



CPB Netherlands Bureau for Economic Policy Analysis



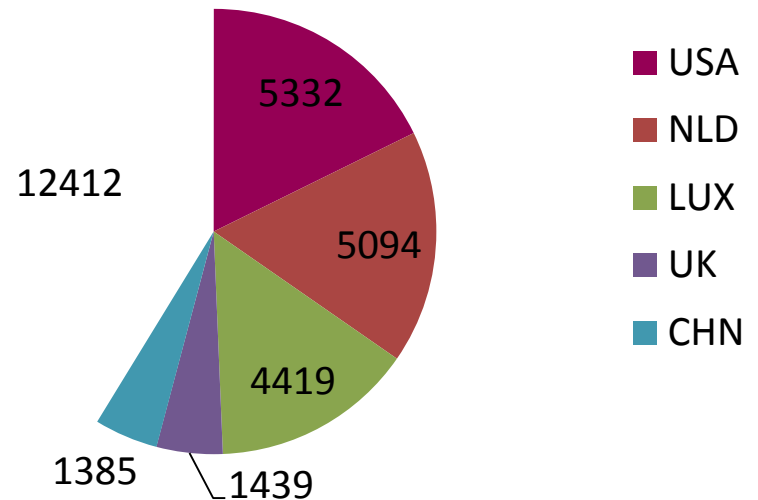
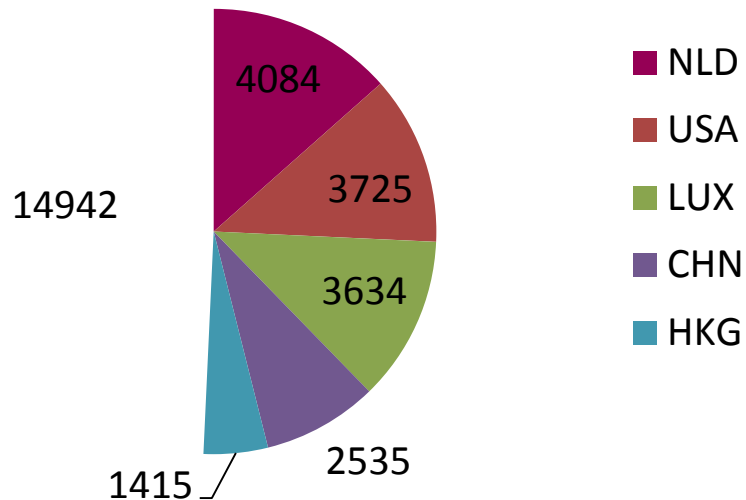
# International Tax Planning of Dutch Shell Companies (SPEs)

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## The Netherlands: foreign investment hub!



Inward FDI position (bln US, 2016)

