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Reynders Proposes Change to New Risk Capital Deduction

by Marc Quaghebeur

In an interview with the newspaper *l'Echo de la Bourse* the week of September 5, Belgian Finance Minister Didier Reynders announced his intention to abandon one of the conditions of the new tax deduction for risk capital that is scheduled to take effect on January 1, 2006. (For prior coverage, see *Tax Notes Int'l*, Aug. 15, 2005, p. 590.)

The new measure will grant Belgian companies a tax exemption calculated as a percentage of their equity. Non-Belgian companies will be entitled to the same deduction, but only for risk capital used for their Belgian permanent establishments, and for their Belgian real estate or real estate entitlements. The risk capital deduction will be calculated on the basis of the interest rate paid by Belgium on the 10-year linear bonds it issues. The exemption is expected to be around 3.5 percent of the value of the company's share capital plus retained earnings.

One of the conditions for eligibility for the exemption is that the company must retain an amount equal to the risk capital deduction for a period of at least three years. That means that during that time, the company cannot use the profit for a dividend distribution. That condition was imposed by the Socialist parties in Belgium's coalition federal government, together with an undertaking to abolish bearer securities as a way to combat tax evasion.

Meanwhile, the regional government in Wallonia announced a €1.4 billion plan to regenerate the Walloon region. In particular, the plan — the brainchild of Partie Socialiste President Elio Di Rupo — proposes €100 million in tax incentives to attract entrepreneurs. Reacting to that proposal, Reynders has proposed dropping the three-year retention condition for the risk capital deduction. That measure could be enacted before the end of the year. ◆

♦ *Marc Quaghebeur, Vandendijk & Partners, Brussels*