

History of the Netherlands as a Tax Haven, 1914-1996

Its rise, heyday, downfall and
revival after the Second World War

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Introduction

When publications mention the Dutch tax haven, it almost always pertains to the current tax haven. However, its history is much older than commonly assumed and has undergone several stages of development. It emerged during the First World War, thrived in the interwar period, declined in the late 1930s, revived in the 1950s, and since then has become one of the most significant tax havens in the world. By examining its evolution, I identify the central factors in the development of tax havens. The phases are investigated based on the following research question: Which endogenous and exogenous factors contributed to the rise, growth and decline prior to the Second World War, and which factors explain its postwar resurgence and growth?

The only history of the Dutch tax haven based on archival research was written by J. Vleggeert and H. Vording. Their article ‘How the Netherlands Became a Tax Haven for Multinationals’ is limited to post-1945 developments.¹ In contrast, my study covers the period from 1914 to 1996 and is based on extensive archival research. This study reaches several key conclusions. First, it shows that the tax haven emerged by chance during the First World War when foreign capital took advantage of pre-existing facilities, such as banking secrecy. Furthermore, it demonstrates that both the financial sector and the government effectively protected banking secrecy during the subsequent boom. Additionally, the study highlights that the decline of the tax haven was primarily due to the uncertainty brought about by the impending Second World War. At the same time, this study reveals that the revival of the offshore sector in the 1950s was made possible by factors such as the availability of facilities like the participation exemption, the tax treaty network, and favorable rulings from the tax authorities.² Another significant finding is that the growth of the tax haven thereafter

1. J. Vleggeert and H. Vording, ‘How the Netherlands Became a Tax Haven for Multinationals’ (2019) p. 6, https://papers.ssrn.com/sol3/papers.cfm?abstract_id=3317629, accessed 30 Nov. 2021.

2. The terms tax haven, offshore and offshore financial centre (OFC) are interchangeable and refer to the same centres. Source: R. Palan, R. Murphy and C. Chavagneux, *Tax Havens: How Globalization Really Works* (Ithaca and London (2010) 23, 24.

can be attributed to various factors, including favorable tax legislation, customer acquisition efforts by a government agency, and the utilization of the Antilles route.

This route involved the untaxed flow of dividends from third countries through the Netherlands to Curaçao (see diagram 1). Due to a symbiotic relationship between the Dutch financial sector and the Curaçao offshore, a separate chapter in the study is dedicated to that tax haven.

In terms of the research question, my research indicates that most of the factors that contributed to the different stages of development in the Dutch tax haven also appeared in other tax havens. I arrived at this conclusion by comparing the factors found with those listed in tables 1 and 2. These tables were extracted from my dissertation and were based on the factors identified in international literature that influenced the emergence, growth, and decline of tax havens.³ The tables provided here are slightly more comprehensive than the ones in my dissertation, as they include eight additional factors. The factors related to concluding tax treaties, rulings, and the termination/revision of tax treaties were derived from my research on the history of the Curaçao tax haven. The factor effective defense tax haven was sourced from a study by C. Farquet.⁴ The factors of neutrality, war, and capital flight due to tax increases in Table 1 were based on a study by S. Guex.⁵ The factor war in Table 2 came from a study by S. Watteyne.⁶ Most of the factors mentioned in the tables are self-explanatory; however, the term agglomeration effect requires some clarification. It describes how financial firms can benefit from the availability of complementary services from lawyers, accountants, and other facilities. These services enhance the international reputation and competitive position of a tax haven.⁷ Based on my research on the Dutch tax

3. M.J.C. van Beurden (2018). *De Curaçaose offshore: Ontstaan, groei en neergang van een belastingparadijs, 1951-2013*. PhD dissertation, University of Amsterdam, 59-64.

4. C. Farquet, *La Défense du paradis fiscal Suisse avant la Seconde Guerre Mondiale: une histoire internationale* (Neuchâtel 2016).

5. S. Guex, 'The Emergence of the Swiss Tax Haven, 1816–1914', *Business History Review* 96 (2022) 353-372.

6. S. Watteyne, 'Emergence of, and Threats to, the Belgian Tax Haven During *La Belle Époque*, 1890–1914', in S. Guex and H. Buclin eds., *Tax Evasion and Tax Havens since the Nineteenth Century* (Lausanne 2023) 73-92.

7. R. Roberts, 'The Economics of Cities of Finance', in H. Diederiks and D. Reeder eds., *Cities of Finance* (Amsterdam/New York 1996) 7-19 there 11-13; A.E. Tschoegl, 'The Benefits and Costs of Hosting Financial Centres', in: *International banking and financial centres*, ed., Yoon S. Park and M. Essayyad (Amsterdam 1989). Cited in Palan, et al., *Tax Havens*, 182.

haven, I have identified 13 factors that were not mentioned in Tables 1 and 2. In the case of nine of these factors, it is evident that they also played a role in other tax havens. However, four factors are unique: the absence of withholding tax on interest and royalties; the non-taxation of foreign capital; a generous participation exemption; and customer acquisition by a government agency.

