



ICAI Netherlands Chapter
The Institute of Chartered Accountants of India
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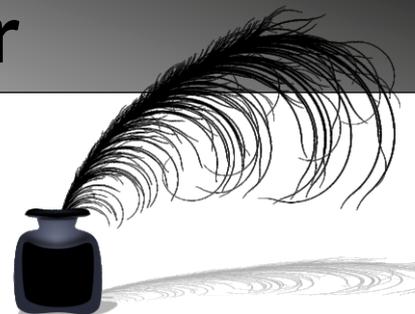
Quarterly Newsletter

February 2021 Edition



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Chairman's Message and Introduction of the committee members



C.A. (Dr.) Vikas Chaturvedi
Chairman, ICAI Netherlands Chapter

Now that the New Year has begun, I want to take this moment to extend my Greetings straight from the heart for this festive season. As the New Year is upon us, I thank all Chartered Accountants in The Netherlands for your support and dedication. I wish new beginnings and new hopes for you all in the coming year. I am extremely delighted to see our family growing in the Netherlands. From a meagre 8-10 CA's in The Netherlands until a decade back, we have now almost reached to 150 mark! We have had a remarkable journey, especially in last few years. Thank you all for collective efforts.

2020 has been a very difficult year for all of us in some way or another. All of us have adjusted our life to survive worst even pandemic that has hit the mankind. We have learnt new way of living the life. This also had an effect on how we conducted our ICAI Netherlands Chapter activities. Round the whole year, Managing Committee had been thinking out of box on organising various events which benefits the Chapter members.

I must say, 2020 was a very busy year. We have had over dozen webinars which has helped our members tremendously. For detailed information on all events and achievements of ICAI Netherlands Chapter, please see our Annual Newsletter and Website of the Chapter. My sincere compliments to the team who has worked tirelessly in 2020 and compliments to members who have sincerely participated in ICAI Netherlands Chapter events and made them successful.

I wish that the year 2021 bless all of us with happiness and good health and may we make the upcoming year a successful one with our hard work, dedication and achievements. I sincerely hope that in 2021 the whole world shall have many more reasons to smile and instill more positivity in the eco-system. We as managing committee of ICAI Netherlands are more than ever committed to take our Netherlands Chapter to new heights. Look forward to have support from you all.

Many thanks and Warm Regards,

Yours Truly,

CA. Vikas Chaturvedi
Chairman
ICAI Netherlands Chapter



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Recent Updates/Pronouncements

A) Accounting updates and recent pronouncement summarised by C.A. Ashok Patel

(IFRS and EU IFRS effective for annual periods on or after 1 January 2020)

1. **Covid-19-Related Rent Concessions – Amendment to IFRS 16**

In May 2020, the IASB amended IFRS 16, Leases to provide a relief to lessees from applying the guidance on lease modifications to rent concessions arising as a direct consequence of the covid-19 pandemic (effective for annual reporting periods beginning on or after 1 June 2020).

As a practical expedient, a lessee may elect not to assess whether a covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the covid-19 related rent concession the same way it would account for the change under IFRS 16, if the change were not a lease modification. the resulting impact will be recorded in the income statement by the lessees. There is no change in the accounting for the lessor.

2. **Definition of a Business - Amendments to IFRS 3**

The IASB issued amendments to the definition of a business in IFRS 3, Business Combinations to help entities determine whether an acquired set of activities and assets is a business or not.

The amendment clarifies that a business can exist without including all of the inputs and processes needed to create outputs. That is, the inputs and processes applied to those inputs must have ‘the ability to contribute to the creation of outputs’ rather than ‘the ability to create outputs’.

Prior to the amendments, IFRS 3 stated that a business need not include all of the inputs or processes that the seller used in operating that business, if market participants are capable of acquiring the business and continuing to produce outputs, for example, by integrating the business with their own inputs and processes’. The reference to such integration is now deleted from IFRS 3 and the assessment must be based on what has been acquired in its current state and condition.

The amendments introduced an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. Entities may elect to apply the concentration test on a transaction-by-transaction basis. The test is met if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar identifiable assets. If the test is met, the set of activities and assets is determined not to be a business and no further assessment is needed.

3. **Definition of Material - Amendments to IAS 1 and IAS 8**

The amendments clarify that materiality will depend on the nature or magnitude of information, or both. An entity will need to assess whether the information, either individually or in combination with other information, is material in the context of the financial statements.

The amendments explain that information is obscured if it is communicated in a way that would have a similar effect as omitting or misstating the information.

The amendments replaced the threshold ‘could influence’, which suggests that any potential influence of users must be considered, with ‘could reasonably be expected to influence’ in the definition of ‘material’. In the amended definition, therefore, it is clarified that the materiality assessment will need to take into account only reasonably expected influence on economic decisions of primary users.

Although the amendments to the definition of material is not expected to have a significant impact on an entity’s financial statements, the introduction of the term ‘obscuring information’ in the



definition could potentially impact how materiality judgements are made in practice, by elevating the importance of how information is communicated and organised in the financial statements.

4. Interest Rate Benchmark Reform - Amendments to IFRS 9, IAS 39 and IFRS 7

The amendments made to the Recognition and Measurement principles provide certain reliefs in relation to interest rate benchmark reforms. The reliefs relate to hedge accounting and have the effect that the reforms should not generally cause hedge accounting to terminate. However, any hedge ineffectiveness should continue to be recorded in the income statement. Given the pervasive nature of hedges involving IBOR-based contracts, the reliefs will affect companies in all industries.

