



## INVESTORS' AGENDA OF PRIORITY POINTS

### **The 2012 Investors' Agenda of Priority Points**

**Doing what works to create a  
stronger Netherlands**

## Introduction and Executive Summary

These are turbulent times for people, government and business.

The European Union is having difficulties returning its member economies to the path of high growth and vigorous job creation. In the euro zone, financial crises have forced out two governments - replacing the elected representatives with appointed technocrats charged with restoring order. Concern about the institutional integrity of the euro zone – key to the architecture of modern Europe – continues to mount. Furthermore, in 1980, children in the EU outnumbered pensioners by 36 million, but now the total European Union population contains six million more over-65s than under-14s.

Many countries must overcome structural barriers to competitiveness, growth, and job creation through multi-year reforms of labor markets, pensions, housing, and economic governance. Only a few countries, including Germany and the Netherlands, are benefiting from years of steadfast (and underappreciated) reforms. However, even in these countries change on many fronts cannot be avoided for the EU to remain competitive. These changes may challenge traditional mindsets, processes and even governance systems.

Uncertainty will mark the Netherlands and EU. People are worried about their futures, with a growing number of parents fearing that their children may end up significantly worse off. Unfortunately, things will likely become even more unsettling in the months ahead.

This year's Priority Points finds its presentation in the wake of the collapse of the minority government and the beginning of the campaign for the elections of a new government in September. The so-called *Kunduz Coalition*, formed to determine the blueprint of a budget that can conform to the EU's Stability and Growth Pact, has demonstrated that decisive action can be taken when the need is there. Budget cuts and institutional reforms are unavoidable to ensure the nation's financial stability the economy's growth prospects. The Netherlands is in a better position to institute such change than many EU countries and must take advantage of this to maintain its competitive edge. Creative thinking by all political entities is needed to find common ground to maintain the country's lead in attracting both foreign and domestic investment.

**Employability:** AmCham encourages measures to increase all forms of diversity, including effective engagement of older employees. AmCham emphasizes the need for policy to encourage individuals to work on their own employability. Such policy should focus on building flexibility and employability as a natural expectation of the nation's citizens with openness to change, supported by formal and business in-house education.

**Innovation:** Innovation is the key to meeting national and global challenges. Continuous investment in education provides the feed source. Non-discriminatory generic policy is also essential to encourage entrepreneurial initiatives for finding creative solutions to the complex problems that the economy faces. Innovation in the virtual infrastructure is a tool to increase mobility and reduce congestion problems – leading to a more efficient network for the country to promote itself as a distribution hub for industry within the EU.

**Gateway Branding:** The Netherlands has a historical strength as an outward reaching and gateway nation. The desire and curiosity to travel, multiple language capabilities and a facility to engage with other cultures have all contributed to economic success and cultural enrichment. This is one of the main reasons why international parties chose to locate in the Netherlands. These qualities will also enhance the country's ability to participate in transnational and open source collaboration. Turbulent times can result in a strong inward focus. AmCham encourages alertness in keeping up these differentiating qualities.

**Strategic acquisition:** The Netherlands is an attractive location to invest – witness its popularity among US companies as one of the most intensely US-source invested countries in the world. The country can do more to communicate effectively and clearly this message to potential new investors. We support the agenda for action, as produced by the Priority Team Headquarters (*Topsteam Hoofdkantoren*) to improve and maintain the position of the Netherlands as a location for international

and regional headquarters. In particular we support the recommendations related to promotion and acquisition including central management of acquisition efforts, an all-encompassing acquisition strategy and a more effective Holland Branding.

On the tax front AmCham compliments the Dutch government on its efforts to establish and further improve the innovation box and to incentivize innovative entrepreneurship. We also continue to stress the need for longer term stability and predictability in tax legislation.

### ***The Priority Points***

#### ***Stimulate labor flexibility and engage in strategic (labor) immigration policy:***

Support diversity and employability programs with policy to combat labor shortages.

Stimulate the development of skills for the future.

Maintain global perspective and language capabilities.

Consider recruiting abroad and points system in immigration for scarce resources

#### ***Innovation stimulation in the Netherlands:***

Provide continuous investment in education, talent and initiative.

