“Clear tax integrity policies help to safeguard the reputation of the financial industry and corporate service providers as a whole.”

The country has been changing its stance on tax integrity since 2015, and in 2019 the Dutch National Bank published guidance for financial institutions on how to investigate the fiscal motives of their clients. Soon after, new tax laws were implemented that made it clear that tax integrity is a priority. Since then, the challenges of integrity are also on the minds of the corporate service providers that interact in the country, who have been considered “gatekeepers” since the Supervision Act of 2018.

Even if you don’t establish structures within the jurisdiction of the Netherlands, corporate tax integrity and transparency is becoming a key component to structuring funds and other financial dealings across the globe. It’s no longer acceptable to set up business structures for the sole purpose of reducing tax burdens. And this is especially true in an era when Environmental, Social and Governance (ESG) investment initiatives are picking up steam around the world.

For instance, the Cayman Islands recently announced that it would publish the identities of those who own a company there by 2023 in an effort to curb illegal tax evasion and tax avoidance. And even notorious tax havens like Switzerland have undergone reforms to come further into compliance. In other words, tax integrity requires more than good accountants.

Corporate service providers need to understand the concept of tax integrity and the spirit of tax law, and begin having honest and transparent conversations with their clients.
Therese Wijnen, Country Executive Netherlands at Alter Domus, and Arnaud Booij, Partner and Lawyer at Booij Bikkers Advocaten, give their take on how corporations and corporate service providers should best approach this new way of thinking.

Q: How would you define tax integrity?

Arnaud: I look at it from my Dutch legal perspective as well as the way the Dutch National Bank is looking at corporate service providers or management service companies. In summary, it is the willingness to comply with the tax laws in all jurisdictions, and not to act against the spirit of those laws, nor against what is considered to be socially acceptable. But the most difficult part is that everybody has different ideas of what that is. What may not be acceptable in the Netherlands, may be entirely acceptable in Luxembourg or Malta, for instance.

Therese: And sometimes you may do something you think is perfectly acceptable in regards to the tax law only to find out that it was not socially acceptable. And that complicates the discussions you’re having with your clients.

The Takeaway: While there is no official definition for tax integrity, it can be defined as a willingness to adhere to both the spirit of the tax law and society’s unwritten rules when it comes to corporate tax structuring.

Q: Why is it important for corporate service providers to ensure high levels of tax integrity?

Arnaud: The first reason corporate service providers should ensure tax integrity is to operate in line with their own values. Secondly, corporate service providers in the Netherlands are supervised by the Dutch Central Bank, and it’s their duty to be gatekeepers whereby they not only have to perform, but also be compliant. It all comes down to having a high level of understanding of your tax integrity rules, and what you expect from your clients with their tax integrity. Public policies help achieve this.

Therese: As gatekeepers, it’s the job of corporate service providers to avoid being involved in tax fraud or money laundering. Not only does a clear tax integrity policy help avoid these risks, but it will guard the reputation of the financial industry and, as such, corporate service providers as a whole. Other gatekeepers such as banks are looking very closely at tax structures that might be on the edge of their integrity, not only in the Netherlands but also in other European countries. And that’s why today’s corporate service providers are concerned that they only work with clients that share similar values to those set out in their tax integrity policy. To help clients, it’s important to know them and have open discussions with them about your tax integrity policies.

And finally, the social aspects of tax avoidance are becoming more and more evident, so it’s important to have a corporate reputation of someone with a clear tax integrity policy in place that is adhered to.

The Takeaway: Corporate service providers play an important role in maintaining tax integrity for their clients. They do this by being transparent about their tax policies and communicating those expectations to their clients. This open and honest way of doing business will help support corporate values and ensure tax integrity across the board.

Q: What are some of the ways they can improve their tax integrity?

Arnaud: It’s important to be transparent about your tax integrity policies. Ask yourself what kind of clients you want to work with and then align your tax integrity policy with your clients. And if you have a question about something, go to the tax authorities or an attorney and ask them how to comply. Listen to different opinions and then think about the risks, but remember that what’s allowed in one country might
not be allowed in another. So, if the money will go to a foreign country, you will need a lot of information to make a good decision. The underlying question should always be, “What's the business reason for this?” If it's only to reduce taxes, it's likely tax avoidance. Substance over form is the key.

**Therese:** In addition to this, I want to stress the importance of being transparent and having an open dialogue with clients. Each will form their own opinions, and it's critical that they are clear about them when it comes to how they want to approach tax integrity. When you accept new clients, you have to understand their appetite for risk and make sure it matches yours.

**The Takeaway:** Knowledge is power when it comes to tax integrity. It's important to understand the rules, and if you have questions, talk to the authorities to become better informed. It's also important to talk to clients to learn how they view tax integrity. Corporate service providers are most successful when they and their clients agree on these policies.

Also, tax integrity looks at the “why” in structuring. For instance, a corporate structure that is set up for the sole purpose of reducing taxes is likely not following the spirit of the law and will be considered tax avoidance.

**Q: Can you provide an example of a corporate service provider with high levels of tax integrity?**

**Arnaud:** All corporate service providers that are members of the Dutch trade association, Holland Questor, must have their own tax integrity policies and adhere to the tax integrity policy of the trade association. But because of societal pressure and the pressure of the Dutch National Bank, corporate service providers that are not a part of trade associations should have tax integrity policies in place as well.

**Therese:** At Alter Domus, we have a comprehensive tax integrity policy that we discuss when needed with our clients. And the idea is spreading rapidly. Currently, there are 100 countries that have agreed to an anti-avoidance tax rule, and we believe the number of countries will continue to grow.

**The Takeaway:** More and more corporate service providers are adopting high levels of tax integrity because of the changes in tax laws and societal demands. In the Netherlands, as well as other countries, it is no longer acceptable to set up a business structure for the sole purpose of reducing the tax burden, and that's why forward-thinking service providers are speaking openly to their clients and tax advisors about tax integrity.

**Q: Are these developments only occurring in the Netherlands or is there an expected impact on the rest of the regulated world?**

**Arnaud:** Although the Netherlands is advanced with this, other countries are following suit. For instance, the EU and the rest of the world is starting to think about how tax integrity fits into their laws. It may take a few years for all companies to realize that they need to make their tax integrity policies public. The legislation is already there and companies are anticipating it and changing their structures. Before long, certain types of clients will not be welcome at most corporate service providers. They will go on to find another firm, but over time they will have difficulty finding a service provider who is willing to take the risk of working with them.

**The Takeaway:** Tax integrity is a worldwide issue, with the Netherlands at the forefront. But the rest of the world will soon catch up. That means corporate clients will soon begin to seek out corporate service providers, banks, tax advisors and other financial service providers that are clear about their tax integrity policies.

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