B) Recent Tax Updates/development (Netherlands) – Prepared by C.A. Hardik Shah

1. Tax Changes for Investment and R&D Deduction Incentives and New Carbon Tax

As previously reported, the Dutch Senate approved the Tax Plan for 2021, which includes several important tax measures. Further to the changes reported, other important changes are summarized as follows:

▪ Investment Deduction Regime

The investment thresholds for the investment deduction regime are adjusted with the minimum investment amount kept at EUR 2,400 (applies from 2019), with the maximum amount increased to EUR 328,721 (up from EUR 323,544 in 2020). The investment deduction amounts are as follows:

- For investments between EUR 2,400 and EUR 59,170, the deduction is equal to 28% of the amount invested;
- For investments between EUR 59,170 and EUR 109,574, the deduction is equal to EUR 16,568;
- For investments between EUR 109,574 and EUR 328,721, the deduction is equal to EUR 16,568 minus 7.56% on the amount over EUR 109,574; and
- For investments over EUR 328,721, the deduction is 0.

▪ Environmental and Energy-Saving Investments Deduction

For investments in newly acquired assets that are recognized as environmental-friendly, the investment deduction is maintained at 36% of the amount invested for class 1 assets, 27% for class 2 assets, and 13.5% for class 3 assets. The minimum and maximum investment amounts are also maintained at EUR 2,500 EUR 25 million, respectively.

For investments in new assets that are qualified as energy-saving investments, the investment deduction is increased to 45.5% (up from 45.0% in 2020) with a minimum investment of EUR 2,500 and a maximum investment of EUR 126 million.

▪ R&D Wage Tax Reduction

The R&D wage tax reduction is amended with an increase in the applicable rates for 2021. This includes an increase in the standard reduction to 40% of R&D expenditure for the first EUR 350,000 (up from 32% in 2020), with the 16% rate maintained on the excess. For start-ups, the rate is increased to 50% for the first EUR 350,000 (up from 40% in 2020).



▪ Carbon Tax

A new carbon tax is introduced from 2021 for CO₂-equivalent emissions for installations (taxpayers) that are within the scope of the EU Emissions Trading System. Where the CO₂-equivalent emissions exceed the exempt tonnage amount, a tax is imposed equal to an initial amount of EUR 30 per tonne of CO₂-equivalent emissions. The rate is scheduled to be increased to EUR 125 per tonne by 2030.

2. Dutch Ministry of Finance Issues Main Tax Changes for 2021

The Dutch Ministry of Finance has issued an overview of the [main tax changes for 2021](#), which were approved by the Senate on 15 December 2020 as part of the Tax Plan for 2021. The main tax changes include the following:

- The lower corporate income tax rate is reduced from 16.5% to 15.0%, with an increase in the lower rate threshold from EUR 200,000 to EUR 245,000 in 2021 and a further increase to EUR 395,000 scheduled in 2022 (the higher corporate tax rate remains 25%);
- The Innovation Box tax rate for profit from innovative activities is increased from 7% to 9%;
- New rules are introduced to limit the liquidation and termination loss facility in respect of business activities outside the Netherlands from 2021, including that losses exceeding EUR 5 million will only be deductible if concerning a qualifying interest (50%) in an EU/EEA resident entity/establishment and the liquidation is completed (loss is taken) within three years of ceasing activity (smaller losses are not affected);
- A new job-related investment tax credit (BIK) is introduced with the following key points:
 - the credit is equal to 3.9% on the first EUR 5 million of investments in new (previously unused) business assets and 1.8% on the excess, which can be set off against the payment of salaries tax and national insurance (social security) contributions;
 - the credit is available for two years from 1 January 2021 including in respect of new investments contracted on or after 1 October 2020, provided that final payment for a qualifying asset is made in 2021 or 2022 and the asset is put into use within 6 months of the final payment; and
 - the minimum investment amount per asset is EUR 1,500, and the minimum amount required to file a request for the application of the credit is EUR 20,000;
- The basic (lower) income tax bracket rate for Box 1 income (employment and certain other income) is reduced from 37.35% to 37.10% in 2021;
- The tax-free allowance for Box 3 income (taxable income from savings and invested assets) for individuals is increased to EUR 50,000 and the overall tax rate increased from 30% to 31%;
- The standard property (real estate) transfer tax rate is increased from 6% to 8%, with an exemption from the transfer tax introduced for homebuyers under the age of 35 and a limit introduced for the reduced 2% rate, which provides that the reduced rate can only be applied in cases where the buyer purchases the property as a personal dwelling;
- The conditional withholding tax on interest and royalties, which was approved earlier, is introduced from 1 January 2021 at the higher corporate income tax rate of 25% and applies on payments to related parties in specified jurisdictions with a corporate tax rate of less than 9% and jurisdictions listed by the EU as non-cooperative; and
- The DAC6 mandatory disclosure requirements, which were approved earlier and postponed by 6 months, come into force on 1 January 2021.

Note that certain additional measures under consideration were not included in the tax changes document, including revisions to tighten the interest deduction limitation rules with the addition of a provision to address cases where a positive result on a related party debt (e.g., a positive foreign exchange result) would provide an exemption from Dutch tax. Further, it was planned to introduce



a new loss offset restriction providing that the offset of carried forward losses will be limited to 50% of profits exceeding EUR 1 million, with the current 6-year carry forward limit to be removed. This restriction is reportedly still planned to be introduced from 1 January 2022, with a royal decree to be issued for its implementation. Additional details will be published once available.