Ensure that the conditions for businesses are conducive for innovation - less red tape and sufficient tax and other incentives for small innovative companies.

#### ***Tax measures:***

Ensure stability, consistency, predictability and simplicity in tax legislation.

Adopt the proposal of the Chairman *Topteam Hoofdkantoren* in respect of interest expense relating to the financing of subsidiaries.

Simplify the existing interest deduction limitation rules to increase clarity among the business community.

Have tax losses carried forward indefinitely.

Reduce the tax wedge on labor

Conclude tax treaties with important trade partners and with emerging economies with high growth

## **STIMULATE LABOR FLEXIBILITY AND ENGAGE IN STRATEGIC (LABOR) IMMIGRATION POLICY**

In the near future the Dutch economy will be confronted with a significant mismatch in supply and demand for qualified labor. Retiring baby-boomers create opportunities for youth employment, but skills and ambition must also match the needs. High unemployment in some EU countries will encourage skilled labor to migrate from other EU countries. However, the aging population and static (or too slowly moving) pension cut-off point will create shortages that natural immigration movement alone cannot compensate.

The country's productivity needs to increase substantively to maintain the standard of living for future generations. This implies new policies and investment in diversity, education and stimulating innovation. The knowledge and skills that people possess directly influence their life chances - *employers look to continued employability*. There is overwhelming evidence that the better qualified individuals are, the stronger their chances of contributing productively in a well-paid job and living longer healthier lives.

### **Explanatory Remarks**

#### **Support diversity and employability programs with policy to combat labor shortages.**

Diversity level 1 aims to increase participation and engagement of existing (potential) workforce in current scenarios. Practical points that should be included in the discussion include:

- raise efforts for training, tools and key performance indicators to monitor objectives;
- raise the number of female role models in business;
- debate discontinuous career paths for both men and women;
- use *het nieuwe werken* as a tool to increase labor flexibility;
- stimulate dialogue and policy on different (life-cycle) career path patterns.

Diversity level 2 (older workforce/ immigration) is driven by demographic trends. The aging population will cause an imbalance between those contributing to and drawing on social systems. As the age at which young people leave fulltime education or training increases, so working lifetimes need to be extended to contain the rising cost burden placed on prime-age taxpayers, and ensure that there are enough people to meet expected future demand for workers. This means that:

- Legislation or other mechanisms are needed to encourage employers to train – and hire – older people; CAOs with cost increasing benefits for older workers need to be reviewed.
- Further and higher education funding may need to change, and flexible part time provision increased, in order to allow and encourage older people to acquire new skills.
- Social dialogue is needed about career path expectations. The current norm is to retire at the highest possible position. Taking a step aside, or moving to a job with less responsibility and pay, is generally seen as a loss in status or failure. A more “S-shaped” path would increase the opportunity for work/life balance, bring experience closer to the line and open opportunities for younger employees. Companies are discussing this approach; social and fiscal support would be critical to success.

The mismatch in labor will also force the country to be open for e.g. skilled technicians and craftsmen - first from EU and then non-EU countries. A strategic approach is needed to communicate vacancies and facilitate immigration for targeted skills.

#### **Stimulate skills for the future**

Potential employees of all ages and training providers alike need access to effective information, advice and guidance to ensure that supply is available to meet the following and other emerging areas of demand for employment and skills.

Many new jobs and skills will be required as industry and services evolve and recover over the next 10 years. While the supply of university graduates in many disciplines may exceed the quantity of jobs available, there is still a need for more science and technical graduates at both the university and

high school levels. There is also likely to be a rising demand for craftsmen and technicians – in manufacturing, in maintenance services, in health services across a range of sectors driven by:

- Growing technological complexity – driving up skill levels across the production sectors;
- The growing attention given to higher value-added product market strategies – accentuating the need for higher skills at intermediate level;
- Changing skill mix in some professions, including public and professional services.

The customer care and service industry will grow with increased demand for personal service occupations, in particular care assistants. Demographics and female participation in the labor market require care services for both younger (particularly preschool) and older age groups. The level of service that care givers have to offer will rise with advances in assisted living for the elderly, and increasing attention for the impact of early years childcare on life chances. Growing skill demands will not be confined to frontline care givers. With public expenditure likely to be under continual pressure over the next decade, the management of care services will require continual innovation, careful financial management and persistent commitment to providing a high quality service.

