Wijn spells out Netherlands tax reforms

In an interview with *International Tax Review*, the minister in charge of the Dutch tax system, outlines government reforms to protect and increase corporate tax revenues

On April 29, Joop Wijn, the Netherlands State Secretary for Finance, revealed the Dutch government's plans to reform the country's corporate tax system.

The headline announcement was a reduction in the tax rate. In 2004, the government proposed reducing the corporate tax rate from 31.5% to 30% by 2007. Now it wants to go further by bringing the rate down to 26.9% in the same period. The government also plans to respond to what it sees as the likely outcome of the Marks & Spencer group relief case at the ECJ, by extending the current Dutch fiscal unity system to non-Dutch entities, though with some qualifications. For example, only the losses of EU-resident subsidiaries can be consolidated and consolidation will apply to all the subsidiaries in a particular country; companies will not be allowed to pick and choose. Changes to the participation exemption rules, the taxing of group financing profits at 10% rather than 26.9%, and the abolition of Dutch capital tax have also been proposed.

Wijn said that the key objective of the plans was to revamp corporation tax to keep more businesses and attract new business: "If the Netherlands can consistently earn a place on investors' shortlists, this can only be good for the growth potential of our economy."

Ralph Cunningham spoke to Wijn about his proposals when he came to Londonin June to promote the Netherlands as an investment location to tax directors and advisers.

What do you think is the highlight of your proposals?

It is that it is a cut in the tax rate financed by a broadening of the tax base. We think it is better to have a low rate rather than specific deductible items which one can question the economic basis of.

We had a first phase in 2004, where we had a cut in the tax rate, which will result in 30% in 2007, which was relief in the tax burden. And this is the second phase, and this will be a broadening of the base, combining it with a further tax rate cut to 26.9% in 2007, and even 20% for smaller businesses. We call that the SME tariff.

You want to introduce these changes by January 1 2007. Is there any reason why that might not happen?

There is another reason why we are doing this and that is why I think doing nothing is not an option. We have seen so many rulings by the European Court of Justice and we are sure they are heading in the direction that you should be able to deduct cross-border losses. So instead of waiting for what is happening in Europe, we want to take a proactive stance rather than a reactive one.

What we see is, if you widen the base then there are specific interests that could become harder. The politically difficult thing is how to achieve this, which is obviously for the common good, but you have to overcome partial interests. That is always, politically speaking, a difficult task because the lobby of certain sectors will be tough whereas there is no lobby for the common good.

Are there other cases, apart from Marks & Spencer, that the Dutch government is particularly concerned about?

No, this is the main case.

What is the timetable for these proposals from now leading up to January 1 2007?

To be honest with you, we are a bit behind schedule. We would have liked to have had the parliamentary consent by now, but this will be in October probably. But on the other hand, it is good to put in a lot of time at the start of a process to make the rest of the process go much faster. There is a saying in Dutch: "When you invest enough in the beginning, you will harvest at the end." Parliament is taking its time to discuss it with tax advisers, who are, on

Joop Wijn: a cut in the tax rate financed by a broadening of the tax base

The Primarolo group

The European Council of Finance Ministers set up the Primarolo group (the EU Code of Conduct group on business taxation) on harmful tax competition on March 9 1998, to "assess the tax measures that may fall within the scope of the Code of Conduct for business taxation.". The code was produced to uncover measures in EU associate or dependant territories which offer non-residents a more favourable tax treatment than that available in any particular member state. The body is chaired by Dawn Primarolo, the minister responsible for the UK tax system.

Career of Joop Wijn

1989 to 1994:	taught the course for entrepreneurs at the Schoevers Academy in Amsterdam
1991	graduated from Amsterdam University with a degree in economics
1991 to 1994:	taught a Netherlands Marketing Institute course in marketing, and business economics at senior secondary vocational level.
1992 to 1994:	ran his own personnel recruitment agency.
1993/1994:	taught economics in senior general secondary and pre-university education.
1994	degree in Dutch law
1994 to 1998:	trainee and then investment manager for ABN AMRO Bank holding companies.
1998 to 2002:	member of the House of Representatives of the States General for the Christian Democratic Alliance (CDA).
July 22 2002:	appointed state secretary for economic affairs in the first government of prime minister Jan Peter Balkenende.
May 27 2003:	appointed state secretary for finance in the second Balkenende government

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average, very positive, but also with the corporate community, where, of course, the picture is much more mixed. That ["more mixed"] is even too tough. We see certain sectors, such as the real-estate sector, opposing the plans but if you look at other sectors, those sectors that make a lot of profit or are very innovative. The title of the document is "Working on Profit" so you see those sectors that contribute to the economy are all in favour.

What do you see as the future of national tax systems in the EU?

For companies I think it would be best if there was harmonized corporate income tax because it will be easier for them to expand abroad. They don't need to read the law textbook in each and every country they operate in. But as long as that is not the case, and I don't envisage any agreement on that within the next decade, maybe even longer, there is competition in Europe and we want to be in that competition. We will not sit on the sideline and watch what is happening on the field.

How important do you think investors in the Netherlands consider the tax system to be?

I think increasingly important, because I think if you look at other issues that investors look at, Europe is getting more and more alike. We do have less traffic jams than in Paris; we speak better English than the Germans and we have a much more flexible labour law than Belgium. But there's more competition. Netherlands offers the best proposition within the eurozone and tax is a very important factor in that.

How are you going to reach out to those who oppose your proposals and convince them that the proposals are for the common good?

By saying they've had certain deductible items. You could be happy about the years you've had the advantage, or you could complain about losing the advantage. I would say, "You've been lucky all those years and now we're going to do some tax broadening which is economically sound and if you are really honest, not defending your own interests but looking at the common good, you know it deep down".

Before you presented your reform proposals, who did you speak to about your ideas?

This was an innovative process. We opened a website; we asked foreign politicians to write columns; we invited university tax professors to give their opinions; we had a discussion community for students; we invited all the international chambers of commerce, for example, the American and the Japanese, to put forward their wishes. That was all on the website.

We asked employers' organizations to give their views. We even asked the unions to bring up their ideas. We organized a conference where all Dutch corporate income tax professors were present. There has never been such a broad consultation process before.

Once these plans are in place, have you any more plans for the corporate tax system?

If we have lowered the tax rate to 26.9%, of course, I would very much like for it to be lower than that, but currently we don't have the budget position to do that. But on the other hand, we are very determined to join the competition and to have a top, attractive fiscal climate. We are determined to do it and that's our vision. Of course, we will do everything within the possibilities of the EU rules such as the Primarolo group, and we will do everything that is compatible with the EU, so that we will stay within the international rules of the game. But within those rules, we will compete.