3. Netherlands Social Security Rates for 2021 - Nov 19, 2020

The Netherlands has published in the Official Gazette the regulation from the Ministry for Social Affairs and Employment that sets the social security contribution rates for 2021.

The total state social security contributions are maintained at 27.65%, including general old-age social security (AOW) 17.90%, surviving dependent (spouse) social security (ANW) 0.10%, and long-term care (WLZ) 9.65%. These contributions are included as part of individual income tax brackets.

The employer-paid social security contributions for 2021 set in the regulation are as follows:

- General unemployment insurance (AWF) – 2.70% for contracted workers with an indefinite term; 7.70% for flex workers and temporary workers
- Government unemployment insurance (Ufo - paid by government employers instead of AWF) - 0.68%
- Occupational disability insurance (WIA) - 7.03%
- Childcare allowance contribution - 0.50%

The maximum salary basis cap for the employer contributions for 2021 is set at EUR 58,311 (annual).

C) Regulatory Updates – Prepared by C.A. Ashraf Reshamvala

The following are a list of regulatory updates in the Netherlands in 2020:

1. **VAT-ID Number** - All self-employed people will automatically receive a separate VAT-ID number.
2. **Employers checklist for the Balance Employment Market Act** - The Balance Employment Market Act (Wet Arbeidsmarkt in Balans, WAB) has come into force on January 01, 2020. It states:
 - Employer will pay a low unemployment benefit contribution for employees with fixed-term contracts and will pay a higher contribution for employees with a flexible contract.
 - Employer will have to offer on-call employees who have been in employment for 12 months or longer a fixed-hour contract.
 - A transition payment is mandatory whenever you terminate or fail to renew a temporary contract. The duration of the employment contract makes no difference.
3. **Energy Investment Allowance** -

If a company in the Netherlands invests in energy-efficient technologies or assets, then they may be eligible for the Energy Investment Allowance. As of January 01, 2020, the Energy Investment Allowance also applies to investments which reduce CO₂ emissions such as heat infrastructure. One can then offset 45% of their investments against personal or corporate income tax. One can claim the allowance for all assets included in the annual Energy List compiled by the Netherlands Enterprise Agency. Annually, one can submit a proposal for business resources that are not included on this list.



4. **Sustainable Energy Surcharge** - The sustainable energy surcharge increased in 2020 and further hike in 2021 is proposed. For increase in rate of surcharge refer <https://business.gov.nl/amendment/higher-sustainable-energy-surcharge-ode-gas-electricity/>
5. **Insurance Premium Tax** - Farmers are no longer have to pay 21% insurance premium tax on comprehensive weather insurance.
6. **R&D Tax Credit** - One can apply for R&D tax credit four times a year and submit **applications** at a later stage.
7. **Disputes in Court** - If an entrepreneur in the Netherlands has a dispute with another entrepreneur, a consumer, a current or former employee or a current or former tenant, then he has an option of taking the dispute to court.
 - The sub-district court deals with cases with a value of up to €25,000, labour matters, rental and leasing arrangements and consumer purchase and credit matters.
 - The civil court deals with cases worth more than €25,000. The civil court also rules on bankruptcy cases.
8. **Suspension of Vehicle Registration** - One can suspend their vehicle registration for longer than 1 year. One can also suspend the vehicle registration for different vehicles for different lengths of time.
9. **New European Regulations** - The new European regulations may have serious implications for anyone who manufactures medical devices, and for their representatives.
 - ***Consequences for producers*** - Several medical devices will be in a higher risk category and medical devices will have to meet higher demands before one can market them. A Notified Body will evaluate products before they are admitted. If it produces medical devices on commission, the company producing the devices will have to meet stricter demands as well. Many IVDs will fall into a higher risk category. One will have to have the devices evaluated by a Notified Body, and provide clinical evidence that products meet all requirements, according to the classification regulations.
 - ***Consequences for importers and distributors*** - If one imports a medical device from outside the EU, one will have to deal with stricter demands. Amongst other things, one will have to register with the EUDAMED database, check if the product has CE-marking, and make sure it meets with the specific demands imposed by the new legislation. If one is involved in distribution of medical devices, for instance as a wholesaler, pharmacy or chemist, then one must comply with stricter demands. Amongst other things, they have to check if the importer they purchase the product from meets all the legal requirements. And if customers or caregivers complain or report suspected incidents, they must report back to the producer.
10. **Increase in Excise Duty** – From 1 April 2020 there has been an increase in excise duties on cigarettes of € 1 per package. This increase in excise duties also affects other tobacco products.
11. **Prohibition of Menthol Cigarettes** - From 20 May 2020 menthol cigarettes have been prohibited. This applies to the production of menthol cigarettes as well as the distribution.
12. **Rules for Driving Instructors** - For driving instructors the rules concerning their certification have changed. From 1 April 2020 to become a driving instructor or to renew a driving instructor's licence one needs a certificate of good conduct to apply for (extension of) their WRM-competence card. From this date on, it will be easier to comply with the requirements for the practical part of the refresher course.
13. **Healthcare** - As of 1 July 2020 healthcare professionals must be able to digitally exchange medical records with patients and make sure this happens in a safe way.
14. **Acquisition of Telecom Companies** - The government can block acquisitions of Dutch telecom companies if it expects such a transaction to harm national security or public order. This is the case if it is expected that telecommunication services will become unreliable or if there is a chance that public amenities will stop working. It should also not enable the buyer to exert political influence or



gain access to sensitive information. Any party wanting to purchase Dutch telecom facilities, should report to the Ministry of Economic Affairs and Climate Policy.

