

# NARRATIVE REPORT ON NETHERLANDS



## PART 1: NARRATIVE REPORT

The Netherlands is ranked at 41st position on the 2015 Financial Secrecy Index. This ranking is based on a combination of its secrecy score and a scale weighting based on its share of the global market for offshore financial services.

The Netherlands has been assessed with 48 secrecy points out of a potential 100, which places it in the lower mid-range of the secrecy scale (see chart 1).

The Netherlands accounts for less than 1 per cent of the global market for offshore financial services, making it a tiny player compared with other secrecy jurisdictions (see chart 2). Although the Netherlands ranks relatively low on the Financial Secrecy Index, the financial sector in the Netherlands is not without risks. Due to the enormous sums of capital flowing through it, the financial sector in the Netherlands deserves our close attention.

### Introduction<sup>1</sup>

The Netherlands hosts around 12,000 'special financial institutions' (SFI's) used by foreign parent companies to route €4000 billion through the Netherlands every year -- roughly ten times the Netherlands' gross national product.<sup>2</sup>

According to the International Monetary Fund (IMF), these flows of foreign direct investment (FDI) through SFIs cannot be understood without taking into account the crucial role the Netherlands plays in the field of international corporate tax avoidance.<sup>3</sup> The strong financial infrastructure developed in the Netherlands since the 1950s makes it a popular conduit country for multinational corporations (MNCs) as well as rich individuals.

While the presence of special financial institutions adds an economic value of €3-3,4 billion per year, the scale of losses of (tax) revenue by third countries is unclear.<sup>4</sup> Estimates run from 145 million euro to 800 million euro in losses for development countries alone.<sup>5</sup> The Dutch government so far has been reluctant to provide sufficient transparency on tax avoidance schemes. Nor has it taken steps to reduce risks associated with the financial sector in the Netherlands.

### Ingredients for a conduit country

The Netherlands is a useful conduit country because of its combination of beneficial fiscal arrangements available to international corporations. Firstly, the Netherlands has an extensive Double Taxation Treaty (DTT) network, which allows MNCs to substantially reduce withholding taxes on dividend, interest and royalty payments on financial flows to and from other countries and tax havens via the Netherlands. Along with these

Rank: 41

Chart 1 - How Secretive?

48  
Secrecy  
Score

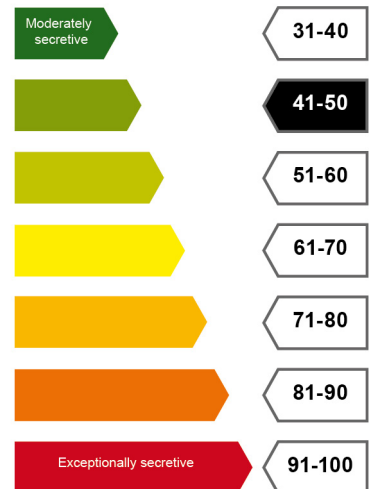
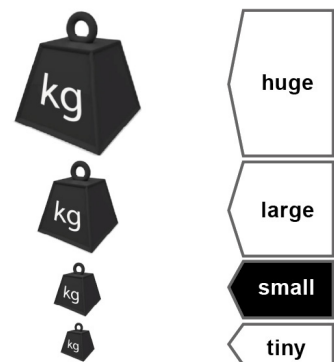


Chart 2 - How Big?



*Netherlands accounts for slightly over 0.3 per cent of the global market for offshore financial services, making it a small player compared with other secrecy jurisdictions.*

The ranking is based on a combination of its secrecy score and scale weighting.

Read more  
[→ Full data](#)  
[→ Netherlands on TJN Blog](#)  
[→ Full Methodology](#)

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come the Netherlands' famous participation exemption, which exempts international subsidiaries from Dutch corporation tax; the absence of withholding taxes on interest and royalties; the possibility to have tax rulings (Advance Tax Ruling and Advance Pricing Agreement); and lastly the use of cooperatives and the so-called innovation box, a special fiscal arrangement designed for research and development (R&D), which offers an effective corporate tax rate of only 5 percent instead of 25 percent.

