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Federal Public Service Finance

UNIQUE TAX INCENTIVES In BELGIUM

Silicon Valley, October 20, 2010

Fiscal Department for Foreign Investments

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Only in Belgium Belgium

Located at the Boarder of 3 Main European Cultures

- 10.6 million inhabitants
- Official languages :
French, Dutch, German
- Independent since 1830
- Federal State since 1981
- Capital : Brussels

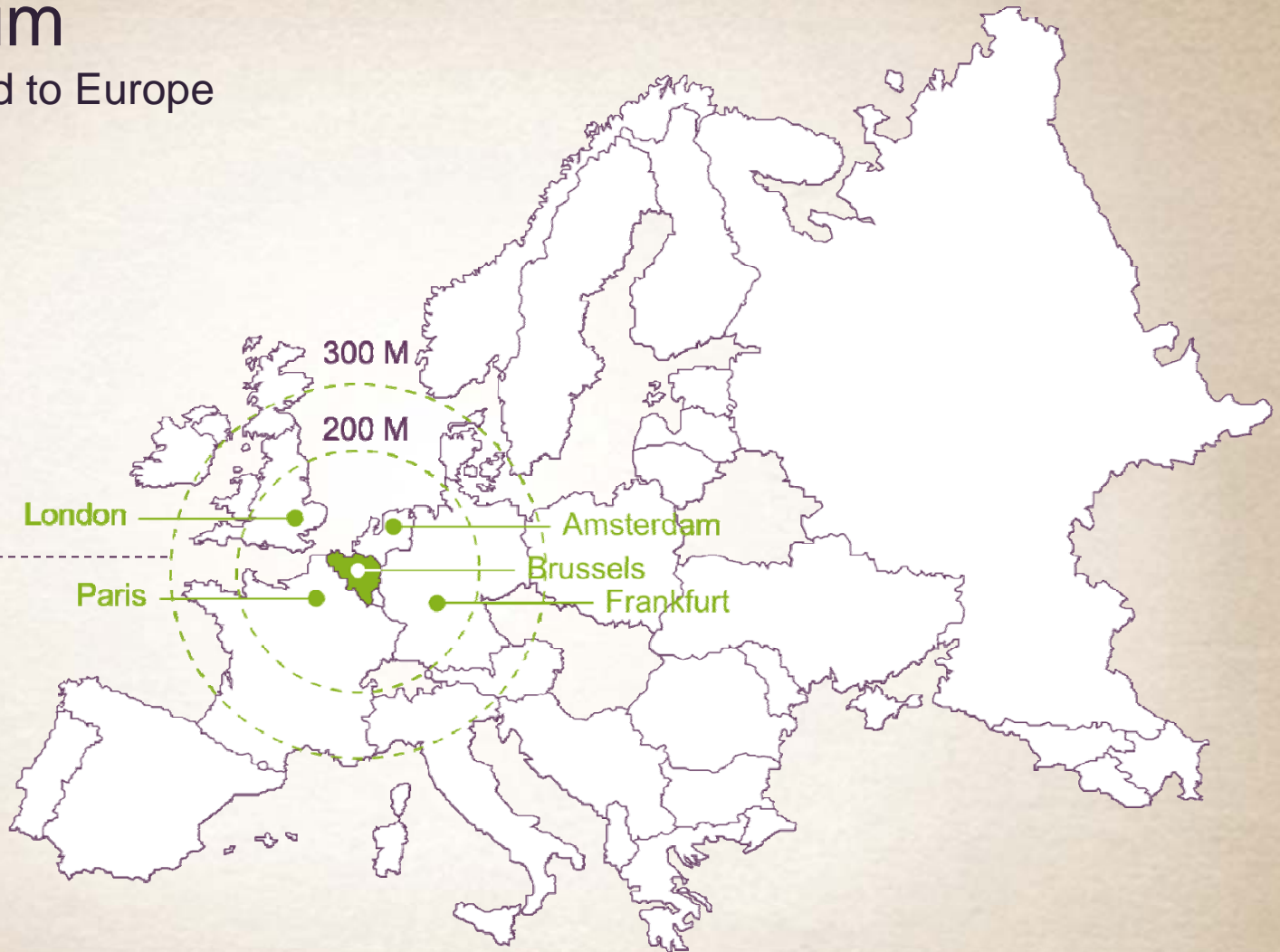


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Connected to Europe

75%
of the EU
market (GDP)

