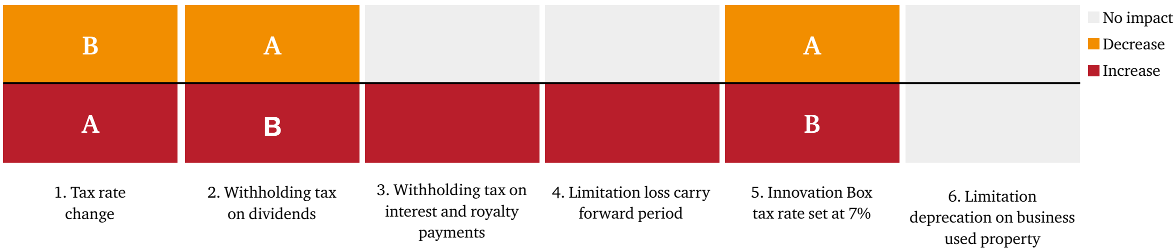
At a glance

Tax accounting considerations of Dutch coalition agreement

On 10 October 2017, the new Dutch coalition published an agreement in which they announced plans for several tax measures.

As you may have become aware through various media publications over the last month, the new Dutch coalition have announced several measures in a coalition agreement. Included in the tax paragraph of this coalition agreement several measures have been announced to strengthen the Dutch investment climate. PwC has prepared a publication in which the corporate tax measures, which are not yet legislative proposals, are discussed. These measures, when (substantively) enacted, will also have tax accounting implications. The key takeaways (under IFRS) are outlined below per measure.

Potential effective tax rate impact



1. Tax rate change

The standard corporate income tax rate (CIT) will be reduced in steps from 25% to 21%. The CIT rate will gradually be reduced to 21% as per 2021 in the following manner:

	2018	2019	2020	2021
Income ≤ EUR 200,000	20%	19%	17.5%	16%
Income > EUR 200,000	25%	24%	22.5%	21%

This proposed changes in tax rate are expected to be (substantively) enacted at the same time. Once (substantively) enacted, this will impact the measurement of the deferred taxes on the balance sheet which could potentially lead to complex scheduling issues. Re-measurement of existing deferred taxes could impact the effective tax rate (ETR) as follows:

A Re-measurement of existing deferred tax assets (DTAs), when applying a lower tax rate, would lead to lower DTAs which could lead to an increase of the ETR.

B Whereas the re-measurement of existing deferred tax liabilities (DTLs) would lead to lower DTLs which could lead to a decrease of the ETR.

Note that an assessment needs to be made of how the impact of the tax rate change on deferred taxes should be reported in the financial statements, either in P&L, equity or other comprehensive income (i.e. backwards tracing).

2. Withholding tax on dividends

Dividend withholding tax will be abolished for regular situations (i.e. situations that are deemed not to be driven by tax avoidance). This proposed abolishment could impact both DTAs and DTLs:

A Recognition of DTLs for outside basis differences (e.g. unremitted earnings of foreign participations) could be affected at the level of foreign shareholders, with either direct or indirect Dutch participations, which could lead to lower DTLs (i.e. decrease of the ETR).

B Recognition of DTAs for the Dutch re-distribution withholding tax credit ('dooruitdelingsfaciliteit') could be affected which could lead to lower DTAs (i.e. increase of the ETR).

3. Withholding tax on interest and royalty payments

Withholding tax on outgoing royalty and interest payments will be introduced in specific cases of abuse. Amongst others this may be the case if interest or royalty payments are made to certain low-tax jurisdictions. Consideration should be given on how this proposed withholding tax is presented in the financial statements of the recipient, i.e. above the line or below the line. When applying the latter, this would increase the ETR.

4. Limitation loss carry forward period

The carry forward period for net operating losses will be limited to 6 years (currently this period is 9 years). This proposed limitation of the loss carry forward period could impact the recognition of DTAs for net operating losses in case the underlying profits forecast exceeds the proposed 6 year carry forward period. If so, this could lead to lower DTAs (and an increase of the ETR).

5. Effective Innovation Box tax rate set at 7%

Profits from research and development are taxed at a favorable rate of 5% in the Netherlands under the innovation box regime. In the future the effective tax rate will increase to 7%. Depending on the applied methodology to determine the tax base, this proposed change in tax rate could lead the re-measurement of the deferred taxes relating to the Innovation Box activities as follows:

A Re-measurement of existing DTAs when applying a higher tax rate could lead to higher DTAs which would lead to a decrease of the ETR.

B Whereas the re-measurement of existing DTLs could lead to higher DTLs which would lead to an increase of the ETR.

Please note that, on 23 November 2017, the Lower House approved the Tax Plan 2018 bills in which this proposed amendment has also been included. If this specific measure is also approved by the Senate before yearend 2017, it would become (substantively) enacted.

6. Limitation deprecation on business used property

For all buildings, depreciation will be limited to 100% of the actual value (according to the Valuation of Immovable Property Act). Currently, buildings that are used for a company's own activities may still be depreciated up to 50% of the actual value. This proposed limitation of depreciation could lead to future book-to-tax differences for which DTAs may have to be recognized.

We help you gain a clear view of tax risks and opportunities so you can create transparent reporting and enhance enterprise risk management.

Do you have questions? Want more information?

Our Tax accounting experts can assist you with assessing the potential impact of these measures on your financial statements to ensure that you, and your stakeholders, are not caught off guard once these measures become (substantively) enacted. In addition, you can get in touch to find out more about how PwC can assist with a (re)assessment of your current income tax accounting.

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