

NOTARIES, LAWYERS, RECHTSANWÄLTE AND TAX ADVISORS

LQ MAGAZINE

TAX LAW ACROSS EUROPE



LEXQUIRE
INTERNATIONAL TAX & LAW

Tax law across Europe

Belgian capital gains tax | Buying property in Spain
Bulgaria investment structures | Poland's tax revolution
Cooperation between different countries | Substance

Colophon

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Foreword

Welcome to the latest edition of LQ Magazine, the tenth issue!

Tax law increasingly extends beyond national borders. European cooperation is growing, tax authorities are exchanging information more rapidly, and tax rules are changing at an ever-increasing pace. At the same time, businesses and investors are increasingly looking across borders for new opportunities. These developments create opportunities but also bring new tax challenges.

In this edition, we therefore focus on the theme of tax law across Europe. We look at developments that affect internationally active businesses, investors and individuals today and in the years ahead.

We explore the growing cooperation between European tax authorities and how increased information exchange is changing the international tax landscape. We also look at countries becoming increasingly attractive for international investment and the choices that must be made when structuring such investments. Bulgaria is an interesting example.

Digitalisation is another key development. The introduction of new digital tax systems, such as KSeF in Poland, shows how quickly the relationship between businesses and tax authorities is changing.

We also turn our attention to cross-border real estate. Spain remains a popular destination for foreign buyers, but purchasing property there involves various taxes and regional differences to consider.

Recent tax reforms in Belgium are also discussed, including the new tax on capital gains from financial assets. Finally, we look at the Netherlands, where the economic reality behind international structures is becoming increasingly important and the concept of substance is playing a more prominent role.

This edition highlights the many facets of international tax law: from European cooperation and digitalisation to investments, real estate and international corporate structures. One thing is clear: anyone operating across borders should keep an eye on tax developments; not only afterwards, but from the outset.

I wish you an enjoyable read,

Gabriel Spera

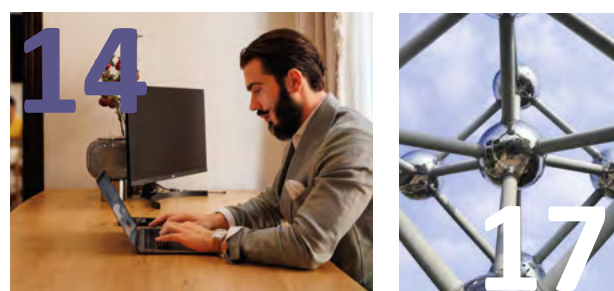
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Thom Wittendorp, lawyer and partner LexQuire International Tax & Law

European taxation – cooperation between different countries

Cooperation within Europe is increasing; information is being shared across various areas. One of those areas is tax law, where cooperation has grown significantly in recent years. European tax authorities are increasingly exchanging information to combat tax evasion and tax avoidance and to gain a better understanding of cross-border activities. This cooperation relates not only to indirect taxes, such as VAT, but also to direct taxes. Although Member States retain their own tax systems, the rules governing administrative cooperation are being steadily expanded. This can have significant implications for businesses operating internationally. What does this mean for your business?

TAXATION IN DIFFERENT EUROPEAN COUNTRIES

The open borders within the European Union offer many advantages, such as living in one country and working in another. This applies just as much to businesses. They, too, can establish themselves in several countries within the EU. However, having a presence in different countries also brings disadvantages. As an entrepreneur, you will have to deal with different tax authorities. After all, direct taxes - such as corporation tax and income tax - are not harmonised. This means that each EU Member State applies its own rules.

To streamline this and to prevent tax evasion and tax avoidance, the European Council has now published a number of directives. This has now prompted the European Commission to draw up

a new proposal aimed at both simplifying and improving administrative cooperation in the field of direct taxation. All of this is set out in a proposal for a directive dated 24 June 2026, also known as COM (2026) 308 final.

METHOD OF COOPERATION BETWEEN EUROPEAN TAX SYSTEMS

The aim of the new directive is to consolidate the DAC Directive and its eight amendments into a single legal framework. This will make the legislation clearer, enhance legal certainty and simplify its application for all parties concerned within the EU. In addition, the proposal contains various simplifications and improvements to the framework for administrative cooperation in tax matters.