40%
of the
consumers



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A Federal State... Made of 3 Regions

Main Competences of Belgian Regions:

- Economic Policy
- Region Development & Town Planning
- Transport
- Scientific Research



Only in Belgium Brussels

Proximity to Brussels, Capital of Europe

Brussels, global business centre

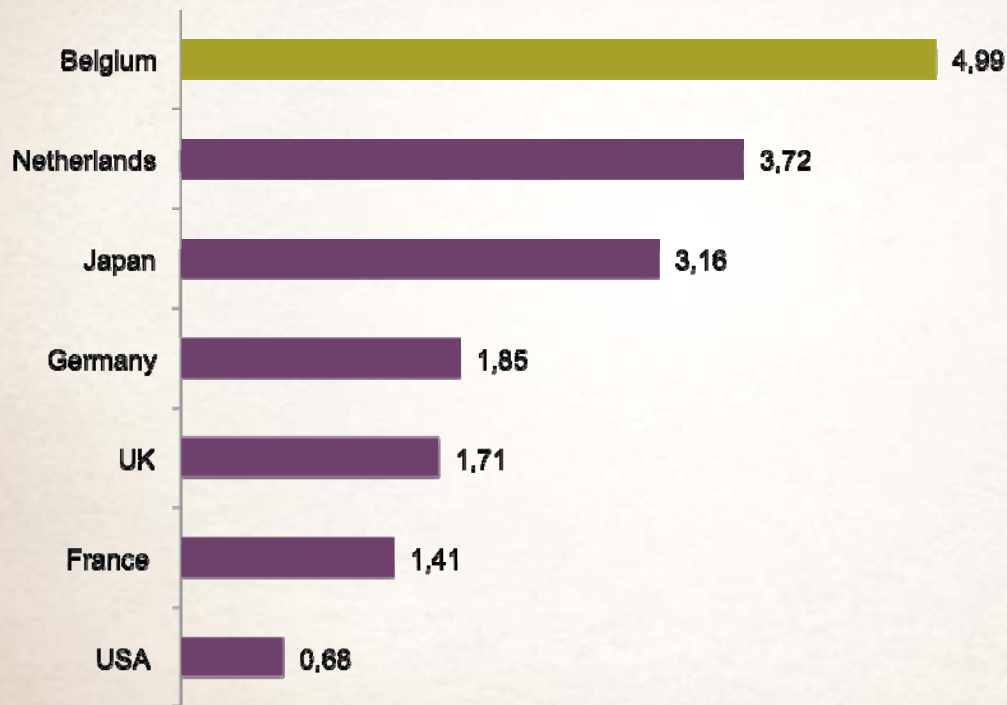
- Capital of Belgium ;
- Capital of the EU ;
- Headquarters of NATO ;
- Centre of political decision-making ;
- 4th in the list of the European business cities ;
- 1,700 European headquarters of MNO's ;
- 3rd most important conference centre in Europe ;
- World's fourth Open Trade Economy ;
- Second largest concentration of journalists in the world.



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A Developed Road Network ...

Belgium has the densest road network in the world



Infrastructure
Basic Infrastructure

Roads

Density of network,
km per square km

2006

For information:

