Information Sheet No. 39

Investing into Poland

USING THE DUTCH SANDWICH TO INVEST INTO POLAND

The "Dutch sandwich" investment strategy has long been a popular route for investment into Poland. A Netherlands BV holds the shares of a Polish company and it is in turn owned by an NV in the Netherlands Antilles.

In recent years, the 8.3% withholding tax levied on dividends paid from the Netherlands to the Netherlands Antilles has reduced the attractiveness of this route. However, a new agreement signed between the governments of the two states on 1 December 2005 puts the Dutch Sandwich firmly back on investors' menus.

Any Netherlands Antilles company owning at least 10% of the share capital of a Netherlands company will qualify for a 5% rate of withholding tax from the Netherlands. Tax credit will be given against withholding tax suffered on dividends from a foreign subsidiary to the Netherlands intermediate holding company up to a maximum of 3%, leaving an effective withholding tax rate of just 2%. A Dutch BV is normally exempt from taxation on dividends received from subsidiaries and upon capital gains made from the sale of holdings in subsidiaries.

If the shareholders in the Netherlands Antilles company are banks, quoted companies, pension funds or insurance companies, the rate is reduced to 0%. Also reduced to 0% is the rate for Netherlands Antilles entities that invest their dividends in certified projects or deposit with the Recovery Bank, even though investing with the Recovery Bank is not recommended since governing rules have not yet been established.

In a unique move, the government of the Netherlands Antilles is offering any shareholder in a Netherlands Antilles company, which owns at least 10% of the share capital of a Netherlands company but does not fall into one of the above categories, the possibility to qualify for the 0% rate.

The shareholders have to agree to place their dividends into a newly created Recovery Bank which will invest in local redevelopment projects. Twenty-five percent of the dividends can be extracted tax free after two years and the remaining 75% after another two years.

To keep the Dutch Sandwich fresh, the governments have agreed that if the Netherlands concludes more favourable arrangements with Cyprus or Malta, the withholding tax regime with the Netherlands Antilles will be revised.

The new arrangements were scheduled to come into effect in the first half of 2006.

NOTES:

The above is intended to provide a brief guide only. It is essential that appropriate professional advice is obtained. P.G. Economides & Co Ltd will be glad to assist you in this respect. Please do not hesitate to contact us.

June 2014