15. **Electronic Cigarettes and Tobacco Products** - From 1 July 2020 all electronic cigarettes and tobacco products not for smoking, such as chewing tobacco, have been banned from places of work. These products may only be used in a designated smoking area or catering establishment's terrace.

16. **Partner Leave** - As of 1 July 2020, partners are entitled to five weeks unpaid leave in the first six months after the birth of their child, if the child is born on or after July 1, 2020.



Financial Reporting Implications of Covid-19 for companies using IFRS accounting framework



C.A. Ashok Patel

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The coronavirus 2019 (COVID-19) pandemic has impacted the companies across the globe. The impact on the corporate world and economy in general includes, but is not limited to, financial market volatility and erosion of the market capital of the companies, liquidity concerns, reduction in the consumer spending capacity leading to increasing inventory level and risk of obsolesces of inventories, layoffs and scarcity of labour and manpower because of lockdown and frequently imposed curfews in certain regions, etc. The continuation of these circumstances could result in an even broader economic downturn which could have a prolonged negative impact on a Company's financial results.

To neutralise the severe impact of COVID-19, a variety of measures have been, and continue to be taken by various governments to prevent the transmission of the virus and to provide economic support and relief measures for individuals and businesses. Such relief measures include, but are not limited to, moratoria on repayment of borrowings, extended overdraft facilities and mortgages, loan guarantees and other forms of business as well as liquidity support.

The implications of these negative consequences and various preventive as well as relief measures by the governess because of Covid-19 on the financial reporting by the Company include not only the measurement of assets and liabilities but also disclosure and possibly an entity's ability to continue as a going concern. Therefore, entities are expected to consider their specific circumstances and risk exposures when analysing how Covid-19 and the government measures may affect their financial statements. Specifically, financial statement disclosures will need to convey the material effects of the COVID-19 pandemic.

Following are some of the significant accounting areas that may require careful evaluation for its accounting implications and disclosures by the Company.

Material judgements and estimates:

As a result of the uncertainty associated with the unprecedented nature of the COVID-19 pandemic, entities are likely to face challenges related to selecting appropriate assumptions and developing reliable estimates and judgments when preparing financial statements. To develop estimates, entities will need to consider all available information as well as whether they have met all applicable disclosure requirements, including those in IAS 1 Presentation of Financial Statements.

The disclosure provided about the key assumptions, including the sensitivity analysis based on a range of reasonably possible outcomes, should reflect the conditions at the reporting date. When key assumptions are affected significantly as a result of non-adjusting events after the reporting date, information about those changes, including an estimate of the financial effect, should be provided separately.

Going concern:

Management should consider the potential implications of COVID-19 and the measures taken to control it when assessing the entity's ability to continue as a going concern. An entity is no longer a going concern if management intends either to liquidate the entity or to cease trading, or it has no realistic alternative but to do so.



Material uncertainties that might cast significant doubt on an entity's ability to continue as a going concern should be disclosed in accordance with IAS 1.

Impairment of assets:

Management should consider whether COVID-19 and the measures taken to control it are likely to reduce future cash inflows or increase operating and other costs. Triggers like a fall in an entity's share price such that market capitalisation is lower than carrying value can be an indicator of impairment requiring goodwill and indefinite-lived intangible assets to be tested outside the annual cycle.

Entity shall update the budgets, assumptions and cash flow forecasts used to test for impairment and also use scenario analysis to reflect the potential impact of COVID-19 and other assumptions from an earlier impairment testing date, that were used to determine the recoverable amount of an asset, should be revised to reflect the economic conditions at the balance sheet date, specifically to address increased risk and uncertainty.

The factors used to determine the discount rate should be revised by the companies to reflect the impact of the virus and the measures taken to control it (e.g. the risk-free rate, country risk and asset risk).

Inventories

Covid-19 may impact the valuation of inventories by the companies and can trigger write-downs due to reduced movement in inventory, lower commodity prices, or inventory obsolescence due to lower than expected sales.

IAS 2, 'Inventories', requires fixed production overheads to be included in the cost of inventory based on normal production capacity. Reduced production might affect the extent to which overheads can be included in the cost of inventory.

Fair value measurement of non-financial assets and liabilities

Fair values are likely to change significantly as a result of COVID-19 because of the use of multiple valuation techniques when estimating the fair values.

The discount rate used in a discounted cash flow technique includes a number of market inputs, including a risk-free rate and a cost of debt. In most jurisdictions, risk-free rates have declined significantly in recent past, while the cost of debt has declined for some entities and increased for others. This could result, for some entities, in a lower weighted average cost of capital, and thus a discount rate and may have a significant impact on the fair value of non-financial assets and liabilities.

Financial instruments

Classification and measurement of financial assets under IFRS 9 - Management should consider the impact of COVID-19 on the classification of these assets, in particular whether the entity's business model for managing financial assets might have changed. Additionally, the impact of any changes to the terms of a loan agreement, perhaps because of actions taken by local government or the renegotiation of terms between a borrower and a lender, should be assessed. Lenders should apply the guidance in IFRS 9 to determine the impact of the change in terms, including those for determining whether the change to the terms results in derecognition and, if not, for recognising a modification gain or loss.