India	1,03
China	0,36
Brazil	0,20
Russia	0,05



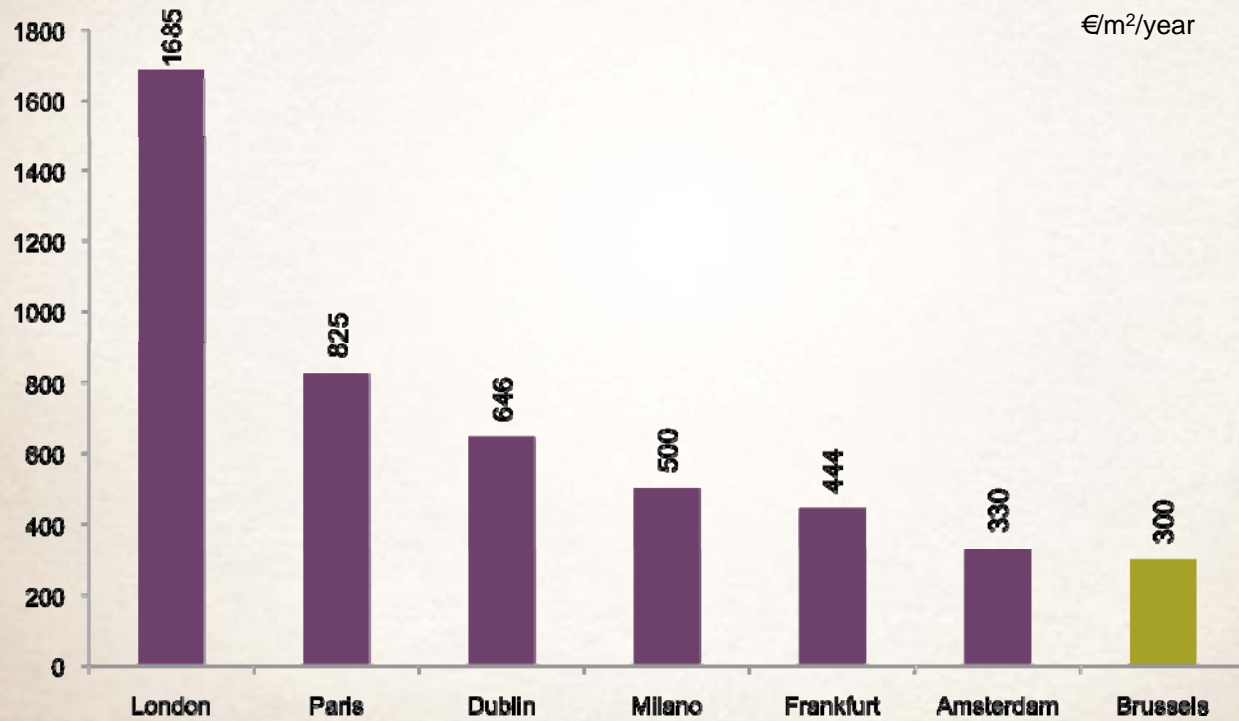
Sources : World Roads Statistics 2008 – International Road Federation – www.irfnet.org - National sources
© IMD WORLD COMPETITIVENESS ONLINE 1995-2010 (Updates : May 2009)

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Only in Belgium Belgium Real Estate

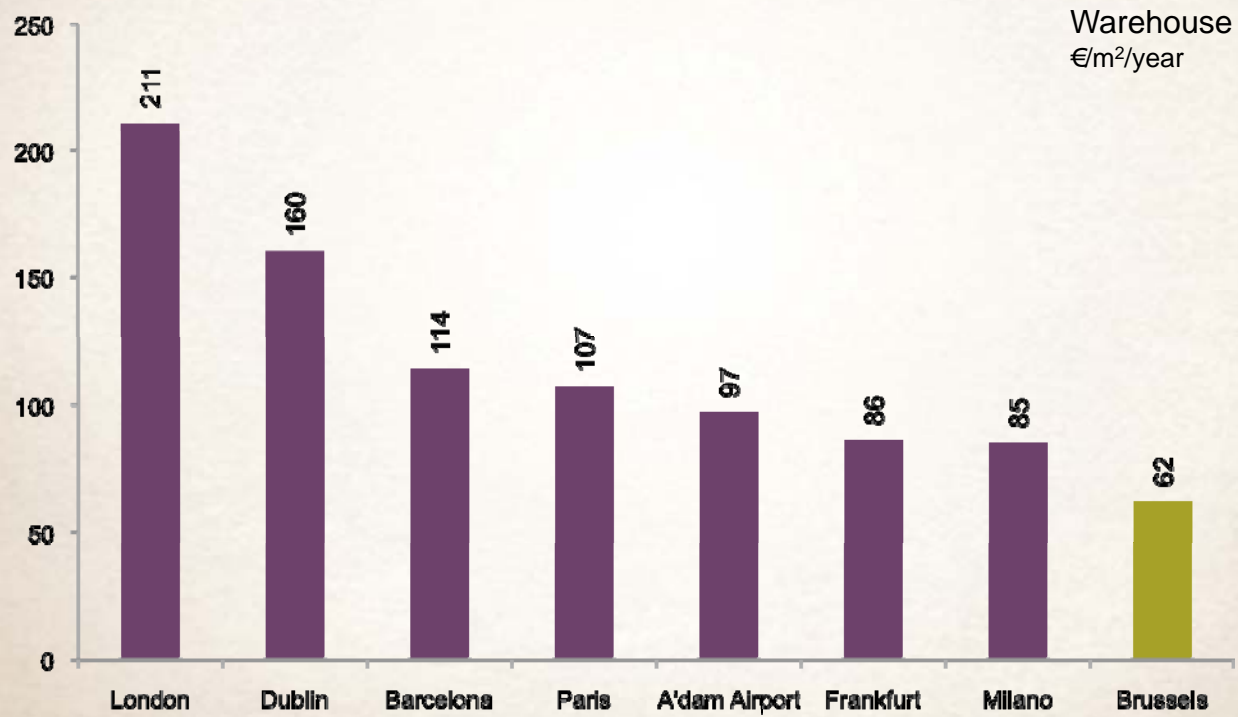
Brussels most competitive place in Europe for Offices



