Working on Profit

A legislative proposal, 'Working on Profit', would further reduce the corporation tax rate as of 1 January 2007 to 20% on the first 25,000 euros of profit, 23.5% on profits from 25,000 to 60,000 euros and 25.5% on profits higher than 60,000 euros. The bill would exempt 10% of the profits of small and medium-size enterprises from income tax, while companies that do a lot of R&D can choose for a reduced rate of 10% on patent profits. The proposal would also reduce the dividend tax rate from 25% to 15%. These lower rates of profit tax and the lower dividend tax will further improve the climate for business establishment. 'Working on Profit' has not yet been considered by the Dutch Parliament.

Access to the tax inspector

The Dutch tax administration understands how vital it can be for investors to know for certain, in advance, how tax law will be applied in a specific case. It therefore seeks to be as open and accessible as possible, with two central information points for foreign investors: the Contact Point for Potential Foreign Investors and the APA/ATR Team.

The Contact Point provides foreign investors certainty advance on the tax consequences of proposed major investments in the Netherlands. The tax inspector for the area where the business is located will be bound by the agreements made with the Contact Point.

The Contact Point works with the APA/ATR Team. This team concludes advance pricing agreements and issues advance tax rulings on transfer pricing and other issues of an international nature.

Contact Point for Potential Foreign Investors

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Doing business in the Netherlands

When looking for a location to do business, the tax system is an important selection criterion for investors. The Netherlands has always acknowledged this. Recently, we have created even better tax conditions for business development. Therefore, doing business in the Netherlands is and will be attractive for investors.

ministry of Finance

Lower corporation tax rate

The corporation tax rate has been cut from 31.5% to 29.6% on 1 January 2006.

Certainty in advance

In the Netherlands, taxpayers can traditionally find out for certain, in advance, what fiscal effects a planned transaction will have. Since 2001, this has been accomplished through advance pricing agreements (APA) and advance tax rulings (ATR). This APA/ATR system meets OECD and EU standards. It is a reliable system which will remain effective for years to come. Taxpayers can always obtain clarity in advance on how long it will take to process the APA or ATR application.

Participation exemption

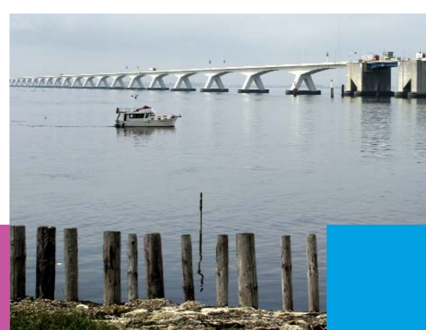
For decades, profits generated by (qualifying) participations in companies have been tax-exempt for entities based in the Netherlands. This participation exemption sets an international standard. Since 2003, the costs of foreign participations have also been deductible from taxable profits in the Netherlands. As a result, domestic and foreign participations have the same tax treatment for the purposes of the participation exemption.

Tax treaties

The Netherlands now has more than 75 tax treaties in force, more than most other countries. The Dutch perspective is that double taxation should not stand in the way of international business. The Netherlands have no withholding tax on interest and royalties. In tax treaties the Netherlands aims for a 0% rate of taxation on dividends on (qualifying) participations, interest and royalties.

Exemption for investment institutions

Investment institutions based in the Netherlands are to be exempted from tax in a move designed to sharpen their competitive edge and make it easier for them to operate in the international market. These changes are set out in a bill that is presented to Parliament in May 2006. The bill will exempt investment institutions from corporation tax and dividend tax.



Company capital duty abolished

Company capital duty, a tax on the raising of capital by companies – through share issues for example – has been abolished on 1 January 2006. This change will make it more attractive for companies to raise capital to develop new activities or strengthen their financial structure. Company capital duty was levied at 0.55%.

Headquarters costs

Since 2004, the tax rules on the internal transfer prices used by companies with their (European) headquarter in the Netherlands, have been clarified.
The costs of shareholders' activities do not have to be passed on to group companies and can be allocated to the Netherlands.
A list of qualifying shareholders' activities is available. Taxpayers may choose to pass on the total costs of certain support services without a surcharge. Certainty in advance can be obtained on the qualification of all these activities.

Tax break for expatriates

The Netherlands offers a tax break for foreign employees who come to the Netherlands to work, known as the 30% regulation. This allows employers to make a fixed tax-free payment.

More information about the Dutch tax system is available at the internetsite of the Ministry of Finance, **www.minfin.nl/english**