Impairment under IFRS 9 - For financial instruments within the scope of IFRS 9's expected credit loss (ECL) model, management should consider the impact of COVID-19. Instruments to be considered include loans, trade and other receivables, debt instruments not measured at fair value



through profit or loss, contract assets, lease receivables, financial guarantees and loan commitments.

IFRS 9 requires forward-looking information (including macro-economic information) to be considered both when assessing whether there has been a significant increase in credit risk and when measuring ECL. Forward-looking information might include additional downside scenarios related to the spread of COVID-19.

Borrowings and other financial liabilities under IFRS 9 - The impact of any changes to the terms of a loan agreement should be assessed. Borrowers should apply the guidance in IFRS 9 to determine the impact of the change in terms, including those for determining whether the change to the terms results in derecognition or recognising a modification gain or loss.

Leases

A lessor and a lessee might renegotiate the terms of a lease as a result of COVID-19, or a lessor might grant a lessee a concession of some sort in connection with lease payments. The IASB issued an amendment to IFRS 16 related to COVID-19 related rent concessions (only for lessees). As a practical expedient, a lessee may elect not to assess whether a rent concession related to COVID-19 is a lease modification. A lessee that opt this practical expedient, account for any change in lease payments because of the rent concession the same way it would account for it if it were not a lease modification.

Cash and cash equivalents

COVID-19 has resulted in the value of several money market and other funds declining more than insignificantly. Furthermore, some money market funds include clauses which allow the fund manager to restrict redemption in unlikely events, one of which might be the result of COVID-19. Management should consider whether investments previously classified as cash equivalents continue to meet the definition considering these declines in value on redemption.

Revenue recognition and government grants

IFRS 15 is applied only to those contracts where management expects a customer to meet its obligations as they fall due. Management might choose to continue to supply a customer even where it is aware that the customer might not be able to pay for some or all of the goods being supplied. Revenue is recognised in these circumstances only where it is probable that the customer will pay the transaction price when it is due, net of any price concession.

Governments around the world have responded to the impact of COVID-19 with a variety of measures, including tax rebates, holidays and in some cases, specific support for businesses, in order that those businesses are able to support their customers. Management should consider whether this type of assistance received from a government meets the definition of a government grant in IAS 20, Government grants.

Income tax:

Covid-19 could affect future profits as a result of direct and indirect factors. Asset impairment could also reduce the amount of deferred tax liabilities and/or create additional deductible temporary differences. Entities with deferred tax assets should reassess forecast profits and the recoverability of deferred tax assets in accordance with IAS 12, 'Income taxes', taking into account the additional uncertainty arising from the virus and the steps taken to control it.

Management might also consider whether the impact of the virus affects its plans to distribute profits from subsidiaries and, therefore, whether it needs to reconsider the recognition of any deferred tax liability in connection with undistributed profits.



Management should disclose any significant judgements and estimates made in assessing the recoverability of deferred tax assets, in accordance with IAS 1.

[The views expressed in this article are personal views of the author. This article has been prepared for general guidance on matters of interest only and does not constitute professional advice. You should not act upon the information contained in this presentation without obtaining specific professional advice.]



Mentor of the Quarter - CA Ashok Dorairaja

Excerpts from Interview with our Senior Most Member-CA Ashok Dorairaja who comes from illustrious family of Nobel laureates that has produced Sir C.V.Raman and Dr. S. Chandrasekhar. It is our privilege to have an experienced field expert amongst us.



**C.A. Ashok
Dorairaja**

1. Please introduce yourself:

I now live in Leidschendam, near the Hague, having first arrived in the Netherlands in 1989.

I am married to Lakshmi and we have a daughter, Aarthi and a son, Anand who are both PhDs from Ivy League Universities in the United States. Lakshmi was a teacher in American and European schools of the Hague. Aarthi is a full Professor at the University of Toronto and she recently won the President's Best teacher award. Anand was Fulbright scholar, winner of the Dutch government's innovation prize and currently works in the maritime industry in the

Netherlands.

In my career, which started around my 21st birthday, I have worked in rubber, consumer electronics, International trading, real estate development, steel making, and currently in high-end agrotechnology. My career has taken me from India, far East Asia, the Middle East, Western Europe and Eastern Europe. I have navigated multiple, sometimes unexpected, changes in industry and function. I have endured failure many times but through a combination of persistence, hard work and sometimes a bit of good fortune, my career has been a fantastic journey and something worthy to write home about.

I passed the final exam of the Institute before my 22nd birthday and remained the youngest to have qualified for many years. I secured the all India no 4 rank and won the AF Ferguson Prize for the best paper on Auditing.

I was one of the first if not the first Indian qualified CA to become a Finance Director of a company in Netherlands, in Germany and in Indonesia at a time when our Institute's membership was not recognized in these countries.



[C.A. Ashok Dorairaja with his wife Lakshmi Dorairaja and daughter - Aarthi]



2. Please describe your professional journey

After passing my CA exam, I worked at Dunlop in a variety of management roles. I worked in Calcutta, Chennai, Bangalore and Cochin in the first phase of my career. Ultimately, I spent 22 years in roles such as Management accounting trainee, Office manager, Audit manager, Materials manager and General Manager.

