# Balance sheets, income and expenditure of special financial institutions (SFIs)

seo amsterdam economics

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# Balance sheets, income and expenditure of special financial institutions (SFIs)

## Facts, figures and possibilities for impact assessment

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# Summary

The coalition agreement has announced measures against tax avoidance. These measures are further elaborated in the letter from the State Secretary for Finance of 23 February 2018.[1] The letter foresees the implementation of a large number of measures aimed at combating base erosion and tax avoidance and at fighting the spurious use of the Dutch tax system. One of the measures is aimed at preventing the Netherlands from being used for conduit activities to low-tax jurisdictions. It concerns the introduction of a system of withholding taxes on outgoing flows of dividend, interest and royalties to these low-tax jurisdictions, to come into effect in 2020/2021. By introducing this measure, the government wants to bring a halt to fiscally-driven financial flows to these low-tax or non-cooperative jurisdictions so as to prevent the Netherlands from being used primarily to erode the tax bases of other countries.

The Ministry of Finance has asked SEO Amsterdam Economics (SEO) to map out the financial flows that run via special financial institutions (SFIs, often referred to as letterbox firms) and to separate them according to origin and destination. The main aim of the research is to obtain a factual insight into the financial flows, which will serve as a baseline measurement for the evaluation of the impact of the conditional withholding tax as of 2020/2021.

SFIs are companies with a foreign owner and their main function is to facilitate financial flows (in the shape of dividend, interest and royalties) from abroad to flow to other foreign countries. SFIs with outgoing payments of dividend, interest or royalties to low-tax jurisdictions form a part of arrangements aimed at avoiding tax on these incomes. By taxing these outgoing payments to low-tax jurisdictions with a withholding tax, this flow of income is taxed after all and this will reduce or prevent tax avoidance via the Dutch SFI. Measuring the impact of the withholding tax requires a baseline measurement of these flows of income to low-tax jurisdictions in the current situation (in the absence of conditional withholding tax).

At the start of 2018, the Netherlands was home to about 15,000 SFIs. The balance sheet size of SFIs is almost €4,500 billion (2017). In 2016, the total income of SFIs in dividend, interest and royalties amounted to about €196 billion, expenditure to €199 billion. Within these fiscally relevant flows, dividend is the dominant flow, representing more than 60% of the total in both income and expenditure in the period from 2004 to 2016. Regardless of annual fluctuations, we can see an increase in financial flows via SFIs during this period that is larger than the increase of macroeconomic quantities such as GDP.

For the distribution of balance sheet totals and income and expenditure according to regions, we use a sample from the largest SFIs. This sample covers about 60% of the balance sheet totals and incoming fiscally relevant flows of all SFIs. For outgoing fiscally relevant flows, the coverage ratio is 52%. The distribution of balance sheet totals across regions shows that in 2016, the EU-28 structurally takes on more than half of the total in terms of both the assets and liabilities on the

[1] https://www.rijksoverheid.nl/documenten/kamerstukken/2018/02/23/bijlage-aanpak-belastingontwijking-en-belastingontduiking

balance sheet (55 and 51%). The 6% share of the group of low-tax jurisdictions on the assets side of the balance sheet is small but it is larger on the liabilities side (11%). This share is reasonably stable in the period from 2004 to 2016.

We see a similar pattern in the fiscally relevant income and expenditure - the sum of income and expenditure of dividend, interest and royalties. In terms of income, most flows originate from the EU-28 (50 to 60%). The share of income from the group of low-tax jurisdictions is small (an average of about 5%). In terms of expenditure, things are different. Although the EU-28 carries considerable weight (30 to 60% of the total), the share of the outgoing fiscally relevant flows to the US is larger (22% in 2016). The fiscally relevant expenditure to the group of low-taxed jurisdictions is also larger, about €18 billion or 21% of the total expenditure in the 2016 sample. The share of this expenditure to low-taxed jurisdictions clearly increased between 2004 and 2016, from 5 to 21%. This pattern, in which the liabilities on the balance sheet and the outgoing flows of dividend, interest and royalties are associated with low-tax jurisdictions, corresponds with the expectations as it is in line with the design of the arrangements aimed at reducing or avoiding tax on the flows of income.

The composition of the fiscally relevant flows to the EU-28 and the US during the 2004-2016 period is comparable. In both cases, the share of dividend is more than half and the share of royalties is a quarter to a third. This deviates in the case of flows to and from low-tax jurisdictions: about three-quarters of the income from low-tax jurisdictions is dividend but more than 85% of the expenditure to low-tax jurisdictions in the sample consists of royalties. This expenditure is concentrated among a small number of SFIs This illustrates the function of the Netherlands as a key player in passing on royalties from the EU-28 and the US to low-tax jurisdictions. For the other countries, the difference between interest (8%) as a share of total income and as a share of total expenditure (30%) is particularly striking. Again, dividends form a relatively large part of the income and a smaller part of the expenditure.

Lastly, we analysed a sub-group of SFIs that had completed at least one transaction with a low-tax jurisdiction. This demonstrates that the fiscally relevant flow to low-tax jurisdictions is concentrated among these SFIs.

Based on this measurement, an impact assessment of the introduction of withholding tax in 2020/2021 seems feasible. One condition for an impact assessment is that the origin and destination of income and expenditure for the entire population of SFIs are known. The drawback of a sample is that in time, its composition can change and can be selective. DNB registers all flows as of 2018, which means an impact assessment is within reach. Based on the data available, it seems therefore possible to conduct a difference-in-difference analysis. The group of countries with a rate that lies just above the limit value (7%) - which determines if a country is regarded as an SFI and, therefore, is (just about) not subject to withholding tax - can be used as a control group for the group of countries with a rate that lies just below this limit value.

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# 1 Introduction

*This research maps out the balance sheets, income and expenditure of special financial institutions, particularly positions in and flows to and from low-tax jurisdictions. Based on this information, it will be possible to conduct an impact assessment after the introduction of withholding tax on these flows.*

## 1.1 Background and research questions

The coalition agreement has announced measures against tax avoidance. These measures are further elaborated in the letter from the State Secretary for Finance of 23 February 2018.[2] The letter envisages the implementation of a large number of measures aimed at combating base erosion and tax avoidance and at fighting the spurious use of the internationally-oriented Dutch tax system. In order to protect the tax base, the government will implement the first European Anti-Tax Avoidance Directive (ATAD1) with effect from 2019. The second anti-tax avoidance directive will be implemented with effect from 2020. The letter also contains a number of measures aimed at increasing the transparency and integrity of the system. One of the measures aimed at preventing the Netherlands from being used for conduit activities is the implementation of a set of withholding taxes on outgoing flows of dividend, interest and royalties to low-tax jurisdictions.[3] By introducing this measure, the government wants to bring a halt to fiscally-driven financial flows to low-tax jurisdictions so as to prevent the Netherlands from being used primarily to erode the tax bases of other countries.

During the debate on the letter in both Houses, various members asked how the impact of the policy can be monitored and evaluated. The state secretary replied to this:

> *"[...] I understand that people want to have a better feel of the quantitative data that's available. That's why in the time to come, I will endeavour to find out if there are ways of specifying this information better or whether additional research is required. I also want to find out if there are other ways to picture how successful my approach is."*

The Ministry of Finance has asked SEO Amsterdam Economics (SEO) to map out the financial flows that run via special financial institutions (SFIs, often referred to as letterbox firms), specifically the flows to and from low-tax jurisdictions. It concerns a geographical breakdown of the balance sheets and the income and expenditure in terms of dividend, interest and royalties from Dutch SFIs. The income and expenditure in terms of dividend, interest and royalties are referred to as the *fiscally relevant flows*. The withholding tax affects the outgoing flows to low-tax jurisdictions.

2 https://www.rijksoverheid.nl/documenten/kamerstukken/2018/02/23/bijlage-aanpak-belastingontwijking-en-belastingontduiking

3 Literature offers various definitions of the term low-tax jurisdictions. In this research, we have used the following definition, at the request of the Ministry of Finance: (1) a state that does not or at a rate of less than 7% subject bodies to a tax on the profits or (2) a state that is included on the EU list of non-cooperative jurisdictions for tax purposes. Appendix B provides an overview of the jurisdictions that fall within this definition and it briefly discusses a number of differences with other popular definitions.

The aim of the research is two-tiered. First, it provides a framework for the need for a factual overview of financial flows from SFIs. Second, it anticipates the evaluation of a future policy (the implementation of a withholding tax). This research is a baseline measurement that will later enable us to establish if the required policy effect - a reduction of the flows of dividend, interest and royalties to low-tax jurisdictions - is achieved by implementing a withholding tax. Part of the research assignment is to list the possibilities for an impact assessment after the withholding tax has come into effect (2021). The research is supervised by a committee that consists of experts from various divisions, CPB and DNB (Appendix E).

## 1.2 Reader's guide

The report consists of three chapters. The next chapter describes the data that is available, including the differences between various data sources and macroeconomic concepts and/or series in various sources. Chapter 3 provides an overview of the available figures and facts about the balance sheets, income and expenditure of Dutch SFIs, with an emphasis on the flows to and from low-tax jurisdictions. The final chapter focuses on the possibilities for an impact assessment of a withholding tax.

# 2 Data

*SFIs are companies with a foreign owner and their main function is to allow financial flows (dividend, interest and royalties) from abroad to flow to other foreign countries. The scope and development of income and expenditure in terms of dividend, interest and royalties according to geographical origin and destination are relevant for this research. It is derived from a sample of SFIs of DNB, which on average covers of 60% of balance sheet totals and income and expenditure.*

## 2.1 Definitions and data sources

In the Netherlands, De Nederlandsche Bank (DNB) is responsible for collecting data about the Dutch balance of payments and international investment position. DNB collects this data in line with international standards (Balance of Payments Manual 6 – BPM6). SFIs form a part of these statistics. Based on the Foreign Financial Relations Act 1994 [Wet financiële betrekkingen buitenland 1994 (Wfbb)], SFIs established in the Netherlands are obliged to report to DNB. DNB has elaborated this reporting obligation in the 2003 Balance-of-Payments Reporting Requirements [Rapportagevoorschriften betalingsbalansrapportages 2003].

SFIs are held directly or indirectly in foreign hands. They form links in the financing activities of international groups of companies: they attract financial resources from abroad and they also invest these resources abroad. In addition, SFIs manage participating interests and intellectual property rights of international businesses. The resources received by SFIs may originate from foreign group companies but they also originate from other sources such as banks or the capital market. In general, the resources are destined for foreign group companies. So, SFIs are companies with a direct or indirect foreign owner and their main function is to allow financial flows (in the shape of dividend, interest and royalties) from abroad to flow to other countries abroad (Appendix A sets out the exact definition used by DNB for data gathering).

A new definition will be used with effect from 2018. As a result of that, some of the SFIs (789 in 2017) will be classified as a 'non-financial institution'. It concerns holdings with more than five employees that also provide services to group companies, hereinafter referred to as hybrids. This new definition can be passed back in time, resulting in a consistent time series. In order to facilitate a supplement to the data presented in this report on the basis of the new definition, all figures in Chapter 3 are based on this new definition. For the sake of comparison, Appendix D also includes the figures in accordance with the old definition.

DNB uses various 'reporting profiles'. These profiles depend on the specific activities undertaken by those various SFIs and they determine the frequency (annually, quarterly and/or monthly) and the contents of the report. In specific terms, this results in a divide of the date available at DNB.

The strictest reporting obligation applies to the so-called 'sample', which is a selection of a couple of hundreds of SFIs which together, cover most of the balance sheet and the flows. Between 2003 and 2013, the sample was determined by a sample of the largest SFIs on the basis of the balance sheet size which together, covered approximately 90% of the balance sheet. Thanks to the strongly growing population, the number of reporting institutions in the sample rose quickly. From 2014, the sample scope has been limited in order to be able to set up a more effective compilation process at DNB. That is why the coverage ratio of the sample has been lower ever since. Due to the high dynamics of the population - SFIs can be set up or liquidated from one day to the next - this sample is updated on an annual basis. SFIs in the sample report frequently (every month) and they provide highly detailed data.

The other SFIs report on an annual basis and do not have to provide such detailed data. For this research, it is specifically relevant that until 2018, the other SFIs did not have to submit any data about the third country which a transaction or balance sheet item relates to. For the purposes of this research, which explicitly looks for the division into income and expenditure in terms of dividend, interest and royalties, divided according to low-tax jurisdictions, this constitutes a restriction. After all, it means that only the SFIs in the sample are available as a data source for the flows to and from the Netherlands.

The sample is less suitable if you need a good picture of the scope and development of the macro totals for balance sheets and income and expenditure of SFIs - to that end, you would also have to include the annual reports of SFIs not included in the sample. In 2017, the sample covers more than 60% of the balance sheet total and the income from dividend, interest and royalties. In that year, 52% of the expenditure of dividend, interest and royalties is covered by the sample. That is why in the next chapter, we will also include the macro totals as an indication, as published by DNB, in addition to the totals from the sample. Paragraph 3.5 provides an insight into the coverage of the sample compared to the total population (for the most recently available year) and into the differences with other data sources available.

