issued.

The Netherlands is amongst the countries in which BTIs are commonly issued.

Valuation
The aspect of valuation of goods is relevant for goods which are subject to ad valorem customs duties. The EU customs valuation rules are based upon the WTO-valuation rules and likewise require that as a basic rule a transaction value method is applied. This means that the price actually paid or payable is the basis for the customs value, i.e. the value is based upon a buy-sell transaction. Regarding transactions between related parties, the customs authorities may request that the arm’s length nature of the prices is demonstrated.

Origin
The EU has many free trade agreements and preferential trade arrangements in place with a large number of countries, which means that goods that on the basis of the specified strict rules, qualify as originating from such a country, can enter the EU at a reduced or zero customs duty rate. However, the EU does also apply trade defence measures upon importation of goods, such as anti-dumping, anti-subsidy (also known as countervailing) or safeguard measures, which generally take the form of additional duty. These are often applied to goods originating in specifically listed countries. Careful consideration must therefore be given to the customs implications of any sourcing or production decisions.

Highly automated customs procedures
The Dutch Customs Department understands that in supply chain management timing is everything. Therefore, in order to speed up the process and to avoid unnecessary delays, customs procedures are nowadays computerized. In order to accelerate the selection and inspection process, pre-arrival information is supplied electronically to the Customs Department, before arrival of a shipment in the EU. This way, Customs can inform the parties involved, at the earliest possible stage, if a consignment will be checked upon arrival.

Excise goods
Excise duties are indirect taxes on the consumption or the use of certain products. These so called "excise goods" have been specified in a European context. All the EU countries use the same list of excise goods. The revenue from excise duties accrues entirely to the Member States. The most commonly applied excise duties are those on:

- Alcoholic beverages such as Beer, Wine, Intermediate products and other alcoholic products;
- Tobacco products; and
- Mineral oils, including petrol, diesel and LPG.

Energy products
Energy products, such as electricity, coal and natural gas, are taxed with energy tax. The minimum tax rate for each kind of energy product is laid down in the Energy Taxation Directive. Each Member State of the EU is thereby bound to apply these minimum tax rates (although several other provisions, such as exemptions, can be implemented in the national law by the Member States themselves).

Dutch Customs authorities
As a result of the long tradition as a trading country with its open and business friendly environment, the Dutch Customs authorities are known for their flexible solutions in terms of customs supervision. This does not mean that lower duties are levied or no controls are performed, but that The Dutch Customs authorities typically try performing their controls and supervision in such a manner that it has less impact on the company’s operations.

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