

Rabobank tax policy statement

Introduction

In this statement, Rabobank explains how it manages its taxes and clarifies the [country by country report](#) in the annual accounts of 2014 (page 54 of the consolidated financial statement 2014). Among the subjects covered in this statement are: our relationship with the tax authorities, the various taxes that Rabobank pays and our view on the international discussion regarding multinational companies and their tax policies.

Rabobank's relationship with the tax authorities

Rabobank's relationship with the tax authorities is based on transparent communication. This means that Rabobank, in addition to describing all the facts of the case clearly and completely, will address the (intended) tax outcome and any potential points of discussion. We take this approach, because we feel that transparent communication forms an integral part of corporate social responsibility. In respect of the horizontal supervision concept that is applied in the Netherlands, Rabobank has entered into a cooperation covenant with the Dutch Revenue.

Horizontal supervision refers to a form of cooperation between the tax authorities and the taxpayer that is based on partnership, with mutual trust and truly transparent communication as its cornerstones. These fundamentals are expressed in a covenant. The Dutch Revenue will only enter into such an agreement if the tax payer has an effective tax control framework in place, meaning that the company has solid control of its tax position and tax risks.

Rabobank has agreed similar covenants with the tax authorities in the UK and in Australia.

Tax planning

The tax laws of a country determine which revenues are taxable and which costs are deductible. These regulations are mandatory. Rabobank applies all relevant tax regulations in a reasonable manner and will always take the legislator's intentions into account. A reasonable application of the law does not allow for artificial reductions of the effective tax burden. As a consequence, Rabobank does not engage in such planning.

The definition of terms such as 'fair share' and 'a reasonable application of the law' will always be liable to discussion. Where one person observes sufficient 'economic substance' in a transaction, another person may not see enough. For this reason, Rabobank transparently presents the choices it has made and any potential points of doubt to the tax office. Rabobank will ensure that the authorities are given adequate time to express their views and will factor these views into its decision making process.

Banks are involved in complex financial transactions on a regular basis. Such transactions may be difficult to understand and may have substantial financial consequences for the parties involved. In these situations, Rabobank applies specific and long-standing policy procedures to ensure it complies with the aim of the law. Where a transaction entails a tax advantage within the intention of the law, that is fine with us. Rabobank is not willing to participate in transactions of which tax reductions are the main purpose. Equally, we expect the tax office to apply the law reasonably and to do justice to the rights of Rabobank as a taxpayer.

Rabobank does not conduct trust activities.

We define trust activities as the management and administration of companies on behalf of third parties. Insofar as companies in the Rabobank organisation have the word 'trust' in their name, there is no relation to such activities. This does not mean we principally object to clients performing or using trust management services, but we will review these cases carefully.

Policy with regard to developing countries

By making investments in and showing commitment to local financial institutions, Rabobank aims to make a positive contribution to the economies of developing countries. The same applies to the charitable activities of the Rabobank Foundation. Rabobank does not want to be involved in structures that use developing countries with the intention to reduce taxes.

Policy with regard to clients

Rabobank takes the position that clients are responsible for their own decisions regarding tax. We do count on our clients' integrity and where necessary will form a view on this aspect.

This entails that Rabobank expects clients to be transparent concerning tax related choices and consequences, both towards the bank and towards the tax authorities. As an example: Rabobank will not enter into a transaction in case of uncertainty about the tax objectives of the counterparty. In our view, the importance of this (long existing) policy is increasing: regulators such as the Dutch Central Bank and the European Central Bank have made very clear that they expect banks to take an active stance with respect to client integrity in the tax field.

Rabobank does not provide tax advice to its clients.

What is Rabobank's view of the international discussion regarding the tax policies of multinational companies?

There is a growing public interest in the tax policies of multinational companies. This is clear from parliamentary debate, investigations of various institutions in the area of corporate social responsibility and critical publications in the media. In addition, both on the national and the international level, multiple legislative initiatives have been started.

An example of international cooperation is the OECD initiative regarding base erosion and profit shifting (BEPS), potentially leading to the adjustment of national tax laws. Rabobank acknowledges the importance of this initiative, which aims to achieve a more balanced approach to taxation through international coordination. This improved balance comes down to the elimination of both double taxation and double non-taxation.

Rabobank agrees that an open and constructive public discussion about taxes is essential, specifically where tax ethics are involved. We consider it important that existing legislation and generally accepted principles of international taxation are recognised as valuable starting points to this debate. Rabobank takes the view that a meaningful discussion on socially responsible tax planning should be based on principles such as transparent communication, due attention to the spirit of the law and the consistent application of individual companies' own tax policies.

Effective tax rate (corporate income taxes)

The effective tax burden that is stated in the annual accounts exclusively concerns income taxes, including Dutch corporate income tax. The 2014 accounts contain an overview of the income tax burden per country (so-called [country by country reporting](#), see page 54 of the consolidated financial statement). Globally, the effective tax rate in 2014 amounted to 26% of gross income before incidental tax gains.

