

Highlights imputation payment company

General

An imputation payment company (hereinafter: IPC) is a corporation (NV) or a per January 1, 2009 newly introduced limited liability company (VBA) which is subject to the normal corporate income tax rate of 28%. However, upon distribution of a dividend, the shareholder can claim an imputation payment amounting to $26/72 * \text{dividend distributed}$. This implies that the profit of the IPC is, on a shareholders' level, subject to an effective corporate income tax rate of 2%. Together with the dividend withholding tax, the total effective tax rate over the profit of the IPC, on a shareholders' level, varies between 6.9% and 11.8%. The actual effective rate depends on (i) whether the shareholder is directly or indirectly listed at a qualified stock exchange or (ii) the country of residence of the shareholder.

An example to illustrate

The IPC intends to work as follows:

	10% DWT	7.5% DWT	5% DWT	0% DWT
<i>Profit IPC</i>	100.00	100.00	100.00	100.00
<i>Corporate income tax</i>	<u>28.00</u>	<u>28.00</u>	<u>28.00</u>	<u>28.00</u>
<i>Net profit to be distributed</i>	72.00	72.00	72.00	72.00
<i>Imputation payment 26/72</i>	<u>26.00</u>	<u>26.00</u>	<u>26.00</u>	<u>26.00</u>
<i>Dividend withholding tax base</i>	98.00	98.00	98.00	98.00
<i>Dividend withholding tax</i>	<u>(9.80)</u>	<u>(7.35)</u>	<u>(4.90)</u>	<u>0.00</u>
<i>Net receipt shareholder IPC</i>	88.20	90.65	93.10	98.00
<i>Effective tax rate</i>	11.80%	9.35%	6.90%	2.00%

Because a dividend must be distributed for the imputation payment to be claimed, often an intermediary Aruba holding is used. This has no immediate dividend withholding tax effects (due to the participation exemption; we refer to our "highlights dividend withholding tax"), but the imputation payment can be claimed.

Requirements for becoming IPC

The IPC regime is open to NV's or VBA's which:

- Perform only qualifying activities in Aruba.
- Have at least one Aruba resident individual as managing director.
- Meet the following statutory requirements:
 - A shareholders register exists in which the names of the shareholders are registered.
 - The financial statements will be drawn up in accordance with internationally accepted principles and a qualified (group of) independent certified public accountant(s) must perform an audit. An exception to the audit requirement exists when the purchase value of the assets is less than AWG 1,000,000 (USD 561,798) and the net turnover is less than AWG 2,000,000 (USD 1,123,596).
- Board of managing directors:
 - Notifies the tax authorities before the financial year as of which the IPC status takes effect, that the shareholder(s) will claim the imputation payment when a dividend over that financial year will be distributed;

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- Asks an independent (group of) certified public accountant(s) to provide an opinion regarding compliance with respect to the qualifying activities of the IPC, an Aruba resident individual being a board member, that the shares are by name and that the shares are registered in a shareholders register. This opinion will have to be sent to the tax authorities. .

Besides the requirements the IPC must adhere to, the shareholders must:

- Have legal and beneficial ownership of the shares in the IPC for at least an uninterrupted period of 12 months. Prior to this period, the shareholder(s) will not be granted the imputation payment.
- File a request at the tax authorities to claim the imputation payment over a certain dividend distribution. This request must be accompanied by various documents, such as the (final) corporate income tax assessment over that year, proof of payment of the amounts paid, the (preliminary) financial statements, and such.

Activities of the IPC

The activities of the IPC are restricted to the following:

- Quality hotels, implying (i) a hotel license must be present, (ii) the hotel must be operated for its own risk and account and (iii) a revenue per available room in the financial year should average AWG 354 (USD 200).
- Shipping enterprises.
- Aviation enterprises.
- Developing, acquiring, holding, maintaining and licensing of intellectual and industrial ownership rights, similar rights and usage rights.
- Insuring special entrepreneurial risks (captive insurance).
- Holding, if the entities in which the shares are held are subject to a tax rate of at least 14%.
- Financing (not being a credit institution) of enterprises and entities.
- Investments, provided no funds are put at the disposal of related entities or invested in real estate.

It is essential that all activities that the IPC performs qualify. Otherwise, the shareholder(s) may lose their claim on the imputation payment and the profit of the IPC is subject to the normal corporate income tax rate of 28%.

Change from normal NV to IPC

It is possible for a normal NV to become an IPC. The most important requirement in that case, beside the required changes in the articles of incorporation, is that on the moment prior to becoming an IPC (usually the last day of the financial year) all assets must be revaluated to their commercial book value. This revaluation profit is taxable against the normal corporate income tax rate of 28%. The tax authorities will keep a deferred claim on the difference between the fair market value (including goodwill) of the assets and the commercial book value, which claim can only be effectuated by the tax authorities in case the assets of the IPC are sold.

Can **WTS** assist you further?

Should you be interested in more information or should you have plans to start a business on Aruba, our team of professionals is there to assist you with any questions you may have. You can reach us via the above mentioned contact information.