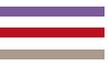


Netherlands

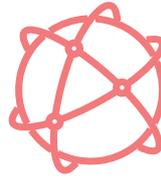


2018 ECOMMERCE STUDY





ECOMMERCE



GLOBAL

OPPORTUNITIES & RISKS

2018

BUSINESS SOLUTIONS IN THE FACE OF NEW CHALLENGES BROUGHT ON BY ECOMMERCE

Given the digitization spree, e-commerce as a global marketplace has gained significant momentum. Together with the Ecommerce Foundation, Mazars has produced a series of country-specific studies and thought leadership pieces exploring the trends, challenges, and opportunities brought on by the emergence of e-commerce. As global advisors, Mazars' experts provide you with perspectives and tools to best leverage this new ecosystem. Our experts specialize in topics such as tax & legal, ethics & compliance, logistics & footprint, digitization & technology as well as business models and customer experience, all of which are evolving with the emergence of e-commerce.

Discover more on our website at www.ecommerce.mazars.com



The Ecommerce Foundation is an independent organization, initiated by worldwide national e-commerce associations as well as online and omnichannel selling companies from industries such as retail, travel & finance.

Our mission is to foster global digital trade as peace is the natural effect of trade. By facilitating digital commerce we hope to make the world a slightly better place. We facilitate the development of practical knowledge, insights and services for which individual institutions, retail and e-commerce associations and B2C selling companies do not have the (financial) resources and/or capabilities.

By combining collective goals and efforts, the Ecommerce Foundation is able to realize projects which could not have been realized on an individual basis.

Visit us at www.ecommercefoundation.org

ECOMMERCE IN THE NETHERLANDS



“No doubt that from a tax and business point of view the Netherlands is a good choice for service and distribution businesses and especially for e-commerce businesses.”

Eric Klein Hesselting, International Tax Partner, Mazars in the Netherlands

1. THE BACKDROP

The Netherlands, located in northwestern Europe, is a bustling country under a constitutional monarchy, which has a population of ~17 mn over an area of 41,543 sq. km. Its GDP has steadily grown from EUR 652.5 bn in 2013 to EUR 718.0 bn in 2017 (CAGR of 2.4%), and is forecast to reach ~EUR 740.2 bn in 2018, at a year-on-year growth of 2.9%. While the Dutch population will continue to grow by another 0.3% this year, much of the constituents here are under the 55 age bracket (68%). This means emerging tech-savvy trends are on the rise, which includes the penetration of the e-commerce industry. With an internet user base of 96% growing at ~2.4%, coupled with sound technological infrastructure, trends around e-products and e-services keep browsing ahead.

Specifically, the Netherlands ranks 14th out of 86 countries and 8th amongst 18 EU countries on the Inclusive Internet Index, which outlines the current state of internet availability, affordability, relevance and readiness. While availability is there, the country stumbles upon affordability, which highlights that cost of access is slightly high relative to income that can arise due to lesser competition in the internet market. Plus, there is greater need to incorporate much of the local language into the cyber platform (given the diverse linguistic field of the Dutch population), helping create cultural acceptance and in-turn boost usage of various platforms such as e-Entertainment, e-Health etc.

THE NETHERLANDS



GOVERNMENT
CONSTITUTIONAL
MONARCHY



POPULATION
17,032,845
(UP BY 0.3%)



**INTERNET
PENETRATION**
96%
PENETRATION
UP BY 2.39%



GDP
EUR 718.02
(YOY 2.95%)