Thom Wittendorp, LexQuire International Tax & Law

AUTOMATIC EXCHANGE OF INFORMATION

As the regulations have been further expanded, the focus has increasingly shifted towards automatic cooperation. For example, the source country often provides information to the taxpayer's country of residence. The new directive does not focus so much on a further expansion of data exchange, but aims, amongst other things, to simplify data exchange, whilst also making use of greater automation, improved identification of taxpayers and more efficient exchange between tax authorities.

CONSEQUENCES FOR TAXPAYERS

For taxpayers, the consequences of this proposal are predominantly simplifying, although at the same time the tax authorities' ability to receive and use data is strengthened. The core of the proposal is this: fewer unnecessary reporting requirements for taxpayers and advisers, whilst at the same time providing more and better information for tax authorities through automation, data linking and broader data exchange. For compliant taxpayers, the administrative burden will in many cases be reduced; for taxpayers with cross-border structures, fiscal transparency will, on the contrary, increase.

REPORTING OBLIGATION

This is reflected, for example, in classifying a number of specific arrangements as subject to reporting, in order to gain a better understanding of arrangements used to avoid or evade tax. Persons who devise or set up such an arrangement are to be regarded as intermediaries. They are deemed to have the knowledge to explain the relevance of the arrangement. Only those arrangements that meet one of the essential characteristics need to be reported.

The essential characteristics can be divided into five categories. These are

1. general characteristics, linked to a main benefit test.
2. specific characteristics linked to a main benefit test
3. specific essential characteristics relating to cross-border transactions
4. relating to the automatic exchange of information
5. essential characteristics relating to transfer pricing.

If your company operates in several countries, it is advisable to give this some thought and be aware of these issues.

Administrative cooperation is no longer limited solely to the exchange of data upon request. Increasingly, tax authorities are automatically receiving information on, amongst other things, financial accounts, cross-border arrangements

and certain transactions. As a result, supervision is shifting increasingly from a reactive to a preventive approach.

FUTURE COOPERATION

The proposed revision of the DAC Directive demonstrates that the European Union remains committed to greater transparency, digitalisation and cooperation between tax authorities. For businesses, this means, on the one hand, a simplification of certain administrative obligations, but on the other hand, it also entails increased visibility of cross-border activities. A sound tax structure and documentation therefore remain of great importance.

Without you even realising it, this could have consequences for you and your business. It is expected that this cooperation will be further expanded in the future. As a result, tax authorities will have access to an ever-increasing amount of information.



Tsvetelina Marinova, lawyer and managing partner LexQuire Bulgaria

Bulgaria investment structures and tax advantages

Bulgaria has become an increasingly attractive destination for international investors. Low corporate taxes, favorable property regulations, affordable real estate prices, and a stable business environment continue to attract entrepreneurs, property buyers, and investors from across Europe and beyond.

In addition to its competitive tax framework, Bulgaria's membership in the European Union and in the Eurozone from 1 January 2026 further strengthen investor confidence by improving financial integration and reducing currency exchange risks.

However, before making an investment, one important question should always be addressed: what is the best way to structure the investment? The answer depends on several factors, including the type of asset, the investor's long-term goals, tax considerations, liability exposure, and future exit strategy.



Tsvetelina Marinova, LexQuire Bulgaria

BULGARIA'S COMPETITIVE TAX ENVIRONMENT

One of the main reasons investors choose Bulgaria is its highly competitive tax system, which is considered among the most business-friendly within the European Union.

Bulgaria applies a flat corporate income tax rate of 10%, one of the lowest in the EU. Personal income is also generally taxed at a flat rate of 10%, providing predictability and simplicity for both businesses and individuals.

Dividends distributed to individuals are usually taxed at only 5%, making Bulgaria particularly appealing for company shareholders, holding structures, and entrepreneurs seeking efficient profit distribution.

Bulgaria is also a party to numerous double taxation treaties with European and international jurisdictions (including Germany, France, Italy, Spain, the Netherlands, Austria, Belgium, Greece, Romania, Poland, Sweden, Switzerland, and the United Kingdom). These treaties help prevent the same income from being taxed twice and facilitate cross-border investments.

