

# The Dutch tax industry

**What do Muammar al-Gaddafi, Tommy Hilfiger and Bono have in common? They all have their business headquarters in the Netherlands – on paper, at least. The reason is simple yet surprising: having an office here saves them millions of Euros in taxes. Whilst Dutch citizens are subject to relatively high tax rates, their country is a true tax haven for multinational corporations. So much so that more than twenty thousand foreign companies take advantage of the balmy Dutch tax climate. Every year, an estimated 12,300 billion Euros pass through their Dutch offices, equivalent to 22 times the Dutch GDP. No wonder a thriving industry has grown up around this little-known phenomenon. Amsterdam is filled with trust offices, tax advisers and lawyers servicing these fiscal asylum seekers. It is safe to say that the Dutch financial sector owes part of its prominence to the tax breaks offered to businesses and celebrities from abroad.**

Ever since the invention of taxes, taxpayers have been searching for ways to evade paying them. In the 18th century, King William III imposed a window tax in England and Wales: his subjects paid taxes based on the number of windows in their house. The smartest among them simply bricked up some of their windows, as can still be seen in some houses from the period. In Amsterdam, tax inspectors measured the width of the houses to calculate the tax assessment. The solution was found quickly: wealthy merchants built the extremely narrow, high houses that line Amsterdam's canals. It wasn't until the twentieth century that tax systems became too complex for such banal tricks to suffice. In came the savvy tax advisers, who made a profession out of finding lucrative loopholes.

## Dutch Sandwich

Shortly after the Second World War, Dutch notary Ton Smeets discovered the greatest loophole in the history of taxation: the Netherlands Antilles-route. Because of a lenient tax treaty between the Netherlands and its Caribbean dependencies, Dutch businesses were able to funnel their profits to a holding company on Curaçao or Aruba, whilst only paying five percent in taxes. In turn, the holding companies on the islands hardly paid any taxes on the incoming cash flow. The construction soon became known as the Dutch Sandwich. Tens of thousands of wealthy individuals and corporations from all over the world used it to reduce their effective tax rate to less than ten percent. Mick Jagger and German tennis player Steffi Graf were among the hundreds of artists and sportspeople who shielded their income from the local tax authorities using the Antilles-route. The Dutch Sandwich flourished until the early nineties, when the Dutch finance minister – under heavy pressure from foreign governments – rigorously revised the tax treaty with the Antilles.

## Obama

However, the end of the Dutch Sandwich certainly did not mean the end of Holland's fiscal lure. In 2009, President Barack Obama announced a crackdown on American companies and individuals using tax havens to evade U.S. taxes. In his speech, he mentioned notorious offshore jurisdictions such as the Bermuda and the Bahamas, but also the Netherlands. Obama specifically cited a building on the tiny island of Grand Cayman where more than 18,000 American companies are registered:

‘Either this is the biggest building in the world or it is the biggest tax scam in the world. I think the American people know which it is.’ He could just as well have referred to the Netherlands; there are several office buildings in Amsterdam that house thousands of businesses. In Holland, some one hundred specialised trust offices facilitate an estimated twenty thousand mailbox companies, many of which are associated with well-known multinationals and conglomerates. Nike, Sun Microsystems, IKEA, Boeing, Disney, Prada and the Rothschild banking family have all set up one or more Dutch entities to save on their tax bills. The Russian supermarket chain Pyaterochka is based in Amsterdam. Libyan dictator Muammar al-Gaddafi’s billion-dollar investment vehicle Oilinvest has its head office in Ridderkerk, just south of Rotterdam.

## **Jurisdiction**

Why is Holland so popular among foreign corporations? There are the cut-and-dry advantages Dutch promotional agencies like to emphasise in their publications aimed at foreign investors. The Holland Financial Centre (HFC), a public-private organisation set up to improve Amsterdam’s image as a leading financial hub, sums them up on its website: ‘The central geographical position of the Netherlands, its excellent connectivity, a well-educated, multilingual workforce [...] and a stable and reliable jurisdiction are some of the reasons why numerous European, American and Asian companies have established their offices in the Netherlands.’ But the HFC website also cites ‘a favourable tax climate’, which may be a surprise for anyone who lives here and regularly receives the dreaded blue envelopes sent out by the Dutch tax authority. Sure, The Netherlands’ corporate tax rate of 25 percent is reasonably low, but certainly not the lowest in the world. There are two other factors that explain why this country has become an international tax haven of choice. First, Holland has bilateral tax treaties with more than a hundred countries, ranging from Kuwait to Australia. So for example, an Australian company doesn’t have to pay taxes in Australia on the profits that have already been taxed in Holland. Second, Holland levies minimal – and in some cases zero – taxes on dividends and interest. Combined, this means that foreign companies can significantly slash their tax bill by funneling dividend and interest to their Dutch entities. Take note: there’s nothing illegal about this construction. Of course, the ‘stable and reliable jurisdiction’ the HFC boasts about also plays an important role. Countries like Liberia, Vanuatu and Somalia also offer extremely low or even zero tax rates – Somalia doesn’t even have a tax authority – but who’d dare to move billions of assets to such a remote and disreputable location? The Netherlands are one of the world’s most stable democracies and invariably rank among the top ten nations with the lowest corruption levels.

## **Gimme shelter**

Multinational corporations aren’t the only ones benefiting from the new-style Dutch Sandwich; many tax-shy celebrities have found their way to Amsterdam as well. Earnings derived from intellectual property such as royalties are taxed at rates close to zero in the Netherlands. This makes it extremely lucrative for artists to transfer a part of their assets, such as the copyright on songs, to a Dutch entity. Take U2’s lead singer Bono for instance. For years, the minstrel-slash-poverty-fighter enjoyed the pleasant fiscal climate of his homeland: Ireland’s tax rate on royalties was zero percent. In 2006, the Irish government decided to set a cap on the tax-exempted income. Any artist who makes more than € 200,000 a year, would have to pay a moderate 12.5 percent. U2 swiftly moved its intellectual property to a new entity registered on Amsterdam’s Herengracht and continues to enjoy virtually tax-free royalty income up until today. And then there’s the Rolling Stones, arguably the most tax savvy band of all. According to legal

documents that were made public a couple of years ago, three band members, Keith Richards, Mick Jagger and Charlie Watts, have channeled over 340 million Euros through their Dutch 'headquarters'. All in all, they have paid just 5.6 million Euros in taxes on those earnings, or 1.5 percent. Makes you wonder what their song 'Gimme shelter' was really about.

### ***Why Holland is such a large foreign investor?***

*Holland consistently ranks among the top countries in terms of investments in foreign countries. For example, in 2010 The Netherlands were the largest foreign investor in Vietnam and the second largest investor in Brazil, only behind the United States. But the figures are misleading. The reason for Holland's impressive ranking: a substantial proportion of all international investment is made through 'Dutch' entities that merely serve as a tax shelter. The real source of the money is obscured. The same is true for other offshore havens such as Hong Kong and Switzerland.*

*The largest foreign investors*

*1 United States \$ 3597 bn.*

*2 France \$ 1837 bn.*

*3 United Kingdom \$ 1705 bn.*

*4 Germany \$ 1484 bn.*

*5 Netherlands \$ 951 bn.*

*6 Hong Kong \$ 873 bn.*

*7 Switzerland \$ 815 bn.*

*8 Japan \$ 641 bn.*

*Stock of foreign investment in 2010, source: CIA*

<http://www.theinternationalcorrespondent.nl/2011/07/27/economy-the-biggest-tax-haven-you%E2%80%99ve-never-heard-of-holland/>