INCLUSIVE INTERNET INDEX



OVERALL SCORE 83.4/100

RANK 14

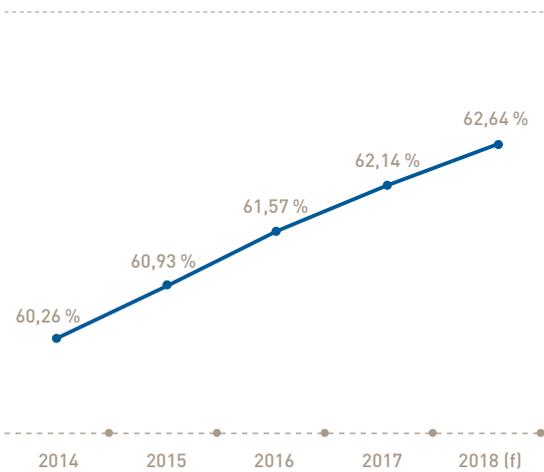


LOGISTICAL PERFORMANCE
INDEX

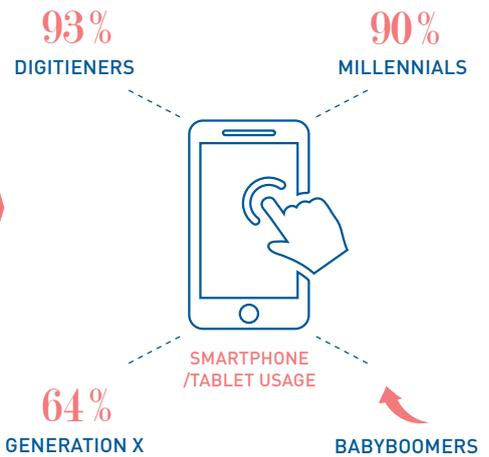
Logistically, the Netherlands ranks 5th on the LPI (Logistical Performance Index), highlighting its efficient customs clearance process, trade and logistical services quality, as well as transport infrastructure. In terms of ease of doing business, SMEs in the country take advantage from the advanced infrastructure, with big players holding competitive cut-off times in comparison to other key European countries. While foreign competition such as Amazon raise the bars high, a well-rooted culture-driven strategy that differentiates and expands upon the product/service base yet keeps a control down the value chain on distribution, can help local players (especially SMEs) retain ground. It is also pertinent to build a high level of trust amongst users, given the vulnerable nature of the cyber environment. On a macro level, the Dutch market seems promising

ahead as each age bracket of users is adopting the electronic platform for multiple needs. For the “Digitizers” (aged 14-20) this is second nature, while the middle Millennials and Generation X make use of interactive “interneting” out of interest. Along with them, even the older generation of the Babyboomers (aged 56-71) is also keeping up with the latest trends, shuffling around networks such as Facebook or popular messaging apps such as WhatsApp. Social media penetration is also growing (yet quite subtly) amongst the population, signaling even more potential for growth. Hence, demand usability here will only further streamline itself. Meanwhile, from a government perspective, investment in telecommunications, human capital and provision of online services is also quite strong, while Brexit uncertainty has made the Netherlands a new EMEA base for American companies.

Social Media Penetration as % of Population using Social Media Sites/Apps



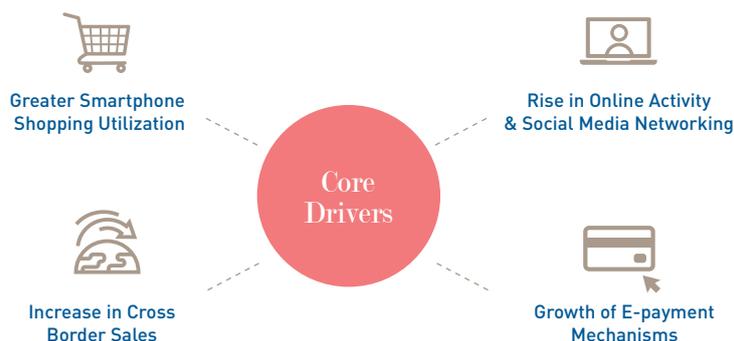
Social Media is strongly being driven due to increased use of smartphone internet and connectivity



