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CUSTOMS AND TAXATION

Using the Netherlands as your Gateway to Europe – VAT savings

High levels of competition in the quest for market growth are making companies scrutinize their costs and business processes. In some cases, this results in a strategic reorientation in terms of business location and logistic flows.

Thanks to a number of geographical, cultural and social factors, the Netherlands has traditionally stood out as an attractive country for setting up a business location. The relatively favorable tax climate also plays an important role in the decision making process. In this article, a comparison is made between the Netherlands as a logistics hub – the Gateway to Europe – and its neighboring countries, specified to the payment of import duties and Value Added Tax (VAT).

VAT has a major impact on the cash flow of companies. In principle, a company is entitled to a refund of the VAT amount it incurred. However, several weeks or months can elapse before this VAT can be reclaimed via the periodical VAT return. Refund of foreign VAT can even take more than a year, depending on the EU member state that receives the refund application. Even though a company is entitled to interest if it has to wait a long time for the refund, this does not – in this context – alter the fact that the long wait for payment can have a major impact on one's cash flow position.

Another example of a negative impact on cash flow can occur when companies import goods into the EU. These companies are faced with paying import VAT that they can only reclaim in their VAT return (retroactively) or via a refund application. The consequence is that companies must pre-pay import VAT, which adversely affects their cash flow. In this context, some EU member states have introduced arrangements to defer payment of import VAT.
Companies that are established in the Netherlands can apply for a so-called "Article 23 license", which allows them to defer the payment of import VAT until the moment of filing the periodical VAT return. The VAT can then be declared as payable on the return, whereby the same amount is immediately deducted as input tax. In sum, VAT does not have to be pre-financed. Without this license, import VAT would have to be paid immediately at the border, after which this VAT can be reclaimed via a refund application or via the periodical VAT return. As mentioned above, it can take weeks, months or sometimes even a year for this VAT to be refunded. An Article 23 license can be granted to businesses established in the Netherlands, and also to businesses that are not established in the Netherlands but have appointed a fiscal representative for VAT purposes in the Netherlands.

In almost all EU countries VAT on importation must be paid to the customs officials at or around the moment of importation. Postponed accounting does not apply in countries like France, Germany, Ireland, Italy, Spain, Sweden and the United Kingdom. It applies in some other countries, but only under very strict conditions and in specific situations.
Only Belgium provides for an arrangement similar to the one in the Netherlands, where the payment of VAT can be deferred to the time when the VAT return is filed.

The European VAT Directive gives EU member states the option of granting a VAT exemption on importation of goods that will be transported to another EU member state immediately after importation. For goods that will be stored or sold in the EU member state into which they are imported, there is no VAT exemption on importation.
However, it is possible to (temporarily) suspend payment of import duties and VAT upon import.
When goods arrive in the EU, a company can decide to store the goods in a "customs warehouse". Customs warehousing is available in all EU member states, but the practical formalities vary per country. In this scenario, payment of import VAT and import duties is suspended until the moment of removal from the warehouse. The temporary suspension of duty and VAT payment will result in a cash flow advantage but ultimately, these charges become due. However, if the destination of goods in question is not known upfront, storing the goods under customs bond could be beneficial. If these are shipped to non EU destinations, no customs duties and import VAT become due at all.

It can be concluded from the above that geographical and logistic factors are not necessarily the only valid reasons for importing via the Netherlands. The fact that import VAT does not have to be pre-financed can play a major part in the decision to route a flow of goods via the Netherlands. An additional factor, the importance of which should not be underestimated, is the difference in the interaction with the various tax and customs administrations amongst the EU.
Some tax and customs administrations take a very formal approach, whereas other administrations are very much open to dialogue. The tax and customs authorities in the Netherlands belong to the latter group; they are well-known for their pro-active approach and high service level. They are also receptive to confirm certain arrangements in writing, which guarantees certainty (up front) for taxable entities. This is seen as a very valuable incentive and is often a reason, besides the favorable VAT treatment at import, for companies to select the Netherlands as their gateway to Europe.

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NDL/HIDC

VAT Deferment in Europe

Country	VAT rate	VAT Deferment	Pre-payment
Belgium	21%	Yes	No pre-payment required with a license issued by the tax authorities
Netherlands	21%	Yes	No pre-payment required with "Article 23 license"
Germany	19%	No	No postponed accounting
Ireland	23%	No	No postponed accounting
U.K.	20%	No	No postponed accounting
France	20%	No	Persons VAT-registered in France can apply for centralized customs clearance

THE NETHERLANDS, YOUR GATEWAY TO EUROPE

Source: Mazars