In the second phase of my career which lasted about 10 years, I moved from Calcutta to Maastricht (Netherlands) and then on to Dubai, then to Surabaya (Indonesia), to Rotterdam (Netherlands) to Niederzissen (Germany) to London and back to the Netherlands in roles such as Finance Director, Strategic planning manager, Director Corporate affairs, M&A Manager and Consultant.

In the third phase of my career, I moved to Buzau in Romania and I became an Executive Director and later CEO of a steel mill and an equipment manufacturer. I am currently based in the Netherlands as an independent director of some companies and with some executive responsibilities in one company overseeing operations in Bucharest, Milan, Sofia and Vienna.

In addition to the above for a brief period I was an examiner at the Institute and all along I have been a Rotarian – a conferred Paul Harris Fellow.

3. How has CA degree influenced your life?

Coming from a family that is very focused on and successful in academics, research and civil service, I was the odd one out. I was one of the first among my siblings and cousins to venture out of pure Science, Mathematics or Engineering. I remain one of the few who found successfully transitioned into the corporate world.

The CA article ship that I went through was rigorous – it was an intense Gurukulam experience (punishments included totalling a telephone directory!). Luckily, I had a good principal but some other partners of the firm were cruel task masters. Manual totalling was mandatory to improve our focus – and we were told that no day dreaming was possible when you were totalling manually. How true and sometimes I continue this practice even today to sharpen my concentration.

Our curriculum then was largely based on the Australian Institute's curriculum and we followed 'The Telephones' – a guide with suggested answers for the questions in the previous exams. This prepared us for the emerging international scene.

The CA experience inculcates a sense of ownership to problems and a fiduciary relationship with people and hard work to meet deadlines.

4. Please share some memorable experiences from your professional career

When I was still an articled clerk, we had in the Income Tax law an initial depreciation allowance in addition to normal depreciation for machinery. I claimed for initial depreciation on trucks which was rejected and ridiculed at the assessment, but we won the case in High court and the Finance tax Act next year was amended to exclude means of transportation as machinery. This was referred to Ashok's case in the limited professional circles. This case afforded me a lot of recognition in some professional circles.

I had major disagreements with MS Shivabogam (the first woman-chartered accountant of India) on professional issues. She initially brushed me aside with high-handed authority since I was just a junior at that time. My determined stance on the issue ensured that, for the first time, a major public sector undertaking in India received a qualified audit report. To her credit, she later admitted that she was wrong, and we became very good friends and in fact she became my mentor.



The other Ashok cases related to PME (Post manufacturing expenses), Countervailing duty on rubber imports and on the definition of sales and hence the applicability of sales tax on allocations from STC.

After many false starts during my early career, I finally discovered my passion in releasing value from dormant assets. Being the materials manager of a large tyre company I had exposure to suppliers who would turn sick and needed help. As a strategy manager of a large Indian MNC I had the opportunity to work on the reorganization of two BIFR companies.

I have had my share of failures as well – the spectacular one being a party to a management decision not to cover the Kuwaiti Dinar that brought my employer to near bankruptcy!! Sadam Hussain, all on a sudden, invaded Kuwait and bombed our customer KNPC that brought down the Kuwaiti Dinar by 90%!!!

I took some courses and worked very hard to gain further competence in turnaround management. Two large companies in Eastern Europe employing over 5000 people acquired by our group at near zero acquisition costs gave me a real opportunity to work on a turnaround. After eight years of hard work there was a huge win for all of us - our investors cashed over a hundred million Euros in profits and perhaps more importantly, the company had almost 4000 employees in secure jobs. I became a household name in Buzau, a small town in Romania with a population of 125,000. There was only one Indian and one vegetarian (both me!) and a perhaps a dozen English speakers!!!

5. Please share your thoughts about life in NL especially the work life balance

The very reason I came to the Netherlands was to improve the quality of the life of my children and get them to enjoy their childhood and not get caught in the cut throat competition and rat race back home. This paid off in some way.

However, for years I struggled having to put in over 10 hours a day for 6 days a week and being only a Sunday member of the family. At that time at least I felt that as an Indian I needed to put in some 25% more than a local to be considered an equal. I am delighted that it's not the case today as we are not only recognized as equals but even preferred due to our work ethics.

There were very few Indians in the Netherlands in the 90s – in fact the late Gopal Ramanathan of KPMG was the only other Indian CA in the Netherlands. I always teased him at his having become a member of our Institute by filling up a form because of his UK CA qualification and an Indian qualified CA like me did not enjoy a reciprocity.

Due to the massive democratization of information online, many academic qualifications today have to have 'best-by dates' like groceries or medicine! A little knowledge is a dangerous thing. Therefore, always be up to date and continue your education, familiarizing yourself be it an amendment to a law or a new accounting standard or an Information technology tool. This and being methodical and organized with always an eye on value for money are values one can receive being a part of the Dutch society.



[C.A. Ashok Dorairaja with his family]

6. Any message or professional advice to our members at NL Chapter

I can do no better than to pass on to you an advice that I myself received when I was starting my professional journey from the late legend Nana Bhai Phalkivala, arranged at the instance of my illustrious grand uncle. To you young man, Nani ji told me, I have but three words of council.....Work, Work and Work!!! And he added in a lighter vein- Look after your balance sheet as well! For me, the three P's in life have served me extremely well: Passion, Perseverance and Patience.

In terms of advice, I would say: always, be positive, pro-Business and an outside the box thinker. Do not make yourself indispensable as it may result in you becoming stuck. Finally, be 'Glocal': global in outlook but local in tradition and work ethics.