2. GROWING ECOMMERCE

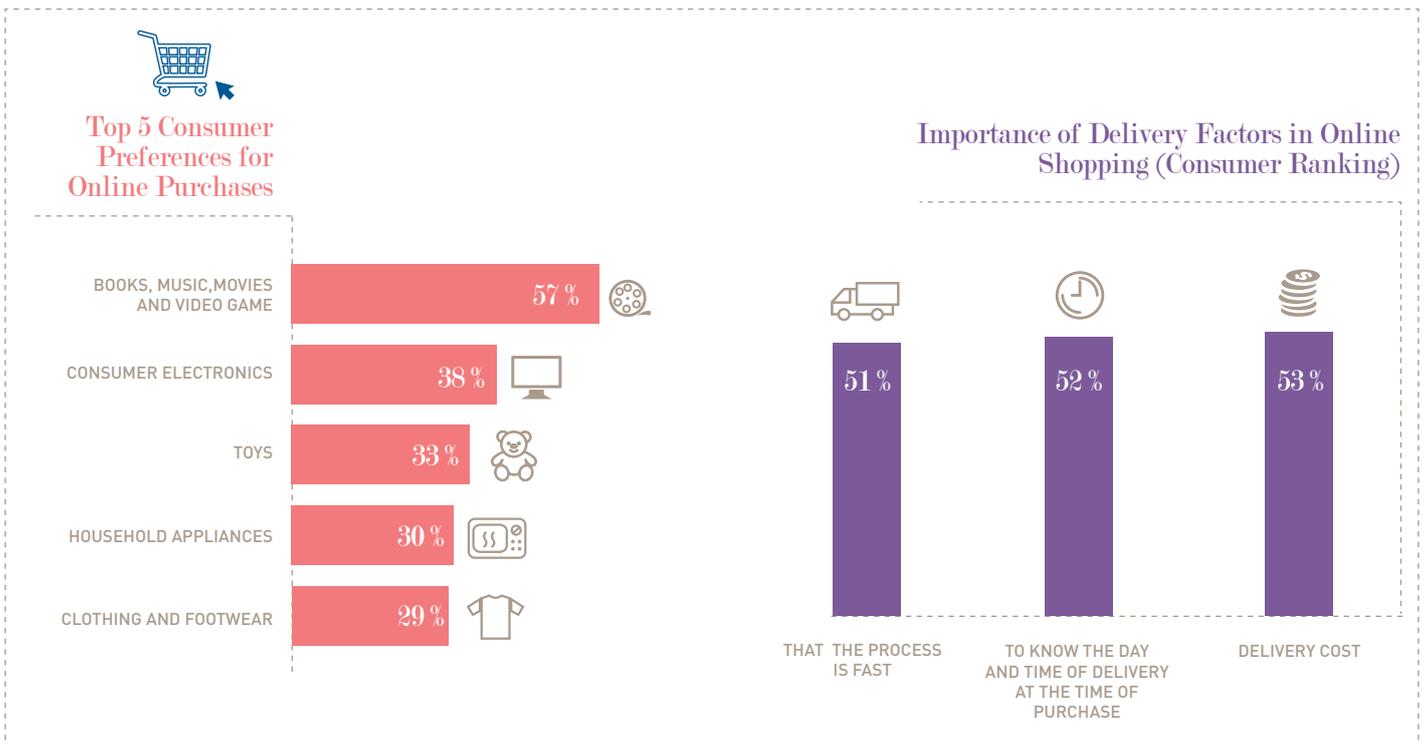
CORE DRIVERS

The Dutch e-commerce sector has evolved significantly over the years due to the rise of the omnichannel shopping experience, generating greater participation and hence turnover.



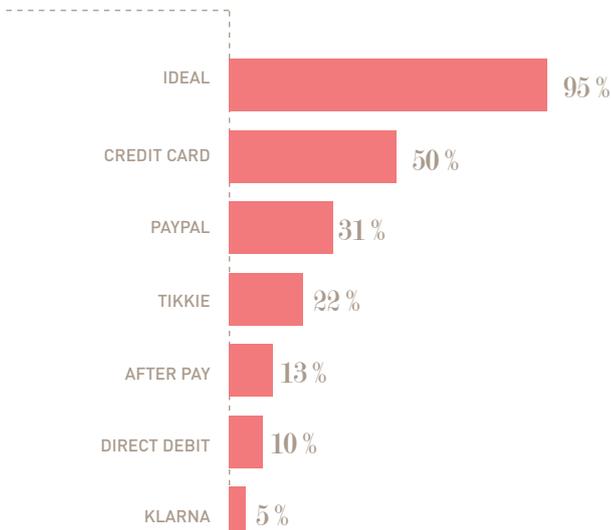
Online shopping penetration (population wise) stands at 84% as of 2017 (representing 16.4 mn e-shoppers), with each e-shopper spending over EUR 1,697 during the year (up by 47.6% from 2014). Much of this is attributed to the growing consumer confidence around online shopping, with shoppers actively scouting for exclusive offerings in both national and international markets. Some popular domestic players here include Coolblue,

wehkamp and bol.com, which have taken over much of the market share due to being able to cater towards a diverse set of needs. However, mere product offering is not enough. Delivery is also a pivotal aspect in the e-shopping chain, with Dutch customers demanding charge of the process at full convenience – i.e. having orders sent at the desired place and time, not necessarily common pickup points.