### **Maintain global perspective and language capabilities**

AmCham commends the Netherlands for its initiatives to facilitate a company's entry to the country. The ease of assimilation in a country and working with employees in that country is a strong drawing card for international companies. This includes language and being able to participate in corporate cultures that may be different from national cultures.

A number of AmCham members, also look at the ability of their personnel to effectively engage in and with other countries – for joint projects or assignments. This is an advantage for which the Netherlands is known. Even though the command of spoken English has become close to universal in the Netherlands, we note that the quality of written language and diversity of languages has decreased. These are skills that need to be introduced early in the educational system.

Dutch people are renowned for their love of travel; this can be extended to business. Policy that encourages learning experiences such as staff exchange, coop assignments (*stages*), foreign assignments and study abroad for public and private positions would build on this natural strength. AmCham is encouraged by the initiatives for bi-lateral visa agreements and requests attention for facilitating the process to bring trainees to the Netherlands for extended periods.

### **Consider recruiting abroad and a points system in immigration for scarce resources**

As mentioned earlier, there are (anticipated) shortage in specific fields, such as technology and skilled craftsmen. The Dutch government has initiated programs to stimulate technical studies at both the secondary and tertiary education levels. More can and should be done to stimulate greater numbers of secondary students to choose technical vocations. Greater attention is also being paid in the media for these issues – which may help in making students better aware of which choices they can best make to ensure their best chances of employment after completing their education.

However, immigration is likely to be needed to meet the required numbers and timing. Other countries such as Australia and Canada apply strategic immigration policies in which they actively advertise for required skills and use a transparent points system in granting visas. In this way, the right applicants can be made aware of the opportunity and be attracted to the Netherlands by the predictability of having a successful outcome. Embassies and Consulates could play a role in facilitating this process, much in the same way as they currently support bi-lateral commerce and trade missions. Specifically in Europe, the Netherlands could be a front-runner in promoting a European Talent Mobility center. Such a proactive and enabling government role would help give small and mid-size firms more access to qualified, employable international resources.

## **STIMULATING INNOVATION IN THE NETHERLANDS - IMPLEMENT WHAT WORKS!**

Innovation is about far more than the funding of research and science and product commercialization. The Netherlands thrives only if a critical mass of business enterprises and workplaces are consistently innovating – not just with next generation products, inventions and technologies, but in their operations, organization, relationships and business models. The country's traffic infrastructure can benefit by pursuing innovative solutions given by progress in the virtual infrastructure.

Business innovation today is not an easy thing to do and to sustain. We live in a connected, global knowledge economy, where ideas, capital and even people can be accessed with the click of a mouse. So what makes a business novel, distinctive, valued by paying customers and hard to copy? Competing on innovation and knowledge is decisive to successful business performance for firms and to sustainable prosperity for nations.

It is vital that the Netherlands is well endowed with innovative firms and workplaces. The key to this is deftly enhancing the opportunities and environment for business enterprises to innovate.

To do this we must be alert to the hidden realities of business innovation and the changing face of innovation that is no longer the province of the lone inventor or adept technologist. Innovation in the first decades of the 21st century is more open and pervasive, characterized by skill in collaborating and making connections so that knowledge flows and grows, and so becomes available to meet customer and community needs.

### ***Explanatory Remarks***

#### **Invest more in education, talents and skills.**

High quality human capital is critical to innovation. Equipping a country's people with the skills to innovate is essential, not only for the generation and application of new knowledge, but also to use and adapt the knowledge produced elsewhere.

Building high quality human capital requires attention at all levels of education – early childhood education and schooling (the most important) through vocational education and training and higher education, and into the workplace.

It is most assuredly the case that high quality education is about far more than funding. Even so, it is imperative that our educational institutions do receive adequate funding and it is likely this will require a substantial increase in funding at – at least – the pre-school and primary level. The quality of a child's early education years is critically important for their later educational attainment.