Most of our work is rough and routine like breaking stones, it can feel monotonous and exhausting. Yet we do need to develop an attitude to view this as building a temple. For us accountants, work is worship! Also as Indians, this comes naturally to us and makes us model immigrants in this country and elsewhere!

C.A. Radha Nikhade in conversation with C.A. Ashok Dorairaja:



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Dutch Participation Exemption



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The Netherlands corporate income tax (vennootschapsbelasting, Vpb/CIT) is a classical system, which means that corporate profits are taxed and distributions from the taxed profits are again taxed in the hands of the shareholders. Profit distributions are not deductible from taxable income of the distributing company. In the case of qualifying distributions to corporate shareholders, however, double taxation is eliminated through the participation exemption.

Any income (e.g. dividends and capital gains/losses) derived by a Dutch resident company from its shareholdings is fully taxable, unless the Dutch participation exemption is applicable. The Dutch participation exemption is an exemption from Dutch corporate income tax in respect of profits and losses derived from qualifying shareholdings. Profits covered by the participation exemption include cash dividends, stock dividends, bonus shares, dividends in kind, hidden profits distributions and capital gains realized upon the disposal of a shareholding.

Under the participation exemption (deelnemingsvrijstelling) regime, dividends and other profit distributions, currency gains (or losses) and capital gains (or losses) on the disposal of a qualifying participation or part thereof may be exempt from corporate income tax (article 13 of the Vpb). Such distributions are also exempt from dividend withholding tax.

Resident companies and non-resident companies with a permanent establishment in the Netherlands may benefit from the participation exemption, provided that they are generally subject to corporate income tax in the Netherlands (the subject-to-tax test). Investment institutions (see section 12.2.), however, are excluded from this regime because they are not subject to corporate income tax (article 13(8) of the Vpb).

Furthermore, according to Dutch case law, the participation exemption may also apply to options if their exercise would result in a qualifying shareholding. There is no requirement as to the duration of the period in which a participation must be held by the parent company.

In addition, to qualify for the participation exemption, Legal form test, ownership test and a motive test must be satisfied. If the motive test is not met, the participation exemption nevertheless applies if an asset test or the subject-to-tax test is met. These tests are described below.

Sr no	Types of Test	Requirement
1	Legal form test	The entity in which the shares are held must have a capital divided into shares or otherwise qualify, as an 'open' limited partnership, cooperative association or qualifying mutual fund.
2	Ownership test	the Dutch company owns at least 5% of the nominal paid-up capital of the subsidiary of which the capital is wholly or partly divided into shares
Any one of the below test in addition to above two test		
1	Motive test	The participation is not considered to be held as a portfolio participation, ex article 13 paragraph 9 CITA
2	Subject to tax test	The subsidiary is subject to tax on profit that results in an effective tax rate according to Dutch standards
3	Asset test	less than 50% of the participations directly and indirectly held assets consist of low-taxed, non-business related assets

When the Dutch participation exemption is not applicable based on the above conditions, a tax credit (5%) may be available. Costs which are related to the acquisition and disposal of a participation (e.g. legal fees, compensation, notary fees) are covered by participation exemption



and are therefore not tax deductible. Capital losses on qualifying shareholding are covered by participation exemption as well. On the other side, losses arising from the liquidation of a (foreign) subsidiary are deductible for corporate income tax purposes.

Brief overview of each of above test is explained below

Legal form test:

The subsidiary in which the shares are held must have capital that is divided into shares or the subsidiary must otherwise qualify as an 'open' limited partnership, a cooperative association or a qualifying mutual fund.

Ownership test:

Participation of at least 5% in the nominal paid-up share capital of an active subsidiary company (nominal capital paid on shares without profit or voting rights are also included in determining the 5% requirement).

This test is fulfilled if the Dutch resident company owns a shareholding of at least 5% of the nominal paid-up capital of the subsidiary or an equivalent interest in the case of funds or limited partnerships (e.g. profit participation certificates). No minimum is required for interests in cooperatives. Ownership of legal title is not required where there is full economic (beneficial) ownership.

Furthermore, ownership of at least 5% of the voting rights in a subsidiary established in an EU Member State also qualifies if the tax treaty with that Member State provides for a reduction of the dividend withholding tax on the basis of voting rights (article 13(3) of the Vpb).

Where the shareholding is less than 5%, the participation exemption may still apply:

- if a related party holds a minimum qualifying shareholding ('drag along rules'); or
- under a three year exception, if the shareholding qualified for at least one year before it dropped below the 5% threshold.

In addition to the ownership test, at least one of the following three tests should be satisfied:

Motive test:

Under the motive test, to qualify for the participation exemption, a participation must be generally held for business reasons and not as a mere portfolio investment. However, it is open to the tax authorities to prove that the participation is held as a mere portfolio investment.

The participation exemption applies if the (deemed) intention is to hold the subsidiary as a non-passive investment. Whether a participation is considered to be held as an investment participation depends on the shareholders' motives.

If the participation is held with the intention to receive a return that is to be expected from normal asset management it is considered to be held as an investment. When a Dutch intermediate holding company fulfils a 'linking' function between an active participation and an active (foreign) parent company, the Dutch intermediate holding company is not considered to hold the participation as an investment.

