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Foreign Desk Alert

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Major Dutch Corporate Income Tax Reform Just Announced

On April 29, 2005, the Dutch State Secretary of Finance sent a policy paper to Dutch Parliament in which he announced a Dutch tax reform that is aimed at improving the overall investment climate in the Netherlands and making the Dutch corporate income tax system more “EU-proof.” The measures have already been approved by the Dutch Cabinet. The guiding principle behind the announced tax reform is the reduction of the Dutch corporate income tax rate combined with the enlargement of the Dutch tax base.

The most relevant improvements of the Dutch corporate income tax regime announced in the policy paper are:

- A further reduction of the general corporate income tax rate to 26.9%. This reduction follows the earlier adopted reductions to 31.5% per January 1, 2005, 30.5% per January 1, 2006, and 30% per January 1, 2007.
- Confirmation of the previously announced abolishment of the Dutch capital tax per January 1, 2006.
- The introduction of a 10% corporate income tax rate for intergroup interest income.
- The potential introduction of a low corporate income tax rate (possibly 15%) for royalty income.
- The possibility of a cross-border fiscal unity within the European Union. Consequently, subject to conditions it will be possible to offset losses of non-Dutch EU companies with profits of Dutch companies.
- Major improvements of the Dutch participation exemption regime, including the abolishment of the “non-passive investment” condition and the “subject-to-tax” condition. The subject-to-tax condition will only remain relevant in relation to passive participations, perhaps in the form of a minimum required tax rate of 10%.
- Possible simplification of Dutch interest deduction limitation rules. Following the introduction of thin capitalization rules in the Netherlands per January 1, 2004, it will be considered whether some or all of the other interest deduction limitation rules should be abolished.

Other improvements include measures that will make the Dutch tax regime for small and medium-sized businesses more favorable.



The tax reform should be budget neutral. In order to achieve this, measures have been announced to enlarge the Dutch tax base. These measures include:

- Limitations of tax loss carryback and carryforward. The measures limit the period for carryback to one year and the period for carryforward to eight years.

- The limitation of tax depreciation of real estate to fair market value.

- The abolishment in the Dutch participation exemption regime of the possibility to deduct liquidation losses and temporary devaluation losses.

More details will be included in a Foreign Desk Alert to be issued shortly.

For additional information, please contact any of the listed Dutch Tax Desk professionals.

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