No wonder that 91 of the 100 largest MNCs in the world have financing firms in the Netherlands. According to the *New York Times*, more US dollars are piped through the Netherlands than anywhere else in the world. The 500 largest US MNCs invested by December 31, 2010 a total of US\$127 billion, of which \$93 billion was routed through the Netherlands. This made the Netherlands far more popular among US MNCs than tax haven such as Bermuda (US \$94 billion) or the Cayman Islands (US \$51 billion).<sup>6</sup>

On the other end of the line, most of the €4000 billion euros flowing through the Netherlands end up in secrecy jurisdictions. Out of the top five countries in terms of origin and destination of inward and outward flows from the Netherlands, four are in the top ten of the FSI 2015. These are: Switzerland (€1195 billion), Luxembourg (€839 billion), United States (€3403 billion) and Germany (€1035 billion). The United Kingdom, which ranks 9<sup>th</sup> in the FSI 2015, was the origin and/or destination of €1455 billion.

Revelations in Dutch media repeatedly show that in addition to MNCs using the Netherlands to avoid taxes, the Dutch financial sector is also being misused to evade taxes and money launder: in 2013 a Dutch company became the centre of attention because it controlled US\$700 million formerly owned by Libya's former dictator Ghaddafi.<sup>7</sup> In 2014 the media reported that several Dutch letterbox companies owned by family and friends of former Ukrainian president Viktor Yanukovich were used to launder money.<sup>8</sup>

### Substance requirements

Since June 2014 the Dutch government has required all SFIs to fulfill substance requirements. Substance requirements should guarantee a certain level of activity to ensure a real presence in the Netherlands. However, in November 2014 the national Court of Audit concluded that the substance requirements are of such a low standard in the Netherlands that they are easily fulfilled.<sup>9</sup> In practice most SFIs hire so-called financial service providers to fulfill substance requirements such as having a registered address in the Netherlands, having at least 50 percent of the board seats filled by Dutch residents, and maintaining a main bank account in the Netherlands. Of the 12.000 SFI's in the Netherlands 75% use facilities provided by a financial service provider.<sup>10</sup>

### Financial service providers in the Netherlands

Monitoring by financial service providers is based on due diligence. With thousands of billions flowing through the Netherlands this task carries serious responsibilities. The number of reports of unusual transactions can therefore be described as disturbingly low, only 38 in 2012.<sup>11</sup> In 2013 the Dutch Central Bank conducted an investigation into financial service providers. As one of the main risks the Dutch Central Bank named the limited partnerships (in Dutch CV structures) that financial service providers offer to their clients. In 2012, 67 service providers hosted over 1600 limited partnerships mainly on behalf of beneficial owners in Central and South America. The Dutch Central Bank attributed the popularity of this structure to the anonymity it provides to beneficial owners.<sup>12</sup> Since the position of a director can be carried out by a legal entity, beneficial owners are able to hide their true identity.

Following the investigation, the Dutch Central Bank concluded in 2014 that the executive and supervisory functions within financial service providers are not sufficiently separated and that there is a clear lack of knowledge regarding the beneficial ownership of their clients. As a result, the Dutch Central Bank fined some of the

financial service providers and even revoked some of their licenses. Furthermore, the Dutch Central Bank defined the risks associated with limited partnership as exceptionally high, leading it to question whether limited partnership related services should be provided in the Netherlands at all.<sup>13</sup>

### Beneficial ownership debate in the Netherlands

Given the high risks associated with beneficial ownership secrecy, it is reasonable to expect the Dutch government to take immediate measures. However, when in Spring 2014 the Dutch Parliament voted for a public beneficial ownership register, the Dutch government was reluctant to support a European Council proposal for such a public register. By the end of 2014 the European Union had approved a beneficial ownership register, leaving the decision to disclose the register to individual Member States.<sup>14</sup>

### Next steps for Netherlands

Netherlands secrecy score shows that it must still make major progress toward satisfactory financial transparency. If it wishes to play a full part in the modern financial community and to impede and deter illicit financial flows, including flows originating from tax evasion, aggressive tax avoidance practices, corrupt practices and criminal activities, it should take action on the points noted where it falls short of acceptable international standards.

