THE NETHERLANDS
REFUGE FOR
FOREIGN
HIGH NET WORTH INDIVIDUALS

Laurens Lor

VanLomanKempHoogstad

Introduction (1)

A number of European countries offer preferential tax regimes to foreign high net worth individuals taking up residence there

- To support local economy (e.g. new businesses; housing market; consumption)
- To increase state revenues

Common denominator:

- low income taxation (e.g. on lump sum or local source income)
- No taxation on investment income / foreign source income (sometimes, provided income kept abroad – e.g. UK remittance rules)
- Often: no access to tax treaty protection

Introduction (2)

Examples of European countries with preferential tax regimes for foreign high net worth individuals:

- United Kingdom
  - ✓ Non-domiciled residents
- Switzerland
  - ✓ Pauschalbesteuerung
- Spain
  - ✓ Impatriate regime
- Portugal
  - ✓ Non habitual resident regime

Introduction (3)

The Netherlands:

1)High net worth individuals considering living there:

- **NO** general preferential tax regime for foreign individuals
- **BUT**: similar benefits may be available under tax regime for foreign expatriate employees (*the 30%-arrangement*)

2)High net worth individuals living in European country with preferential tax regime:

- if no tax treaty protection available to foreign source income/assets:
- Netherlands company may give access to Netherlands tax treaty network

The Netherlands: 30%-arrangement (1)

30%-arrangement - Benefits:

•Preferential tax regime for foreign expatriate employees

- If living in The Netherlands, expatriate employee can opt for partial non-resident tax status → in effect, Netherlands income tax exemption for
  - income (dividends/capital gains) from substantial shareholdings (≥ 5%) in foreign companies
  - passive investment income (notionally, 4% of net-worth)

- 30% of the expatriate employee’s salaries can be paid tax-free
  - Reducing the top income tax rate to as low as 36.4%

- Generally, income taxation only on Netherlands source employment income

- Term of benefits: maximum 8 years

The Netherlands: 30%-arrangement (2)

Conditions:

•The employee is newly hired from abroad, or seconded to the Netherlands

•The employee has specific expertise that is not available or is scare in the Netherlands labour market

- generally, deemed met if the employee's annual gross salaries amount to more than € 36,378 (2014)

•In the 24 months before taking up employment in The Netherlands, the employee lived for at least 16 months outside a 150 kilometre radius of the Netherlands border

General condition:

•A non-EEA (European Economic Area) employee must generally apply for a residence/work permit

- annual gross salary of at least € 50,183 (€ 30,802 for the under 30); *or*
- a net worth of at least € 1,250,000 to be invested into projects with added value to the Netherlands economy (new jobs or innovation)

The Netherlands: 30%-arrangement (3)

Examples of use by foreign high net worth individuals:

•High net worth individual is employed and arranges to be seconded to the Netherlands

•High net worth individual operates a business through a foreign company and takes up employment with a (newly created, or existing) Netherlands subsidiary of the foreign company

Individual in another European country

A foreign high net worth individual resides in a European country (under a preferential tax regime) and receives income from third countries, e.g. royalties.

- Often, under a preferential tax regime, the high net worth individual cannot claim the benefits of the double tax treaties of his country of residence
- By interposing a Netherlands company (BV), the high net worth individual could benefit from reduced rates of (and often, exemption from) withholding tax under the relevant Netherlands double tax treaty
- Where the high net worth individual does not reside nor work in the Netherlands, the salaries paid to him by the Netherlands BV are exempt from taxation in the Netherlands