



Santa and his Reynders

You must give it to him. Finance Minister Reynders may not be in favour of ecoboni (the tax rebates for recycling) but he knows how to recycle his tax bills.

The 1999 tax reform for individuals was spread over four years to minimise the impact on the budget. What we did not anticipate was that it would give the Minister an opportunity to bring us good tidings every Christmas.

In 1999, the Government reintroduced the annual indexation of the tax brackets. When our earnings go up a bit every year, due to the ordinary workings of inflation, we all gradually slip into the higher tax brackets. It took the government a long time to realise that, the tax brackets were linked to the consumer price index in 1989. But a mere three years later, when the government finances were in dire straits, one of the main remedies was to suspend the indexation of the tax brackets to make us all feel a bit of the pain.

Fortunately, the government finances were healthy enough in 1999 and a large part of the tax reform was the abolition of the crisis measures. The tax brackets were linked to the index again and the special crisis tax was abolished over a period of three years. At the same time, the tax rules in respect of dependent children were improved, husband and wife will be treated on the same foot, and the tax rates are gradually but slowly reduced. The top rate went from 55 percent to 52 in 2002 and 50 percent in 2003.

2004 sees the apogee of the tax reform. Do not put your hopes up too high. Here is what is new.

The tax rates will be increased so that the tax rate of 40 percent will start at EUR 9.890 instead of EUR 8.500 and the tax rate of 45 percent will not apply at EUR 12.500 but at EUR 14.760. And the top rate of 50 percent will apply as of about EUR 30.210.

More important, though, is that the income tax will become neutral in respect of one's life choices. What the Minister means is that the income tax will not make a distinction anymore as to whether you are married or just living together. As of next year, unmarried couples will be taxed in the same way as a married couples and two major drawbacks of marriage will be abolished.

When a single tax payer marries in 2003, he sees his tax allowance drop from EUR 5.570 to EUR 4.420. As of next year everyone, the allowance will be the same for all, whether they are single, married or living together. The first EUR 5.660 will be tax exempt for all.

2004 will also see the end of the 'cumul' of the income of spouses. In the eighties, taxes were a reason for not tying the knot. husband and wife saw their earnings added up and taxed at a higher income tax rate than when they were taxed separately. It was not until 1988 that the 'cumul' was partially abolished, i.e. for earnings only.

Income from real estate of husband and wife continued to be cumulated and taxed jointly. This was not a priority as there are not that many couples with so much real property that it would make a significant difference. As of next year, real estate income will be taxed separately in the hands of the spouse who owns it. And for property that is held in joint ownership, each spouse will be taxed on half of the real estate income.



Investment income will be taxed separately as well, but that will not make much of a difference: the tax rate is a flat rate of 15 percent for interest income and 25 percent for dividends. What will change, though, is that each spouse will be entitled to an exemption of EUR 1.520 on the interest income on his savings account. For a traditional savings account which pays an interest rate of 1.5 percent and a fidelity or growth premium of 0.5 %, you can hold EUR 76.000 in capital and not pay any tax. As of next year these figures can be doubled for a couple.

And next year marriage will lose the one advantage it had over living together, the 'quotient conjugal'. This gives one-income families the right to split the one income in two parts. 30 percent (but not more than about EUR 8.160) can then be taxed as if the other spouse had earned it. The two parts of the income are then taxed at the lower rates of the income tax. Next year, unmarried couples, even same sex couples, will be entitled to the 'quotient conjugal' as well if they have signed a cohabitation agreement at the town hall.

What all this means for you will depend on your situation.

- If you and your partner earn an income, you will be taxed separately on your earnings. The situation is the same whether you are married or not, whether you are living together with or without a cohabitation agreement.

The Minister has made some calculations. If you are earning about EUR 3.300 per month, you will make a saving of about EUR 2.400 a year. If you earn EUR 3.800 per month, the saving can be as much as EUR 4.250.

- If your partner earns an income and you don't (or vice versa), the two of you will still be taxed separately on earnings. But if you marry or sign a cohabitation agreement, about EUR 8.100 can be deducted from the income of the partner who works outside the house, and taxed at the lower rates.

For a single income family earning about 2.600 EUR, the saving could be in the region of 3.230 EUR.

And of course, 2004 will also bring us a tax amnesty. Tax dodgers who have undeclared savings in a foreign bank account or in the form of bearer shares or bonds, will be able to clear them. All they will need to do is pass at their bank next year and pay a due of 9 percent, anonymously. It is the old idea of the indulgences, that can buy your way into heaven.

Apart from the carrot there also had to be a stick. Whoever forgets to own up and pay his due faces a penalty of 100 percent. And to persuade the last doubters, the government promises that it will abolish all bearer securities once and for all, but only after the elections in June.

It looks like the end of the Belgian dentist who collected the interest on his bearer bonds directly in Luxembourg.

So bring these billions rolling in for Santa Reynders.

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