#### **Ensure that the conditions for businesses are conducive for innovation - less red tape, a level playing field and sufficient tax and other incentives for small innovative companies.**

Markets in which people compete for private gain can only come into existence against a backdrop of shared practices and expectations. Because these 'rules of the game' are a public good, governments are unsurprisingly involved in their provision and enforcement. Firms and people are fundamental to successful innovation.

Government has an important and strategic role to play in facilitating this innovation where it is confident, firstly, that there are structural impediments to markets doing the work and, secondly, that government involvement will generate more benefits in addressing these problems than it will generate in collateral costs.

The prime role of government, therefore, is to create *non-discriminatory generic policy* that is supportive of anyone with an innovative idea and entrepreneurial talent. Recent governments are to

be commended for their focus on reducing restrictions to entrepreneurial activity. A further reduction of red tape and ensuring sufficient tax incentives for innovation is encouraged to enable the country to better develop the comparative advantages and skills it needs to ensure its future prosperity.

It is also essential that – with increasing amounts of standards directives coming from the EU – that the Dutch government ensures that implementation of these directives into national legislation does not exceed the standards of the directive itself. Business is most conducive in a level playing field environment.

## **TAXATION - CONSISTENT, PREDICTABLE & SIMPLE**

A competitive tax system is crucial for any country trying to attract foreign investors. In recent years various European countries have made their tax system more attractive in order to be more successful in the increased competition for foreign investments. For many years, the Netherlands has reaped the benefits of an innovative and competitive tax system. However, many of the distinct features that have historically contributed to the attractiveness of the Netherlands tax system (participation exemption, advance ruling practice, no withholding taxes on interest and royalties, wide network of tax treaties) have now been copied and adopted, sometimes in a more generous manner, by other countries. This convergence underlines the importance of the Netherlands being able to continue offering an attractive tax system for foreign investors.

We would like to highlight two features that contribute to the investment climate in the Netherlands.

First, AmCham compliments the Dutch government on its efforts to establish and further improve the innovation box and to incentivize innovative entrepreneurship. The innovation box, WBSO and newly introduced R&D deduction all contribute to a climate in which investments in innovation is encouraged.

Second, AmCham believes that the relationship enhancement through horizontal monitoring programs has, in many cases, contributed to taxpayers being able to better manage their tax risks proactively. Horizontal monitoring is based on mutual trust, transparency and understanding and requires quality input from both the taxpayer and the Dutch Revenue. AmCham expresses the hope that the horizontal monitoring program will not be affected by expenditure cuts (e.g., reduction of labor force in Dutch tax administration).

The attractiveness of the Netherlands as an international location of choice will, in the view of the AmCham, be improved through implementation of the following priorities.

- Ensure stability, consistency, predictability and simplicity in tax legislation.
- Adopt the proposal of the Chairman *Topteam Hoofdkantoren* in respect of interest expense relating to the financing of subsidiaries.
- Simplify the existing interest deduction limitation rules to increase clarity among the business community.
- Have tax losses carried forward indefinitely.
- Reduce the tax wedge on labor.
- Conclude tax treaties with important trade partners and with emerging economies with high growth.



## **Explanatory Remarks**

### **Ensure stability, consistency, predictability and simplicity in tax legislation**

AmCham strongly believes that one of the most important factors in making the Netherlands a location of choice for US multinationals is to keep the Dutch tax system consistent, predictable and simple.

In this respect there have been some positive developments. In particular, the AmCham supports the elimination of a number of “small” taxes in order to reduce the administrative burden for businesses (e.g., the packaging tax). Also the increased availability of a wide range of tax incentives for businesses conducting R&D activities in the Netherlands and the amendments to the participation exemption in recent years are well received by the international business community.

The reintroduction of legislation restricting the tax deduction of interest expense by acquisition holdings has not contributed to the stability of the tax system. However, it is fair to note that the legislation which was adopted in the end, does result in a relatively simple calculation of the tax deductible acquisition interest expense over a number of years.

The AmCham endorses the neutrality principle as formulated in the 2011 Fiscal Agenda, meaning that the budgetary revenues resulting from the introduction of anti-abuse measures will flow back to corporate taxpayers by using same to reduce the corporate tax rate. Accordingly, the AmCham does not advocate funding a *temporary* reduction of the real estate transfer tax from the budgetary revenues resulting from a *permanent* broadening of the taxable base for corporate income tax purposes.

