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In the Netherlands, a major change of the system of corporate taxation has been put into effect in 2007. The tax code saw a further reduction of the corporate income tax rate; the top marginal rate on profits above € 60,000 is now at 25.5%, down from 34.5% in 2004. Profits between € 25,000 and € 60,000 are taxed at 23,5% and profits below that range at 20%. With this rate reduction, the Netherlands move from the group of countries with statutory tax rates well above the European average into the group of countries with tax rates close to the average.

There are further changes in corporate taxation, one of them is the introduction of the patent box. Companies now have the option to either immediately deduct the costs of research and development behind a self-developed patent, or they can allocate these costs into the so-called patent box. If they do so, the patent-related costs are capitalized in the balance sheet, and future taxable incomes from the patent are taxed at a reduced effective tax rate of only 10%. The range of the patent box is, however, limited: Overall, the reduced effective rate is applicable only to earnings of four times the overall amount capitalized in the patent box. Higher patent-related earnings are then taxed at the statutory tax rate.

The second major novelty in corporate taxation is the group interest box. This instrument can be used by related businesses that are engaged in financial relations between them. Prior to the introduction of the group interest box, there was no special provision in the Dutch corporate tax code to deal with financial transactions between related businesses. Now, in contrast, interest paid and received within a group is balanced off against each other. Any positive balance is then subject to a reduced effective tax rate of only 5%. As with the patent box, use of the group interest box is optional. For some companies, it may be worthwhile not to use the option in order to be able to deduct interest payments to related companies at the full statutory tax rate. Furthermore, the option to use the group interest box is given to a wide range of related companies: It is not necessary for them to be related through mutual ownership; rather, companies that are affiliated through management or that cooperate in common projects can also apply to be considered as a group and opt into the use of this instrument.

There has also been a number of significant changes to dividend taxation in the Netherlands. The statutory tax rate on dividend payments has been reduced from 25% to only 15%. In addition, fewer taxpayers will have to pay dividend taxes in the Netherlands in the future. The threshold for application of the EU's Parent-Subsidiary Directive to Dutch companies has been reduced from 20% to 5%. This means that dividends that are distributed to shareholders of Dutch companies residing in other EU countries are now exempt of Dutch dividend taxes, if at least 5% of the Dutch company is owned by the respective shareholder. In order to treat Dutch shareholders and those from other EU countries equally, the participation exemption has also been reformed. A participation is now assumed to exist if at least 5% of a company are owned; in this case, distributed dividends are also exempt from



by Jan Schnellenbach

Alfred Weber Institute for
Economics
University of Heidelberg

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dividend taxes. Furthermore, some detailed provisions have been introduced in order to grant a more generous access to the participation exemption, such as the possibility of grandfathering this right if an interest is diluted below 5% as the result of a capital increase.

Some more minor changes have also been introduced to the Netherlands' personal income tax system in 2007. Tax credits, e.g. the general tax credit and the labour tax credit, have been moderately increased, more or less compensating for inflation. The tax benefit for employers offering their employees an opportunity to basic qualification measures has been doubled. A special tax deduction for disabled entrepreneurs starting a business has been introduced, and provisions have been made to ensure that foreign athletes and artists performing in the Netherlands remain exempt from taxation, if their home country has a double-taxation treaty with the Netherlands.

Summing up, we have seen that the reform of the corporate income tax in the Netherlands is a measure that serves the desired purpose of attracting companies to the Netherlands, or at least of doing away with an incentive for Dutch companies to leave the country. The tax burden in the corporate income tax has decreased significantly in the recent years. On the other hand, like all European tax systems, the Dutch tax code also suffers from being misused in order to foster non-fiscal political goals. Special tax exemptions are amply used in order to reach these goals, which, from an economic perspective, means that welfare-decreasing distortions are deliberately introduced into the tax code, where the same goals could just as reasonably be pursued through the expenditure side of the budget. 

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jan.schnellenbach@awi.uni-heidelberg.de