In addition, our clients often consider Bulgaria as a good investment option due to the lack of a wealth tax. Certain family donations may also benefit from reduced or exempt taxation. Inheritance between spouses and direct descendants is generally exempt from inheritance tax.

OPTION 1: INVESTING AS A NATURAL PERSON

This option is particularly common for residential property acquisitions or smaller investments. Direct ownership generally involves lower administrative costs and less bureaucracy because there is no need to establish and maintain a corporate entity.

For some investors, especially those purchasing a single apartment or holiday property, this structure may be entirely sufficient.

Bulgarian tax law also provides several advantages for private property owners. Property acquisition costs remain relatively low compared to many Western European countries. Buyers typically pay a property transfer tax between 2.5% and 3.5%, depending on the municipality, together with notary and registration fees. Annual property taxes are also relatively modest.

There are additionally important tax exemptions related to capital gains from property sales. The sale of one's residential property is generally tax-exempt if more than three years have passed since acquisition. Up to two residential properties may also be sold tax-free if they have been owned for more than five years.

However, investing as an individual also means that the investor personally owns the asset and bears any related liabilities. Tax consequences may further depend on the investor's country of residence and applicable international tax treaties.

For investors planning multiple acquisitions, commercial projects, or long-term portfolio growth, a corporate structure may offer additional advantages.



OPTION 2: INVESTING THROUGH A FOREIGN COMPANY

This is often attractive for investors who already operate businesses abroad or manage international investment portfolios. Using a foreign entity may allow centralized management, consolidated accounting, and potentially more efficient international structuring.

Double taxation treaties between Bulgaria and many foreign jurisdictions can also create opportunities to optimize cross-border taxation and reduce withholding tax exposure in certain situations.

At the same time, foreign corporate ownership can involve additional complexity. Investors may need to comply with tax reporting obligations in both Bulgaria and the country where the company is established. International tax regulations, economic substance requirements, and increasing transparency standards should also be considered carefully.

As tax authorities across Europe continue to focus on cross-border transactions, we recommend proper legal and tax planning taking place before choosing this structure.

OPTION 3: INVESTING THROUGH A BULGARIAN COMPANY

Another common option is to establish a Bulgarian company that will hold the investment.

We often see this structure applied to commercial real estate developments, operating businesses, rental portfolios, and larger investment activities. A key advantage is Bulgaria's low 10% corporate tax rate, combined with the favorable 5% dividend tax. In our practice, many investors see this structure as an efficient framework for both reinvestment and profit distribution.

Usually a local company ensures a clearer separation between personal assets and business activities, offering an additional protection and liability management.

Owning assets through a company, however, also involves ongoing compliance obligations-annual accounting, corporate reporting, tax filings and regulatory compliance.

Our experience shows that the choice of such a structure often depends on the scale of the investment, expected profitability, financing strategy, and long-term business goals.

KEY FACTORS TO CONSIDER BEFORE CHOOSING A STRUCTURE

Our clients often consider the following important factors before making a decision:

1. Tax efficiency

Different structures can produce different tax outcomes. We recommend careful consideration of the corporate taxation, dividend taxation, capital gains treatment, international tax treaties, and the investor's home-country rules before investing.

2. Asset protection

Many investors use corporate entities to separate business risks from personal assets.

3. Administrative requirements

Direct ownership is generally simpler and less expensive to maintain, but requires personal liability of the investor. Corporate structures usually involve greater compliance obligations, accounting requirements, and ongoing administrative costs.

4. Real estate tax advantages

Investors in Bulgarian real estate should also consider the favorable capital gains exemptions, relatively low annual property taxes, and modest

acquisition costs when evaluating different ownership structures.

5. Exit strategy

Clients should also think about the exit strategy. Selling company shares can produce different legal and tax consequences compared to selling assets directly.

6. International considerations

For foreign investors, domestic tax rules in their home country may be just as important as Bulgarian legislation. A structure that appears efficient in Bulgaria may produce unexpected consequences in the investor's home country.

CONCLUSION

Bulgaria offers highly attractive opportunities for investors due to its low-tax environment, favorable real estate regulations, strategic EU position, and increasingly stable economic framework.

Since every investor's situation is unique, we highly recommend obtaining proper legal and tax advice before making an investment. This can reduce risk, improve tax efficiency, and support long-term growth while ensuring compliance with both Bulgarian and international regulations.