The sample is used to form a picture of the division according to geographical origin and destination of balance sheets and income and expenditure. From this year onwards, DNB also collects information about the geographical origin and destination of transactions and balance sheet items for the other SFIs. That is why with effect from 2018, it will also be possible to divide the balance sheet and income and expenditure in dividend, interest and royalties for the entire population of SFIs according to geographical origin and destination. This new information was not yet available for this research.

Based on the combination of the sample and the information about the other SFIs, DNB prepares statistics for the 'SFI part' of the balance of payments and the international investment position. DNB publishes some of these series on its website.

## 2.2 Financial data and its mutual relationship

The international investment position is a snapshot in time that shows the value of the financial claims and commitments of a country against a foreign country. A positive net claim means that the financial claims against a foreign country exceed the commitments towards that foreign country. The balance of payments shows the transactions between home and abroad during a certain period. The balance of payments contains a number of sub-accounts such as the current account, the capital account and the financial account. The financial account shows the value of financial transactions such as direct investments or portfolio investments. The sum of the current accounts and the capital accounts is equal to the (net) financial account.

The changes between the opening balance sheet and the closing balance sheet consist of the capital and financial accounts of the balance of payments, plus movements that are not the result of flows in the balance of payments, such as (currency) revaluations. The assets on the balance sheet are productively used and (as such) they earn an income. Vice versa, a payment must be made for the liabilities on the balance sheet. These flows of income and expenditure are updated on the income account. This illustrates the coherence between the balance of payments and the international investment position. If income exceeds expenditure in any one year, the result is a net (financial) claim that is entered on the financial account. This means the balance sheet also increases. Apart from (net) financial transactions, the balance sheet positions can change as a result of (currency) revaluations. In other words, there is no one-on-one relationship between these transactions and balance sheet movements. The balance sheet total of all Dutch SFIs together amounts to almost €4,500 billion in 2017.

The relationship between the balance of payments and international investment position is expressed in net terms in that sense that the financial account is also expressed in net terms.[4] This means that all debits of certain assets or liabilities are set off against all credits of those assets or liabilities. So the collection of equity is taken, net, from repayments, while issued loans are taken, net, from loans that are being repaid.

Apart from the net financial transactions, gross financial transactions of SFIs are also registered and reported in a number of publications (see, for instance, SEO, 2013). This concerns the total of amounts received and paid out by SFIs on an annual basis. These amounts include both the flows to financial assets and liabilities - the incoming and outgoing participating interests and loans, including rolled-over loans - and the associated revenue and charges. A loan that rolls over results in two gross transactions to the value of the principal sum, with both being included in the gross transactions. Consequently, movements in the gross financial transactions are mainly driven by reducing or extending the terms of the group loans. When terms are reduced, the financial transactions can increase dramatically, while nothing particular happens to the underlying balance sheet and derived flow of income (see inset). After all, nothing changes because the loan remains in place at the same value (principal sum) and also generates the same income (interest). From a fiscal point of view, the gross definition yields little information. After all, tax is levied on the flow of income that is related to a transaction, not on the value of that transaction.

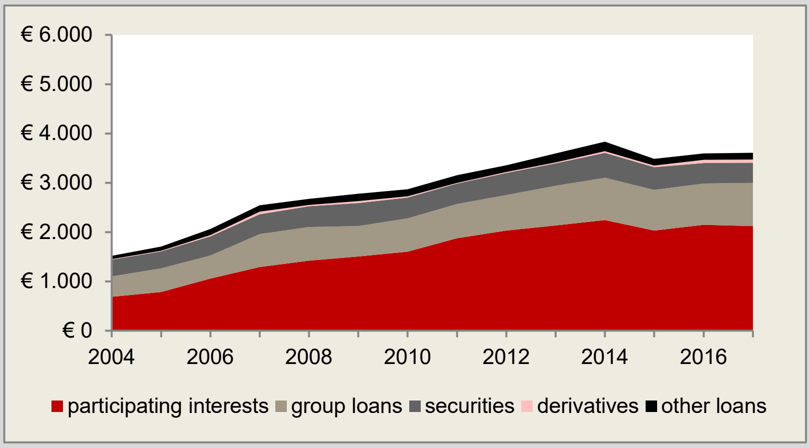
So from a fiscal point of view, the related flows of income are more relevant than the balance sheet data and the gross financial transactions. The fiscal motives of SFIs are mainly bound up with the income and expenditure of SFIs: reducing the tax payments on the (outgoing) dividend, interest and royalties (see Paragraph 2.3). In 2016, the total income of SFIs in terms of dividend, interest and royalties amounted to approximately €196 million and expenditure to €199 billion. Dividend is the dominant flow here, more than 60% of the total of both income and expenditure between 2004 and 2016.

4 For the sake of completeness, the current accounts and the capital accounts are gross.

Box 2.1 Economic meaning of gross financial transactions is limited

In order to illustrate why this report does not include the gross financial transactions, we have included two figures below. The first figure shows the balance sheet of outstanding receivables of the SFIs for the period between 2004 and 2017. This figure shows an upward trend.

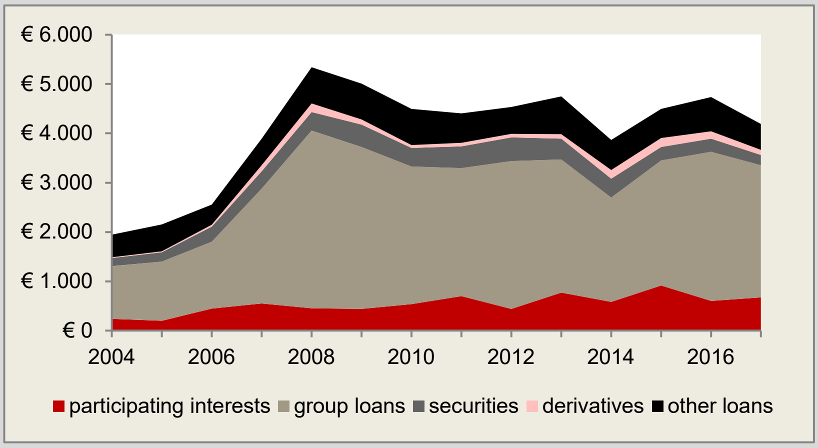
Receivables (positions) of Dutch SFIs (total population, billions of Euros)




Source: DNB. The totals deviate from those in Table C.1 because in this case, it concerns the total excluding hybrids.

The second figure shows the incoming gross transactions for the same period. In 2018, incoming financial transactions of SFIs reached a maximum of €5,340 billion (more than a factor 2 larger than the balance sheet of that year), after which they fell for a number of years, subsequently fluctuating around the €4,500 billion mark. Divided according to instrument type, the distribution appears to deviate strongly from the breakdown according to positions. The income in the form of equity participations (the sale of foreign participating interests and foreign investments in Dutch SFIs) amounts to an average of approximately 15% of the total, while the participating interests as a percentage of the balance sheet total amount to an average of around 55%. On average, approximately three-quarters of incoming transactions consist of group loans and bank loans, while these balance sheet items amount to less than 30% of the total. The reason for this is the roll-over of loans in the (gross) financial transactions, in the course of which the repayment of the old loan and the withdrawal of the new loan are regarded as two different transactions. Participating interests see a lot fewer transactions, which means that the proportion of transactions to the balance sheet position of participating interests is relatively low. The strong rise in the number of financial transactions in the years 2005 to 2008 is, therefore, to a large extent accounted for by the considerable reduction of the loan terms during this period. The high gross transactions of loans during these years were charged to a number of SFIs affiliated with financial institutions. The activities of these SFIs were strongly reduced after the crisis. This can mainly be explained by the extension of durations. Hence. financial transactions are considerably distorted by the roll-over of loans.

Total incoming (gross) transactions of SFIs (total population, billions of Euros)




Source:DNB

Given the object of this research, we will present data about the balance sheet and the (fiscally relevant) income and expenditure of SFIs in terms of dividend, interest and royalties. We use the DNB sample data for the balance sheet and income and expenditure of SFIs. We ignore the (gross) financial transactions. In order to measure the policy effects of the withholding tax, these fiscally relevant flows of incoming and outgoing payments of dividend, interest and royalties are the most significant variable. As a result of the withholding tax, these flows to the low-tax jurisdictions should fall in size. The balance sheet totals to SFIs are likely to shrink accordingly, as well as the number SFIs that pay or receive dividend, interest and royalties to and from low-tax jurisdictions (see also Chapter 4).

The *sample data* contains a complete balance sheet and a full statement of income and expenditure. The file also contains anonymised identifiers for the individual SFIs and groups of SFIs, an indicator for the reporting profile and a column for the countries which the balance sheet item or income/expenditure relate to. The file contains data for the period between 2004 and 2016.

The *balance sheet data* of DNB contains an opening and a closing position. The difference between these positions is caused by the net transaction. The net transaction can be broken down into an exchange rate movement, a price movement and other movements. The balance sheet data consists of seven asset items and twelve liabilities items. With a view to transparency (and the disclosure rules of DNB), we summarise some of these items. In terms of liabilities, we have participating interests, securities and debt capital. In terms of assets, we have participating interests, securities, debt capital, property rights and other assets (see Appendix A).

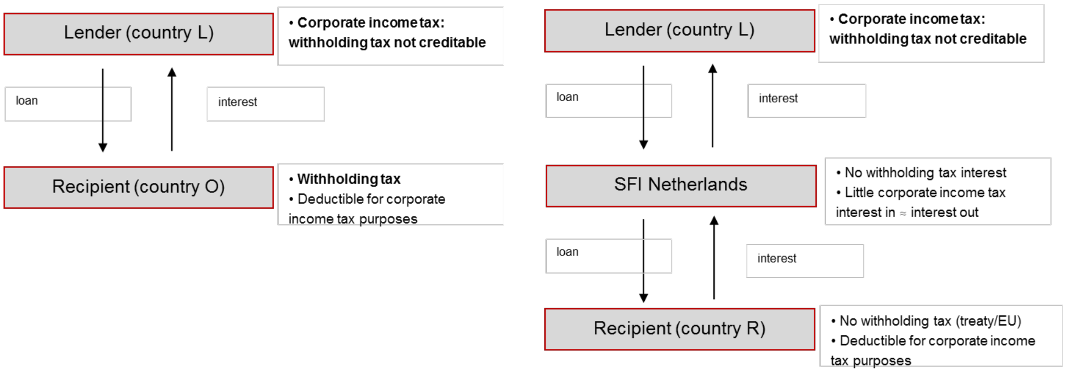
The *income and expenditure statements* in the research file consist of nine different income items and ten different expenditure items. With a view to transparency and the disclosure rules of DNB, we arrange the income in the continuation according to dividend, interest and royalties and other (see Appendix A). Similarly for the expenditure.

## 2.3 Example

In practice, a tax avoidance arrangement often consists of the use of a combination of features or various national tax systems. Aside from the extensive network of tax treaties, the Dutch tax system, for instance, distinguishes itself by not levying withholding tax on flows of interest and royalty. This means that interest and royalty payments that leave the Netherlands are not taxed.

Dutch SFIs can play a role in preventing or reducing the levying of withholding taxes. Suppose that a company in country L lends credit to a recipient group company in country R. The recipient company in country R pays interest on that to the lending company. The interest due can be deducted from the corporate income tax in country R. Country R also levies withholding tax on the interest due, while country L subsequently levies corporate income tax on the interest received. If the withholding tax paid cannot be (partially)set off against the corporate income tax in L and there is no treaty between country L and country R to prevent or reduce withholding tax, the interest income is taxed twice (Figure 2.1 on the left).

Figure 2.1 Preventing double taxation (left) through a Dutch SFI (right)

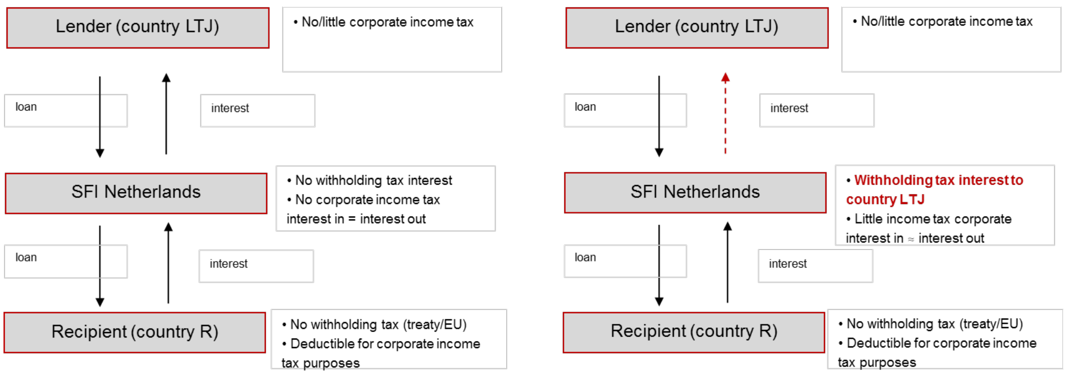



Source: SEO Amsterdam Economics

If interest payments run via a Dutch SFI, it may prevent or reduce the levying of withholding tax. Corporate income tax is still (partially) payable in country L because set-off is not possible. If the Netherlands has a treaty with country R on the basis of which no withholding tax is levied in the relationship between the Netherlands and country R, or if country R is an EU member, where on the basis of the Interest & Royalties Directive no withholding tax is, in principle, levied on interest payments, no withholding tax is paid on the payment to the Dutch SFI. The Netherlands subsequently receive interest and pay it out to country L, resulting in a limited positive balance in interest received, on which corporate income tax is paid in the Netherlands. Subsequently, the Netherlands does not levy withholding tax on outgoing interest (nor to countries outside the EU), which means the interest paid out to country L is not taxed. On balance, this results in corporate income tax in country L and the levy of withholding tax is prevented through the Dutch SFI (Figure 2.1 on the right).

