

**The Netherlands; an attractive jurisdiction for structuring Russian international business.**

The Netherlands, a country within the Kingdom of the Netherlands, is known for its high quality of life and excellent education. In terms of development per capita, it ranks 7th in the world (2009). Also, the Netherlands was ranked as the “happiest” country according to results published by the OECD (2011).

2013 marked a 400-year relationship between Russia and the Netherlands. This Russian-Dutch bilateral relationship was celebrated extensively with joint economic, social and cultural events in both countries. Russia and the Netherlands have developed close ties in numerous fields like agriculture and food, health products, natural resources and, of course, football.

Diplomatic relation between the two countries has a long history and have developed since. 13 years ago Russia and The Netherlands implemented a joint action program. This approach is unique in the Russian international practice. The program defines the main directions, objectives and forms of bilateral cooperation between both countries, including topics as economics and finances.

Contrary to Russia, The Netherlands as a small country, has opened its economy already in a very early stage. From that moment it has actively developed an attractive tax climate for multinational companies, to enable these corporations to allocate their investments efficiently around the globe. The attractive holding, financing and royalty structure regimes of The Netherlands involves reduced withholding tax rates on the basis of bilateral tax treaties and EU-directives, exemption from taxation of payments of licenses and interest, exemption from corporate income tax of incoming dividends and capital gains, full deductibility of interest expenses for corporate income tax, with only anti-abuse regulations for holding companies and an advance ruling practice assuring the future taxation of investments.

The Netherlands is also known for its outstanding business climate. With its strategic location, it is the second largest export country in Europe, after Germany. Its harbor in Rotterdam is the biggest in Europe, while its Schiphol Amsterdam international airport is the 3rd largest in Europe. Its workforce is highly educated, international, flexible and multilingual.

Meanwhile The Netherlands have concluded almost 100 bilateral double taxation treaties. These treaties regulate possible double taxation and lower the tax rates of distributed dividends, interest and royalties. The Netherlands have also developed a dense network of bilateral investment protection treaties to secure assets of Dutch entities invested in host countries.

Today both Dutch multinationals and foreign companies, by establishing Dutch intermediate companies to structure their investments, are benefiting from the attractive Dutch business environment. Many global companies are using a Dutch holding structure for their investments into the Russian economy and vice versa. In 2011, 12 percent of these foreign direct investments into Russia were channeled via The Netherlands.

Nowadays, many Russian multinational companies have also established holding companies in The Netherlands. Already in an early stage these Russians Majors discovered the opportunity to extend their holding activities with operational activities using the central position and excellent infrastructure of The Netherlands. These days, also medium-sized Russian companies with international operations, are using The Netherlands to structure their increasing international activities.

A great stimulant to the influx of Russian interest into the Dutch holding opportunity has been the juridical case in the Yukos receivership procedure. Yukos had a part of its activities structured via a Dutch holding company. Despite many efforts of the Russian receiver, the Dutch Supreme Court ruled in its verdict that the Russian receiver was not entitled to the Dutch assets of Yukos. Therefore the Dutch level of asset protection is unique in comparison to other jurisdictions with attractive holding regimes.

The growth of the Russian economy combined with an ongoing increase of the level of international operations carried out by Russian companies', means that the Dutch holding, financing and royalty regime could offer great benefits to an increasing amount of Russian companies with international affairs. The competitive level of taxation in The Netherlands, absence of the Dutch tax regime on any governmental black list, Dutch government credit rating and unique level of asset protection, make The Netherlands a distinct jurisdiction to structure any kind of investment.

**Some of the most evident benefits of The Netherlands for Russian and international companies:**

- No withholding tax on outgoing interest;
- No withholding tax on outgoing royalties;
- A wide tax treaty network reducing withholding taxes on dividends, interests and royalties
- (for interest and royalties often to 0%, basically due to the fact that the Netherlands itself does not levy a withholding tax on interest or royalties);
- A wide tax treaty network with favorable provisions and reduced rates of foreign withholding taxes on many forms of income. Capital gains and/or dividends received by a Dutch holding company can be exempted from Dutch corporate tax;
- Double taxation relief through the Royal Decree for the Avoidance of Double taxation, which may be applicable in the absence of a tax treaty;
- The 30% ruling, that allows a tax free payment of 30% of the employee's salary, provided that the employee is in the Netherlands on the basis of job rotation or has specific expertise which is scarce in the Dutch labor market;
- The applicability of the Parent Subsidiary Directive which reduces the foreign withholding tax on incoming dividends in many cases to 0%;
- Participation exemption, which makes that all benefits related to a qualifying shareholding, including cash dividends, dividends in kind, bonus shares, hidden profit distributions and capital gains are exempt from Dutch corporate income tax;
- The applicability of the Directive on interests and royalties which reduces the foreign withholding tax on incoming interests and royalties in many cases to 0%;
- No exchange control;
- A ruling practice which allows to determine the taxation in advance;
- Corporate tax return can be filed in a foreign currency (= functional currency);
- The facility to carry forward losses for nine years and backward for one year;
- A fiscal unity regime;
- The innovation box under which all income to be allocated to self-developed IP is subject to a corporate income tax rate of 5%;
- VAT deferment system at import, improving cash flows of importers;
- Schiphol airport and Rotterdam seaport are two main gateways to Europe, and the Netherlands in general have superior logistics, technology infrastructure and access to financial markets;
- Flexible corporate law, very suitable for the set-up of joint ventures;
- High level of investment protection by means of tax treaty network and a highly developed legal system;

- Very well ranked top Universities;
- Head quarter of many global companies.

In many surveys the Dutch business environment is generally top rated. The role of the Netherlands as a hub to structure international investments is also based on the well-developed and stable legal, financial and political system in The Netherlands.

Due to all these favorable characteristics, The Netherlands has attracted and continues to attract international operating companies. As a result, it has an extensive services sector specialized in supporting Russian and other international companies. In the past few years many servicing companies were able to attract high qualified native Russian speakers to support their Russian clients in order to guarantee a high quality of service. Meanwhile more than 55.000 people of Russian/CIS origin live, work or study in The Netherlands which expresses the close relationship between the two countries.

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