Sources : European Office Market, Jones-Lang LaSalle, Q1 2008

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Industrial areas



Sources : Cushman & Wakefield, Office Space around the World, 2008

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OVERALL SCORE AND RANKING	
Rank 2008	Score 2008
1 Belgium	8.45
2 Netherlands	9.54
3 Hungary	9.56
4 Czech Republic	9.57
5 Poland	9.76
6 France	10.25
7 Austria	10.81
8 Germany	10.82
9 Slovakia	10.85
10 Italy	11.37
11 UK	12.25
12 Denmark	12.31
13 Romania	12.49
14 Lithuania	12.56
15 Portugal	13.11
16 Latvia	13.24
17 Spain	13.44
18 Estonia	13.81
19 Turkey	13.91
20 Ukraine	14.44
21 Finland	14.93
22 Russia	15.27
23 Bulgaria	15.70
24 Ireland	16.41



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Belgium
Human Resources



Belgium workforce is highly multilingual

- The presence, in Brussels, of the major EU institutions and some 1750 international organisations attracts large panel of foreigners (31% of the population)



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Belgium
To Do Business



No restriction for foreigners

- Open economy: Belgium features a liberal business environment
- No permission needed to set up a company
- 100% foreign ownership is possible
- No limitations on repatriation of capital and benefits
- Approximate incorporation fee (for a SA/NV): 1500 €
- Easiness to set-up a company