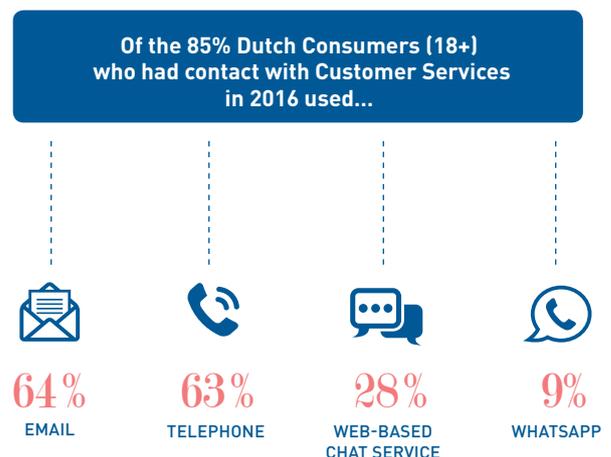


Apart from this, the payment mechanism and terms hold equal importance. Dutch customers want payment channel variety – with iDEAL being a must – as well as being able to avail credit sales. The extent of creating a personalized and user-friendly purchase experience, along with a responsive customer service and feedback mechanism, is crucial for performance here. Dutch consumers regularly make use of website and apps for comparison shopping, as well as read reviews before placing orders. Along with this, social media is largely used as a praise/grievance platform that firms must pay extra attention to, in order to curb out any crooked ends.