Outward FDI position

Global: 30 000 billion US\$

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



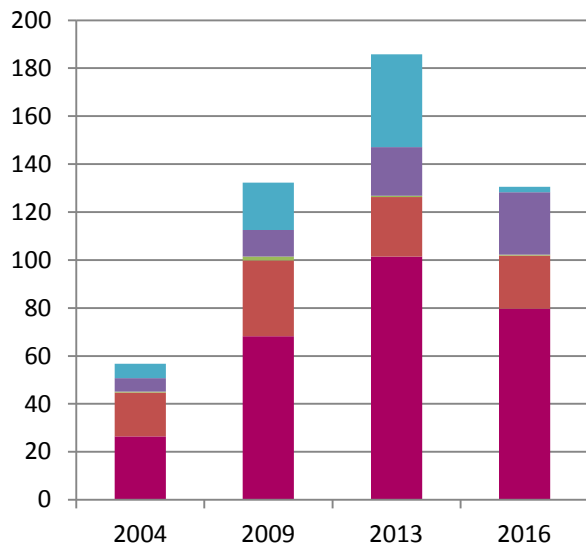
## Data DNB

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

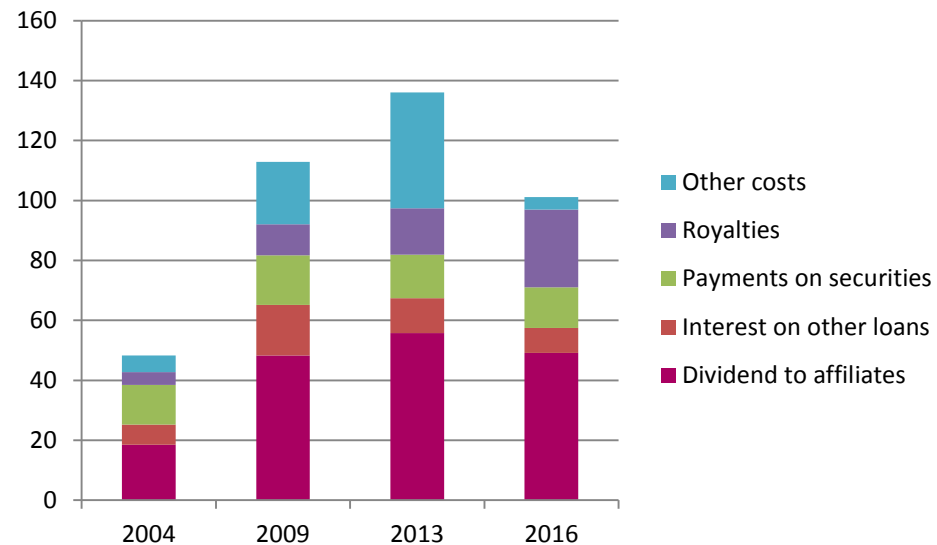




# Incoming and outgoing flows, sample, bln euro



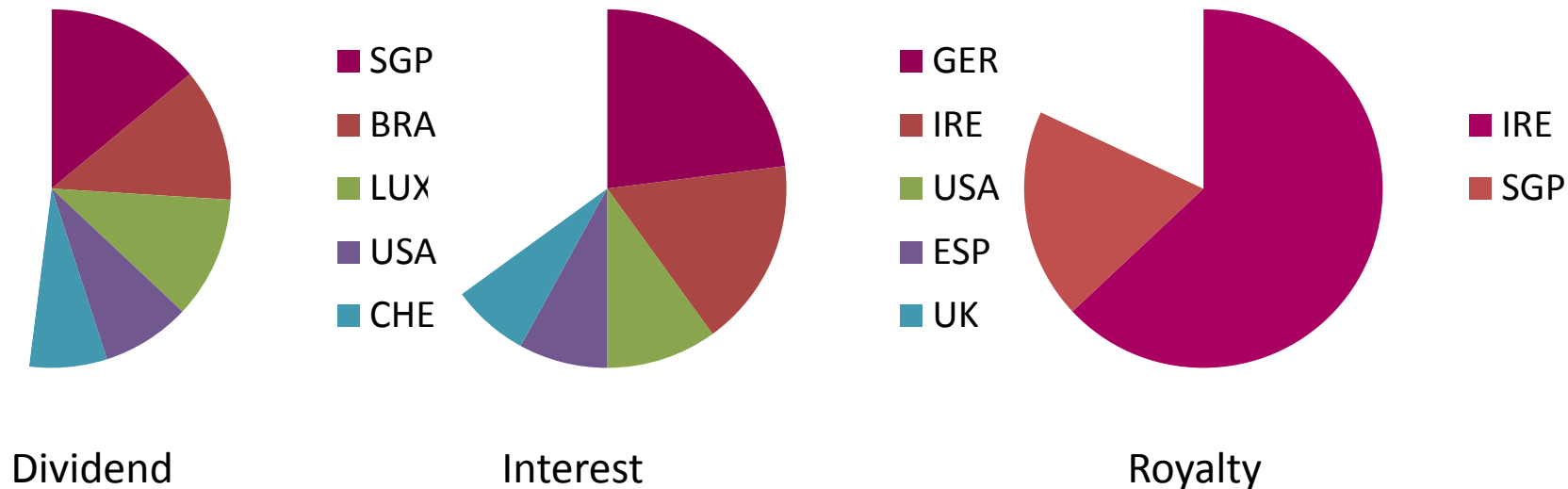
