

Government Shifts Investment Fund Tax Increase to Bearer Securities

by *Marc Quaghebeur*

In July, Belgium adopted a government bill that would triple the tax on the value of Belgian investment funds and increase the tax on the physical delivery of bearer securities from 0.2 percent to 0.4 percent of the value of the securities. (For prior coverage, see *Tax Notes Int'l*, 11 Aug. 2003, p. 529, 2003 WTD 148-1, or Doc 2003-17841 (1 original page).)

Even before the bill was adopted, Finance Minister Didier Reynders, reacting to criticism from the investment sector, said he did not oppose the idea of widening the legislation to include investment products other than Belgian investment funds. The bill was adopted, with the stipulation that the date on which the new legislation would enter into force would be determined by royal decree.

On 4 November the government decided instead to triple the tax on the physical delivery of bearer securities while maintaining the tax on the net asset value of investment funds at 0.06 percent, and to apply that tax to the net asset value of investment funds offered by foreign financial institutions and to life insurance products linked to investment funds (called "branch 23 products" in the Belgian insurance sector).

The insurance sector is taking this in stride. There was no legal reason why the tax would not be

due on insurance policies linked to investment funds, and just like banks, they will simply charge the tax back to their investors.

The fact that the tax would also be due on the net asset value of foreign funds is subject to criticism, as those funds already are subject to taxation in the EU member state where they are registered. Belgian financial institutions that distribute Luxembourg UCITs (undertaking for collective investment in transferable securities; in this case, open-ended mutual funds) in Belgium will pay the tax twice.

However, foreign fund managers are waiting to see how this would be implemented. It is not clear how the tax authorities would be able to determine which part of the assets of a foreign fund is held by Belgian investors.

The increase in the tax on the physical delivery of bearer securities from 0.2 percent to 0.6 percent fits in with the government's objective to discourage the use of bearer securities and suits the banks perfectly, as they want to steer their clients away from labor-intensive bearer certificates and toward investment accounts.

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