However, if the country of the lender does not levy corporate income tax on the interest payments or only to a very limited extent because it concerns a low-tax jurisdiction, the corporate income tax in country L can also be prevented or reduced. In the arrangement in Figure 2.2 on the left, the levy of corporate income tax is largely avoided. The identifying characteristic of this arrangement is the use of the Dutch SFI to forward interest payments to the country LTJ. This is also where the conditional source tax on outgoing interest payments intends to link up (Figure 2.2, right). By taxing these outgoing payments to low-tax jurisdictions with a withholding tax, this flow of income is taxed after all and it will reduce or prevent tax avoidance via the Dutch SFI.

Figure 2.2 Tax avoidance via SFI and low-tax jurisdiction and with Dutch withholding tax on payments to low-tax jurisdiction




Source: SEO Amsterdam Economics

How does an arrangement such as the one in Figure 2.2 translate into the balance sheets and income and expenditure of the Dutch SFI? A company in country LTJ issues a loan of 100 to an affiliated company in country R - for instance, another EU country that levies withholding tax on interest and royalties - via a Dutch SFI. That loan ends up as a debt under the liabilities on the balance sheet of the Dutch SFI, while the claim of 100 against the affiliated company in country R ends up as debt capital under the assets (see Table 2.1).

Table 2.1 Balance sheet Dutch SFI - interest

| **Assets** | | **Liabilities** | |
|---|---|---|---|
| Participating interests | | Participating interests | |
| Securities | | Securities | |
| Debt capital - amount payable by group company country R | 100 | Debt capital - loan company low-tax jurisdiction | 100 |
| Property rights | | | |
| **Total** | **100+X** | **Total** | **100+X** |

Source: SEO Amsterdam Economics

The operations account of the SFI subsequently shows interest payments received from the group company in country R, of, for instance, 5 as a fee and payments of, say, 4.9 to the parent company in country LTJ. In terms of income and expenditure, the SFI receives 5 in interest income from country R and pays 4.9 in expenditure to country LTJ (Table 2.2).

Table 2.2 Income and expenditure of the Dutch SFI - interest

| **Income** | | **Expenditure** | |
|---|---|---|---|
| Interest received country R | 5 | Interest paid country LTJ | 4.9 |
| Royalties received | | Royalties paid | |
| Dividend received | | Dividend paid | |
| Other income | | Other expenditure | |
| **Total** | **5+X** | **Total** | **4.9+Y** |

Source: SEO Amsterdam Economics

Based on this stylized example, we can expect that:

1. the loans appear on both sides of the balance sheets of SFIs (see Table 3.1 in Chapter 3)
2. these balance sheet items are a multitude of the (interest) payments that appear under the income and expenditure of those SFIs (see Table 3.2 versus Table 3.1 in Chapter 3)
3. the total incoming and outgoing interest payments - regardless of origin and destination - are of a similar extent (Table 3.2 in Chapter 3)
4. loans from low-tax jurisdictions under the liabilities on the balance sheet are relatively high compared to loans to low-tax jurisdictions under assets (see Table 3.3 in Chapter 3)
5. the incoming interest from a low-tax jurisdiction is low compared to the outgoing interest to a low-tax jurisdiction; after all, the fiscal benefit is created because the destination of the flow of income is a low-tax jurisdiction and the Dutch SFI is used to forward flows of income from other (EU) countries to the company in the low-tax jurisdiction (Table 3.4 in Chapter 3)

The arrangement for royalties is similar to that for interest. In this case too, withholding tax on the paid royalties from country R - for example, to an EU country that levies withholding tax - can be avoided by structuring payment through a Dutch SFI and corporate income tax in the country of the lender can be avoided by using a company in a low-tax jurisdiction. Only the balance sheet of the Dutch SFI looks different because the intellectual property (IP) is not shown on that balance sheet but on the balance sheet of the lender in country LTJ (see Table 2.3). The Dutch SFI receives a sub-licence for which it pays royalties to the entity in country LTJ (say, 2.9). The SFI subsequently passes that sub-licence to a company in country R for which it receives royalties (say, 3). Consequently, the balance sheet of the SFI does not show any intellectual property right and the sub-licence is not valued because all income is passed on.

Table 2.3 Balance sheet Dutch SFI - royalties arrangement

| Assets | | Liabilities | |
|---|---|---|---|
| Participating interests | | Participating interests | |
| Securities | | Securities | |
| Debt capital - receivables | | Debt capital - loan | |
| Property rights | 0 | | |
| **Total** | **X** | **Total** | **X** |

Source: SEO Amsterdam Economics

The operations account of the SFI subsequently shows royalty payments received from the group company in country R as payment and payments of, say, 2.9 to the parent company in country LTJ. In terms of income and expenditure, the SFI receives 3 in royalties income from country R and pays 2.9 in expenditure to country LTJ (Table 2.4).

Table 2.4 Income and expenditure of the Dutch SFI - royalties arrangement

| Income | | Expenditure | |
|---|---|---|---|
| Interest received | | Interest paid | |
| Royalties received country R | 3 | Royalties paid country low-tax jurisdiction | 2.9 |
| Dividend received | | Dividend paid | |
| Other income | | Other expenditure | |
| **Total** | **3+Y** | **Total** | **2.9+Z** |

Source: SEO Amsterdam Economics

Based on this royalties example, we can expect that:

1. the total incoming and outgoing royalty payments - regardless of origin and destination - are of a similar extent (Table 3.2 in Chapter 3)
2. there is no immediately obvious relationship between the extent of the fiscally relevant flows of royalties to low-tax jurisdiction countries and the share in the balance sheet total of the low-tax jurisdiction countries (see Table 3.3 versus Table 3.4 in Chapter 3)
3. the incoming royalties from a low-tax jurisdiction are low compared to the outgoing royalties to a low-tax jurisdiction; after all, the fiscal benefit is created because the destination of the flow of income is a low-tax jurisdiction and the Dutch SFI is used to forward flows of income from other (EU) countries to the company in the low-tax jurisdiction (Table 3.4 in Chapter 3)

# 3 Balance sheet, income and expenditure of special financial institutions (SFIs)

*The balance sheets of SFIs are considerable: almost €4,500 billion in 2017. In 2016, the associated income and expenditure amounted to more than €190 billion. The sample's outgoing flows (dividend, interest and royalties) to low-tax jurisdictions have grown from 5% in 2004 to 21% of the total fiscally relevant expenditure in 2016 (€18 billion). The composition of the flow of fiscally relevant expenditure to low-tax jurisdictions in the sample deviates and 85% of it consists of royalties. At SFIs with at least one outgoing flow to low-tax jurisdictions, the expenditure to low-tax jurisdictions cover two-thirds of the fiscally relevant expenditure.*

This chapter provides an overview of the available facts and figures of the balance sheets, income and expenditure of SFIs. SFIs are defined in accordance with the new definition of DNB (see Chapter 2). For the sake of completion, Appendix D contains the same series for the old definition. These series are very much like the macro series of DNB (Appendix C), which are, for that matter, based on the old definition.

This chapter presents data from two sources:

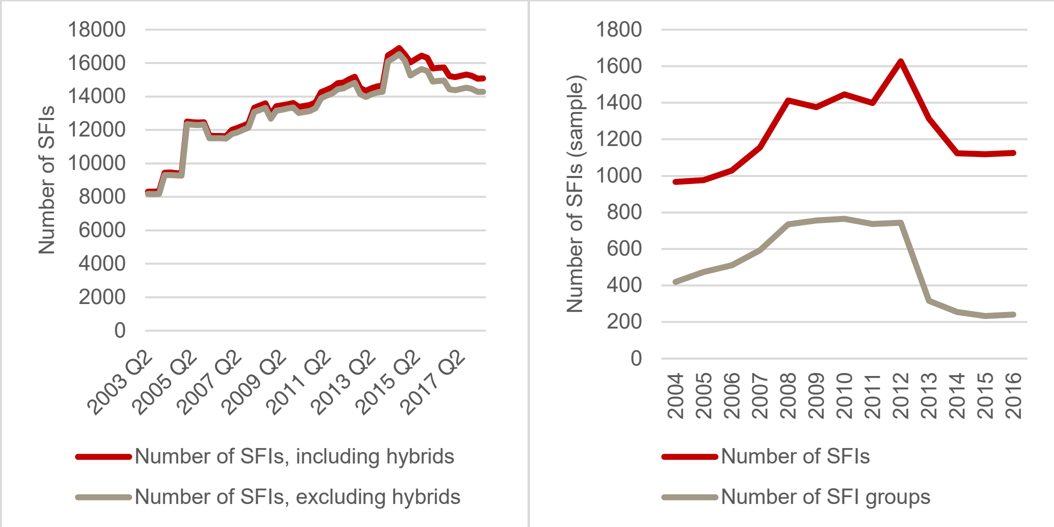
- series which, for the purpose of this research, were derived from DNB microdata about SFIs; and
- macro series published by DNB for the total population of SFIs.

For a general overview of the differences between these two sources, see Chapter 2 and Paragraph 3.5. Any differences between these sources are indicated, when relevant.

## 3.1 Number of SFIs

According to DNB, the Netherlands had about 15,000 SFIs, including hybrids, and more than 14,000 SFIs, excluding hybrids, in the second quarter of 2018. Since 2003, the number of SFIs seems to have experienced a considerable growth of about 8,300 in the second quarter of 2003, reaching a peak of 16,900 at the end of 2014 and 15,000 at this moment. The sample relates to only some of these SFIs. No more than 1,400 SFIs are included in the sample each year. Despite this small number, these SFIs cover more than 60% of the balance sheet and the income and 52% of the expenditure of the SFIs established in the Netherlands (see also Paragraph 3.5).

Figure 3.1 The Netherlands has about 15,000 SFIs in the second quarter of 2018, about 10% of which is included in the sample




Source: SEO Amsterdam Economics on the basis of DNB (left) and DNB Microdata (right).

The number of SFIs in the sample is not a constant fraction of the total number of SFIs. This becomes clear when you compare the population of SFIs against the sample from 2012. While the number of SFIs drops slightly, the sample shrinks considerably (Figure 3.1, right). This is the result of adjustments to the sample methodology of DNB. SFIs do not always operate entirely independently. Sometimes, they form a part of a group of SFIs that consist of the same foreign group companies and that operate as such. No population figures are available for these. Every year, the sample includes a couple of hundreds of SFI groups.

Two data sources are available for the balance sheet and income and expenditure of SFIs: the macro statistics of DNB (old definition) and the DNB microdata sample (new definition). The macro statistics for the balance sheet are complete and are, therefore, preferred over the sample when it concerns the total balance sheet size of SFIs. We present the balance sheet and income and expenditure on the basis of the sample because they are consistent with the statistics later on in this chapter. We also show the macro totals for the entire population, available in more detail in Appendix c.

## 3.2 Balance sheet

Table 3.1 shows the balance sheets of SFIs in the sample. Between 2004 and 2016, these (sample) balance sheets more than doubled, from about €1,000 billion to about €2,300 billion. Due to statistical inaccuracies, the assets and liabilities do not add up correctly. The annual differences are between 1 and 5% of the liabilities. In terms of assets, participating interests are the main balance sheet item. Every year, they cover between 50 and 60% of the total of foreign assets. The remaining assets mainly consist of receivables and other assets such as property rights. Securities never cover more than 5% of the balance sheet.

In terms of the liabilities of the sample file too, participating interests form the majority of the balance sheet (between 45 and 59% of the total). Contrary to the assets side, securities play a much bigger role for the liabilities and, depending on the year, represent about 17 to 28% of the total. The reason for this difference is that some of the SFIs act as group finance companies. These SFIs issue bonds and they lend these resources to group companies in, predominantly, European countries. The importance of debt capital in the sample file is slightly larger than that of securities but smaller than that of participating interests.

