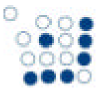


Salary split

You may have wondered why so many older houses all over Brussels have blocked up windows. It was all a question of keeping up with the Jansens without paying more tax. Until 1919, the income tax was levied on the signs of wealth. The taxman counted your servants and horses, and the windows, doors and fireplaces in your house.

It is only since the First World War that Belgium introduced a progressive income tax system. A progressive tax takes a larger percentage of income from high-income groups than from low-income groups. It is based on the concept of ability to pay. A progressive tax system might tax low-income taxpayers at say 25 percent, middle-income taxpayers at 35 percent and high-income taxpayers at 50 percent.

Most countries have a progressive income tax system. And if your job obliges you to travel a lot, you may be able to make this work for you. This technique is known as the 'salary split'. It's all in the name. You split your salary over the countries in which you work regularly, in such a way that the different bits of your salary are taxed in each country. And in each of these countries you are a low or middle-income taxpayer.

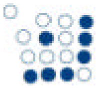
In Belgium you remain a high-income taxpayer. But to prevent double taxation, Belgium has signed treaties with more than 80 countries. These treaties determine which country can tax what income. For earnings, the rule is that you are taxed where you work, unless the link with that country is too tenuous: you are just passing through or you just went to solve a problem with a client.

Under the double tax treaty, if a country cannot tax income, it must give an exemption to avoid double taxation. To give this exemption Belgium uses the exemption with progression method. It means that you are taxed as a high-income taxpayer on a low or middle income. France, Luxembourg and the Netherlands are favourite salary split countries. The salary that is taxed there is not taxed in Belgium, but it is taken into account to calculate your Belgian tax rate. And that high tax rate will be used to calculate your tax liability in Belgium on the rest of your earnings.

If you work one day a week in each of these three countries, and two days in Belgium, you will pay a little tax abroad. The tax on your Belgian earnings will be about 55 percent. But it is only on your Belgian income, i.e. two fifths of your total salary package that you pay 55 percent. And the low tax you pay overseas brings the average down.

In principle, a salary split structure can work if you are working more than 183 days per year in another country. Another possibility is to arrange to be paid for your work in e.g. the Netherlands by a local company, under a separate employment contract and on a separate payroll.

The conditions are quite precise and setting it up successfully requires some careful planning. Each double taxation treaty needs to be checked. Like most plans, even the most carefully thought out salary splits fail if one loses sight of the original reason. An employee must actually work abroad. It is not enough to write down that you are working abroad if you are not. Except maybe if you are paid as a company director because special rules apply then. Salary levels must be proportionate. Earning 80 percent abroad for one day's work a week is a mistake to avoid.



The taxman knows just as well how interesting a salary split is. If you claim that you are working 50 percent of your time overseas, he may ask you to justify this. Keep all hotel bills, expense reports, plane and train tickets, and reports of meetings. Use your credit card to pay for lunch or petrol. Take out some money from an ATM. Or call mom at home, your mobile phone bill may show where you were.

One cannot forget the implications for the social security, because these rules are different. Normally social security can be paid in one country, but that is a rule with exceptions. Also, the level of your income in Belgium may influence the level of your employer's contributions to your pension scheme. And that would mean that you earn more now, but have less pension later.

A salary split can be most advantageous, but only if it is well planned and well documented.

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