International Tax Planning of Dutch Shell Companies (SPEs)

By Arjan Lejour,* Jan Möhlmann, Maarten van ‘t Riet, Thijs Benschop

*Presenter, also Tilburg university
The Netherlands: foreign investment hub!

Inward FDI position (bln US, 2016)
Global: 30 000 billion US$

Outward FDI position

SPEs are key: 80% of the FDI positions is on their balance sheets
Data DNB

- Financial information (balance sheet and annual results) by SPE between 2004 - 2016, with geographical information
- Largests SPEs fully covered; smallers ones sampled
- About 1000-1500 SPEs by year in sample
- This sample covers 10% of all SPEs and 2/3rd of the assets
Incoming and outgoing flows, sample, bln euro

Incoming flows

Outgoing flows
Dividend flows come often not from the host countries of investment. Part of interest flows can be explained by high CIT rates in origin country, for an other part treaty shopping could be relevant. Royalty flows are only relevant for a few countries.
Large flows are owned by US MNEs:
- to Switzerland, Luxembourg for dividend
- to Cayman Islands, Ireland and Luxembourg for interest
- to Bermuda for royalty
Bilateral flows have to be constructed

Multiple flows by SPE: proportional measure
Multiple flow types: proportional measure
Unequal incoming and outgoing flows: minimum value
Direct tax planning gain (without US)

Large gains for royalty flows, modest gains for interest flows

tax rates are weighted by the size of the flows
Treaty shopping reduces effective tax rates on royalty flows
We do not find lower rates on indirect dividend flows
Regressions

\[
\text{Flow}_{ijt} = \alpha_0 + \alpha_1 G_{it} + \alpha_2 G_{jt} + \alpha_3 G_{ij} + \beta_1 T_{it} + \beta_2 T_{jt} + \beta_3 T_{ijt} + D_t + \varepsilon_{ijt}
\]

Flow\textsuperscript{NL} is bilateral dividend, interest or royalty via the Netherlands.
Many zero’s: Poisson, Pseudo ML
Gravity and tax variables included
Regressions by year: no panel
About 8000 observations per year

Gravity variables have expected sign (and significant)
Tax haven dummies have also a positive effect on the flows
Regressions results coefficient bilateral tax rates

<table>
<thead>
<tr>
<th>Flows&lt;sup&gt;NL&lt;/sup&gt;</th>
<th>interest</th>
<th>dividend</th>
<th>royalty</th>
</tr>
</thead>
<tbody>
<tr>
<td>difference</td>
<td>4.533***</td>
<td>7.392***</td>
<td>10.15***</td>
</tr>
<tr>
<td>direct</td>
<td>-3.140</td>
<td>4.133***</td>
<td>2.215</td>
</tr>
</tbody>
</table>

Expect positive sign for direct bilateral tax rate
Expect negative sign for indirect bilateral tax rate
Expect positive sign for difference

A 10%-point higher direct tax rate, increases royalty flow by 250%
Conclusions

• Dutch SPEs important for international diversion of financial flows
  – About 200 bln euro per year
    › Dividend flow form the larger part

• The Netherlands is not the only conduit country in the chain
  – Luxembourg, Singapore, Ireland, ....
  – Traditional tax havens are also involved

• A large share of these flows is ultimately owned by US MNEs

• Tax factors play a major role: A higher tax rate on the direct route increases the flow via Dutch SPEs
  – Tax planning gain is in particular large for royalty flows
### Assets and liabilities (sample), bln euro

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Assets</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Affiliates</td>
<td>604</td>
<td>1263</td>
<td>1732</td>
<td>1798</td>
</tr>
<tr>
<td>Debt (including bonds)</td>
<td>495</td>
<td>837</td>
<td>931</td>
<td>969</td>
</tr>
<tr>
<td>Securities</td>
<td>5</td>
<td>86</td>
<td>90</td>
<td>96</td>
</tr>
<tr>
<td>Other assets</td>
<td>0</td>
<td>3</td>
<td>9</td>
<td>2</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1104</td>
<td>2189</td>
<td>2762</td>
<td>2865</td>
</tr>
<tr>
<td><strong>Liabilities</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Equity by major shareholders</td>
<td>543</td>
<td>1185</td>
<td>1607</td>
<td>1716</td>
</tr>
<tr>
<td>Debt</td>
<td>280</td>
<td>579</td>
<td>636</td>
<td>681</td>
</tr>
<tr>
<td>Securities (including bonds)</td>
<td>298</td>
<td>476</td>
<td>449</td>
<td>513</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>1121</td>
<td>2240</td>
<td>2692</td>
<td>2911</td>
</tr>
</tbody>
</table>