Julia Powałowska, radca prawny LexQuire Poland

Poland's newest digital tax revolution: meet KSeF

Imagine a world where the tax office sees every single invoice your business issues the exact second it is created. No more paper, no more PDFs attached to emails, and no more lost documents. While this might sound like a standard of the distant future, for accountants and businesses in Poland, it is already the new reality. In 2026 Poland is undergoing one of the most massive digital transformations in European tax history. The country is rolling out a central government platform known as KSeF. This system changes how business is done, making Poland a true pioneer in live tax tracking.



Julia Powałowska, LexQuire Poland

WHAT IS KSEF?

KSeF stands for Krajowy System e-Faktur, which translates to the National e-Invoicing System. In simple terms, it is a giant cloud server managed by the Polish Ministry of Finance.

Until recently, once a Polish company sold something to another business, they created an invoice in their own accounting software, downloaded a PDF, and emailed it to the client. The tax office only found out about this transaction weeks later when monthly tax reports were sent. With KSeF, that path is gone. The invoice goes straight from the seller's computer to the government portal. The portal then checks it, gives it an official stamp, and only then can the buyer download it. The government acts as the central intermediary.

A PHASED IMPLEMENTATION PLAN

Implementing a system that handles billions of documents is a giant challenge. To avoid any unwanted complications, Poland decided to

introduce the system in clever, well considered phases throughout 2026.

The first phase took effect on February 1, 2026. This date applied only to the corporate giants. Specifically, companies with a turnover above 200 million PLN (approximately €46 million) in 2024 had to start issuing their invoices through KSeF. At the same time, smaller businesses had to be ready to at least receive these electronic documents.

The second phase followed shortly after, on April 1, 2026. This was the big day for almost everyone else. The obligation to issue e-invoices expanded to all remaining VAT taxpayers, both active and tax-exempt.

What about the smallest businesses? Those with monthly sales under 10,000 PLN received an extended period. They are not required to adopt the new system until January 1, 2027.

A SOFT LAUNCH WITH NO PENALTIES

Whenever tax laws change, business owners usually worry about heavy fines. Mistakes are bound to happen when millions of people learn to use a brand-new software system overnight. Fortunately, the Polish Ministry of Finance anticipated these implementation challenges. To facilitate a smoother transition, they proactively

introduced a temporary relief period that serves as a protective buffer for businesses.

During the entire year of 2026, the government will not hand out any financial penalties for KSeF mistakes. If a business forgets to send an invoice to the system or makes an error in the format, they will not face sanctions. It gives everyone a full year to practice and fix bugs without fear.

SHAPING THE FUTURE OF TAXATION IN EUROPE

Many European countries still rely on a traditional invoicing or simple digital reporting. Poland is among the key European countries driving the transition toward a fully digital tax ecosystem. European tax offices lose billions of euros every year due to the "VAT GAP" and tax fraud. Systems like KSeF make tax evasion incredibly difficult, because the government sees the data in real time.

While the change requires a lot of preparation and software updates, it will eventually eliminate manual data entry. For accountants, it means fewer paper piles and fewer lost receipts. Poland is proving that the future of taxation is digital, automated and instant. The rest of Europe is watching closely to see how this grand experiment turns out.



Buying property in Spain: what taxes should you expect?

Buying a property in Spain is generally a straightforward process, but one of the first questions we receive from international clients is always the same: how much should I budget on top of the purchase price?

There is no single answer. The taxes will depend mainly on whether you are buying a resale or a new-build property, where in Spain the property is located and, in some cases, who the seller and buyer are. For that reason, two properties with exactly the same purchase price can ultimately have quite different acquisition costs.

Here are the main taxes a buyer should be aware of before committing to a purchase.

BUYING A RESALE PROPERTY: TRANSFER TAX

When buying a resale property, the main tax is normally Transfer Tax, known in Spain as Impuesto sobre Transmisiones Patrimoniales or ITP. The key point is that no single ITP rate applies across Spain. Each Autonomous Community regulates its own rate, and the differences can be significant.

Some regions apply a relatively straightforward general rate. Others use progressive scales, meaning that the percentage increases as the value of the property increases. This is particularly relevant when purchasing higher-value properties.