### Read More

- [Full data for Netherlands](#)
- [Netherlands on TJN Blog](#)
- [Full Methodology](#)
- Eurodad (2014) Hidden Profits: The EU's role in supporting an unjust global tax system
- SOMO (2014) Fool's Gold: How Canadian mining company Eldorado Gold destroys the Greek environment and dodges tax through Dutch mailbox companies

<sup>2</sup> [http://www.seo.nl/uploads/media/2013-31\\_Uit\\_de\\_schaduw\\_van\\_het\\_bankwezen\\_01.pdf](http://www.seo.nl/uploads/media/2013-31_Uit_de_schaduw_van_het_bankwezen_01.pdf)

<sup>3</sup> <https://www.imf.org/external/pubs/ft/bop/2013/13-15.pdf>

<sup>4</sup> [http://www.seo.nl/uploads/media/2013-31\\_Uit\\_de\\_schaduw\\_van\\_het\\_bankwezen\\_01.pdf](http://www.seo.nl/uploads/media/2013-31_Uit_de_schaduw_van_het_bankwezen_01.pdf)

<sup>5</sup> <http://francisweyzig.com/2013/06/12/vier-schattingen-misgelopen-belasting/>

<sup>6</sup> Citizens for Tax Justice (2014) "Offshore Shell Games", <http://uspigedfund.org/sites/pirg/files/reports/OffshoreShellGamesUSPIRG-CTJ.pdf> link downloaded on 8 October 2015

<sup>7</sup> <http://www.nrcreader.nl/artikel/9062/gaddafi-s-oliedollars-en-de-zuidas>

<sup>8</sup> Volkskrant, 'Oekraïense elite volgt de Nederlandse belastingroute', 14 February 2014

<sup>9</sup> Algemene Rekenkamer, "Belastingontwijking", 6 november 2014.

<sup>10</sup> [http://www.seo.nl/uploads/media/2013-31\\_Uit\\_de\\_schaduw\\_van\\_het\\_bankwezen\\_01.pdf](http://www.seo.nl/uploads/media/2013-31_Uit_de_schaduw_van_het_bankwezen_01.pdf)

<sup>11</sup> [http://en.fiu-nederland.nl/sites/en.fiu-nederland.nl/files/u3/FIU%20Annual%20report%202012\\_ENG.pdf](http://en.fiu-nederland.nl/sites/en.fiu-nederland.nl/files/u3/FIU%20Annual%20report%202012_ENG.pdf)

<sup>12</sup> <http://www.dnb.nl/publicatie/publicaties-dnb/nieuwsbrieven/nieuwsbrief-trustkantoren/nieuwsbrief-trustkantoren-april-2014/dnb307082.jsp>




<sup>13</sup> <http://www.dnb.nl/publicatie/publicaties-dnb/nieuwsbrieven/nieuwsbrief-trustkantoren/nieuwsbrief-trustkantoren-april-2014/dnb307082.jsp>

<sup>14</sup> [http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:JOL\\_2015\\_141\\_R\\_0003&from=EN](http://eur-lex.europa.eu/legal-content/EN/TXT/HTML/?uri=OJ:JOL_2015_141_R_0003&from=EN)




<sup>1</sup> This narrative report is edited by Tax Justice Netherlands

## PART 2: NETHERLANDS'S SECRECY SCORE





## TRANSPARENCY OF BENEFICIAL OWNERSHIP – Netherlands

- 1  **Banking Secrecy: Does the jurisdiction have banking secrecy?**  
Netherlands partly curtails banking secrecy
- 2  **Trust and Foundations Register: Is there a public register of trusts/foundations, or are trusts/foundations prevented?**  
Netherlands partly discloses or prevents trusts and private foundations
- 3  **Recorded Company Ownership: Does the relevant authority obtain and keep updated details of the beneficial ownership of companies?**  
Netherlands partly maintains company ownership details in official records