Table 3.1 Balance sheets of SFIs (sample, billions of Euros) and macro totals balance sheet

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | | |
| Participating interest | 528 | 663 | 81 | 877 | 1,011 | 1,034 | 1,174 | 1,339 | 1,393 | 1,363 | 1,241 | 1,297 | 1,350 |
| Securities | 5 | 18 | 36 | 91 | 63 | 84 | 76 | 65 | 73 | 87 | 90 | 85 | 92 |
| Receivables and other | 462 | 540 | 566 | 812 | 830 | 754 | 783 | 812 | 925 | 809 | 801 | 782 | 807 |
| ***Total*** | ***995*** | ***1,221*** | ***1,383*** | ***1,780*** | ***1,904*** | ***1,872*** | ***2,033*** | ***2,216*** | ***2,391*** | ***2,259*** | ***2,132*** | ***2,164*** | ***2,249*** |
| *Foreign assets* | 1,502 | 1,686 | 2,044 | 2,509 | 2,637 | 2,734 | 2,914 | 3,197 | 3,403 | 3,632 | 3,832 | 3,962 | 4,115 |
| **Liabilities** | | | | | | | | | | | | | |
| Participating interest | 477 | 568 | 690 | 836 | 962 | 968 | 1,152 | 1,358 | 1,433 | 1,302 | 1,200 | 1,299 | 1,301 |
| Securities | 282 | 301 | 340 | 424 | 403 | 439 | 395 | 391 | 407 | 399 | 482 | 417 | 461 |
| Debt capital | 254 | 373 | 371 | 551 | 585 | 514 | 591 | 573 | 598 | 532 | 531 | 565 | 597 |
| ***Total*** | ***1,014*** | ***1,242*** | ***1,401*** | ***1,811*** | ***1,949*** | ***1,921*** | ***2,138*** | ***2,321*** | ***2,439*** | ***2,234*** | ***2,213*** | ***2,281*** | ***2,359*** |
| *Foreign liabilities* | 1,520 | 1,706 | 2,066 | 2,544 | 2,674 | 2,775 | 2,954 | 3,238 | 3,446 | 3,673 | 3,899 | 4,067 | 4,220 |

Source: SEO Amsterdam Economics on the basis of DNB Microdata. Macro totals for foreign assets, derived from DNB (old definition, including hybrids). See also Appendix C.

As indicated, the sample covers a part of the balance sheet total. For comparison, Table 3.1 also includes the foreign assets reported by DNB (see macro total lines). Apart from the difference between the sample and the total population, the difference is caused by the old (foreign assets) versus the new definition (total sample). Every year, the sample contains about 50 to 70% of the total assets of the SFIs. The progress of this share roughly follows the progress of the number of SFIs in the sample. Across the entire period, the balance sheet totals in the sample show a weaker growth than the micro totals. This is partly the result of the adjustment to the sample methodology, which results in a minor dip in the balance sheet totals in the sample for the years 2013-2015, while the macro totals continue to grow during that time (see Figure 3.1).

## 3.3 Income and expenditure

The assets and liabilities on the balance sheet earn income and require expenditure. Table 3.2 shows income and expenditure in dividend, interest and royalties of the Dutch SFIs in the sample. These are fiscally relevant income and expenditure of the SFIs in the sample. The table shows that the fiscally relevant flows are, indeed, considerably smaller than the balance sheet positions in participating interests and debt capital, as set out in Paragraph 2.3.

The fiscally relevant flows in the sample file show a growth with a factor (of more than) two from 2004. This is roughly in line with the development of the balance sheets in the sample but the fiscally relevant flows are more volatile. From 2012/2013, we see a stagnation in the fiscally relevant flows, both in terms of income and expenditure. This stagnation coincides with the light drop of the balance sheets in the sample and it could be related to the changed set-up. This contraction is not reflected in the macro totals (lower lines under assets and liabilities) for income and expenditure. The macro totals of income and expenditure are also more volatile than the balance sheets but by and large, they follow the growth of the balance sheet total with about a factor 2.5.

Table 3.2 Income and expenditure of SFIs (sample, billions of Euros)

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | | | | | |
| Dividend | 23 | 32 | 47 | 50 | 42 | 51 | 72 | 67 | 62 | 74 | 62 | 42 | 61 |
| Interest | 18 | 18 | 20 | 29 | 35 | 30 | 21 | 24 | 25 | 21 | 21 | 20 | 19 |
| Royalties | 4 | 4 | 4 | 6 | 9 | 9 | 13 | 17 | 18 | 19 | 24 | 25 | 23 |
| ***Total fiscally relevant flows*** | ***45*** | ***54*** | ***72*** | ***86*** | ***86*** | ***90*** | ***107*** | ***107*** | ***105*** | ***114*** | ***107*** | ***87*** | ***104*** |
| *Total income macro* | *70* | *86* | *92* | *139* | *129* | *124* | *157* | *161* | *153* | *162* | *195* | *181* | *196* |
| **Expenditure** | | | | | | | | | | | | | |
| Dividend | 16 | 47 | 20 | 40 | 40 | 40 | 52 | 45 | 59 | 45 | 57 | 34 | 39 |
| Interest | 18 | 20 | 25 | 30 | 35 | 30 | 23 | 24 | 25 | 21 | 19 | 17 | 18 |
| Royalties | 4 | 3 | 3 | 5 | 7 | 9 | 11 | 13 | 14 | 15 | 27 | 28 | 25 |
| ***Total fiscally relevant flows*** | ***38*** | ***71*** | ***48*** | ***76*** | ***82*** | ***80*** | ***86*** | ***83*** | ***98*** | ***80*** | ***103*** | ***79*** | ***82*** |
| *Total expenditure macro* | *72* | *87* | *93* | *139* | *128* | *124* | *159* | *163* | *157* | *167* | *201* | *187* | *199* |

Source: SEO Amsterdam Economics, based on DNB Microdata. Macro totals derived from DNB (old definition, including hybrids). See also the explanation in Appendix C.

In the sample, the total of incoming flows is generally higher than that of expenditure. As for interest and royalties, the incoming and outgoing flows in the sample are fairly equal, as expected (see Paragraph 2.3). The difference mainly occurs among dividends. The difference between fiscally relevant income and expenditure is not reflected in the macro totals for the entire population of SFIs (final lines in the table). This implies that the larger SFIs spend less compared to their income than the smaller SFIs that are not included in the sample. The reason for this is that a number of (mainly American) SFIs do not pass on dividends received to the parent company but rather reinvest them in affiliated companies. These accumulated profits are not repatriated to the US, at least, not until the tax review in 2018. This behaviour is more visible in the sample because these (relatively large) American-owned SFIs are included in that relatively often.

The share of the royalties in the total of fiscally relevant flows is experiencing considerable growth, from approximately 10% in 2004 to 22% (income) and 30% (expenditure) in 2016. Around the world, the growth of royalties and licence fees is about five times as big as that of goods and direct foreign investments. This reflects how global production is shifting from physical cross-border production to intangible value chains (UNCTAD, 2018).
The flow of dividend also grows significantly during this period, stagnating since 2012, like that of the participating interests on the balance sheet (see Table 3.1). The income and expenditure in terms of interest do not grow across the entire period but they do fluctuate; they increase strongly between 2005 and 2008 as a result of reducing a lot of loan terms, which means the share in group loans and bank loans in the gross transactions increases considerably (see inset in Chapter 2). After

2008, when the terms are extended again and the share of the loans in the gross transactions drops, the income and expenditure in terms of interest also fall sharply.

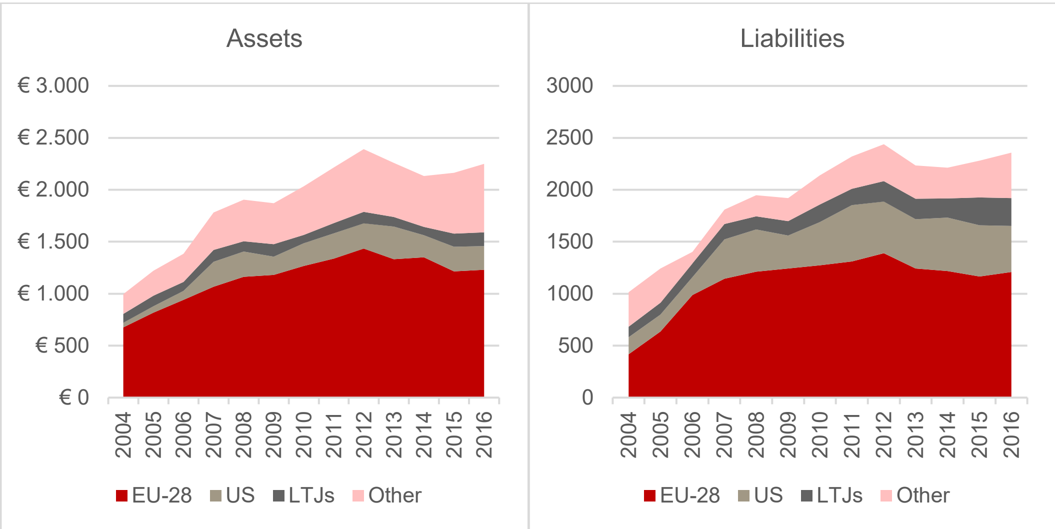
## 3.4 Regions and low-tax jurisdictions

Balance sheet positions and income and expenditure have countries of origin and destination. Based on the DNB sample, we can map out income from and expenditure to regions. The sample is less suitable for mapping out macro totals but it can be used to break down assets and liabilities on the balance sheet and the income and expenditure according to geographical origin and destination. The US is included separately because it is an important origin and destination of investments and because it is, therefore, interesting to be able to find out to what extent the tax reforms in that country affect the balance sheet and flows of income to and from the US.

**Balance sheets according to region**

Figure 3.2 provides an overview of the balance sheet totals in the sample, broken down according to region, while Table 3.3 provides an overview of the underlying data. The macro totals for the balance sheets of the entire population are shown in Table 3.1 and in Appendix C.

Figure 3.2 Balance sheet of SFIs (sample, billions of Euros) according to region




Source: SEO Amsterdam Economics, based on DNB Microdata.

Figure 3.2 shows that the EU-28 structurally takes on more than half of the balance sheet total of all SFIs in terms of both the assets and liabilities on the balance sheet (55 and 51% respectively in 2016). The role of the US is bigger in terms of liabilities (12-23%) than in terms of assets (5-14%). On both sides of the balance sheet, the US' share has grown since 2004.

The share of the low-tax jurisdictions in the balance sheet total is limited. The share of the low-tax jurisdictions in terms of liabilities is bigger than in terms of assets. This corresponds with the use of Dutch SFIs with participating interests and loans from companies in low-tax jurisdictions on the liabilities side of the balance sheet (see Paragraph 2.3). In 2016, low-tax jurisdictions represented 65 of the assets and 11% of the liabilities. In line with the trend, there is no clear growth of the shares of low-tax jurisdictions on the balance sheet. In terms of assets, the relative share of the low-tax jurisdictions in the total for 2004 was the largest (9%) of all years covered by the sample. In subsequent years, fluctuations are at a lower level, despite the fact that the absolute scope has increased. In terms of liabilities, the share of low-tax jurisdictions in the sample rises from 10% in 2004 to 11% in 2016. Based on the balance sheets, therefore, there is no strong increase in the relative share of investments in and from low-tax jurisdictions.

Table 3.3 Balance sheet of SFIs (sample, billions of Euros), investments according to region

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | | |
| EU-28 | 675 | 818 | 940 | 1,067 | 1,163 | 1,181 | 1,268 | 1,339 | 1,435 | 1,331 | 1,350 | 1,215 | 1,230 |
| US | 45 | 60 | 86 | 239 | 243 | 175 | 218 | 242 | 243 | 314 | 214 | 235 | 228 |
| Low-tax jurisdictions | 86 | 103 | 88 | 115 | 98 | 120 | 79 | 100 | 110 | 93 | 79 | 129 | 134 |
| Other | 188 | 239 | 269 | 359 | 401 | 396 | 467 | 536 | 604 | 521 | 490 | 584 | 658 |
| *Total* | *995* | *1,221* | *1,383* | *1,780* | *1,904* | *1,872* | *2,033* | *2,216* | *2,391* | *2,259* | *2,132* | *2,164* | *2,249* |
| **Liabilities** | | | | | | | | | | | | | |
| EU-28 | 418 | 637 | 986 | 1,144 | 1,212 | 1,241 | 1,274 | 1,311 | 1,390 | 1,241 | 1,217 | 1,166 | 1,207 |
| US | 163 | 162 | 174 | 380 | 407 | 318 | 416 | 541 | 498 | 476 | 515 | 492 | 445 |
| Low-tax jurisdictions | 103 | 113 | 132 | 147 | 126 | 139 | 167 | 157 | 196 | 195 | 186 | 269 | 268 |
| Other | 330 | 330 | 109 | 140 | 204 | 223 | 281 | 312 | 355 | 321 | 294 | 355 | 438 |
| *Total* | *1,014* | *1,242* | *1,401* | *1,811* | *1,949* | *1,921* | *2,138* | *2,321* | *2,439* | *2,234* | *2,213* | *2,281* | *2,359* |