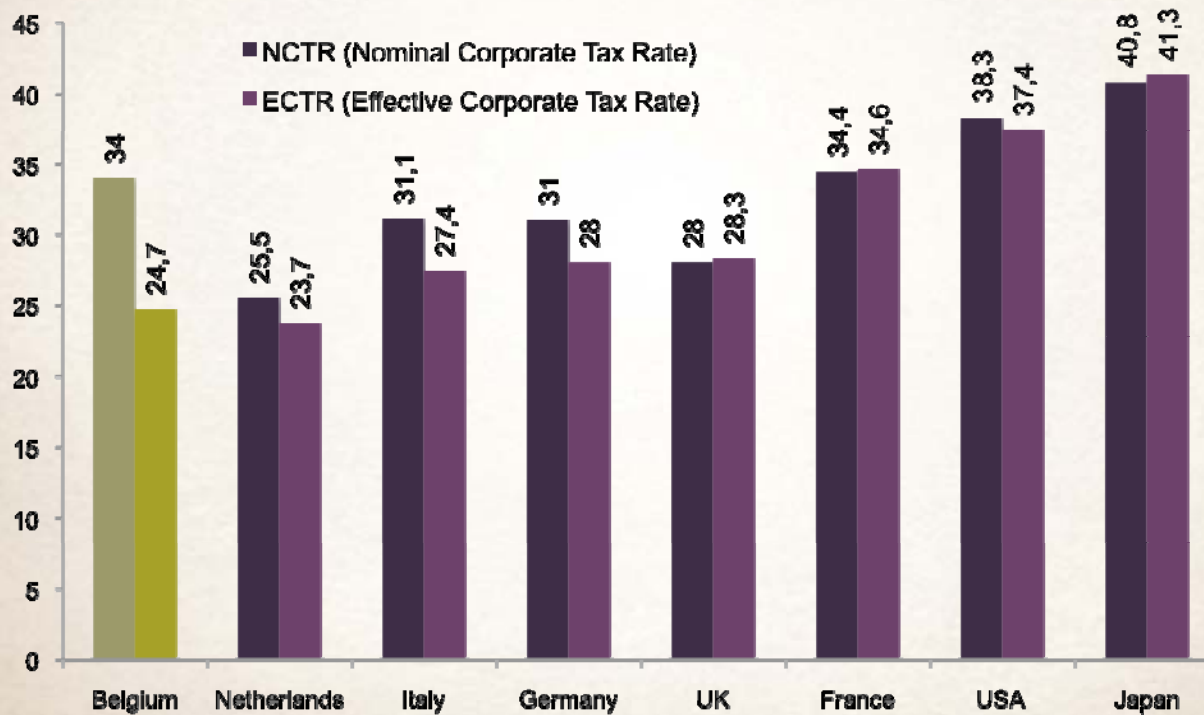


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Effective (Average) Corporate Tax Rate (ECTR) 2009*

*(based on asset and source of finance)

Especially in Belgium, the ECTR is considerably below statutory tax rates (-9,3%)



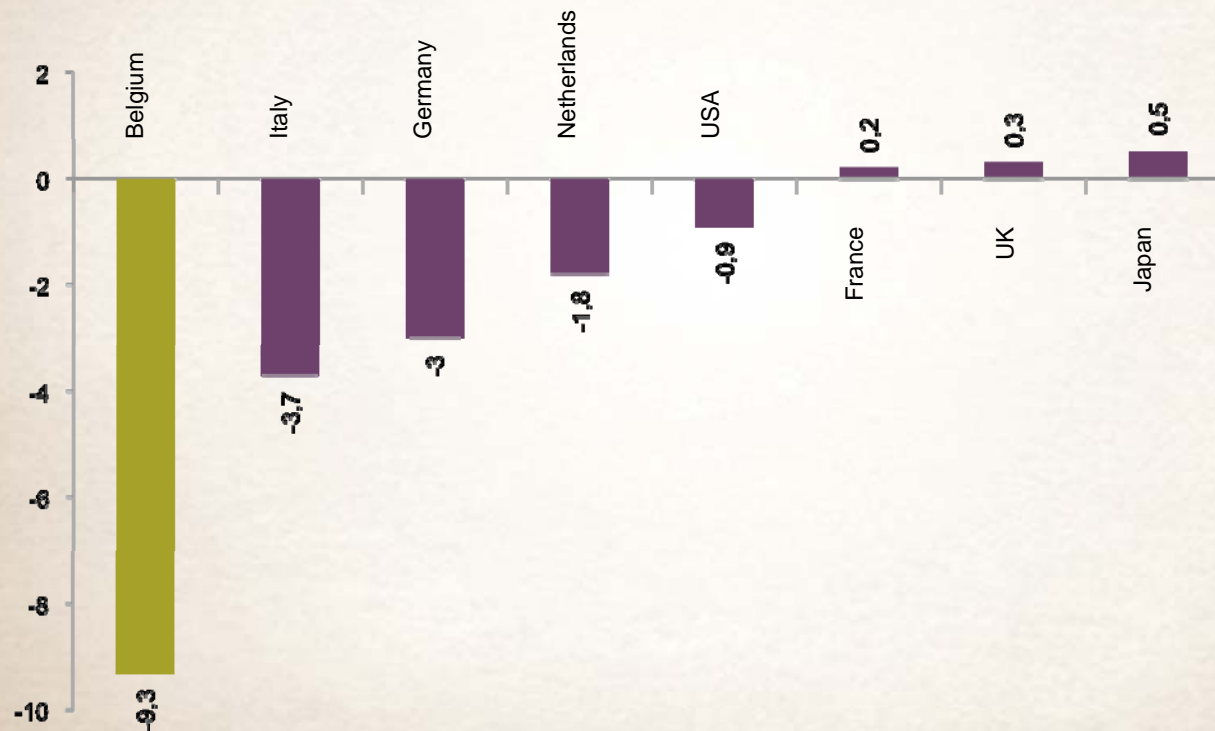
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Project : Taxud/2008/CC/099, Mannheim and Oxford, October 2009

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1. **Notional Interest Deduction**
2. **Tax Ruling**
3. **Unique tax features for R & D**
4. **Dividend withholding tax exemption**
5. **Holding regime**
6. **Expatriate status**

1. Notional Interest Deduction

What is it?