Incoming flows



Outgoing flows



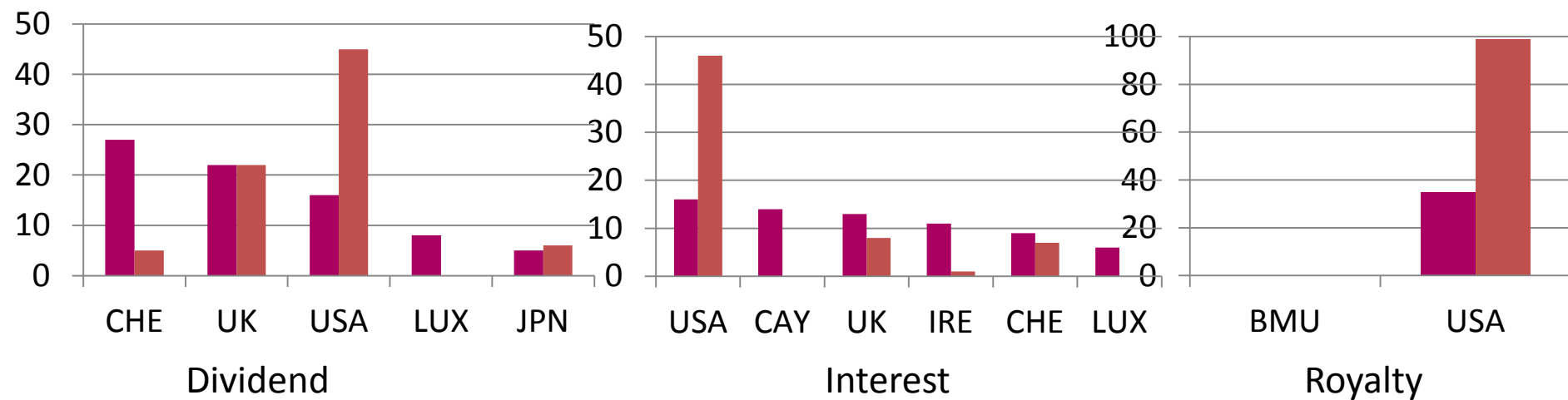
## Country shares by incoming flow, 2016



- 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



## Outgoing shares by destination and ubo, 2016



Large flows are owned by US MNEs:

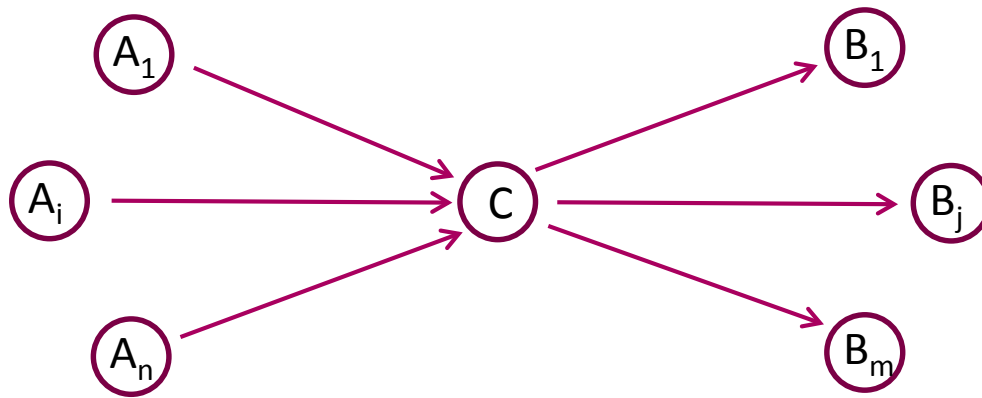
to Switzerland, Luxembourg for dividend

to Cayman Islands, Ireland and Luxembourg for interest

to Bermuda for royalty



## Bilateral flows have to be constructed



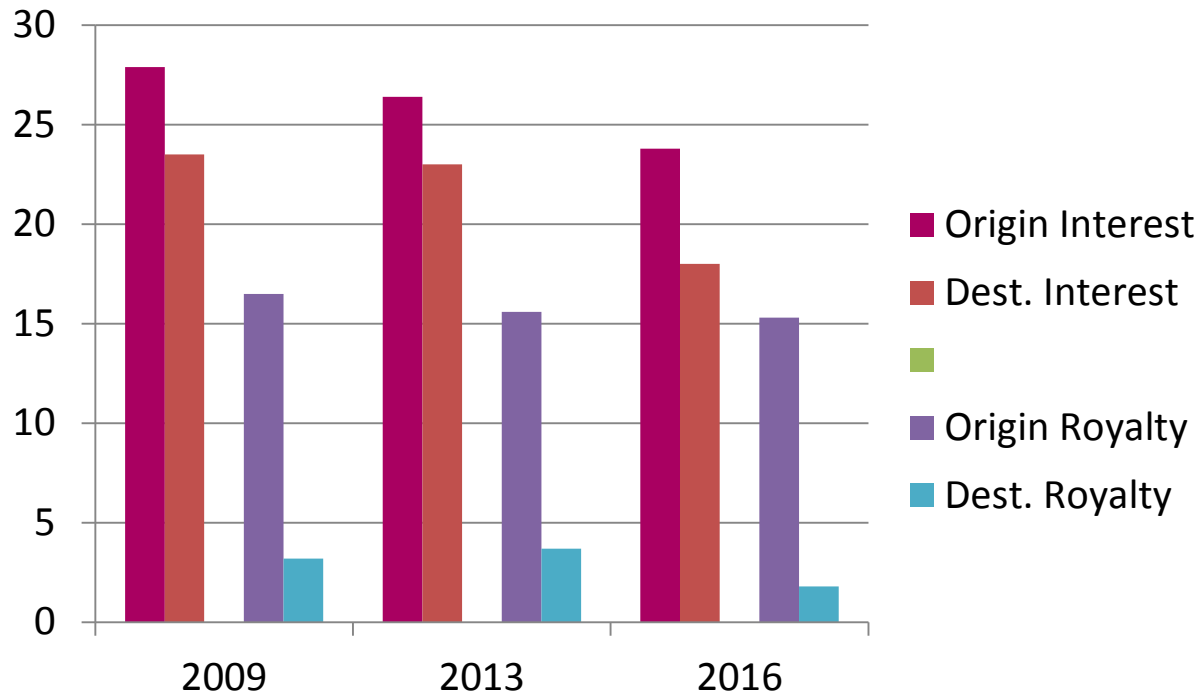
Multiple flows by SPE: proportional measure