With my research, I also aim to contribute to studies that examine the history of a specific tax haven. Alongside the article by Vleggeert and Vording, the following studies are of interest:

- M. Hampton's dissertation on the Jersey tax haven.⁸
- A. Hudson's dissertation on the emergence and development of offshore activities on the Bahamas and the Cayman Islands.⁹
- C.R. Schenk's article on the history of the Singapore tax haven.¹⁰
- An article by C. Boise and A. Morriss that discusses the rise, growth, and decline of the Curaçao offshore.¹¹
- T. Freyer and A. Morriss' article that investigates the development and expansion of the offshore sector on the Cayman Islands.¹²
- The books by C. Farquet which primarily focus on the evolution of the Swiss tax haven.¹³
- My dissertation on the history of the Curaçao offshore.
- The article published by J. Jonker and me on the symbiotic relationship between the Dutch financial sector and the Curaçao offshore.¹⁴

8. M.P. Hampton, *The Offshore Interface: Tax Havens in the Global Economy* (Basingstoke 1996).

9. A.C. Hudson, *Globalization, Regulation and Geography: The Development of the Bahamas and the Cayman Islands Offshore Financial Centres* (Cambridge 1996).

10. C.R. Schenk, 'The Origins of the Asia Dollar Market 1968–1986: Regulatory Competition and Complementarity in Singapore and Hong Kong', *Financial History Review* 27 (2020): 17-44.

11. C.M. Boise and A.P. Morriss, 'Change, Dependency, and Regime Plasticity in Offshore Financial Intermediation: The Saga of the Netherlands Antilles', *Texas International Law Journal* 45-2 (2009) 377-456.

12. T. Freyer and A.P. Morriss, 'Creating Cayman as an Offshore Financial Center: Structure & Strategy since 1960', *Arizona State Law Journal* (Sep. 2013).

13. C. Farquet, *Histoire du paradis fiscal suisse* (Paris, 2018); Farquet, *La Défense du paradis fiscal Suisse*.

14. Van Beurden, *De Curaçaoese offshore*; T. van Beurden and J. Jonker, 'A Perfect Symbiosis: Curaçao, the Netherlands and Financial Offshore Services, 1951–2013', *Financial History Review* 28 (2021) 67-95.

- S. Guex’s article on the key factors contributing to the rise of the Swiss tax haven.¹⁵
- S. Watteyne’s article on the Belgian tax haven, 1890-1914.¹⁶

TABLE 1. Endogenous and exogenous factors facilitating rise or attenuation of decline

Endogenous	Exogenous
Legislation	War
Flexible regulation	Capital flight due to tax increases
Secrecy	Initiative to set up OFC often externally
Concluding tax treaties	Growing Eurodollar and Eurobond market
Rulings	
Effective defense tax haven	
Location: time zone, neighboring countries	
Small jurisdiction	
Sufficient fiscal autonomy	
Image of political stability	
Good cooperation state and off-shore sector	
Neutrality	
Agglomeration effect	
Economies of scale	

SOURCE: Van Beurden, *De Curaçaoese offshore*, 64 Table 8, 332; Farquet, *La Défense du paradis fiscal Suisse*, 467; Guex, ‘The Emergence of the Swiss Tax Haven’, 362, 364.

15. Guex, ‘The Emergence of the Swiss Tax Haven’.

16. Watteyne, ‘Emergence of, and Threats to, the Belgian Tax Haven’.

TABLE 2. Endogenous and exogenous factors that weakened growth or caused decline

Endogenous	Exogenous
Failing cooperation state and off-shore sector	Measures/legislation other countries
Lack of adaptability	Measures international organizations
	Competition other tax havens
	Termination/revision of tax treaties
	War

SOURCE: Van Beurden, *De Curaçaose offshore*, 64 Table 9, 336; Watteyne, 'Emergence of, and Threats to, the Belgian Tax Haven', 90.

The chapters are arranged as follows. The first two chapters describe the rise (1914-1918) and the heyday (1918-1938) of the Netherlands as a tax haven. The third chapter explains how the financial sector and its political allies defended the facilities offered by the Dutch fiscal safe haven. The fourth chapter discusses the downfall from 1938 to 1940. The fifth chapter focuses on the abolition of banking secrecy after the Second World War and the failed attempts of the financial sector to reintroduce it. The sixth and seventh chapters discuss the rise and growth of the Curaçao and Dutch postwar tax havens until 1981. The eighth chapter turns to American pressure on the Netherlands and the Netherlands Antilles (1979-1993) to amend several tax treaties. The ninth chapter describes the extensive package of measures that the Netherlands introduced from 1994 to 1996 to make the offshore more attractive. The final chapter examines the continued growth of the tax treaty network and the extent of offshore activities after 1981.

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