The incidental tax gains mainly consist of two components. In the first half year a gain was recognised in relation to accumulated losses.

Just as positive taxable income leads to a payment of tax, negative taxable income (a tax loss) gives rise to tax receivables. However, these are conditional. For example, a tax loss may only be offset against positive taxable income from another year. In the absence of positive income, the tax loss does not (yet) lead to a claim against the Revenue office. Losses with respect to equity participations or from foreign activities (where these take the form of a so-called permanent establishment) may also entail a tax claim under Dutch tax law, but here the condition is that the activities in point have been permanently ceased.

Consequently, tax losses in effect represent 'value', because they lead to a claim against the tax office. This claim is recognised in the company's balance sheet, but only if the conditions mentioned above are met. Rabobank has accumulated such tax losses from earlier years. Up to 2014, these losses did not meet the requirements to justify a claim against the authorities and as a result were not represented in the balance sheet. In 2014, it was concluded that all the necessary requirements can now be met. This is why these (future) tax claims are presently valued in the balance sheet.

In the second half of 2014, tax provisions have been released, predominantly owing to the clarification of technical uncertainties that were the subject of discussion with the tax office. Rabobank had deemed it prudent to account for the possibility of a negative outcome (i.e. a possible future payment of additional taxes).

Explanation of corporate income tax

There are many differences between accounting and tax regulations. As a result, the income for accounting purposes (the income as stated in Rabobank's annual financial accounts) diverges from the income for taxation purposes. The size of these differences is unpredictable, but in the case of a company like Rabobank may be considerable.

As an example: the gain from the sale of shares in a subsidiary is included in accounting income, but under Dutch law is not taxable. Since this tax exemption is mandatory, the taxpayer does not have the option to decline it.

There are various other differences with the opposite effect: the exemption concerning the sale of shares, mentioned above, does not only apply to gains, but also in case the transaction entails a loss. In that case, taxable income actually exceeds accounting income. The same is true if an amount is deductible from income for accounting purposes, but not for tax. An example of this is the Dutch bank tax which is an accounting expense, but not tax deductible.

In addition, the income according to the annual accounts refers to all activities of the entire Rabobank Group. This aggregated result was obtained in many different countries and Rabobank has to file tax returns in each country. The filing process is subject to local regulations, which vary widely from jurisdiction to jurisdiction. The tax policy principles that Rabobank applies are the same everywhere, however.

In summary: the 2014 group income of 1.8 billion euro is not directly related to the income tax that Rabobank has to pay in the Netherlands. For 2014, Dutch taxable income will be negative, meaning that Rabobank pays no corporate income tax in the Netherlands.

Other taxes

Both the country by country data mentioned above and the information on the effective tax rate in the annual accounts exclusively refer to corporate income tax. However, this is only one of the levies that affect Rabobank. In 2014, Rabobank paid the following taxes, among others:

- non-recoverable VAT 308 million euro
- payroll taxes 1.14 billion euro
- bank tax 167 million euro
- resolution levy 321 million euro

Further taxes paid by Rabobank, but not mentioned in this list, include city taxes, transfer tax and insurance premium tax.

Explanation of non-recoverable VAT

Entrepreneurs may reclaim VAT that is charged to them by other parties (their suppliers) from the tax office. Consequently, in most cases, VAT is not a cost to entrepreneurs. An important condition to this recovery right is that VAT is also chargeable in respect of the entrepreneur's own services. Most services provided by banks are however exempt from VAT. Lending, services with respect to securities and intermediary financial services all fall under this exemption. This can be seen, for instance, from the fact that no VAT is charged on interest. Rabobank predominantly provides VAT exempt services to its clients. For this reason, Rabobank may only recover a limited part of the VAT charged to it by suppliers. The remaining VAT that Rabobank pays to supplying parties is a cost.

Explanation of payroll taxes

This item refers to Dutch wage tax and social insurance premiums in relation to salaries paid. The amounts are withheld on employees' gross wages. Payroll taxes are a cost to Rabobank.

Explanation of bank tax

The Dutch bank tax is a levy which was introduced as a result of the economic crisis, in particular because the Dutch government provided financial support to various financial institutions (not to Rabobank). This tax can be seen as a kind of insurance premium that financial institutions pay because the government is effectively guaranteeing their debt obligations. The tax is calculated for each institution individually on the basis of outstanding debt, excluding obligations covered by the deposit guarantee system.

This levy is non-deductible for corporate income tax purposes.

Explanation of resolution levy

This levy results from the acquisition of SNS Reaal by the Dutch government. To an amount of c. 1 billion euro, the costs connected with the acquisition are charged to the Dutch banking industry, on the basis of each bank's share in the Dutch savings market.

This levy is non-deductible for corporate income tax purposes.