- A notional interest calculated and deducted yearly from the taxable basis
- used to off-set operational or financial income (thus lowering effective tax rate)

1. Notional Interest Deduction

How does it work ?

Annual Tax Deduction

=

EQUITY (in the opening balance sheet of the taxable period)
X RATE (10-year OLO)

1. Notional Interest Deduction

Interest Rate

- RATE = annual average of the monthly published rates of the long term Belgian Government Bonds (10-year OLO)
- Fixed yearly
for 2010 (Tax Year 2011) :
→ 3.8 %

1. Notional Interest Deduction

EXAMPLE 1:
(Return on Equity: 4%)

P&L Account	Assets	Liabilities
	Group Financing 10,000	Share Capital 10,000
	Before N.I.D.	After N.I.D.
Profit before tax	400	400
N.I.D. (3.8%)	/	- 380
Taxable	400	20
Corporate Tax (33.99 %)	135.96	6.76
Effective Tax Rate	33.99 %	1.70%

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1. Notional Interest Deduction

EXAMPLE 2:

		Assets	Liabilities
		Business Assets 10,000	Share Capital 10,000
Net Result (Return on Equity)	Effective Tax Rate		
≤ 3.8 %	0 %		
4 % (Previous slide)	1.70 %		
5 %	8.15 %		
8 %	17.84 %		

1. Notional Interest Deduction

Other particularities

- For SME's : + 0.5% → Rate = 4.3%
- Permanent measure
- Carry forward of 7 years
- No ruling nor agreement is needed
- Suppression of the 0.5% capital duty as of 1/1/2006
- EU compliant

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1. Notional Interest Deduction

OPPORTUNITIES

- It's a valuable tool for further development of Coordination Centre activities
- Opens possibilities for international groups of allocating new activities to a Belgian entity such as intra-group financing, central procurement or factoring

THUS: increases attractiveness of Belgium for capital intensive companies, equity funded headquarters and treasury centers.

2. Tax Ruling

- Advanced decisions or ruling is about creating **CONFIDENCE** to invest in Belgium;
- The investor describes the facts, allowing the tax administration to determine, in advance, how the tax laws are to be applied on a **CASE BY CASE BASIS**
- It ensures a **LEGALLY BINDING ACCURATE FORECAST** of all the tax implications of your investment project

2. Tax Ruling

Unlimited application field for ruling:

- Transfer pricing
- Business Restructuring
- Deductible expenses
- Financing
- Branches
- Bonded warehouses, etc.