Online Payment Methods Used

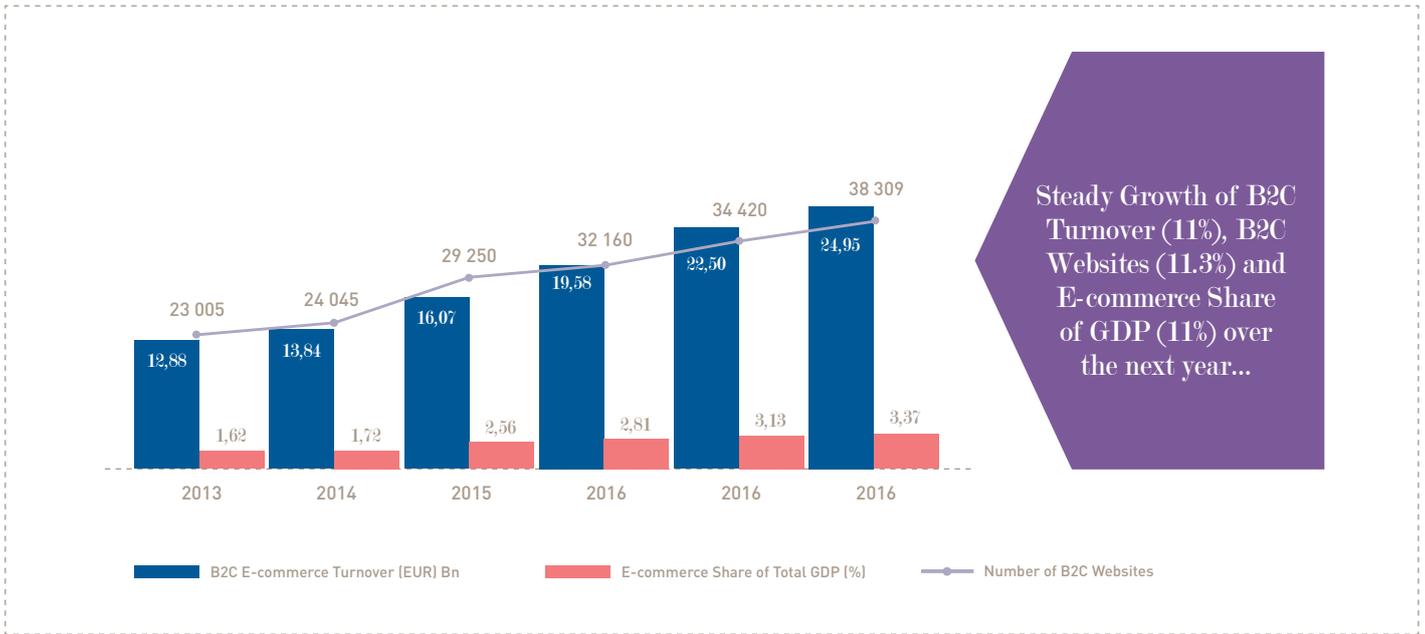


Popularity and Mediums Used for Customer Service



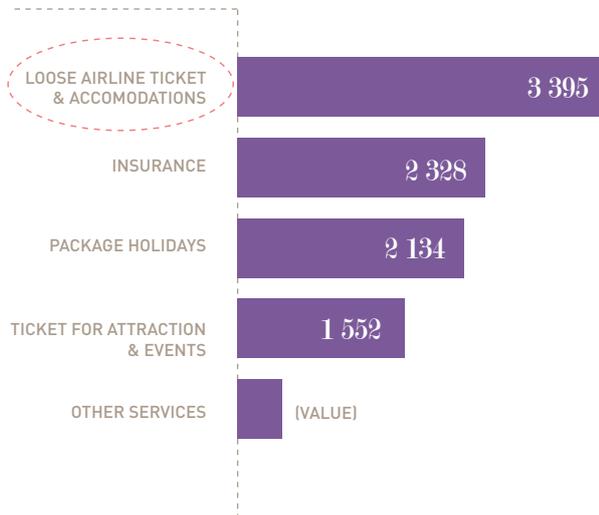
PROMISING MARKET WITH PROMISING POTENTIAL

Firms are taking steps to streamline activities across the value chain, given there is a promising market with B2C e-commerce and E-GDP contribution towards GDP growing at a CAGR of 15.07% and 17.9% between 2013-17, with the former projected to reach a turnover ~EUR 24.9 bn in 2018. Meanwhile, greater internet usage has increased the number of B2C websites by over 49.6% from 2013-17.

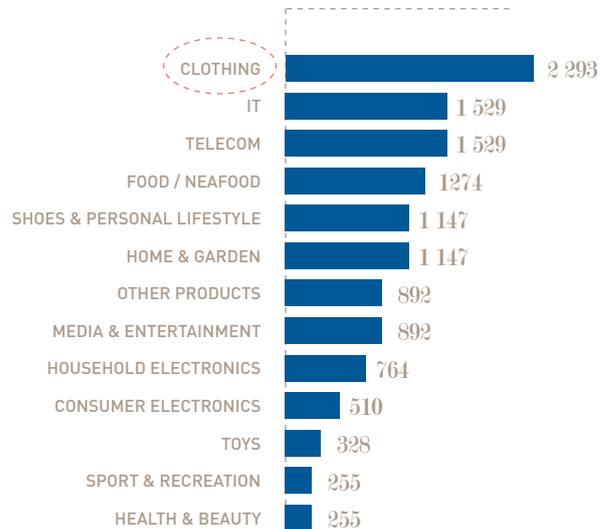


Around 56.6% of this stems from services, out of which booking flight tickets & accommodation tops the charts with a revenue of EUR 3,395 mn in 2017. This is followed by a 43.4% share from products, with clothing as the popular category (EUR 2,293 mn of revenue). Despite the difference in exposure to electronic platforms, e-purchases here are actually well distributed amongst various age categories. Online retailers are capitalizing on this market, with leading Bol.com generating Dutch consumer sales of over EUR 950 mn. A host of national and international players such as Coolblue, wehkamp and Zalando also follow suit, generating a revenue of EUR 615 mn, EUR 540 mn and EUR 530 mn respectively.