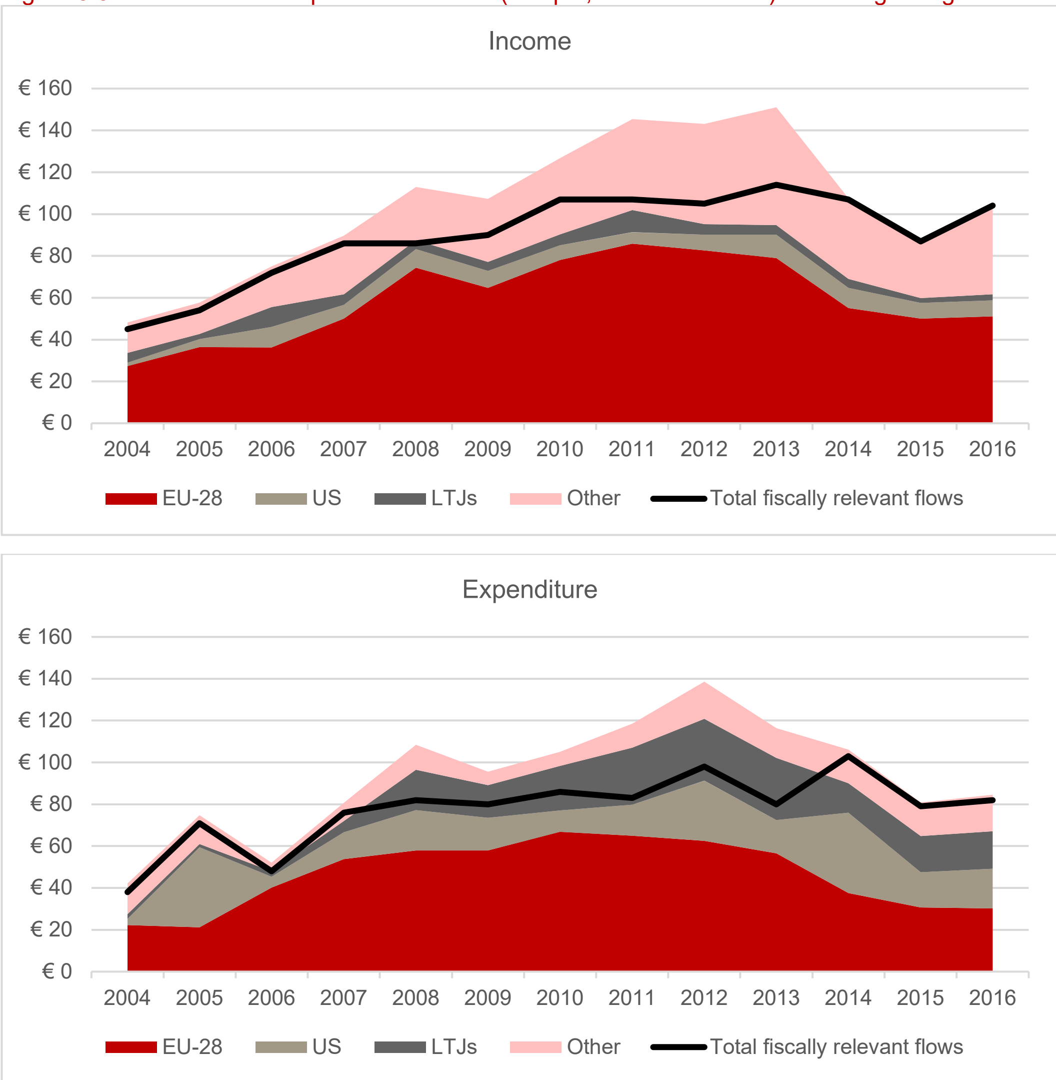
Source: SEO Amsterdam Economics, based on DNB Microdata. Total assets consist of participating interests, securities, receivables and other. Total liabilities consist of participating interests, securities, receivables and debt capital.

### Income and expenditure according to region

Figure 3.3 shows the income and expenditure of the SFIs in the sample, broken down according to geographical origin and destination. In terms of income, most income originates from the EU-28 or jurisdictions other than the US and low-tax jurisdictions (other). Every year, the EU-28 is responsible for 50 to 60% of the income and the other jurisdictions for 30 to 40%. The income originating from the US and low-tax jurisdictions is relatively low. This corresponds with the relatively small share of the US and low-tax jurisdictions in terms of the assets side on the balance sheet. The progress of income and expenditure in time is distorted because the figure below also includes the (non-fiscally relevant) expenditure. This expenditure is limited for most years but high between 2010 and 2013.[5] The fiscally relevant flow remains reasonably stable during this period. Across the period, we see an increase of fiscally relevant revenue and expenditure (the thick black like in the figure), in line with the trend (see also Table 3.2).

5 This probably has a statistical cause: a reporting institution with high other costs falls outside the sample after this period or started to report differently.

Figure 3.3 Income and expenditure of SFIs (sample, billions of Euros) according to region




Source: SEO Amsterdam Economics, based on DNB Microdata. The fiscally relevant flows are the total of income and expenditure in dividend, interest and royalties. The total of income and expenditure according to regions is higher for some years because they also include the other (non-fiscally relevant) expenditure in order to mitigate the disclosure risk.

The progress of total expenditure between 2010 and 2013 is also distorted because these figures are included in the other expenditure. In terms of expenditure, the EU-28 also carries considerable weight (30 to 60% of the total). The expenditure that goes to the other jurisdictions is considerably smaller. Instead, expenditure to the US for the entire period and to low-tax jurisdictions during the past five years is considerable and both are also increasing. In 2016, the expenditure to the US represented 22% of the total expenditure and that to low-tax jurisdiction 21%. This confirms the picture of a relatively large flow of income to Dutch SFIs from the EU-28 and other jurisdictions, some of which is passed on to low-tax jurisdictions and the US. The share of the revenue from low-tax jurisdictions is significantly smaller than the share of expenditure to low-tax jurisdictions (5 versus 21%), which is logical, reasoning on the basis of the examples of arrangements discussed in Paragraph 2.3, with the qualification that the expenditure to low-tax jurisdictions as a share of the total does not amount to more than one-fifth of all expenditure.

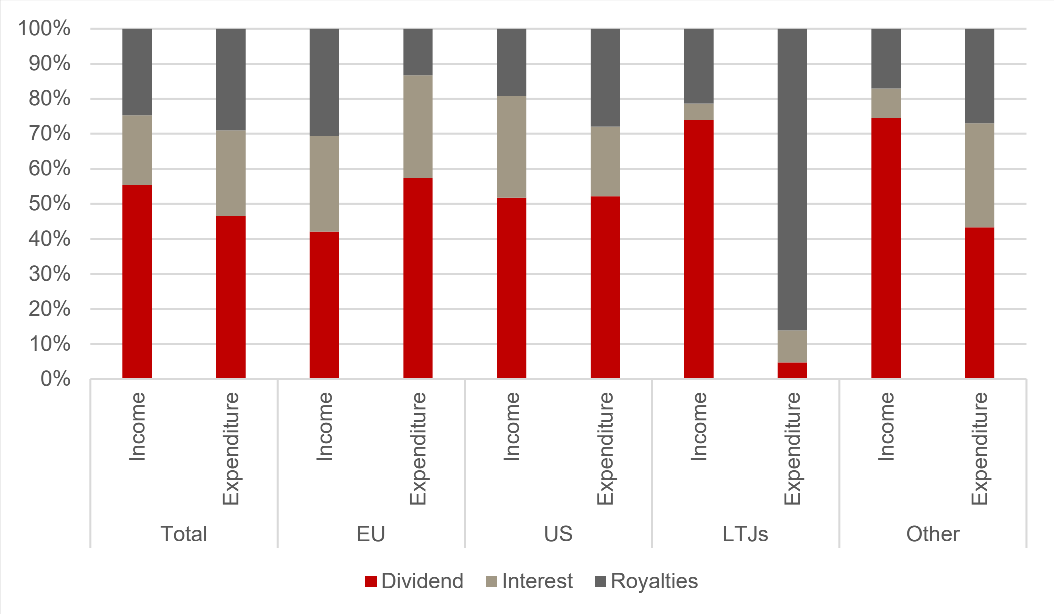
Table 3.4 Income and expenditure of SFIs (sample, billions of Euros) according to region

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | | | | | |
| EU-28 | 27 | 36 | 36 | 50 | 74 | 65 | 78 | 86 | 83 | 79 | 55 | 50 | 51 |
| US | 2 | 4 | 10 | 7 | 9 | 8 | 7 | 5 | 7 | 11 | 10 | 7 | 8 |
| Low-tax jurisdic-tions | 5 | 2 | 9 | 5 | 4 | 4 | 5 | 11 | 5 | 5 | 4 | 2 | 3 |
| Other | 15 | 15 | 19 | 28 | 26 | 30 | 37 | 43 | 48 | 56 | 39 | 28 | 43 |
| **Total*** | **48** | **58** | **75** | **90** | **113** | **107** | **127** | **145** | **143** | **151** | **108** | **88** | **105** |
| Of which fiscally relevant | 45 | 54 | 72 | 86 | 86 | 90 | 107 | 107 | 105 | 114 | 107 | 87 | 104 |
| **Expendi-ture** | | | | | | | | | | | | | |
| EU-28 | 22 | 21 | 40 | 54 | 58 | 58 | 67 | 65 | 63 | 57 | 37 | 31 | 30 |
| US | 3 | 38 | 5 | 13 | 19 | 16 | 10 | 15 | 29 | 16 | 39 | 17 | 19 |
| Low-tax jurisdic-tions | 2 | 1 | 3 | 5 | 19 | 16 | 21 | 27 | 30 | 30 | 14 | 17 | 18 |
| Other | 15 | 14 | 4 | 9 | 12 | 7 | 7 | 11 | 18 | 14 | 16 | 16 | 18 |
| **Total*** | **42** | **75** | **52** | **81** | **108** | **96** | **105** | **119** | **139** | **116** | **106** | **81** | **85** |
| *Of which fiscally relevant* | *38* | *71* | *48* | *76* | *82* | *80* | *86* | *83* | *98* | *80* | *103* | *79* | *82* |

Source: SEO Amsterdam Economics, based on DNB Microdata. * These totals are higher than the total of the fiscally relevant flows because this table also includes the (non-fiscally relevant) other expenditure in order to mitigate the disclosure risk.

Apart from the development of the fiscally relevant flows to low-tax jurisdictions and the relative share in the total, the composition of the flows is also relevant. The composition of the flows grouped according to origin and destination differs from region to region. Figure 3.4 shows the average spread of the fiscally relevant flows across the period between 2004 and 2016. In the total (across all regions), the share of dividend in the revenue is slightly more than approximately 55%. The share of royalties in that flow is about 25%. With regard to the total of expenditure, dividends are lower (approximately 45%) and royalties are slightly higher at 30%. In the case of the EU-28 it is the other way around, and for the US, the composition of income and expenditure is fairly equal, with a share of dividend that is just over 50%. The picture for the low-tax jurisdictions is different. About three-quarters of the income from low-tax jurisdictions is dividend but more than 85% of the expenditure to low-tax jurisdictions consists of royalties. This is concentrated among a small number of SFIs. This illustrates the function of the Netherlands as a key player in passing on royalties from the EU-28 and the US to low-tax jurisdictions (see also the example in Paragraph 2.3). For the other countries, the difference between interest (8%) as a share of total income and as a share of total expenditure (30%) is particularly striking. Again, dividends form a relatively large part of the income and a considerably smaller part of the expenditure.

Figure 3.4 Composition of income and expenditure of SFIs per region (sample), 2004-2016



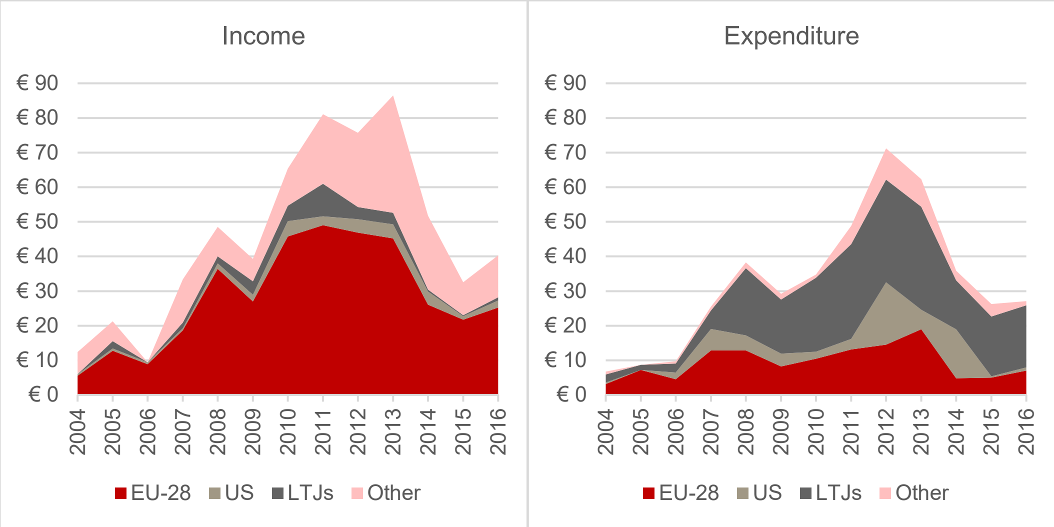

Source: SEO Amsterdam Economics, based on DNB Microdata

Whereas the share of low-tax jurisdictions on the liabilities side of the balance sheet is relatively stable (Table 3.3), the share in the outgoing fiscally relevant flow (Table 3.4) has risen sharply. This can be explained by the changing composition of the fiscally relevant flow. As shown in Table 3.2, the share of royalties in the outgoing flows has risen considerably. At the same time, the expenditure on royalties forms an important part of the total expenditure to low-tax jurisdictions (see Figure 3.4). The intellectual property over which royalties are paid is not shown on the balance sheets of the Dutch SFIs, however (see Paragraph 2.3). This explains why the balance sheet does not show any substantial increase in the share of low-tax jurisdictions in terms of liabilities but does show an increase in the share of the low-tax jurisdictions in the fiscally relevant expenditure; this is the result of the growing importance of royalties in the fiscally relevant flows, specifically to low-tax jurisdictions.

