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Budget Day in the Netherlands. A memorable day for the Dutch and a glimpse into the future for Europe.

The Festival of Democracy, or, as the Dutch call it, "Prinsjesdag", was upon us again last week. On Tuesday September 20, the traditional Glass Carriage rode through The Hague, after which King Willem-Alexander read his speech from the throne. After the speech, many of us reflected and tried to understand the impact that the new plans will have on businesses, citizens and society as such. Not only is it important to understand to impact of the new plans for 2023 from a Dutch perspective, the many changes, in many ways, also reflect the state of the economy within the European Union. We noticed a lot of buckets, but we could not find out yet who will be in charge of fixing the roof.

Immediate considerations

This year, not entirely unexpected, the King's speech received extra attention. The invasion of Ukraine, unprecedentedly high inflation and skyrocketing energy prices clearly have had their effect on the plans of the Dutch government. With inflation at 13 percent and an average wage increase of 4.5 percent, Dutch people's purchasing power declined significantly already. The Dutch cabinet has announced ambitious plans to make to make the Netherlands the country it was before all turbulence began. In total, the cabinet will spend close to 400 billion euros in 2023 which includes an additional 17 billion euros for the so-called Purchasing Power Package: more income and lower energy bills.

Increased Climate Goals ambition and enabling the Energy Transition

Substantial measures must be taken to prepare the Netherlands for a climate neutral and circular economy by 2050. To achieve the climate goals, an acceleration of the emission reduction is necessary. The cabinet is working on a proposal to record this in the Climate Act. The target of a 95% reduction in 2050 will be tightened up to an obligation for the Netherlands to reduce net emissions of greenhouse gases to zero by 2050. The legal target of a 49% reduction in 2030 will be replaced by a target of at least a 55% reduction. The government wants to achieve the tightened target of a 55% reduction by 2030 with sufficient certainty. That is why the government wants to focus on a 60% emission reduction when developing its climate policy, so that the 55% is not jeopardized even in the event of setbacks.

To achieve the new climate goals, the cabinet has established a Climate Fund of 35 billion euros for the next 10 years, on top of existing investments and subsidies. The government is investing heavily in innovation, such as hydrogen (145 million euros in 2023 alone). Subsidies that enable the continued use of fossil fuels, such as CO_2 capture and storage, are reduced.

The cabinet also wants to tighten up the existing legislation for the CO_2 levy for industry. A minimum CO_2 price for the industrial sector will be introduced.
This guarantees that if the European ETS Carbon price falls below a certain minimum, a national tax will be levied. This gives the industry more certainty, which is important for making investments that are necessary for further sustainability.

A more standard setting Dutch government when it concerns technology and digitization

Although technology was not specifically mentioned during the throne speech, the cabinet has made it clear that digitization offers many opportunities and is therefore committed to a strong European digital market, high-quality infrastructure and an ambitious cooperation in technological innovation. At the same time, they indicate that digitization also brings risks such as disinformation and digital attacks. Therefore, they are going to pay more attention in 2023 to a secure, inclusive and enabling digital society that protects public values and fundamental rights, by acting more than before, taking normative action towards public and private parties. The latter sentence speaks volumes whereas the Dutch government is going to be more prescriptive. That means more actively setting standards through legislation, supervision and policy rules regarding digitization and new technologies.

Where it certainly will not turn a blind eye are matters concerning cyber. The 2021 Dutch Security Monitor showed that cybercrime victims have almost reached the same levels as traditional crime. The ever-increasing digital society is more and more depending on technology and digital processes, creating a weak spot within information flows. Digital security does not stop at the Dutch border and cybersecurity therefore has high priority. Strengthening investigative capacity in the digital domain is one of the digital objectives this cabinet has taken. Central to this approach in 2023 is a review of the system and the implementation of the NIS, as well as the Cyber Resilience Act (CRA). The recent published text of the CRA shows that new aggravating requirements will apply to manufacturers. Active notification requirements for exploits, incidents, vulnerabilities, obligation to report vulnerabilities during expected life expectancy are just a few examples.

Developments within the Netherlands naturally go hand in hand with developments in Europe. The Netherlands is seen as a leader in terms of cyber knowledge and a rich landscape of companies offering all kinds of cyber-related services and products. From cyber insurance to Technical Universities filled with students brimming with knowledge.

It is therefore no surprise that the Netherlands is well represented in Brussels during the negotiation of various cyber legislation projects. The European framework being developed will have to contribute to a safer, more stable, more innovative Europe, and thus the Netherlands. NIS2 and the CRA affirm that the days of turning a blind eye are over.

Whereas with the GDPR you are fined ex post, with these two acts fines will be able to be imposed ex ante. What is similar to the GDPR, however, is the amount of the fine, and they are not cheap: up to 2% of global turnover.