Multiple flow types : proportional measure

Unequal incoming and outgoing flows: minimum value



## Direct tax planning gain (without US)

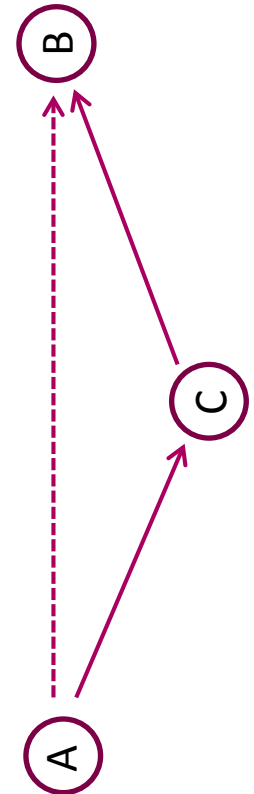
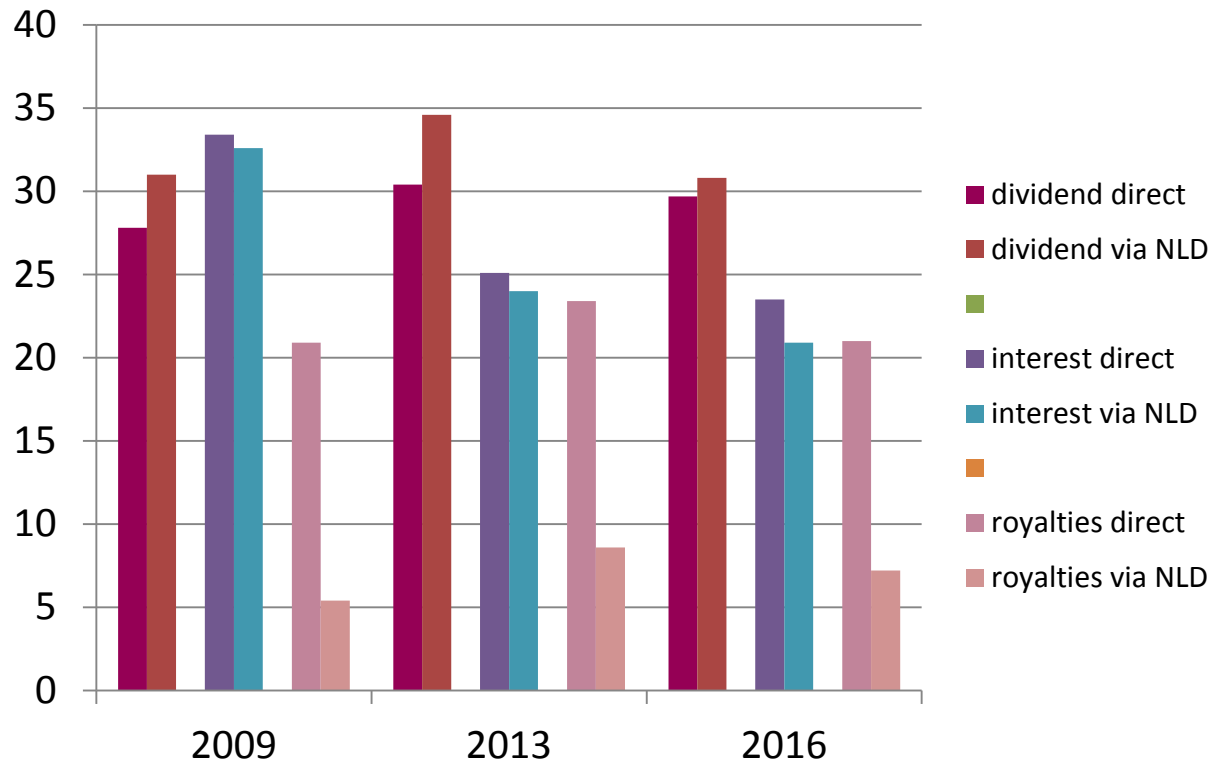


Large gains for royalty flows, modest gains for interest flows  
tax rates are weighted by the size of the flows





## Tax planning gain: treaty shopping



Treaty shopping reduces effective tax rates on royalty flows  
We do not find lower rates on indirect dividend flows



# Regressions

$$Flow_{ijt} = \alpha_0 + \alpha_1 G_{it} + \alpha_2 G_{jt} + \alpha_3 G_{ij} + \beta_1 T_{it} + \beta_2 T_{jt} + \beta_3 T_{ijt} + D_t + \varepsilon_{ijt}$$

Flow<sup>NL</sup> 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

Flows <sup>NL</sup>	interest		dividend		royalty	
	2016	2009-2016	2016	2009-2016	2016	2009-2016
difference	4.533***	7.392***	10.15***	5.998***	20.19**	24.67***
direct	-3.140	4.133***	2.215	-4.065***	5.696	25.23***
indirect	-9.823***	-12.17***	-14.09***	-7.206***	-24.26*	-23.40***

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

Category	2004	2009	2013	2016
<b>Assets</b>				
Affiliates	604	1263	1732	1798
Debt (including bonds)	495	837	931	969
Securities	5	86	90	96
Other assets	0	3	9	2
<b>Total</b>	<b>1104</b>	<b>2189</b>	<b>2762</b>	<b>2865</b>
<b>Liabilities</b>				
Equity by major shareholders	543	1185	1607	1716
Debt	280	579	636	681
Securities (including bonds)	298	476	449	513
<b>Total</b>	<b>1121</b>	<b>2240</b>	<b>2692</b>	<b>2911</b>