**SFIs with expenditure to low-tax jurisdictions**

In order to get a better picture of the SFIs with fiscally relevant flows to low-tax jurisdictions, we focus on the group of SFIs with expenditure to low-tax jurisdictions during any one year. Out of the SFIs with expenditure to low-tax jurisdictions during a certain year (this may differ from year to year), we look at the origin of the income that year and the geographical spread of all expenditure. We select SFIs that are guaranteed to have fiscally relevant expenditure to low-tax jurisdictions, so as to find out if the geographical spread of income and expenditure differs from the one in Figure 3.3. Figure 3.5 shows the result of this analysis.

Figure 3.5 Income and expenditure of SFIs with expenditure to low-tax jurisdictions (sample, billions of Euros) according to region




Source: SEO Amsterdam Economics, based on DNB Microdata. The total income and expenditure according to regions also contains the other (non-fiscally relevant) expenditure in order to mitigate the disclosure risk.

The division of the income of this sub-group strongly resembles the division of the entire sample. The majority of income originates from the EU-28, followed by other countries. The US' contribution is limited and there is hardly any influx from low-tax jurisdictions. The geographical spread of the expenditure of this sub-group does, however, strongly deviate from that of the entire sample. It concerns a relatively small share of the EU-28, the group of other countries and the US, and a relatively large share (about two-thirds in 2016) of low-tax jurisdictions. The expenditure to low-tax jurisdictions is dominant, particularly so in the last sample years. This suggests that if an SFI has fiscally relevant expenditure in interest, dividend and royalties to a low-tax jurisdiction, this also automatically represents a relatively large part of all expenditure of this SFI.

Table 3.5 Income and expenditure of SFIs with expenditure to low-tax jurisdictions (sample, billions of Euros) according to region

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | | | | | |
| EU-28 | 6 | 13 | 9 | 19 | 36 | 27 | 46 | 49 | 47 | 45 | 26 | 22 | 25 |
| US | 0 | 1 | 0 | 1 | 2 | 2 | 4 | 3 | 4 | 4 | 4 | 1 | 2 |
| Low-tax jurisdictions | 0 | 2 | s* | 2 | 2 | 4 | 4 | 9 | 4 | 3 | 1 | 0 | 1 |
| Other | 6 | 6 | s* | 12 | 9 | 6 | 11 | 20 | 21 | 34 | 21 | 9 | 12 |
| Total* | 12 | 21 | 9 | 33 | 49 | 39 | 65 | 81 | 76 | 86 | 52 | 33 | 40 |
| **Expenditure** | | | | | | | | | | | | | |
| EU-28 | 3 | 7 | 5 | 13 | 13 | 8 | 10 | 13 | 15 | 19 | 5 | 5 | 7 |
| US | 0 | s* | 2 | 6 | 4 | 4 | 2 | 3 | 18 | 6 | 14 | 0 | 1 |

| | | | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Low-tax jurisdictions | 2 | 1 | 3 | 5 | 19 | 16 | 21 | 27 | 30 | 30 | 14 | 17 | 18 |
| Other | 1 | s* | 1 | 1 | 2 | 2 | 1 | 5 | 9 | 8 | 3 | 4 | 1 |
| Total* | 7 | 9 | 10 | 26 | 38 | 29 | 35 | 49 | 71 | 62 | 36 | 26 | 27 |

Source: SEO Amsterdam Economics, based on DNB Microdata. s* means 'suppressed' on account of DNB disclosure rules. * These totals also include the (non-fiscally relevant) other expenditure in order to mitigate the disclosure risk. This may upwardly distort the fiscally relevant flow for 2010-2013.

## 3.5 Differences with other sources

The data in the research file differ from a number of other sources.

**International investment position and balance of payments**

The data about SFIs are collected for the purpose of preparing statistics about the international investment position and balance of payments. However, these statistics relate to a larger population than merely the SFIs. As such, the statistics of the balance of payments differ from the figures about SFIs presented in this report. In a number of cases, DNB reports figures specifically for SFIs in the tables with international investment position and balance of payments data. These too differ from the figures in this report (see below).[6]

**DNB**

DNB publishes data about the SFIs in the Netherlands. Specifically for the SFIs, it concerns three tables, namely the

- Balance sheet for special financial institutions;
- Balance of payments for special financial institutions; and
- Geography direct investments SFIs.

Statistics from these sources do not correspond to the data in this report. The main reason for this is that DNB reports about the entire population while this report uses the sample data. The table below shows the totals of the balance sheet and the income and expenditure in terms of interest, dividend and royalties in 2017, for both the total and for low-tax jurisdictions. The table shows that the sample for the total of the balance sheet and flows of income covers about 60% of the total population. However, for the flows of income from low-tax jurisdictions, the sample covers only 21%, while that figure is 87% for the outgoing flows. This difference is explained by the underlying flows. For the underlying flows of income (not shown in the table), almost all of the royalties paid and received are included in the sample because they are highly concentrated at some SFIs. In the case of interest and dividend, however, the sample covers a less than proportionate share because once-only super-dividends are *not* corrected in the report for other SFIs (not in the sample) whereas they *are* in the sample.[7] The difference in coverage of the sample between incoming and outgoing flows to and from low-tax jurisdictions is the result of a difference in the composition of that flow: dividend is the main component of the money received from low-tax jurisdictions and that is where the underestimate in the sample is relatively large (super-dividend). On

6 Please note that by and large, that also applies to the data from the OESO and/or IMF. In many cases, DNB is the supplier of the data used by the OESO and/or IMF. With a view to international harmonisation, these organisations sometimes still make adjustments to the data supplied to them. Statistics from the OESO and the IMF may, therefore, differ from those from DNB, and those in their turn differ from the totals that are based on the microdata. Ultimately, all these statistics are based on this microdata.

7 A super-dividend is a once-only dividend that is paid out in the case of excessively large cash reserves.

the other hand, royalties are covered well by the sample (concentration) and they form an important component of the expenditure to low-tax jurisdictions. Consequently, the coverage of the sample for the outgoing flow to low-tax jurisdictions is considerably larger and royalties form a relatively big part (see also the previous paragraph).

Table 3.6 Coverage of sample SFIs as a percentage of the total population, 2017

| Flows of income | Received | Paid |
|---|---|---|
| Total all countries | 60 | 52 |
| of which low-tax jurisdictions | 21 | 87 |
| | | |
| **Balance sheet** | **Assets** | **Liabilities** |
| Balance sheet - abroad | 61 | 62 |
| of which low-tax jurisdictions | 62 | 66 |

Source: DNB

*Balance sheet*
DNB publishes the macro totals for the entire population of the balance sheets of SFIs. It sometimes divides the balance sheet items according to items that relate to the Netherlands and items that relate to foreign countries. The sum of both is the 'world'. However, DNB does not do this for all balance sheet items and reports most balance sheet items on a 'world' level. This research, on the other hand, reports exclusively about foreign countries. DNB also publishes with the inclusion of hybrids and the tables in this report are exclusive of hybrids. The differences between the balance sheet totals in the sample and the macro totals are shown in the tables in the previous paragraphs.

*Income/expenditure*
DNB publishes the entire balance of payments of SFIs. The sample file only contains the entries on the income account, not on the capital and financial accounts. The differences between the income and expenditure in the sample and the macro totals are shown in the tables in the previous paragraphs.

*Geography*
DNB publishes a breakdown of the balance sheets of the SFIs according to region. Low-tax jurisdictions are not mentioned separately in this breakdown. The breakdown does look at offshore financial centres (OFCs). This is a wider definition than low-tax jurisdictions. Appendix B also gives a list of OFCs. Also, the geographical breakdown of DNB only relates to direct investments (participating interests and debt capital), i.e. no to securities, for instance. DNB does not publish a breakdown of the income and expenditure statistics.

**SEO (2013)**
SEO (2013) also contains figures about the balance sheet and income and expenditure of SFIs. However, they differ from the figures published in this report. There are a number of reasons for this.

SEO (2013) contains a number of tables based on both the sample and the other SFIs. That is not the case here. Also, since the publication of SEO (2013), a number of changes were made to the data collection processes at DNB. The aim was, for instance, to connect with the new BPM6. The source data in SEO (2013) was collected in accordance with the BPM5. Although these standards seem similar, they are not identical and that generates differences. Apart from that, we have already mentioned the fact that DNB has since started to classify a number of SFIs as NFIs (non-financial institution). This too, generates differences. In closing, compared to SEO (2013), a number of balance sheet items and income and expenditure are defined differently. This too, generates differences.

# 4 Follow-up research

*The available microdata forms a solid basis for an impact assessment of the withholding tax. There are a number of attention points, though. Depending on the consistency and comparability of data in time, an impact assessment seems feasible after the implementation of the withholding tax.*

## 4.1 Data

**Restrictions**

The existing research file and baseline measurement have a number of restrictions. This turns an impact assessment of a withholding tax on the basis of this data into a challenge. It is, therefore, important to explore possibilities for improvement before conducting an impact assessment. As the withholding tax is not implemented until 2020/2021, there is time enough to carry out such an exploration.

The first restriction is that the existing research file is a sample file. This means the statistics based on this file are underestimates by definition. Perhaps it would be possible to 'correct' the sample in order to achieve population estimates. However, in order to achieve this, we would need weighing ratios that are currently not available. One possible solution for this is the fact that with effect from this year, DNB has also started to collect information about the geographical origin and destination of transactions and balance sheet items for the other SFIs. So with effect from 2018, it will also be possible to break down the balance sheet and income and expenditure in dividend, interest and royalties for the entire population of SFIs according to geographical origin and destination. That will resolve a number of issues because it means an integrated observation and the fiscally relevant flows will no longer be determined by (accidental) fluctuations of SFIs that are included in the sample during one year and are excluded from it the following year. However, it also creates new challenges. An impact assessment requires a consistent time series of a number of years (see the next paragraph). For the integrated population, a geographical division is possible from 2018 onwards but not for previous years. This means that we only have three years of integrated observations available before the withholding tax is implemented in 2021. That is a short period for an analysis in which an impact assessment is conducted on the basis of a situation before the implementation of the withholding tax and after implementation (difference) and in the course of which this change is studied for a group who will or will not be affected by the new tax (difference-in-difference). This may be resolved by imputing geographical origin and destination for the other SFIs in earlier years but this may distort the impact assessment.

A second restriction of the sample file is the fact that the sample is not the same from one year to the next. This means we cannot fully rule out that observed year-on-year fluctuations in, for instance, flows of dividend are not the result of the composition of the sample.

A third restriction is that certain hybrids and/or selections in the sample file result in a disclosure risk (too few observations or a dominance of a number of observations in demands). This means that in a lot of cases, it will be possible to report on a relatively high level of aggregation only. This becomes particularly clear when you look at low-tax jurisdictions. This is a small group of countries that receive flows of money directly on a limited basis only. For that reason, we can only report total income and expenditure for this group (some of the less aggregated breakdowns would not pass the DNB disclosure test). This restriction also has a real interpretation. The fact that certain series cannot be reported because they contain dominant observations means that for some years, some SFIs or transactions carry a lot of weight.

In closing, the 'counter-party country' is measured on a direct basis: the country where the money is sent to is the counter-party country. However, this does not automatically mean that this is where the money ends up. Instead, it moves from that country to one or more other countries to ultimately end up in the ultimate beneficial owner country (UBO). The data with regard to UBOs is incomplete.

**Possible solutions**
An impact assessment requires comparable data to be available at different moments in time. This requirement can be implemented in various ways.

In a minimum variant, the sample is 'locked'. This means that SFIs included in the baseline measurement in the sample are also included in the sample once the policy has been implemented. This way, there is no doubt about which part of the change between impact assessment and baseline measurement is the result of accidental changes to the sample.

Ideally, however, the research is conducted on an integrated file of the total population rather than on the basis of a sample. The fact that DNB measures the entire population between 2018 and 2020 (including the division of flows according to geography) increases the options. This also makes it possible to set up a balanced panel (a panel with the SFIs that are observed in time at any moment), thus reducing the noise caused by heterogeneity (different SFIs that are observed at different moments). This yields a couple of advantages:
- based on a population file, statistics are not underestimates;
- there is no doubt about the consequences of year-on-year changes to the sample for the assessment; and
- it may be possible to report on a lower aggregation level because the number of observations in the research file increases and/or because the relative contribution of dominant observations is decreasing.