If the taxpayer has a mixed motive, the predominant motive is decisive. Furthermore, the motive test is deemed not to be met if (i) more than half of the participation's consolidated assets consist of shareholdings of less than 5%, or (ii) the predominant function of the participation, together with the function of lower tier subsidiaries, is to act as a group finance company.



It is, however, not possible to apply the motive test if the function of the subsidiary is a group financing / group leasing entity for more than 50%. In addition, this test will not be met where the asset value of the subsidiary is comprised of 50% or more of minority shareholdings (less than 5% shareholdings).

Subject to tax test:

The subject-to-tax test is met if the foreign subsidiary in its country of residence is taxed at an effective rate of at least 10% on the taxable profits determined in accordance with Netherlands tax standards (article 13(11)-(13) of the Vpb).

Where the subsidiary is a Dutch resident company, the subject-to-tax test should in principle be met. In the case of foreign subsidiaries, this test can often be quite difficult to get comfort on as the tax base of the jurisdiction where the subsidiary is a tax resident needs to be compared with the Dutch tax base. Deviation in taxation may lead to significant differences.

Asset test:

The asset test provides that the participation exemption does not apply to low-taxed portfolio investments. If over 50% of the subsidiary's asset base is made up of free portfolio investments (including receivables on group companies) other than those reasonably necessary in connection with the business activities of the subsidiary, the subsidiary is deemed to be a passive portfolio investment (article 13(9)-(12) of the Vpb).

For the application of the asset test, it is important to consider the place that assets take in the capital of the subsidiary. Therefore, for this assessment, the entire assets of the subsidiary are taken into consideration in such a way that both the asset side and the liability side of the balance sheet are compared. In principle, the assets are considered on a consolidated basis.

If the market value of aggregated assets (based on a specific consolidation where intercompany positions are not eliminated) of the participation comprise of less than 50% low-taxed (deemed) passive assets, the participation exemption applies. Whether an asset is a non-business related investment is generally determined according to whether or not the asset is reasonably necessary for the owner's business. For example, intercompany loan receivables and minority shareholdings (shareholdings of less than 5%) are in principle considered to be passive assets for this test.

Participations held by the subsidiary company of less than 5% are in any case deemed to be a portfolio investment (article 13(10)-(14) of the Vpb). The portfolio investments are treated as free if they do not have any business function (article 13(12) of the Vpb).

In addition, we note that the Dutch participation exemption is a continuous test. Based on the compartmentalization rules, consideration should therefore be given to whether the tests above have continuously been fulfilled from the moment the shareholding was acquired. If the Dutch participation exemption was at some point not applicable, any increase in value of the participation attributable to that period should not be tax exempt.

[The views expressed in this article are personal views of the author. This article has been prepared for general guidance on matters of interest only and does not constitute professional advice. You should not act upon the information contained in this presentation without obtaining specific professional advice.]



Kings Day in Netherlands



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The King's Day or the *Koningsdag* is a National Holiday celebrated on 27th April in the Netherlands.

Celebrating this day actually began in the year 1885 as Princess' Day (*Prinsessedag*). It was celebrated for the first time on 31 August 1885 on Princess Wilhelmina's fifth birthday and was supposed to be observed as a day for patriotic celebration and national unity. Princess Wilhelmina was the daughter of King William III who was the King of the Netherlands and Grand Duke of Luxembourg from 1849 until his death in 1890. After his death in 1890, Princess Wilhelmina took over as Queen and Princess' Day was then Celebrated as Queen's Day (*Koninginnedag*) from 1891. This annual holiday also fell on the final day of summer vacations in schools and hence became popular among schoolchildren.

In September 1948, Queen Wilhelmina's daughter and heiress, Princess Juliana ascended to the throne and so, 1949 onwards, Queen Juliana's birthday i.e. 30 April was then celebrated as the Queen's Day.

Queen Beatrix, Queen Juliana's daughter succeeded her on her abdication on 30 April 1980. Queen Beatrix decided to keep the holiday on 30 April itself instead of her birthday. On 28 January 2013, Queen Beatrix announced her abdication on 30 April 2013 in favour of Willem Alexander, her son.



On 30 April 2013, King Willem Alexander succeeded his mother and became the first King of the Netherlands in 123 years. From the year 2014, King's Day or *Koningsdag* has been celebrated on his birthday i.e. on 27 April.

If this day falls on a Sunday, it is celebrated a day earlier.

Activities and Celebrations

- 1) **Significance of Orange:** The most important and main thing that is done on King's Day is wearing orange coloured attire. The Dutch Royal Family is known by the name 'House of Oranje' and orange is also the national colour of the Netherlands. It is common for people to wear orange and also paint their faces orange or wear orange wigs on this day.
- 2) **Flea markets:** Flea Markets are held across the country on this day. People are allowed to set up their stalls and sell things on the street without requiring some permission. Many people sell their things directly in front of their houses too. The Flea markets may start as early as 7 a.m.
- 3) **Main cities:** Amsterdam is the main area of the King's Day celebrations. There are flea markets and street parties held as part of the celebration.
- 4) **Visit by the King:** The King, along with his wife also visit one of the cities and meet the people there. Their visits are often covered by news channels live.
- 5) **Boat Parade:** As part of the celebrations, a boat parade takes place and people dance and sing on those boats and also on the shore. Usually, the boat parade takes place along the Prinsengracht canal.

This is one of the most widely celebrated holidays in the Netherlands. With the festive mood, smiling faces, the much-appreciated sunshine, the country turns into a big orange party!



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