Reduced rates and tax benefits may also exist for

certain buyers or types of property. Therefore, rather than assuming that the purchase tax will simply be “X per cent”, it is always worth calculating the exact amount for the specific property before signing a deposit contract.

THE CADASTRAL REFERENCE VALUE

This is probably one of the least understood aspects of buying property in Spain.

Since 2022, properties subject to ITP are generally taxed on their cadastral reference value (valor de referencia) if that value is higher than the purchase price.

This is not simply an indicative value used by the Tax Authorities. It is, as a general rule, the legal

taxable base for the transaction. For example, if you purchase a property for EUR 1 million but its cadastral reference value is EUR 1.2 million, the ITP will normally have to be calculated on EUR 1.2 million.

The reference value can be challenged if there are valid reasons to believe that it does not reflect the real value of the property. However, this normally requires paying the tax first and subsequently challenging the valuation. For this reason, checking the reference value should form part of the legal and tax review before completing the purchase.

BUYING A NEW-BUILD PROPERTY: VAT AND STAMP DUTY

The tax treatment is different when buying a new residential property directly from a developer. Instead of ITP, the purchase will normally be subject to VAT (IVA) at 10%, together with Stamp Duty (AJD).

Certain officially protected housing may qualify for a reduced VAT rate, but for ordinary residential purchases 10% is the rate buyers will most commonly encounter.

AJD is again determined by the Autonomous Community, so the applicable rate will depend on where the property is located.

There is one useful distinction for buyers financing their purchase with a mortgage. Although mortgages are also documented in a public deed and subject to AJD, since 2018 the AJD relating to the mortgage loan itself is payable by the lender, not by the borrower.

IS A RESALE PROPERTY ALWAYS SUBJECT TO ITP?

Not necessarily. There are certain transactions, particularly between companies or professional property investors, where a second transfer of a property that would normally be exempt



Iván Bellod, LexQuire Spain

from VAT can instead be made subject to VAT by waiving the exemption. This can be an important consideration in commercial real estate and investment transactions, particularly where the purchaser is entitled to deduct the VAT paid.

It is not relevant to most private buyers purchasing a home in Spain, but it is a good example of why the tax structure should be reviewed individually rather than assumed from the outset.

BUYING FROM A NON-RESIDENT SELLER: THE 3% WITHHOLDING

Another point that often causes confusion is the 3% withholding when purchasing from a non-resident seller. This is not an additional tax for the buyer. Instead, Spanish law requires the buyer to withhold 3% of the purchase price and pay it directly to the Spanish Tax Agency as an advance payment towards the seller's Non-Resident Income Tax. The payment is made using Form 211 and must generally be submitted within one month following completion. It is therefore important to deal with this correctly at the time of signing.

AND AFTER THE PURCHASE?

Tax obligations do not completely disappear once you leave the notary. Property owners will normally pay the annual municipal IBI property tax. Non-resident owners may also have an annual Non-Resident Income Tax obligation, even when the property is used exclusively as a private holiday home and is not rented out.

PLAN THE TAXES BEFORE YOU BUY

The main point is simple: when buying property in Spain, your budget should never stop at the purchase price. The applicable taxes should be calculated before committing to the transaction, together with the notary, Land Registry, legal and, where applicable, financing costs.

Spain is an attractive and relatively straightforward market for international buyers. Most tax surprises can also be avoided easily, provided they are identified before signing, rather than afterwards.

Arno Schoysman, Belgian and EU-lawyer and tax advisor LexQuire International Tax & Law

Current affairs: the Belgian capital gains tax

Since 1 January 2026, Belgium has introduced a capital gains tax on financial assets. Belgium was previously known as a country where capital gains on shares could often be realised tax-free, but this reform has radically changed that tax framework.

The legal framework was finally approved by the federal parliament in early April 2026, but it remained pending official publication in the Belgian Official Gazette. This finally took place on 21 April 2026.

APPLICATION

The capital gains tax applies only to natural persons subject to personal income tax and certain legal entities subject to corporate income tax. The new tax, therefore, does not apply to capital gains realised by companies.

The tax regime imposes a 10% tax on realised capital gains. In addition, the law provides for an annual tax exemption of €10,000 per person, which is adjusted in line with the index. A special regime applies to those holding a 'significant interest'. This applies where a person holds at least 20% of a company's shares. Following an annual exemption of the first 1 million euros over a five-year period, a progressive tax applies, ranging from 1.25% to 10%.