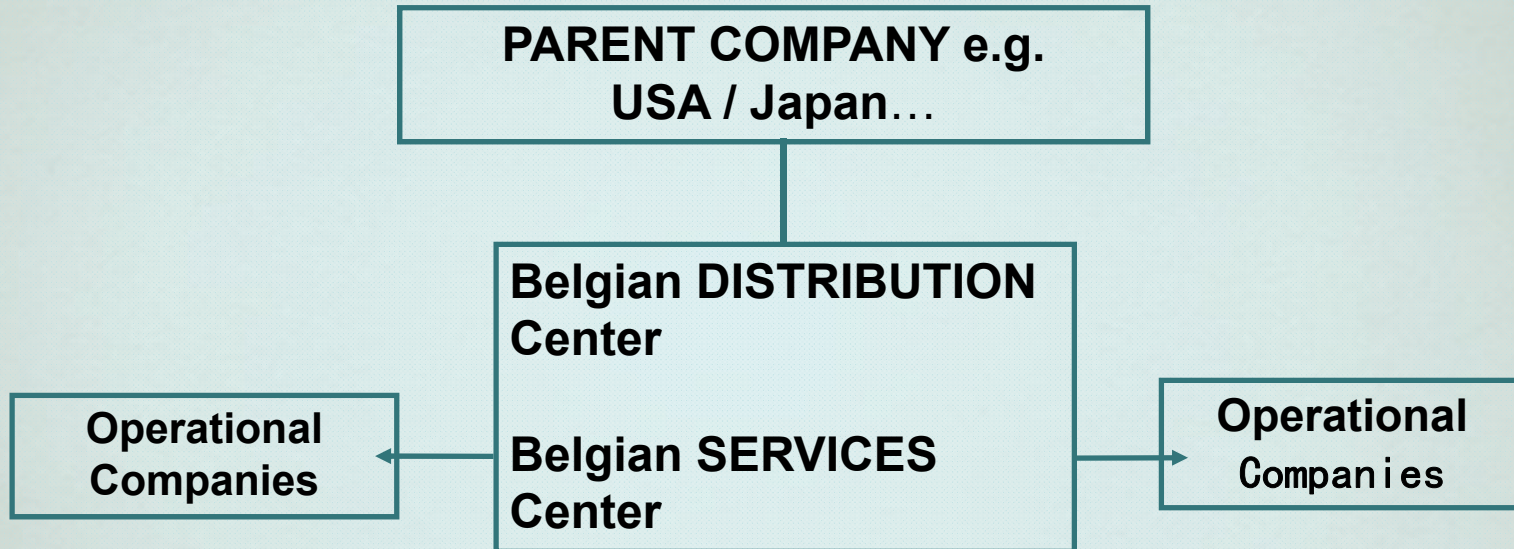
2. Tax Ruling

Characteristics of the Belgian ruling

- Case-by-case ruling in a new open culture
- Legal certainty for investors
- In accordance with international rules
- Open to potential AND existing investors
- Legally binding for a 5 year renewable period
- Economic “substance” required

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2. Tax Ruling



Cost plus % case-by-case ruling *

* *OECD accepted norm: arm's length standard*

3. Unique tax features for R & D

1/ Patent income deduction

What is it ?

Deduction of 80% of the income from patents from the taxable basis, resulting in an effective tax rate of maximum 6.8% on this income

Who can benefit ?

Belgian companies and Belgian establishments of foreign companies

3. Unique tax features for R & D

1/ Patent income deduction

Example

Patent income:	100
Deduction:	<u>(80)</u>
Taxable basis:	20
Corporate Tax (33.99%)	<u>(6.8)</u>
Net income after tax:	93.2
→ Effective Tax rate:	6.8 %

3. Unique tax features for R & D

1/ Patent income deduction

Patents concerned

- self-developed by a Belgian company or branch in R&D centers (*) in Belgium or abroad;
- acquired by a Belgian company or branch provided they are being further developed in R&D centers (*) in Belgium or abroad (by acquisition, or license,...)

(*) R&D center must qualify as branch of activity

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3. Unique tax features for R & D