## KEY ASPECTS OF CORPORATE TRANSPARENCY REGULATION – Netherlands

- 4  **Public Company Ownership: Does the relevant authority make details of ownership of companies available on public record online for free, or for less than US\$10/€10?**  
Netherlands does not require that company ownership details are publicly available online
- 5  **Public Company Accounts: Does the relevant authority require that company accounts are made available for inspection by anyone for free, or for less than US\$10/€10?**  
Netherlands does not require that company accounts be available on public record
- 6  **Country-by-Country Reporting: Are all companies required to publish country-by-country financial reports?**  
Netherlands partly requires public country-by-country financial reporting by some companies

## EFFICIENCY OF TAX AND FINANCIAL REGULATION – Netherlands

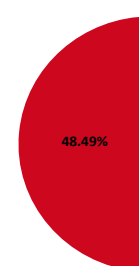
- 7  **Fit for Information Exchange: Are resident paying agents required to report to the domestic tax administration information on payments to non-residents?**  
Netherlands partly requires resident paying agents to tell the domestic tax authorities about payments to non-residents
- 8  **Efficiency of Tax Administration: Does the tax administration use taxpayer identifiers for analysing information efficiently, and is there a large taxpayer unit?**  
Netherlands uses appropriate tools for efficiently analysing tax related information
- 9  **Avoids Promoting Tax Evasion: Does the jurisdiction grant unilateral tax credits for foreign tax payments?**  
Netherlands does not avoid promoting tax evasion via a tax credit system
- 10  **Harmful Legal Vehicles: Does the jurisdiction allow cell companies and trusts with flee clauses?**  
Netherlands partly allows harmful legal vehicles

## INTERNATIONAL STANDARDS AND COOPERATION – Netherlands

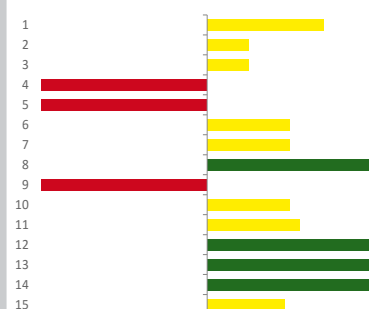
- 11  **Anti-Money Laundering: Does the jurisdiction comply with the FATF recommendations?**  
Netherlands partly complies with international anti-money laundering standards
- 12  **Automatic Information Exchange: Does the jurisdiction participate fully in multilateral Automatic Information Exchange via the Common Reporting Standard?**  
Netherlands participates fully in Automatic Information Exchange
- 13  **Bilateral Treaties: Does the jurisdiction have at least 53 bilateral treaties providing for information exchange upon request, or is it part of the European Council/OECD convention?**  
As of 31 May, 2015, Netherlands had at least 53 bilateral tax information sharing agreements complying with basic OECD requirements
- 14  **International Transparency Commitments: Has the jurisdiction ratified the five most relevant international treaties relating to financial transparency?**  
Netherlands has ratified the five most relevant international treaties relating to financial transparency
- 15  **International Judicial Cooperation: Does the jurisdiction cooperate with other states on money laundering and other criminal issues?**  
Netherlands partly cooperates with other states on money laundering and other criminal issues

## Secrecy Score

## Netherlands - Secrecy Score



## Netherlands KFSI-Assessment



## Notes and Sources

The ranking is based on a combination of its secrecy score and scale weighting (click [here](#) to see our full methodology).

The secrecy score of 48 per cent for Netherlands has been computed by assessing its performance on 15 Key Financial Secrecy Indicators (KFSI), listed on the left. Each KFSI is explained in more detail, [here](#).

Green indicates full compliance on the relevant indicator, meaning least secrecy; red indicates non-compliance (most secrecy); and yellow indicates partial compliance.

This paper draws on data sources including regulatory reports, legislation, regulation and news available as of 31.12.2014 (with the exception of KFSI 13 for which the cut-off date is 31.05.2015).

Full data on Netherlands is available here: <http://www.financialsecrecyindex.com/database/menu.xml>

All background data for all countries can be found on the Financial Secrecy Index website: <http://www.financialsecrecyindex.com>