Revenue of Leading Service Categories (EUR Mn)



Revenue of Leading Product Categories (EUR Mn)



Meanwhile, the global mobile revolution holds potential to create a greater e-commerce footfall, as more and more customers utilize their smartphones/tablets to browse websites, download apps and find alternatives. Currently, ABOUT YOU and Mode and AliExpress are the two popular shopping apps, having the number of downloads surpass 91,789 and 70,277 respectively. While safety is a current hindrance towards a complete mobile-shopping adoption, this will change in the future. Services and devices such as Google Home and Amazon's Alexa are also set to enter the space, especially when there is potential for greater penetration in the Dutch market (in terms of increasing consumer online preference that stands at 24% as opposed to a 76%

offline market), in comparison to other European nations such as Germany, UK and France. Preferences are also opening up; while Dutch online sellers dominate the sphere, international shopping has also cropped up with countries such as China becoming the go-to eShop for Dutch consumers (constituting 59% of cross border expenditure). Meanwhile, the UK, Germany and US are next in line, constituting a share of 24%, 19% and 6% respectively. The fact that social media advertising is on the rise highlights why international destinations have become so popular. In-fact, due to social media adoption advertisers realize a huge potential in this space; this medium is now the fastest growing online advertising category and the second largest in terms of revenue.

3. KEY CHALLENGES

While e-commerce will further embed itself within the Dutch market over the coming years, there are some crucial issues/ challenges that players must watch out for.



UNREALIZABLE SALES

In a sense, establishing a clear set of business processes governed by preset codes is crucial, especially because the e-commerce marketplace deals with a range of stakeholders along the value chain that may be dispersed over different parts of the globe. This in part involves drafting feasible credit/return/ exchange policies that effectively manage credit risk (given that credit sales are in great demand here) and lower the chances

of customer default/returned goods, given the presence of EU's mandatory 14-day refund clause. Having an undue long and open credit policy beyond that can put pressures on cash flow and sales realization. Meanwhile clothing and footwear items, which are popularly returned back due to problems with size/looks/comfort, can accelerate unnecessary wear & tear. Extra caution must be given in providing realistic pictures, with ample information on size selection.

EFFICIENCY & PERSONALIZATION LOOPHOLES

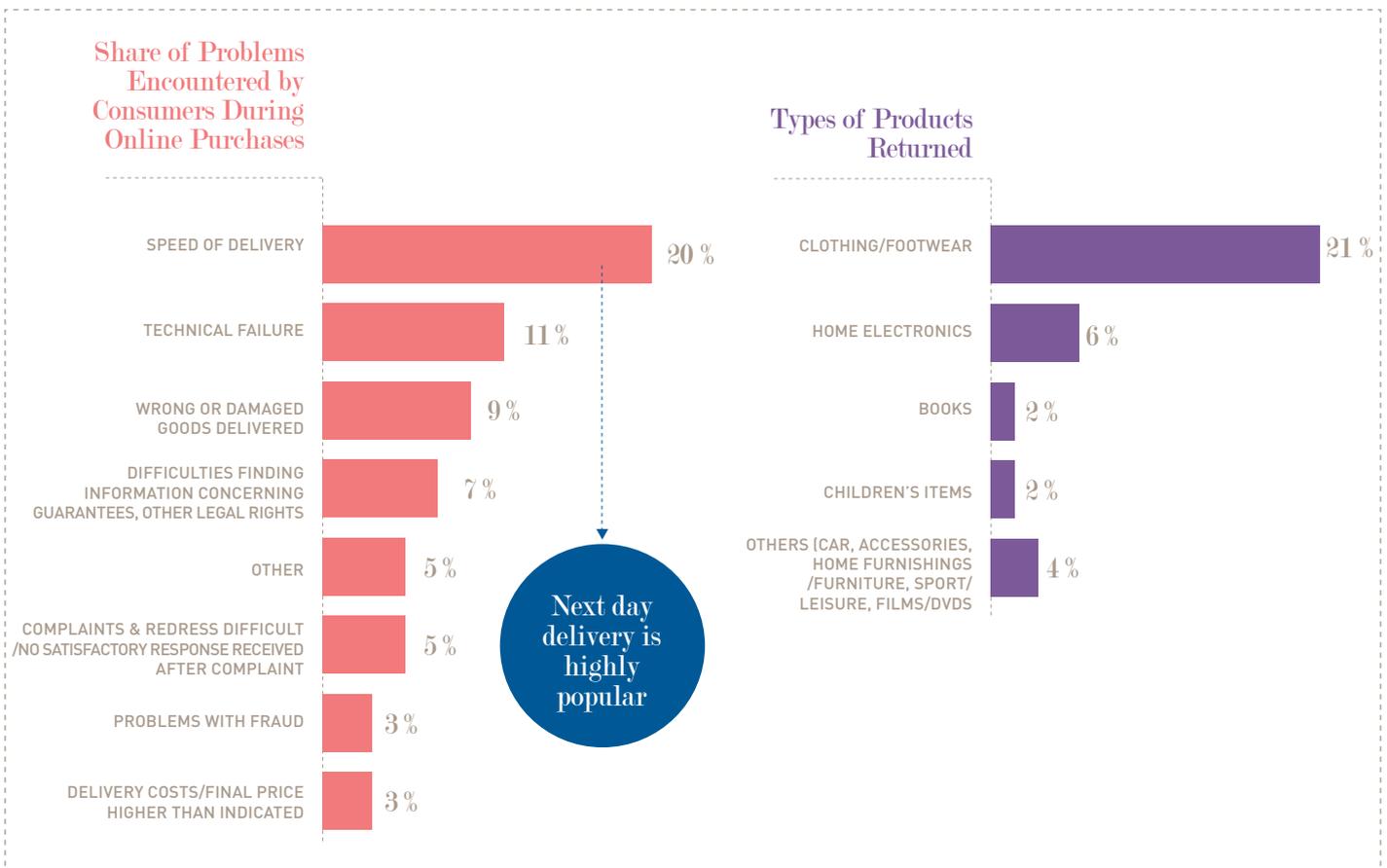
Achieving sustained efficiency, in terms of delivery speed and timing, as well as providing products/ services that are regarded as value-for-money (factors being crucial amidst Dutch customers) can be challenging at times, due to unforeseen circumstantial events. Due to rising competition and greater price/product transparency, the pressure on quality and efficiency is even more. Players must therefore ensure there are backup plans available across the supply chain, merchant list, as well

