

Dear Joe,

We appreciate your efforts to evaluate the Netherlands tax system. We hope that the following answers to the specific questions in your email dated March 27, 2015, will be helpful.

Question:

Is there a dispute about the underlying BEA data used in the Department of Revenue's response to the House Revenue Committee questions dated February 4, 2015?

Answer:

You are correct that the memo on effective tax rates that the Netherlands sent to the Department of Revenue on Monday, March 22, 2015, does not dispute the underlying BEA data. Rather, our memo disputes the calculation of the tax rate. The Department of Revenue bases its calculations on the taxes paid in the Netherlands as a percentage of the total reported worldwide income in the Netherlands.

In the case of the Netherlands, the Department's calculation can result in comparing apples to oranges because of the global character of our economy, in which most profits of Dutch-based companies are earned outside the Netherlands. In respect to taxation, income earned by Dutch-based companies outside the Netherlands can be repatriated to the Netherlands without taxation as long as certain conditions are met, as described in our background piece distributed to Mr. Bucholz March 23 and the materials cited therein. This system (we call it the participation exemption, though the general concept is known in the US as the territorial system) has been in place in the Netherlands since 1914 with the sole aim of avoiding double taxation.

Moreover, the EU has made the participation exemption the only legally approved way of dealing with repatriation of profits of EU subsidiaries to their parent companies. As a consequence, all companies with activities outside the Netherlands will regularly report in the Netherlands a far higher income than their actual Dutch taxable income (e.g. income actually earned in the Netherlands). This goes for the traditional Dutch companies as well as US companies with European headquarters in the Netherlands. The previously provided OECD study from 2009 tries to correct the BEA figures of US firms for this effect with respect to a number of countries (ref. our first response to your question in the email of March 27, 2015). In addition to this study, we attach for your convenience some examples that show the effect of a raw analysis that compares total worldwide income with taxes paid in the Netherlands.

Question:

Is there new information?

Answer:

Yes, since the preparation of the DoR report, a new study on effective tax rates by the European Union (EU) has become available. A copy is attached, and a link to the new study is set forth at the bottom of this email.

Based on the established MTC criteria, the DoR wants to determine whether the Netherlands has a zero or nominal tax rate. The DoR report takes a thorough approach, and does not take the statutory tax rate of 25% at face value. The DoR has made several comments on the participation exemption and the innovation box as possible explanations for a lower effective rate. We have responded and tried to explain in our documents why we believe that the participation exemption and the innovation box are

internationally recognized features and why they can never result in a zero or nominal tax rate. We have pointed out that we share these features with many countries around the world.

Moreover, we have stressed that under Dutch tax law, all companies are treated the same. There is no discrimination or preferential scheme based on nationality or other criteria. Income that can be attributed to the Netherlands will be taxed at the 25% corporate income tax rate.

To put some numbers on our argument, we have tried to find a study that calculates an effective tax rate based on the main characteristics of our tax system and avoids the pitfalls of taking the taxes paid in the Netherlands in relation to the reported worldwide income. Independent, publicly available studies on effective tax rates are hard to find.

Nevertheless, at the end of 2014 the attached study of the EU commission on effective rates of all 28 European countries for 1998-2014 became available. The EU study is in-depth (more than 3,000 pages) and calculates marginal effective rates as well as average effective rates. It has taken quite some time to prepare, being part of an EU-wide project since 2013.

We hope that this new study will provide DoR with assurances about the soundness of the Dutch tax system. The study underlines the trend of lower effective corporate tax rates. This also holds true for the Netherlands, in part due to a lowering in the statutory tax rate from 35% to 25% over the years. According to the EU, the Netherlands' marginal effective rate has fluctuated in recent years between 13.4% and 16.9%, which is not unusual when compared to other European countries. The average effective rate is somewhat higher.

Here is the link to the attached EU study: [http://ec.europa.eu/taxation\\_customs/resources/documents/common/publications/studies/financial\\_report\\_2014\\_taxud\\_2013\\_cc\\_120.pdf](http://ec.europa.eu/taxation_customs/resources/documents/common/publications/studies/financial_report_2014_taxud_2013_cc_120.pdf).

Thank you again for continuing to work with us. Please let me know if you have any further questions.

Robert Manicke

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**From:** DINICOLA Joseph M \* DOR [<mailto:Joseph.M.DINICOLA@oregon.gov>]  
**Sent:** Friday, March 27, 2015 8:38 AM  
**To:** Manicke, Robert  
**Subject:** FW: Meeting DoR-MinFin, March 24th,

Robert,

See the attached DOR report dated February 4, 2014. The referenced data re: the Netherlands' effective tax rate is shown on page 5.

Joe DiNicola  
Tax Policy Coordinator  
Corporation & Estate Section

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**From:** DINICOLA Joseph M \* DOR  
**Sent:** Friday, March 27, 2015 8:34 AM  
**To:** 'Manicke, Robert'  
**Subject:** RE: Meeting DoR-MinFin, March 24th,

Robert,

Thank you again for your assistance in recent discussions with representatives of the Netherlands. The information provided to the department and House Revenue Committee members is very helpful and will assist the department in reviewing our recommendations regarding listed jurisdiction legislation.