### **Adopt the proposal of the Chairman *Topteam Hoofdkantoren* in respect of interest expense relating to the financing of subsidiaries**

AmCham is of the view that perceived abuse of the deductible participation interest can be prevented with existing instruments (article 10a DCIT, anti-erosion rule and 10d DCIT, undercapitalization, *fraus legis* doctrine). AmCham further believes that the introduction of a participation interest anti-abuse rule will have a significant adverse impact on the tax position of regional headquarters located in the Netherlands.

However, if the government pursues the introduction of a measure to restrict the deduction of participation interest, the AmCham recommends that the proposal of the Chairman *Topteam Hoofdkantoren* (as outlined in his opinion dated June 17, 2011) is adopted. This opinion clearly advises against the introduction of a *generic* anti-abuse provision as such provision will damage the Dutch investment climate. If a *specific* anti-abuse provision is introduced, then the scope of such provision should only affect clearly defined abuse situations. If an alternative direction is chosen to deal with participation interest, for example the introduction of an earnings stripping rule, then we recommend that the effect of such potentially far-reaching measure is thoroughly reviewed in advance through a consultation with all stakeholders involved.

### **Simplify the existing interest deduction limitation rules to increase clarity among the business community**

In recent years the Netherlands has created complicated detailed interest deduction rules, addressing various factual situations where it was considered appropriate to disallow the deduction of interest expenses. In 2011, new rules were introduced restricting the tax deductibility of interest expenses relating to acquisition holdings. In 2012 it is possible that some form of restriction on participation interest expenses will be introduced. These rules are added to, and piled on top of, the existing vast and complex legislative framework of anti-abuse regulations. The AmCham believes that it is now the time to simplify the rules and to critically assess which interest deduction limitation rules can be abolished or integrated.



### Have tax losses carried forward indefinitely

Limited loss compensation rules may result in companies paying tax on more profits than the amount that they have economically generated. The indefinite loss carry forward combined with the three year carry-back rule has for many years been an attractive feature of the Dutch tax system. In light of the current economic climate, reinstating the ability for a loss carry forward to be applied for an indefinite period would create much needed certainty in unpredictable times. Likewise, the reintroduction of the three year carry-back rule would provide a justified incentive to companies that are faced with challenging economic conditions.

### Reduce the tax wedge on labor

The AmCham supports the intention of the government to reduce the tax on labor, taking into account budgetary constraints. Reducing the tax wedge (cost of employment compared to net wages) improves the competitiveness of the Dutch economy.

### Conclude tax treaties with important trade partners and with emerging economies with high growth

The AmCham would support a stronger focus of the existing capacity of the Ministry of Finance to conclude new or improved treaties with emerging countries in Latin America, Asia and Africa. In this respect the AmCham is of the view that to maintain the gateway function of the Netherlands, in all treaties concluded by the Netherlands it should be secured that regional headquarters of US multinationals qualify for the treaty benefits.

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### About AmCham

The American Chamber of Commerce in the Netherlands (AmCham) is a **non-profit, non-governmental, non-political, voluntary** organization of companies and individuals involved in investment and trade between the United States of America and the Netherlands. The Netherlands is one of the most important destinations for US direct investment in Europe. American direct investment (stocks and capital flows involving some 2,000 companies) in the Netherlands amounts to over \$520 billion (source: US Department of Commerce, 2011). American companies directly employ about 225,000 people in this country. Indirectly another 225,000 more jobs are dependent on US investment here - increasingly in knowledge intensive businesses.

**AmCham is concerned with matters affecting the investment climate in the Netherlands.** We actively promote increased US investment in the country. We make sure that potential investors understand the well-known advantages of the Netherlands, which should be built upon:

- The Gateway to Europe with Schiphol Airport and the Ports of Rotterdam and Amsterdam;
- A workforce with impressive language skills, trained at excellent schools and universities;
- An environment that stimulates and supports innovation;
- A stable and safe political, economic, labor relations, taxation and monetary environment.

Annually we publish our *Investors' Agenda of Priority Points* – policy suggestions and initiatives to make the country more attractive to (foreign) investors. We seek open dialogue and debate regarding the Priority Points with political parties, social partners and Government.