**More added value than ever from fiscal investment institution (FII)**

**In just over 50 years, the fiscal investment institution (FII) - in Dutch is referred to as *fiscale beleggingsinstelling*, or FBI - has come to offer considerable added value to private investors as well as to insurance companies and pension funds. Introduced in 1969, this scheme aimed to make secure and diversified investing through a fund also attractive and accessible to retail clients - small private savers and not just private wealth clients.** **Investment through an FII allows Dutch private investors to invest at the same cost as if they were to invest directly, while also giving them access to professional management. The FII is now more important than ever. In this time of low interest rates and high inflation, many Dutch people need an alternative to saving. Moreover, more and more people do not have the option to participate in collective pension schemes and need to accumulate assets for the future themselves. They preferably do this by means of diversified long-term investment, which can be done through an FII.**

**How does the FII work?**

The FII is a tax scheme for an investment fund which is also referred to as a ‘tax regime’. The scheme makes it attractive for private investors to invest in shares, in part because it prevents double taxation. We will explain how this works below.

*Preventing double taxation*

Private investors pay income tax on their investments, but other countries also levy dividend withholding tax. Private investors can request these countries to limit this extra withholding tax to the rates incorporated in the double-taxation treaties[[1]](#footnote-1) which the Netherlands has entered into with several countries. They can offset the remainder against their income tax, thus preventing double taxation. Otherwise, as a result of the missed 'interest on interest effect’ (also referred to as compound interest effect), double taxation would have a major impact on the end return to be gained.

*Fund investment; diversified and cost-effective*

The FII ensures that, in fiscal terms, fund investment is not more disadvantageous than direct investment, because, as a fund, the FII may also utilise these tax treaties in order to limit withholding tax. And the remainder of the withholding tax may, under certain conditions, also be settled by the FBI against the dividend tax on its mandatory dividend payment to the participants. In this way, the advantages of fund investment, such as diversified investing, access to investment markets, and professional management, remain intact, while the results (returns) for the private investor are equal to when investing directly.

For that reason, the FII is also used by institutional investors, including insurance companies and pension funds, when investing assets in order to fulfil their obligations towards private persons. Therefore, a Dutch corporate tax rate of 0% applies to the FII, and deferral of taxation is prevented by the requirement that every year the taxable profits are distributed to participants as a taxed dividend.

**Particularly relevant now**

Launched with the introduction of the Dutch Corporate Income Tax Act [*Wet op de vennootschapsbelasting*, abbreviated to Wet VPB] in 1969, the FII aimed to make safe and diversified investing through a fund together with other investors attractive and accessible to small savers as well. However, the world - including the world of taxation - has undergone significant changes since 1969, with amending laws and regulations being introduced annually.

Dutch investment institutions have played a major role in society over the past 50 years, mainly managing assets that Dutch people will need in the future, on reaching their retirement age. As the majority of these institutions consist of Dutch retail-investment funds with an FII status, they have enabled Dutch private persons to make investments in an accessible, diversified and cost-effective manner, in line with the original basic principles of 1969. The FII is in keeping with the present climate, in which the European Committee calls for stimulating people to turn direct savings to the capital market, which, in this respect, is synonymous to ‘long-term investment’. In this time of low interest rates and high inflation, many people need to make their assets grow through long-term investment solutions. Pension fund participants as well as insured persons and retail investors stand to benefit from the FII’s success. FII investment funds meet this need because they enable people to invest in a diversified and cost-effective manner through an FII.

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| The FII offers no advantages for the fund houses as such. The participants in the investment fund are the only ones who benefit from this fiscal regime because they have a higher return as a result of the lower costs. Dutch FII investment funds are therefore much more attractive to Dutch investors than foreign ones. |

**Sources**

* Article 28, Dutch Corporate Income Tax Act 1969
* Article 6A, Dutch Corporate Income Tax Act 2007
* The website of the Dutch tax authorities
* Various articles through desk research

**Disclaimer**

*This article is intended as a concise overview of the FIIs that invest in securities [‘effecten-FBI’], and does not purport to be complete in terms of fiscal or legal matters. This article confines itself to FIIs that invest in securities and largely excludes the real-estate FII, the Dutch tax-exempt investment institution [‘vrijgestelde beleggingsinstelling’, abbreviated to VBI], the Fund for Mutual Account (‘fonds voor gemene rekening’, abbreviated to FGR), and tax-transparent entities. This article does not address FIIs domiciled in the Netherlands with foreign investors, reimbursement of Dutch dividend tax or compensation of foreign withholding tax for FIIs, nor Dutch or international treaty policies. No rights can be derived from this article. The information provided in this article does not constitute investment advice.*

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1. agreements to prevent taxing income twice by allocating taxing rights over this income between two countries. [↑](#footnote-ref-1)