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Territorial tax basis and Profit Tax as of FY 2020



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- One of the significant recent changes in the profit tax legislation in Curaçao is the abolishment of the world profit principle and the introduction of the territorial tax principle.
- As of January 1, 2020 taxpayers in Curaçao are subject to the so-called territorial tax basis whereby profit tax is only due on domestic income and as such extraterritorial income is excluded from the domestic tax base.
- The territorial tax principle is likely to impact the effective tax rate of Curaçao based entities particularly for former offshore companies which are subject to the onshore tax regime as of January 1, 2020.
- The main criteria for the territorial tax principle is whether a commercial enterprise is conducted. Income that does not qualify as income from commercial enterprise will be deemed passive income.
- Passive income is in principle considered to be profit derived from domestic activities and is subject to the statutory profit tax rate of 22%.
- The territorial tax rules require economic substance. Not complying with economic substance by way of intent or gross negligence may trigger a penalty ranging between ANG 50,000 up to and including ANG 500,000.
- It is recommended to review the impact of the territorial tax principle on your company carefully and take notice of the economic substance requirements that should be in place in order to prevent potential fines.

In case you need further assistance in this matter please do not hesitate to contact us. www.hbnlawtax.com