The new capital gains tax applies specifically to realised capital gains on financial assets arising from transfers for valuable consideration, provided these take place outside the scope of professional

activities and within the normal management of private assets. The law also contains an exhaustive list of 'equivalent transactions'. The Explanatory Memorandum explicitly confirms that transfers by way of donation or inheritance (both statutory and contractual) do not give rise to taxable capital gains.

In addition, the law distinguishes between three categories of capital gains. The general or residual category comprises transfers for consideration of so-called financial assets, which in turn are further subdivided into four subcategories.

1. 'FINANCIAL ASSETS' (= RESIDUAL CATEGORY)

(i) 'Financial instruments': these include shares, bonds and other debt instruments, other securities conferring rights to acquire or purchase securities such as options or warrants, derivatives such as futures and swaps, contracts and investments in collective investment undertakings, etc.;





(iv) **Currency and investment gold:** Cash holdings in a foreign currency, unless held in a current account, are in principle also subject to capital gains tax. The same applies to digital central bank currencies. Gold bars and gold coins are also targeted, at least insofar as they have a certain purity and meet specific requirements. Other precious metals such as silver, copper and platinum do not appear to fall within the scope of the tax.

2. SPECIAL SCOPE OF APPLICATION: “INTERNAL GAINS” AND “SIGNIFICANT INTERESTS”

In addition, the law provides for two special categories of taxable gains: so-called “internal gains” and gains on a “significant interest”. The scope of these categories is more limited than that of the general residual category. They apply only to transfers of shares or profit-sharing certificates for valuable consideration, subject to additional conditions regarding the transferor’s percentage of ownership in the company concerned.

3. SPECIAL APPLICATIONS: CASH LINES AND PARTNERSHIP SHARES

‘Cash lines’, foreign currency accounts linked to a securities account, are regarded as financial assets and are subject to capital gains tax. This includes, for example, a dollar account that investors use to buy and sell US shares without having to pay currency conversion costs each time. In practical terms, this means that for every transaction on such an account – for example, the purchase of securities in foreign currency or the conversion of foreign currency into euros – it must be determined whether there is a taxable exchange rate gain.

Furthermore, these exchange rate gains must be declared by the investor; Belgian financial institutions do not apply withholding tax to these

gains. Investors with accounts in foreign currencies will therefore need to keep very accurate records and may have to perform complex calculations in order to complete their tax returns correctly.

Shares in a partnership are also regarded as financial assets and are subject to capital gains tax, even if the partnership’s assets do not include any financial assets. For example, a partnership that holds only art. This does raise questions: is it really the case that capital gains on assets that would otherwise be non-taxable become taxable simply because they are held through a partnership?

4. EQUIVALENT TRANSACTIONS

The law lists two specific transactions which, technically speaking, are not transfers for valuable consideration, but are treated as such for the purposes of the new capital gains tax.

Life insurance and capital redemption operations

Payments during the policyholder’s lifetime of capital or surrender values from life insurance contracts and capitalisation transactions are in all cases regarded as a ‘transfer for consideration’ for the purposes of capital gains tax.

Emigration

The transfer of a taxpayer’s tax residence or centre of financial interests – in other words, emigration – is also treated for tax purposes as a ‘transfer for consideration’ of the financial assets in their possession.

CONCLUSION

The term ‘financial assets’ covers a very wide range of (investment) products that have been subject to the new capital gains tax since 1 January 2026. For specific cases, such as cash accounts in foreign currency linked to a securities account or partnership shares, a few questions remain.

The new capital gains tax system is multi-tiered: the characteristics of a transfer of a financial asset – such as the status of the transferor or transferee, or the size of their holding – determine not only whether the transaction is taxable, but also which category it falls into. A small nuance in the structure of a transfer can therefore make a significant difference to the applicable tax regime.

In addition, the debate over normal versus abnormal management of private assets remains topical, as this distinction can still have significant tax implications.

For further information tailored to your family or business context, please do not hesitate to contact us.