as final delivery channels, in order to mitigate much of the uncontrolled risks. This also means being able to understand the cultural context and provide a personalized customer experience, given that a consumer journey is far from singular. It is a complex process where they will jump around online/offline options for a tailor-made omnichannel journey, which largely is proactive rather than reactive in nature (necessitating the use of data analytics to predict preferences beforehand).

SECURITY & COMPLIANCE BOTTLENECKS

Regulatory compliance and security are key challenges amongst e-commerce dealers, especially because cyber risk is at play. Once consumers start perceiving the system as vulnerable (i.e. due to phishing, fraud), they will lose trust and move on. Meanwhile, a lack of physical identity checks can also bring firms into contact with false profiles/customers. Proper fraud prevention would mean enabling surveillance systems to authenticate identity and track products at every stage.

Risk management systems should also be in place to take care of confidential information for both security and compliance, given the prevalence of the GDPR (General Data Protection Regulation) that comes into force this year, wherein consumers must be able to control and protect their own data. Along with this, taxation structures and implications – especially around cross-border sales – must also be understood and adhered to.





4. WAY FORWARD

Given the advent of the digital age, coupled with an increased acceptability for electronic services in a highly internet-concentrated country such as the Netherlands, the e-commerce marketplace is here to stay and grow on. Various stakeholders – brand owners, e-financial

service providers, online retail heads, industry experts etc. – all believe that the key lies in being able to partner upstream/downstream for better cultural intake and controllability on operations, as well as utilize social networking platforms to get close to customers for fist-hand knowledge.



ERIC KLEIN HESSELING

INTERNATIONAL TAX PARTNER, MAZARS IN THE NETHERLANDS



What effect do current tax systems/schemes have on e-commerce in the Netherlands? (i.e. equalization tax on turnover of digital companies, taxing untaxed or insufficiently taxed income from all internet-based business activities)

Provided well-structured there is no need for uncertain tax positions, equalization taxes and double taxation. The Netherlands follow international taxation rules with respect to taxation of e-commerce businesses.

What are VAT-specific rules for e-commerce platforms in the Netherlands? Do extra VAT-specific rules exist for the Netherlands? (in addition to EU rules)

The EU / Dutch VAT system knows some exceptions for e-commerce platforms, i.e. entities performing electronic supplies of goods and services ('e-commerce'). Difference needs to be made between supplies of goods and supplies of services to private individuals (not being VAT entrepreneurs).