Netherlands keeps its name in honour: the 'Gateway to Europe'

In recent decades, the Netherlands has recognition as the Gateway to Europe. Exemplary for the Netherlands' infrastructure and hub function for the continent are the Port of Rotterdam, Europe's largest port and world's 9th largest, and Amsterdam Airport Schiphol, a major European cargo and passenger hub. These hubs, the country's extensive network of logistical service providers and its strategic location, make that the Netherlands plays an integral role in many of the continent's supply chains. The government will invest 4 billion euros in infrastructure next year and 1.25 billion euros extra per year will go to maintenance.

Although the supply shock of the pandemic is subsiding, new disruptions, such as the consequences from the conflict in Ukraine, are putting pressure on value chains globally. This has reinforced the need for businesses to increase resilience of their supply chains. In this respect many organizations are either considering or acting on the trend of near- and reshoring critical links of their supply chain. To determine the most efficient and compliant structure of their chain's, organizations are placing an increased focus on transparency and visibility. Keeping an eye on proposed directives within the European Union (such as on supply chain due diligence), this voluntary exercise will likely evolve in a compliance system rippling through supply chains both upstream and downstream. Although, the global structuring of supply chains is becoming more and more complex, due to its ongoing investments, infrastructure and innovative capabilities, the Netherlands is and will remain one of the major hubs within Europe.

International tax matters

Even though the vocal points of this year's Budget Day were more climate related, there are still various international (corporate) tax items that could have a notable impact on businesses. One of the main changes is that the step-up rate for the first corporate tax bracket is going to increase from 15% to 19%. In addition, the limit for the first bracket will be reduced from 395,000 euros (bracket limit since 2022) to 200,000 euros per January 1, 2023.

As a result, businesses will pay the high corporate income tax rate of 25.8% when their taxable profit exceeds 200,000 euros. Moreover, for a while there has been significant public scrutiny on the state of the housing market in the Netherlands. As such, there has been a cry to reduce tax benefits for real estate investors that are seen by the public as a significant instigator of the overheated housing market.

In that context, it was proposed on Budget Day to increase real estate transfer tax on non-residential properties and acquisitions of properties by legal entities by January 1, 2023. The real estate transfer tax rate will no longer be 8% but will be increased to 10.4%.

The Dutch government has also announced that additional measures will be introduced to prevent misuse of exemption for Dutch dividend withholding tax (so-called dividend stripping). Also, it is expected in the second quarter of 2023 that a legislative proposal will be published in relation to the qualification of (foreign) legal forms whereby it is the expectation that the Dutch legal entity CV, which is now liable to corporate income tax, will be designated as a transparent entity. This is intended to reduce so-called "hybrid mismatches". Hybrid mismatches together with the proposed dividend-stripping measure can be seen as further measure to counteract harmful tax practices, which has been on the political agenda since the initiation of the Base Erosion and Profit Shifting (BEPS) Project in 2013.

A noteworthy absence is a legislative proposal in relation to the 15% global minimum taxation (pillar 2). A draft EU directive was published in December 2021, but no unanimity was yet reached among member states. In response to that, the Netherlands and several other EU jurisdictions published a joint statement on September 9, 2022, stating a commitment to implement Pillar 2 in 2023, even without unanimity on an EU level. On September 20, 2022, however, a legislative proposal was still absent. Pillar 2 is another important movement within a wider trend of the Dutch government's commitment to counteract harmful tax practices. Companies are advised to at least double check whether they are in scope based on for instance the current draft EU directive.

Global Human Capital is also feeling the turbulence

The turbulence is felt everywhere, including when it comes to human capital. Prices for basic products and facility costs are rising faster than the salaries workers receive. This is bound to cause financial difficulties and worries for employees. A great opportunity as an employer to strengthen the relationship with employees by looking together at the possibilities and options from a compensation and benefits perspective.

Given the momentum, we had expected that the Dutch government would seize this moment and accommodate employers to give their employees a boost during this difficult period. Unfortunately, the 2023 Tax Plan does not offer employers many possibilities to do something extra for their employees to compensate for the price increase of energy and groceries. The 30%-ruling will be capped per 1-1-2024 and can only be applied over the first 216,000 euros (current indication).

This continues the cutbacks on the 30%-ruling, making the Netherlands less attractive for top talented employees and executives. Another development is the introduction of new legislation with the possibility for employees to defer wage taxes of stock options to the moment of selling. This in general makes it more attractive for start- and scale-ups to operate from the Netherlands and the Netherlands B.V.