## 4.2 Assessment method and econometrics

Based on an integrated file, it is possible to conduct an impact assessment of the policy effect of withholding tax using a difference-in-difference analysis. In such an analysis, you compare a process group and a control group before and after the implementation of a new policy. Under the assumption that the development of a control group after the implementation of the new policy is comparable to the development of this group before the development of the new policy and the assumption that the trend in variables that characterise (the outcome of) the process and control groups prior to the new policy are the same, results for the process group can be compared to those of the control group.

One possible control group is the group which marginally escapes the effects of the new policy and which is largely similar to the group that is affected the effects of the withholding tax. As for withholding tax, we can make a distinction between SFIs with dividend, interest and royalties expenditure to low-tax jurisdictions that are affected by the withholding tax, and SFIs with dividend, interest and royalties expenditure to jurisdictions with low corporate income tax rates that are not affected by the withholding tax or marginally escape its impact. This way, a sufficiently large group of jurisdictions must be determined with a corporate income tax rate that lies just above the limit for the definition of low-tax jurisdictions. Currently, the critical limit for low-tax jurisdictions is a rate of 7% or lower (see Appendix B). The control group could consist of jurisdictions with a rate between 7 and 15%, i.e. countries with low corporate income tax rates that marginally escape being affected by the withholding tax. By comparing dividend, interest and royalties expenditure to this group of countries before and after the implementation of the withholding tax to those of the group of low-tax jurisdictions before and after the implementation of the withholding tax, it will be possible to obtain an estimate of the impact of the implementation of the withholding tax - among other things, the assumption that all changes made at the time of the implementation of the withholding tax have had a similar impact on the expenditure to both groups of countries. This will make an impact assessment possible. As the balance sheets to SFIs are likely to decrease following on from the fiscally relevant flows, as well as the number SFIs that pay or receive dividend, interest and royalties to and from low-tax jurisdictions, another option would be to find out if these indicators are affected.

More variation could also be used. First, with effect from 2017, potential anticipation effects need to be taken into account. If they occurred, it can be verified by means of the same method; it is important to adjust them for those effects because the policy effect may otherwise be overestimated (when, in anticipation of the withholding tax, SFIs conducted *more* transactions via low-tax jurisdictions than they would have done without the announcement of the implementation of the withholding tax) or underestimated (when, in anticipation, they already wind down or shift their activities in low-tax jurisdictions). From what we understand, the withholding tax on dividend will be implemented in 2020, and that for interest and royalties in 2021. This offers an extra opportunity for the econometrics verification because there is variation in the moment of processing: in the case of dividends, it should, apart from anticipation, be possible to see an impact from 2020 and in the case of interest and royalties after 2021. Also, there is a chance of a shift between participating interests and loans from 2020 into 2021. In closing, it is feasible for the countries on the list of low-tax jurisdictions to change as time passes, for instance, because they raise their corporate income tax rates or adjust their tax treaties. This also results in extra variation, which may be used to conduct an impact assessment.

# Literature

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# Appendix A Definitions and terminology

## The definition of SFIs

The 2003 Balance-of-Payments Reporting Requirements define SFIs as follows:

> *businesses or organisations, regardless of the legal form, that are residents in which non-residents directly or indirectly take part or exert influence via share capital or otherwise and which aim to and/or to a significant extent engage in, in combination with other domestic group companies:*
> 1. *keeping assets and liabilities mainly abroad; and/or*
> 2. *passing on turnover consisting of royalties and licence revenue, obtained from abroad, to foreign group companies; and/or*
> 3. *generating turnover and costs that mainly originate from re-invoicing to and from foreign group companies.*

We should note that the definition of the SFIs was changed in 2018; this change can also be applied to the available data for previous years, resulting in a consistent series for 2004-2016. It became clear recently that on the basis of a new European directive (ESA 2010), a number of entities (holding companies with more than five employees who also provide services to group companies) will be reclassified as 'non-financial institutions' (NFI) whereas they *used* to be classified as SFIs. From an operational point of view, these entities are reclassified because they have more than five employees.

## Investment position and balance of payments

The international account of the national accounts consists of the international investment position (IIP), the balance of payments (BP) and the aggregation account (AA).

The IIP is a snapshot in time that shows the value of the financial claims and commitments of a country against a foreign country. A positive net claim means that the financial claims against a foreign country exceed the commitments towards that foreign country. Every year, the methodology has a national 'opening balance sheet' and a 'closing balance sheet'. The IIP forms a part of this national balance sheet (the other part is formed by non-financial claims and commitments).

The BP shows the transactions between home and abroad during a certain period. The BP contains a number of sub-accounts such as the current account, the capital account and the financial account. The current account, in its turn, consists of the commercial account, the income account and the current transfers. The commercial account shows the value of transactions of goods and services. The income account shows the payments for the use of factors of production (wage, interest, dividend, profits, etc.). The current transfers show transactions without an immediate consideration, such as development aid. The capital account shows the value of transactions that relate to non-produced, non-financial assets such as patents. The financial account shows the value of financial transactions such as direct investments or portfolio investments. The BP is a closing account, and the sum of the current accounts and the capital accounts is equal to the (net) financial account.

Table A.1 Illustration of movement in the international investment position

| Opening balance sheet | ⇒ | Aggregation account | ⇒ | Closing balance sheet |
|---|---|---|---|---|
| Financial claims and commitments | | Capital account | | Financial claims and commitments |
| | | Financial account | | |
| | | Other financial movements | | |
| Non-financial claims and commitments | | Non-financial movements | | Non-financial claims and commitments |

Source: SEO Amsterdam Economics on the basis of BPM6.

The changes between the opening and the closing balance sheet are shown in the AA. The AA consists of the capital and financial accounts of the BP, plus movements that are not the result of flows in the BP, such as (currency) revaluations.

The assets on the balance sheet are productively used and (as such) they earn an income. Vice versa, a payment must be made for the liabilities on the balance sheet. These flows of income and expenditure are updated on the income account. This also illustrates the coherence between the BP and the IIP. If income exceeds expenditure in any one year, the result is a net (financial) claim that is entered on the financial account. This means the balance sheet also increases.

Table A.2 Illustration of coherence between balance of payments and the investment position

| **Balance of payments** | | | |
|---|---|---|---|
| | **Credit** | **Debit** | **Balance sheet** |
| Current account | | | |
| Goods account | | | |
| Income account | 10 | 5 | 5 |
| Current transfers | | | |
| Capital account | | | **0** |
| Current and capital accounts | | | 5 |
| | **Net acquisition assets** | **Net acquisition liabilities** | **Balance sheet** |
| Financial account | | | |
| Change to assets/liabilities | 5 | 0 | 5 |
| Net financial account | | | **5** |
| Net balance of payments | | | 0 |

| **Investment position** | | | |
|---|---|---|---|
| | **Opening balance sheet** | **Transaction** | **Closing balance sheet** |
| Net investment position | 100 | **5** | 105 |

Source: SEO Amsterdam Economics.

The relationship between the BP and the IIP is expressed in net terms in that sense that the financial account is also expressed in net terms.[8] This means that all debits of certain assets or liabilities are set off against all credits of those assets or liabilities. So the selling of equity is taken, net, from acquisitions, while issued loans are taken, net, from loans that are being repaid. From an accounting point of view, this is sensible because of the cross-entry on the income account, for instance. After all, there is no income in return for the acquisition and sale of a certain type of asset for the same amount. Apart from this accounting-related reason, the net notion is more relevant than the gross notion. A loan that rolls over results in two gross transactions to the value of the principal sum (see Box 2.1). However, from a practical point of view, nothing changes because the loan remains in place at the same value (principal sum) and it also generates the same income (interest). From a fiscal point of view, the gross notion is not relevant either. After all, tax is levied on the flow of income that is related to a transaction, not on the value of that transaction. That is why the gross transactions are ignored in this report.

## Structure of the research file

This research uses the DNB sample data for the balance sheet and income and expenditure of SFIs. It is not possible to analyse the entire population of SFIs because the third countries which

8 For the sake of completeness, the current accounts and the capital accounts are gross.

balance sheet items or income and expenditure relate to are not known for the non-sample SFIs. The sample data contains a complete balance sheet and a full statement of income and expenditure. The file also contains anonymised identifiers for the individual SFIs and groups of SFIs, an indicator for the reporting profile and a column for the countries which the balance sheet item or income/expenditure relate to. The file contains reliable data for the period between 2004 and 2016.

**Balance sheet**

The balance sheet data of DNB contains an opening and a closing position. The difference between these positions is caused by the net transaction. The net transaction can be broken down into an exchange rate movement, a price movement and other movements.

The balance sheet data consists of seven asset items and twelve liabilities items. With a view to transparency (and the disclosure rules of DNB), we will summarise these items in the follow-up. In terms of liabilities, we have participating interests, securities and debt capital. In terms of assets, we have participating interests, securities, debt capital, property rights and other assets.

Table A.3 Overview of balance sheet data

| Type of balance sheet item | Balance sheet item in the DNB research file | Comments |
|---|---|---|
| | **Liabilities** | |
| Participating interest | Participating interests in SFI >= 10% | Direct investments between businesses with a direct investment relationship |
| Participating interest | Participating interests in SFI < 10% | Direct investments between businesses with a direct investment relationship |
| Participating interest | Participating interests in SFI of subsidiaries | Direct investments between businesses with a direct investment relationship |
| Securities | Other issued shares | Negotiable rights other than participating interests or debt capital |
| Securities | Issued securities other than shares | Negotiable rights other than participating interests or debt capital |
| Securities | Derivatives | Negotiable rights other than participating interests or debt capital |
| Debt capital | Debt capital | Loans, other forms of debts and other financial transactions. |
| | **Assets** | |
| Participating interests | Participating interests of SFI >= 10% | Direct investments between businesses with a direct investment relationship |
| Participating interests | Participating interests of SFI < 10% | Direct investments between businesses with a direct investment relationship |
| Participating interests | Participating interests of SFI in parent company | Direct investments between businesses with a direct investment relationship |
| Securities | Other investments in shares | Negotiable rights other than participating interests, debt capital, property rights or other |
| Securities | Derivatives, assets | Negotiable rights other than participating interests, debt capital, property rights or other |

| | | |
|---|---|---|
| Debt capital | Receivables | Debt securities, other financial transactions, loans and other forms of debt. |
| Property rights | Property rights | Franchises/trademarks, software, R&D, audio-visual and artistic. |
| Other | Goodwill | Goodwill obtained from third parties. |
| Other | Concessions and licences | Related, for example to the exploitation of natural raw materials |
| Other | Other intangible assets | For example, the capitalisation of costs associated with the issue of shares. |
| Other | Machinery and equipment | Tangible fixed assets for business operations |
| Other | Immovable property | |

Source: SEO Amsterdam Economics.

### Income and expenditure

The income and expenditure statements in the research file consist of nine different income items and ten different expenditure items. With a view to transparency and the disclosure rules of DNB, we arrange the income in the follow-up according to dividend, interest and royalties and other. Similarly for the expenditure.

Table A.4 Overview of income account data

| Type of income /expenditure | Income/expenditure in DNB research file | Comment |
|---|---|---|
| | **Income** | |
| Dividend | Dividend received from participating interests>+10% | |
| Dividend | Dividend received from participating interests<10% | |
| Dividend | Dividend received from participating interests in parent company | |
| Dividend | Exploitation result immovable property | |
| Dividend | Dividend received listed shares | |
| Interest | Interest received securities held | |
| Interest | Interest received receivables | Loans, other forms of debts and other financial transactions. |
| Royalties | Allowances received for property rights | |
| Other | Other revenue | |
| | **Expenditure** | |

| | | |
|---|---|---|
| Dividend | Dividend paid to participating interests in SFI >= 10% | |
| Dividend | Dividend paid to participating interest in SFI < 10% | |
| Dividend | Dividend paid to participating interests in SFI of subsidiaries | |
| Dividend | Dividend paid other shareholders | |
| | | |
| Interest | Interest paid on issued securities | |
| Interest | Interest paid on other debts | Loans, other forms of debts and other financial transactions. |
| | | |
| Royalties | Allowances paid for property rights | User rights and reproduction rights. |
| | | |
| Other | Other costs | |
| Other | Dividend tax deducted | |
| Other | Corporate income tax paid | |

Source: SEO Amsterdam Economics.

# Appendix B Definition of low-tax jurisdictions

For the purpose of this research, *low-tax jurisdictions* are defined as (1) a state that does not or at a rate of less than 7% subject bodies to a tax on the profits or (2) a state that is included on the EU list of non-cooperative jurisdictions for tax purposes. Table B.1 shows the jurisdictions in question. Literature has various definitions for *low-tax jurisdictions*, see, for instance, the list in Gravelle (2015), which contains 50 jurisdictions. Also included are the countries classified as Offshore Financial Centres (OFCs) by DNB (see also Table C.2).