“The Netherlands follow international taxation rules with respect to taxation of e-commerce businesses.”

The specific VAT rules for e-commerce manage where the supply of goods or services is VAT taxable as an exemption on the general VAT rules. This is relevant as the VAT rates differ throughout the EU. Performing VAT taxable supplies in a country might furthermore result in the (undesired) obligation to VAT register locally. E-commerce supplies of goods are called 'distance sales'. Distance sales are supplies of goods from an EU country to a private individual in another EU country. The EU supply of goods to private individuals is in the general situation VAT taxable in the country of the supplier.

However, if the distance sales threshold is exceeded, the supplier needs to VAT register in the country of its customer and is due local VAT. The distance sales thresholds differ throughout the EU. At this moment, the EU VAT system (nor the Dutch VAT system) know a simplification rule for these suppliers. This might result in an administrative hassle for those entities. Another disadvantage of the current system is the difference made between EU suppliers and non-EU suppliers: the import of goods from outside the EU into an EU member state is not liable to VAT if the value of the good(s) does not exceed EUR 22. This means non-EU web shops can sell goods free of VAT to customers within the EU (if the value does not exceed EUR 22). Electronical services to private individuals are VAT taxable in the country of the private individual as well. This means

that the supplier needs to VAT register in the country of its customer and is due local VAT. At this moment, a simplified system applies: the Mini One Stop Shop ('MOSS'). Via this system, the foreign VAT can be filed in the country of the VAT entrepreneur and a local VAT registration is no longer required for the electronical services.

“VAT rates differ throughout the EU.”

As of 2021, the EU will offer an extension of the MOSS regime for other intra-EU situations and non-EU situations as well. All EU member states will apply a uniform threshold of EUR 10,000 turnover (excl. VAT) per year for cross-border supplies of EU VAT entrepreneurs. If the threshold is not exceeded, the VAT entrepreneur does not need to VAT register in the countries of their customers. The threshold of EUR 10,000 will apply as of 1 January, 2019 for electronical services. The import threshold for VAT purposes of EUR 22 for goods from outside the EU will expire. This means that import VAT is due upon all imports into the EU. Although the thresholds and VAT rates differ per country, the framework of the regulations are the same in all EU member states.

Are there penalties for companies who do not comply with tax requirements in the Netherlands? If so, what are they, and how much do they impact foreign companies?

Penalties can be imposed up to 100% (in case of fraud) of the additional imposed taxes. More in general the penalties amount 25% or a fixed amount in case of e.g. filing too late. They impact foreign companies equally compared to domestic companies.

It is in general advised to hire professional financial service providers to and in such case it should not be necessary to experience serious penalties (other than regular administrative fines for late filing etc.).

Would you say the Dutch tax system/regulations are easy or difficult for foreign companies to adapt to and incorporate?

Out of 190 countries globally Netherlands ranks 20 on the ease of paying taxes, according to the World Bank doing business guide (shown in figure below*):

Figure – Paying Taxes in Netherlands and comparator economies – Messure of Quality





Are foreign companies eligible to a refund for Dutch VAT? If so, what does obtaining the refund entail? If not, how can foreign companies become eligible?

Foreign entities can reclaim Dutch VAT incurred if the conditions are met. Under the condition that the Dutch VAT is charged correctly. Within the EU, most countries offer a VAT reclaim in their own country. Non-EU VAT entrepreneurs can file a request to claim the Dutch VAT in the Netherlands. Certain expiry dates apply.

What are the three main tips you give to foreign companies coming to the Netherlands? Specifically small- to mid-sized companies?

(i) For your first impression check with the Netherlands Foreign Investment Agency (NFIA) in your region (www.nfia.com) or (www.investinholland.com). (ii) No doubt that from a tax and business point of view the Netherlands is a good choice for service and distribution businesses and especially for e-commerce businesses. Let your choice to invest in the Netherlands predominantly depend on your business point of view: tax follows the business (and not the other way around). (iii) Hire high quality service firms (audit, accounting, tax, legal) with experience in international business and with good language skills for your guidance.

“...we notice that entities from outside the EU are sometimes not familiar with the Dutch VAT system...”



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