As we discussed yesterday, the department would like to further evaluate whether the Netherlands meets the established MTC criteria for inclusion as a listed jurisdiction under the provisions of ORS 317.715. While the ultimate decision regarding which jurisdictions are included rests with the Oregon Legislature, the department would consider revising its recommendations based on new information.

We have reviewed the data referenced in your email below. The 2012 through 2014 effective tax rates cited appear to be based upon *all corporations* doing business in the Netherlands. In contrast, the U.S. Commerce Department Bureau of Economic Analysis (BEA) data cited by the department is limited solely to U.S. corporate affiliates in the Netherlands. We understand that there is a dispute regarding the appropriate degree of emphasis to place upon BEA statistics; however, it would be helpful to understand whether there is a dispute about the underlying BEA data.

As noted in the department's response to House Revenue Committee questions (see attached) dated February 4, 2015, the BEA statistics show that in 2012, affiliates of majority-owned U.S. corporations in the Netherlands reported \$172.2B of pre-tax profits. Those same corporations paid income tax in the Netherlands in the amount of \$3.9B, resulting in an effective tax rate of 2.31%. Based upon information available to the Netherlands Ministry of Finance, are these BEA statistics accurate? If not, can the Netherlands provide its own data regarding income of majority-owned U.S. affiliates in the Netherlands, and the tax paid by those entities for 2012, 2013 and 2014?

Again, please convey our thanks and appreciation to Director Roodbeen, Ms. Goderie-van Dijk and Ms. Deckers for their continued assistance. We look forward to your response.

Sincerely,

Joe DiNicola  
Tax Policy Coordinator  
Corporation & Estate Section

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**From:** Manicke, Robert [<mailto:robert.manicke@stoel.com>]  
**Sent:** Thursday, March 26, 2015 9:58 AM  
**To:** DINICOLA Joseph M \* DOR  
**Cc:** Deckers, Annette ([Annette.Deckers@minbuza.nl](mailto:Annette.Deckers@minbuza.nl)); 'Roodbeen, HG (Harry) (IZV)' ([h.g.roodbeen@minfin.nl](mailto:h.g.roodbeen@minfin.nl)); Eline Goderie ([e.goderie@minfin.nl](mailto:e.goderie@minfin.nl))  
**Subject:** RE: Meeting DoR-MinFin, March 24th,

Joe, by the way, if you did not see the document I just sent, please accept our apologies for delivering it to you shortly before our meeting. The document and supporting materials are of substantial length!

Robert

**From:** Manicke, Robert  
**Sent:** Thursday, March 26, 2015 9:53 AM  
**To:** DINICOLA Joseph M \* DOR ([Joseph.M.DINICOLA@oregon.gov](mailto:Joseph.M.DINICOLA@oregon.gov)) ([Joseph.M.DINICOLA@oregon.gov](mailto:Joseph.M.DINICOLA@oregon.gov))  
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**Subject:** FW: Meeting DoR-MinFin, March 24th,

Joe, thank you for your call this morning. You requested further information on the Netherlands' basis for asserting that the effective tax rate in the Netherlands is in a range exceeding 12%. I'd like to refer you to the attached Word document, entitled "Effective Tax Rate," which Annette Deckers transmitted to Jim Bucholz and Mary Kintner the day before our meeting. I forgot to ask you on the phone whether you had already seen this.

The Word document includes several footnotes, and the documents referred to in footnotes 1 and 3 are hyperlinks that should take you to further detail. (I just tested the document in fn 3 and was unable to click through. While I was able to open that document by copying and pasting the link, I'm also including it as a PDF attachment here.)

Could you please advise whether the attached adequately addresses your request of this morning for further information about the effective rate issue?

Thanks again for meeting with the delegation, and for the Department's hospitality on Tuesday.

Robert

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**From:** Deckers, Annette [<mailto:Annette.Deckers@minbuza.nl>]  
**Sent:** Monday, March 23, 2015 4:08 AM  
**To:** Mary E Kintner; Jim Bucholz  
**Cc:** Manicke, Robert; Eline Goderie; Harry Roodbeen  
**Subject:** Meeting DoR-MinFin, March 24th,

Dear Mr Bucholz, thanks for your positive reply to the agenda for the meeting between you and Mr. Roodbeen.

In preparation of the meeting we would like to send you some materials in addition to the comments which we have sent earlier. In this email I enclose a paper on Netherlands effective tax rates.

In a separate email I'll forward for your information a backgrounder which we'll be using in our conversations in Oregon. It mainly reflects our comments on the DoR report.

Best regards,  
annette

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**From:** Deckers, Annette  
**Sent:** Saturday, March 21, 2015 2:07:43 PM  
**To:** Deckers, Annette  
**Subject:**

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