Arno Schoysman, LexQuire International Tax & Law



Frodo Oude Groeninger, tax advisor and partner LexQuire International Tax & Law

The Netherlands and international flow-through structures: why “substance” is becoming increasingly important

The Netherlands has long been a popular jurisdiction for international businesses. This is largely due to its stable business climate, extensive tax treaty network, and strong strategic position within Europe. As a result, many multinational groups use Dutch entities as part of their international corporate structures.

However, the way tax authorities assess these structures has changed significantly in recent years. Whereas the focus used to be primarily on legal form and technical structuring, attention is now increasingly directed toward economic reality. In other words, tax authorities want to understand what a Dutch entity genuinely contributes within an international group.

For entrepreneurs and investors, this means that existing structures should be reviewed critically — not only from a tax perspective, but also in terms of governance, compliance, and commercial rationale.

WHAT ARE FLOW-THROUGH STRUCTURES?

Flow-through structures are entities that function as intermediaries within an international corporate group. These entities are often used for the routing of dividend, interest, or royalty payments between different jurisdictions.

For many years, the Netherlands was widely used for such structures. This was largely driven by its broad tax treaty network, strong international reputation, and stable legal framework. For multinational enterprises, Dutch entities offered efficiency, legal certainty, and practical advantages in cross-border operations.

WHY HAS THE APPROACH CHANGED?

Internationally, there has been growing scrutiny of tax structures that lack a clear economic purpose. Governments and tax authorities increasingly aim to prevent situations where entities exist solely to obtain tax advantages.

Influenced by initiatives from the OECD and the European Union, many countries have introduced stricter anti-abuse measures. The Netherlands has also implemented additional legislation, including rules relating to withholding taxes and substance requirements.

As a result, tax authorities now assess international structures far more critically than before. One key question has become central in these reviews:

What real function does the Dutch entity perform within the business?

WHAT DOES “SUBSTANCE” MEAN?

A central concept in this discussion is “substance.” In simple terms, substance refers to whether a company has genuine presence and meaningful activities in the country where it is established.

Tax authorities no longer focus solely on contracts or formal documentation. Increasingly, they examine how the structure operates in practice.

This assessment may include questions such as:

- Where are important decisions actually made?
- Do the directors have sufficient authority and independence?
- Where do board meetings take place?
- Which risks are genuinely borne by the company?
- And do the activities logically fit within the overall group structure?

A Dutch entity that exists only on paper is therefore much more likely to face scrutiny from tax authorities.

GOVERNANCE PLAYS AN INCREASINGLY IMPORTANT ROLE

Governance has also become a major consideration in international structures. Businesses are now expected to clearly explain why certain activities take place in the Netherlands and what commercial rationale supports the structure.

A strong structure today requires more than legally compliant documentation. It must also be supported by a clear business purpose and credible operational reality.

This is particularly relevant in financing and royalty structures, where tax authorities closely examine the economic function of Dutch entities. Companies are increasingly required to demonstrate which activities are genuinely carried out from the Netherlands.

In practice, many multinational groups are therefore reassessing their existing structures. Some arrangements were created during a period in which international tax standards were very



different from those applied today.

What was once considered common practice may no longer align with the expectations of modern tax authorities and regulators.

THE NETHERLANDS REMAINS ATTRACTIVE

This does not mean that the Netherlands has lost its attractiveness. On the contrary, the country continues to offer significant advantages for international businesses.

The Netherlands remains appealing because of:

- its stable legal environment;
- its internationally oriented business climate;
- access to European markets;
- and the availability of high-quality legal and tax expertise.

At the same time, tax authorities increasingly expect Dutch entities to operate as genuine businesses rather than purely administrative intermediaries.

For that reason, it has become increasingly important to evaluate international structures on a regular basis — not only from the perspective of tax efficiency, but also in terms of operational feasibility and economic reality.

CONCLUSION

International flow-through structures have changed considerably in recent years. While legal form once played the dominant role, the focus has shifted increasingly toward economic substance and credible business activities.

For entrepreneurs and investors, this means that substance, governance, and operational reality are more important than ever. An international structure must not only achieve its intended tax objectives, but also be commercially logical and defensible in practice.

The Netherlands remains an attractive jurisdiction for international businesses. However, the current international climate requires structures that genuinely reflect the underlying business activities and are capable of withstanding increased scrutiny from tax authorities worldwide.

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