

If You Ain't Dutch, You Ain't Much

By Reg P. Wydeven
February 24, 2007

Most folks know that I'm proud of my cultural heritage. My great-grandfather came over from Holland and started an insurance company, a home design and sale business, a lumberyard and a bank in my hometown of Kimberly.

My wife taught a unit on the Netherlands each year to her first grade students so they could learn about tulips, windmills and wooden shoes. "If you ain't Dutch, you ain't much" is a favorite saying in our household.

That being said, I was still caught off guard last week when I spotted 'Old Dutch' brand salsa at the grocery store. Now I know that as a people, we Dutch know lots about dams and art, but I was surprised to learn we made a traditionally Mexican condiment.

I bought a jar, which was naturally delicious, once I discovered it was on sale. For while we Dutch may not yet be known for our salsa, we are certainly known for being frugal, or as we Hollanders call it, t'rifty. Perhaps that's why so many celebrities are going to the Netherlands to save money.

Holland does not tax royalties, dividends and interest payments, which comprise a significant portion of many celebrities' income. In addition to getting paid for their craft, many celebrities earn substantial royalties from recordings, performances, trademarks, brands, patents, copyrights, film rights, product endorsements, videos, films and the commercialization of those assets.

To avoid paying taxes on these royalties, celebrities set up "mailbox companies," or corporate shells used as a receptacle for their payments. There are approximately 20,000 such mailbox companies in the Netherlands. The royalties that flow into or out of these Dutch holding companies are exempt from taxes.

Mick Jagger, Keith Richards and Charlie Watts, three members of the Rolling Stones, have taken advantage of these Dutch tax shelters. Through the Dutch company Promogroup, the rockers have funneled royalty payments through a mailbox company for more than 30 years. According to the Handelsregister, the trade registry of the Netherlands, Promogroup helped the three Stones pay just \$7.2 million in taxes on earnings of \$450 million over the last 20 years. That comes to a tax rate of about 1.5 percent, compared to a rate of 40 percent in their native Britain.

Following the Stones' lead, Irish rockers U2 recently used Promogroup to set up U2 Ltd., a mailbox company that holds the group's song catalog. The band, which has purportedly earned over \$900 million over the last quarter century, made the move after Ireland announced it was repealing its laws that forgive taxes due on royalties.

Celebrities aren't the only ones going Dutch, though. Many global corporations, like Nike and Coca-Cola, have set up mailbox companies to reduce or eliminate taxes on royalties and patents. According to the Dutch non-profit business watchdog SOMO, the Center for Research on Multinational Corporations, 1,165 international companies use mailboxes in the Netherlands.

To help lure these businesses, the Dutch Finance Ministry speeds up the process by issuing advance rulings that determine whether the tax shelter is compliant or not. The Dutch government has also entered into several tax treaties with other countries to create tax incentives and to allow funds to be transferred from Dutch companies to foreign subsidiaries.

If 'Old Dutch' ever sells the recipe for its soy sauce, I'll be comforted knowing they won't pay taxes on the royalties.

This article originally appeared in the Appleton Post-Crescent newspaper and is reprinted with the permission of Gannett Co., Inc. © 2007 McCarty Law LLP. All rights reserved.