Table B.1 Definition of low-tax jurisdictions used for the purposes of this research

| Low-tax jurisdictions | OFCs (DNB) |
|---|---|
| American Samoa | Andorra |
| American Virgin Islands | Antigua and Barbuda |
| Anguilla | Anguilla |
| Bahamas | Netherlands Antilles |
| Bahrain | Aruba |
| Bermuda | Barbados |
| British Virgin Islands | Bahrain |
| Cayman Islands | Bermuda |
| Guam | BES Islands |
| Guernsey | Bahamas |
| Man | Belize |
| Jersey | Cook Islands |
| Kuwait | Curaçao |
| Namibia | Dominica |
| Palau | Grenada |
| Qatar | Guernsey |
| Samoa | Gibraltar |
| Saudi Arabia | Hong Kong |
| Trinidad and Tobago | Isle of Man |
| Turks and Caicos Islands | Jersey |
| United Arabic Emirates | Saint Kitts and Nevis |
| Vanuatu | Cayman Islands |
| | Lebanon |
| | Saint Lucia |
| | Liechtenstein |
| | Liberia |
| | Marshall Islands |
| | Montserrat |
| | Mauritius |
| | Nauru |
| | Niue |

| | |
|---|---|
| | Panama |
| | Philippines |
| | Seychelles |
| | Singapore |
| | Saint Martin (Dutch part) |
| | Turks and Caicos Islands |
| | Saint Vincent and the Grenadines |
| | Virgin Islands, British |
| | Virgin Islands, US |
| | Vanuatu |
| | Samoa |
| | Former Panama Canal zone |

Source: SEO Amsterdam Economics on the basis of an instruction from the Ministry of Finance and DNB

# Appendix C Macro totals DNB

Table C.1 Balance sheet SFIs (entire population, DNB, billions of Euros)

| Period | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** | **2017** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Assets** | | | | | | | | | | | | | | |
| Participating interests | 848 | 962 | 1,215 | 1,371 | 1,520 | 1,640 | 1,746 | 1,985 | 2,067 | 2,251 | 2,365 | 2,520 | 2,649 | 2,843 |
| Securities | 46 | 64 | 76 | 138 | 117 | 139 | 132 | 126 | 134 | 137 | 155 | 141 | 151 | 123 |
| Debt capital | 608 | 660 | 752 | 1,000 | 1,000 | 955 | 1,035 | 1,086 | 1,203 | 1,244 | 1,311 | 1,301 | 1,316 | 1,355 |
| Other | 9 | 9 | 9 | 19 | 18 | 19 | 17 | 17 | 18 | 17 | 17 | 48 | 48 | 48 |
| *Total* | *1,511* | *1,695* | *2,053* | *2,528* | *2,654* | *2,753* | *2,932* | *3,214* | *3,421* | *3,649* | *3,848* | *4,010* | *4,164* | *4,368* |
| *Foreign assets* | *1,502* | *1,686* | *2,044* | *2,509* | *2,637* | *2,734* | *2,914* | *3,197* | *3,403* | *3,632* | *3,832* | *3,962* | *4,115* | *4,320* |
| **Liabilities** | | | | | | | | | | | | | | |
| Participating interests | 686 | 783 | 1,060 | 1,293 | 1,422 | 1,507 | 1,606 | 1,875 | 2,030 | 2,137 | 2,244 | 2,352 | 2,467 | 2,639 |
| Securities | 353 | 361 | 411 | 453 | 449 | 506 | 531 | 514 | 551 | 549 | 605 | 603 | 642 | 597 |
| Debt capital | 480 | 563 | 595 | 798 | 802 | 762 | 817 | 850 | 864 | 986 | 1,050 | 1,112 | 1,111 | 1,198 |
| *Total* | *1,520* | *1,706* | *2,066* | *2,544* | *2,674* | *2,775* | *2,954* | *3,238* | *3,446* | *3,673* | *3,899* | *4,067* | *4,220* | *4,434* |
| *Foreign liabilities* | *1,520* | *1,706* | *2,066* | *2,544* | *2,674* | *2,775* | *2,954* | *3,238* | *3,446* | *3,673* | *3,899* | *4,067* | *4,220* | *4,434* |

Source: SEO Amsterdam Economics, based on DNB *Table 15.1*. Participating interests are the sum of equity participations and immovable property. Securities are the sum of securities and financial derivatives. Debt capital is the sum of loans in and outside of a group of companies. Other assets are intangible and non-financial assets. The total is the sum of the previous lines. This differs from the total foreign assets because DNB does not issue individual reports for the Dutch and foreign balance sheet items for each balance sheet item.

Table C.2 Balance sheet direct investments SFIs (entire population, DNB, billions of Euros) according to region

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Direct investments abroad** | | | | | | | | | | | | | |
| Europe | 875 | 970 | 1,227 | 1,278 | 1,392 | 1,435 | 1,553 | 1,663 | 1,744 | 1,858 | 2,019 | 1,942 | 1,985 |
| US | 78 | 81 | 124 | 297 | 292 | 274 | 288 | 333 | 365 | 464 | 355 | 405 | 421 |
| OFCs | 125 | 147 | 132 | 184 | 178 | 199 | 144 | 214 | 215 | 212 | 229 | 343 | 382 |
| Other | 297 | 342 | 393 | 479 | 508 | 525 | 642 | 726 | 815 | 825 | 914 | 997 | 1,038 |
| *Total* | *1,375* | *1,541* | *1,876* | *2,238* | *2,370* | *2,433* | *2,627* | *2,936* | *3,139* | *3,359* | *3,517* | *3,687* | *3,826* |
| **Direct investments in the Netherlands** | | | | | | | | | | | | | |
| Europe | 633 | 788 | 958 | 1,104 | 1,199 | 1,268 | 1,260 | 1,323 | 1,466 | 1,549 | 1,624 | 1,587 | 1,673 |
| US | 220 | 199 | 214 | 440 | 458 | 375 | 449 | 610 | 553 | 571 | 640 | 689 | 627 |
| OFCs | 166 | 168 | 204 | 233 | 206 | 211 | 263 | 278 | 308 | 337 | 369 | 493 | 467 |
| Other | 80 | 109 | 150 | 183 | 237 | 270 | 309 | 358 | 425 | 480 | 471 | 527 | 654 |
| *Total* | *1,098* | *1,265* | *1,527* | *1,959* | *2,100* | *2,123* | *2,281* | *2,570* | *2,751* | *2,937* | *3,103* | *3,296* | *3,420* |

Source: SEO Amsterdam Economics, based on DNB *Table 15.3*. OFCs are offshore financial centres, see Appendix B. Direct investments are participating interests and debt capital within a group of companies. This creates differences with table C.1. Also, the OFCs category includes a number of countries that are also counted as being part of Europe. This also creates differences with table C.1.

## Table C.3 Income and expenditure SFIs (entire population, DNB, billions of Euros)

| Primary income/Period | **2004** | **2005** | **2006** | **2007** | **2008** | **2009** | **2010** | **2011** | **2012** | **2013** | **2014** | **2015** | **2016** |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Credited** | | | | | | | | | | | | | |
| Income from equity participations abroad | 40 | 54 | 57 | 90 | 72 | 71 | 109 | 104 | 97 | 104 | 127 | 109 | 128 |
| Interest received within a group of companies | 19 | 20 | 22 | 32 | 35 | 32 | 25 | 29 | 32 | 31 | 36 | 38 | 32 |
| Income from foreign securities | 1 | 1 | 1 | 1 | 2 | 2 | 2 | 3 | 2 | 4 | 2 | 2 | 1 |
| Income from other financial claims against foreign countries | 2 | 2 | 2 | 4 | 5 | 4 | 3 | 5 | 2 | 3 | 3 | 3 | 2 |
| Export of services (royalties) | 9 | 10 | 10 | 13 | 15 | 15 | 18 | 21 | 20 | 21 | 27 | 30 | 33 |
| *Total income* | *70* | *86* | *92* | *139* | *129* | *124* | *157* | *161* | *153* | *162* | *195* | *181* | *196* |
| **Expenditure** | | | | | | | | | | | | | |
| Income from equity participations by foreign countries | 40 | 53 | 52 | 89 | 70 | 71 | 107 | 103 | 99 | 108 | 133 | 116 | 132 |
| Interest paid within a group of companies | 8 | 11 | 15 | 18 | 24 | 19 | 13 | 14 | 15 | 16 | 18 | 20 | 16 |
| Income from Dutch securities | 14 | 11 | 13 | 16 | 15 | 17 | 18 | 22 | 21 | 20 | 18 | 17 | 15 |
| Income from other financial commitments towards foreign countries | 2 | 3 | 4 | 4 | 5 | 4 | 4 | 5 | 2 | 3 | 5 | 5 | 4 |
| Import of services (royalties) | 8 | 9 | 9 | 11 | 14 | 14 | 17 | 19 | 19 | 20 | 26 | 29 | 31 |
| *Total expenses* | *72* | *87* | *93* | *139* | *128* | *124* | *159* | *163* | *157* | *167* | *201* | *187* | *199* |

Source: SEO Amsterdam Economics, based on DNB *Table 15.2*. All items, excluding the import and export of services, fall under primary income. The import and export of services fall under the services account.

# Appendix D Income and expenditure old definition SFIs (including hybrids)

Table D.1 Income and expenditure of SFIs (sample, billions of Euros) according to region, including hybrids

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | | | | | |
| EU-28 | 32 | 41 | 45 | 73 | 91 | 80 | 92 | 101 | 94 | 87 | 62 | 57 | 60 |
| US | 2 | 5 | 11 | 8 | 10 | 9 | 8 | 6 | 9 | 17 | 15 | 12 | 9 |
| Low-tax jurisdictions | 5 | 3 | 10 | 5 | 5 | 5 | 7 | 12 | 6 | 7 | 6 | 3 | 3 |
| Other | 18 | 21 | 26 | 37 | 35 | 39 | 50 | 57 | 64 | 75 | 54 | 45 | 58 |
| Total | 57 | 70 | 91 | 123 | 141 | 132 | 156 | 176 | 173 | 186 | 137 | 117 | 131 |
| **Expenditure** | | | | | | | | | | | | | |
| EU-28 | 26 | 26 | 47 | 63 | 73 | 69 | 86 | 80 | 79 | 70 | 47 | 42 | 43 |
| US | 5 | 40 | 5 | 14 | 20 | 17 | 11 | 16 | 30 | 18 | 40 | 20 | 20 |
| Low-tax jurisdictions | 2 | 2 | 4 | 6 | 21 | 17 | 23 | 28 | 31 | 31 | 15 | 17 | 19 |
| Other | 16 | 14 | 5 | 10 | 15 | 10 | 8 | 13 | 20 | 17 | 19 | 19 | 20 |
| Total | 48 | 82 | 61 | 93 | 129 | 113 | 128 | 137 | 161 | 136 | 121 | 99 | 101 |

Source: SEO Amsterdam Economics, based on DNB Microdata.

Table D.2 Income and expenditure of SFIs with expenditure to low-tax jurisdictions (sample, billions of Euros) including hybrids

| | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 2016 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Income** | | | | | | | | | | | | | |
| EU-28 | 7 | 16 | 13 | 24 | 41 | 34 | 53 | 55 | 51 | 48 | 29 | 24 | 28 |
| US | 1 | 1 | 1 | 1 | 2 | 2 | 5 | 3 | 4 | 7 | 4 | 1 | 2 |
| Low-tax jurisdictions | 0 | 2 | s* | 2 | 2 | 4 | 6 | 10 | 4 | 5 | 2 | 1 | 1 |
| Other | 7 | 8 | s* | 15 | 14 | 11 | 16 | 26 | 28 | 41 | 28 | 18 | 20 |
| Total | 14 | 27 | 13 | 43 | 59 | 52 | 79 | 95 | 87 | 101 | 63 | 43 | 51 |
| **Expenditure** | | | | | | | | | | | | | |
| EU-28 | 3 | 10 | 9 | 15 | 19 | 14 | 18 | 15 | 16 | 20 | 5 | 7 | 8 |
| US | 2 | s* | 2 | 7 | 6 | 5 | 3 | 3 | 18 | 6 | 14 | 1 | 1 |
| Low-tax jurisdictions | 2 | 2 | 4 | 6 | 21 | 17 | 23 | 28 | 31 | 31 | 15 | 17 | 19 |
| Other | 1 | s* | 1 | 3 | 4 | 4 | 2 | 6 | 10 | 9 | 3 | 6 | 2 |
| Total | 9 | 12 | 16 | 30 | 50 | 40 | 45 | 53 | 75 | 67 | 38 | 30 | 31 |

Source: SEO Amsterdam Economics, based on DNB Microdata. s* means 'suppressed' on account of DNB disclosure rules.

# Appendix E Monitoring committee

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Luuk Bosch, Ministry of Finance
Krista Bruns, Ministry of Finance
Krit Carlier, De Nederlandsche Bank
Norbert Fuhler, Ministry of Economic Affairs and Climate Policy
Michiel van Goor, Ministry of Finance
Theodoor de Jong, Ministry of Finance
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