Reprinted from *Tax Notes Int'l*, November 6, 2006, p. 423

taxanalysts tax notes international

Prime Minister Announces New Tax Measures in Budget

by Marc Quaghebeur

In his October 17 State of the Union address in the Chamber of Deputies (the lower house of Parliament), Belgian Prime Minister Guy Verhofstadt presented the federal government's policy statement and outlined new tax measures proposed for the 2007 budget. The policy document and 2007 budget have been officially endorsed by the Cabinet. The government is now preparing the texts, which are expected to be submitted to Parliament in the coming weeks.

Nonrecyclable Packaging

The most controversial measure is a general levy on recyclable packaging, with effect beginning July 1, 2007. The tax would be levied based on carbon dioxide emissions during the production of the packaging materials.

Tax-Exempt Reserves

Before 1990, companies were entitled to set aside profits without any further conditions, such as the reinvestment condition that has applied since then for capital gains realized on the sale of company assets. The government estimates that there is about €7 billion in tax-exempt reserves on the accounts of Belgian companies. To encourage them to use those reserves, either for investment or for distributions of dividends, it is proposed that they enjoy a beneficial rate, rather than the standard corporate income tax rate of 33.99 percent, only for the next three years.

In tax year 2008 (which usually corresponds to 2007), the rate would be 10 percent if the retained earnings are reinvested in fixed assets for the company. The tax rates would be 12 percent and 14 percent in tax years 2009 and 2010, respectively. If the company decides to distribute the retained earnings, the rates would be 16.5 percent, 20.75 percent, and 25 percent in tax years 2008, 2009, and 2010, respectively.

The company would not be required to use the reserves for investment or distribution, but if it does not use reserves for those purposes, it would pay the standard corporate income tax rate of 33.99 percent as of tax year 2011.

Tax Measures for Employers

One way to encourage employment in certain sectors is to grant employers an exemption from passing on part of the tax withheld on remuneration. The employer would withhold the full withholding tax but would pass on only a percentage to the Ministry of Finance. That would not make any difference for the employee, who could still set off the full tax withheld against his tax liability. It is, in fact, a subsidy for the employer, who could offer a higher net salary.

The system was introduced about five years ago for researchers and has been gradually extended to other categories of researchers and research assistants. Last year it was expanded to include night work and shift work. The percentage of the exemption, which would be granted to scientists with a master's degree, also would be increased to 10.7 percent from 5.63 percent.

Last year a partial tax exemption was introduced for remuneration paid for overtime. That, too, would be expanded.

Construction and Renovation

The government would reduce the VAT rate to 6 percent for the construction of general housing by housing societies. Owners who renovate their properties and rent them at a moderate price also would be entitled to a tax reduction.

The allowance for business expenses also would be increased. Belgian taxpayers are entitled to set off against their earnings any expenses incurred to obtain those earnings. Alternatively, a taxpayer can claim an allowance calculated in accordance with the following schedule:

For brackets between	Percentage	
€0 to €4,790	25%	
€4,790 to €9,520	10%	+ €1,198
€9,520 to €15,850	5%	+ €2,868
€15,850	3%	+ €4,855
Overall maximum: €3,200		

That allowance would be doubled in 2007, which should help counter the "unemployment trap," whereby people are discouraged from finding work because the benefit does not outweigh the cost of transportation, child care, and so on. The tax savings should at least partially compensate for that.

VAT Consolidation

Belgium also plans to introduce a system of VAT consolidation. Even if they belong to the same group, enterprises established in Belgium now must charge VAT for services and transactions among themselves. Although the VAT is recoverable for the company that paid it, the VAT on intragroup deliveries and services always involves the extra cost of financing the VAT and filing separate VAT returns, which encourages Belgian companies to outsource services outside Belgium.

Eight of the 15 older EU member states (particularly Germany, the Netherlands, and the United Kingdom) already have some form of VAT consolidation. They allow corporate bodies that are separate legal entities but that are financially, economically, and organizationally closely connected to file one VAT return for all enterprises of the same group. The government hopes that a similar regime will remove the competitive disadvantage for Belgian companies. ◆

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