Macro: doing business in Europe

In terms of creating and maintaining a favourable environment for doing business, the Netherlands is still amongst the leading European countries. The country takes a central place in the continent's globalized trading relations. Due to its open and innovative economy, highly talented workforce and efficient (digital) infrastructure, the Dutch economy is highly integrated and influenced by the continent's business activity. In this year's cabinet plans, we see a significant increase in investment to strengthen this position towards the future. Still, there are questions that need answers: how does the Netherlands view a European convention? What will the cabinet do with the billions released from the EU Recovery Fund? And what does the cabinet think of the rule of law violations in Central and Eastern Europe? And more importantly: in what ways does this effect a company that is or wants to operate in Europe?

Whereas during the 2021 throne speech, the Green Deal was included as the rule of law and corona recovery policy in the King's speech, this year there is not a word about it. Although there appears to finally be a push forward on rule of law issues by the European Commission, the EU's climate approach is facing a crucial year, and coronal recovery money is finally loosening up, there are no words for these topics in this edition.

At the same time, we also observe that the European Commission does not tolerate a rebuttal. We already knew about possible suspensions of subsidies to Hungary and Poland. Since last week there is a new threat added by Von der Leyen herself against Italy during a visit to Princeton University. "*We will see the result of the vote in Italy. If things go in a difficult direction, we have tools, as in the case of Poland and Hungary*". It is striking that the Commission will not tolerate right-wing member states and will do everything it can to influence voters.

What effect will this have on elections in other member states? To what extent will this affect the business climate and what risks does it entail? Or perhaps we should be honest and ask ourselves who will follow after Brexit? Many questions, no answers.

Lots of buckets, but who is fixing the roof?

It is clear where the Netherlands will focus its efforts in the coming year. A sustainable Netherlands with a strong focus on innovation and easing the burden on working people in concert with the other member states of the European Union.

Although sustainability is much discussed, the Dutch government also seems to be overlooking some issues. For instance, two well-known issues within sustainability; biodiversity and the circular economy. For biodiversity, the budget still focuses mainly on our own countries nitrogen and agricultural policy. For the built environment, there are many good intentions, but few concrete measures. If we add up the economic and political developments with scarce resources and increased commodity prices, we find ourselves in a difficult place. As a result, the value preservation of raw materials is increasingly on the radar of businesses and consumers. We see plans for a circular economy reflected in ambitions for climate, construction and agriculture goals, but achieving a transition becomes difficult without clear intermediate goals and/or budget.

Innovation and digitization, although not often specifically mentioned during the speech, is woven into the Budget Day document. The aging West will face even more labour shortages in the coming years, and innovation and digitization must provide relief. Education, defence, the digital economy, human rights, financial services, climate change, security and mobility are all part of the plans to make new technologies and innovation indispensable. Europe also seems to have the same message from their Letter of Intent 2023.

Regarding the tax plan, we believe the Netherlands could have made better use of the momentum. In this difficult period, the Netherlands could have made it clear to the country what it stands for. Equality, democracy and public values first. Although the government tries to battle social economic inequality and increasing gender equality by raising the minimum wage, shifting taxes from work to wealth and adjusting the childcare system, it seems like a band aid on a bigger structural problem.

Finally, we also want to name the elephant in the room: Frankfurt, the European Central Bank. The turbulence we see globally is largely due to the agonizing inflation. For years, consumers and businesses could borrow money with minimal interest rates.

Now that global central banks are raising interest rates to halt inflation, Europe is positioning itself toward a dilemma. An increase in interest rates will (with some delay) mitigate the increased price levels, however, will also put pressure on some European economies, their economic performance and ability to (re)finance their sovereign debt.

Closing remarks

To what extent there is political and social support for addressing the range of problems facing the Cabinet and society remains to be seen. That the Cabinet has now announced measures will hopefully help regain confidence. For consumers at least, for businesses, it's a different story. The proverbial bell seems to have rung for businesses. A flood of new legislation on digitalization, sustainability, green working conditions, diversity & inclusiveness, among others, is on its way.

Each of these topics will in turn be linked to new tax rules with each rule an exception to an exception. Never mind the larger macro strategic picture and inflation. It seems like after each stroke with the machete, the jungle gets thicker and thicker. A risky climate for a company with Europe in its sights, but also one with great potential.

As Benjamin Franklin said at the time, "Tell me and I forget. Teach me and I may remember. Involve me and I learn." This is why we will soon invite you to our seminar series where we want to tackle your questions together by identifying the risks, showcasing our thought leadership and how to use scenario planning to seize future opportunities. Creating an approach to crucial matters such as ESG, cybersecurity, international tax and transparency and considerations when trading internationally are some of the topics we will touch upon. We hope to see you then!

For more detailed information and questions, please contact your advisor within one of the RSM-offices:

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