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News Analysis: Belgian Politics and The 2012 Budget

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HIGHLIGHTS

News Analysis: Belgian Politics And the 2012 Budget

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Belgian Socialist Party leader Elio Di Rupo, who is in charge of forming a new government, announced on November 27 that he has clinched the 2012 budget.

There is no way back. On November 25 Standard & Poor's downgraded Belgium's credit rating from AA+ to a mere AA. This could lead to higher interest rates and a downward financial spiral.

Record for a Country Without a Government

Belgium has been without a government for more than 535 days, and Prime Minister Yves Leterme's caretaker government has been looking after the shop. In June King Albert II put Di Rupo in charge of forming a government.

On October 11 Di Rupo presented the so-called ''Butterfly Agreement,'' which details the rules that

EPA/Julien Warnand

Belgian Socialist Party Chair Elio Di Rupo, who is charged with forming a new government, presented the 2012 budget just days after Belgium's credit rating was downgraded.

will redefine the shape of the Belgian state and the balance of powers between the federal and regional governments, as well as the new mechanisms for financing the federal and regional governments. The agreement also will enact a limited transfer of taxing powers to the regional governments.

The last obstacle Di Rupo faced was an agreement by all future government parties on the 2012 budget. Di Rupo favored more taxes while the conservative parties wanted structural reforms in the job market and the pension system.

The 2012 Budget

Budget negotiators had to find €11.3 billion worth of measures to keep the 2012 budget deficit to 2.8 percent, less than the European target. Spending cuts will account for 42 percent of the savings initiative, with new taxes accounting for 34 percent and ''other measures'' making up the remaining 24 percent.

The new tax measures have not yet been presented officially, but there are several important proposals. The budget does not introduce any new taxes on labor but the tax on some fringe benefits (company cars, housing, and so on) would increase. The tax on the benefit resulting from the granting of stock options would increase to about 20 percent.

Also on the downside, tax-deductible expenses (for energy-efficient investments such as double glazing, central heating boilers, solar panels, and so on) would be cut or replaced with tax credits limited to 30 percent, or 45 percent for the deduction for one's own residence, day care for children, donations, and so on.

The withholding tax rate on interest would increase from the current 15 percent to 21 percent. The rate on dividends would be maintained at 25 percent, but some reduced rates of 15 percent would go up to 21 percent.

Di Rupo wanted to introduce a capital gains tax for individuals and a wealth tax, but that will not happen. Instead, a special 4 percent contribution would be imposed on taxpayers with investment income (dividends and interest) in excess of €20,000. This would bring the tax on investment income up to 25 percent.

For companies, the notional interest deduction would be maintained with a cap of 3 percent (or 3.5 percent for small and medium-size enterprises). The carryforward of unused notional interest deductions against profits of future tax years would be limited.

The participation exemption regime for holding companies would be maintained without any changes. Di Rupo's plans to scrap the favorable CGT regime for companies were partially blocked. A company would pay CGT on shareholdings made within the first year at a fixed rate of 25 percent.

A new thin capitalization rule would be introduced for companies, and the existing 7-1 ratio for loans from entities in tax havens would be replaced with a general 5-1 rule for all loans.

The government would also clamp down on tax and social security fraud. The general antiavoidance rule would be adapted to make it easier for tax authorities to recharacterize a transaction (as another, less tax-effective transaction) without having to prove that the second transaction has identical or similar legal effects.

There would not be a new tax amnesty, but the existing regularization procedure would be maintained.

Conclusion

The fact that Belgium has a budget does not mean it has a new government. The final talks are underway: The asylum rules will be strengthened, the legislation for white-collar and blue-collar workers will be harmonized in 2013, and so on. ◆

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