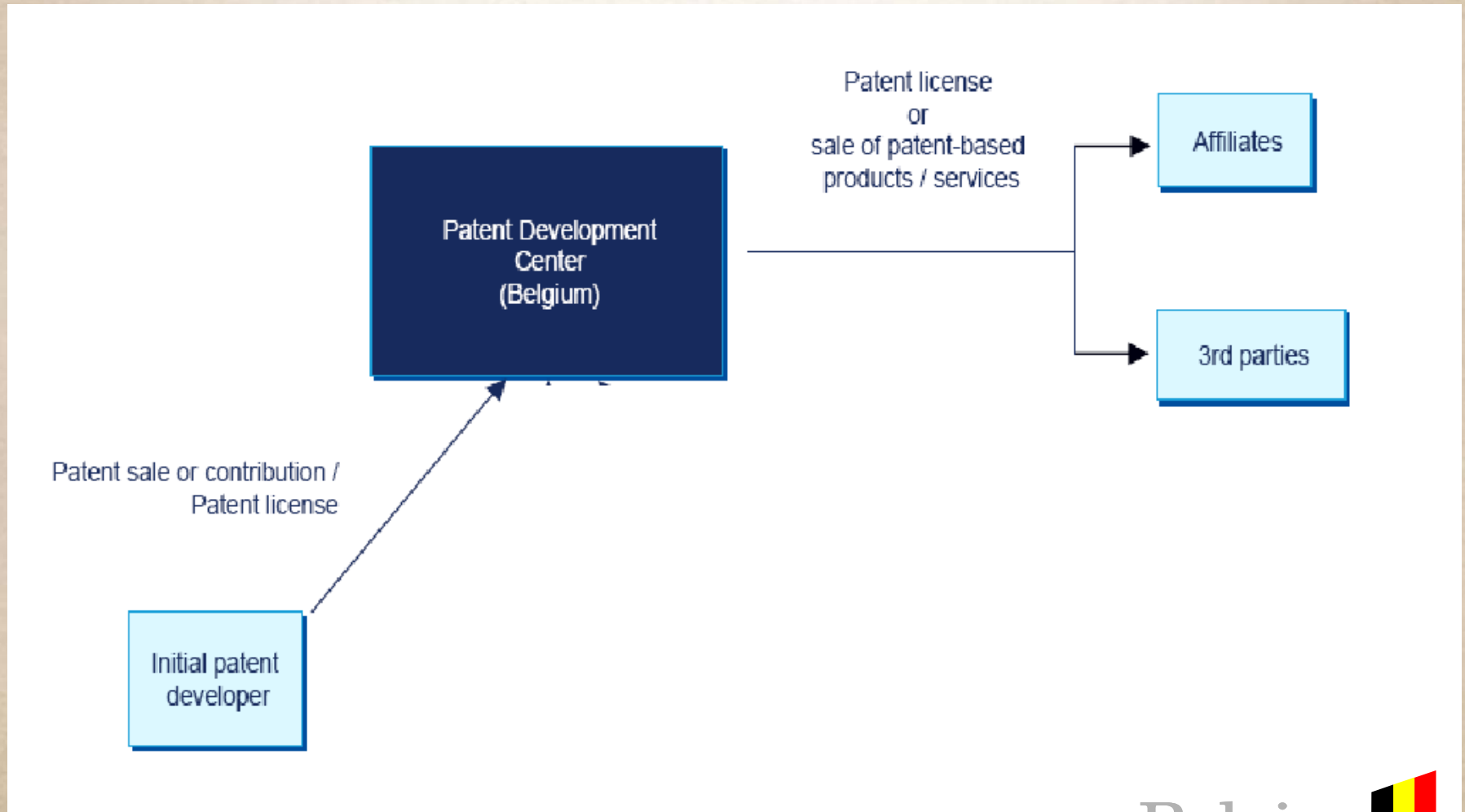
1/ Patent Income Deduction

Calculation of the deduction

- For patents that are licensed: 80% of the patent income received, to the extent the income is at arm's length
- For patents that are used in the production process: deemed deduction of 80% of the at arm's length royalty that would have been received had the patents been licensed to unrelated third parties

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Schematic overview



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3. Unique tax features for R & D

1/ Patent Income Deduction

Highly competitive measure

- Very low effective tax rate of maximum 6.8% and absence of any capping rules;
- Tax deduction in addition to normal tax-deductibility of R&D related expenses;
- Can be combined with Notional Interest Deduction for invested equity, etc.

3. Unique tax features for R & D

2/ Investment deduction for R&D related investments and patents

- *Investment deduction for R&D related investments:*
for assets which aim to promote R&D of new products and advanced technologies which are environment-friendly :
→ deduction of 13.5% on the investment value
- *Investment deduction in patents*
acquired or self-developed by the company
→ deduction of 13.5% on the investment value

NB: In case of insufficient profits, deduction carried forward for an unlimited period .

3. Unique tax features for R & D

3/ Income tax reduction for researchers, in favor of employers

- Principle: the salary withholding tax is normally retained on the remunerations paid to the researcher, but the amount of tax so retained must not be totally paid to the Revenue Collector
(= extra financial means for the employer)
- → 75% exemption !
- For researchers with a specific degree, engaged in R&D program

INVEST IN BELGIUM – increase your profits

Example

Manufacturing company with a R&D division:

- Share capital: **10,000** (of which 2,000 = contributed patent value)
- Return on equity: **12%**
→ Net profit: **1200**
(of which 300 = patent income ; 900 = product revenue)

To deduct

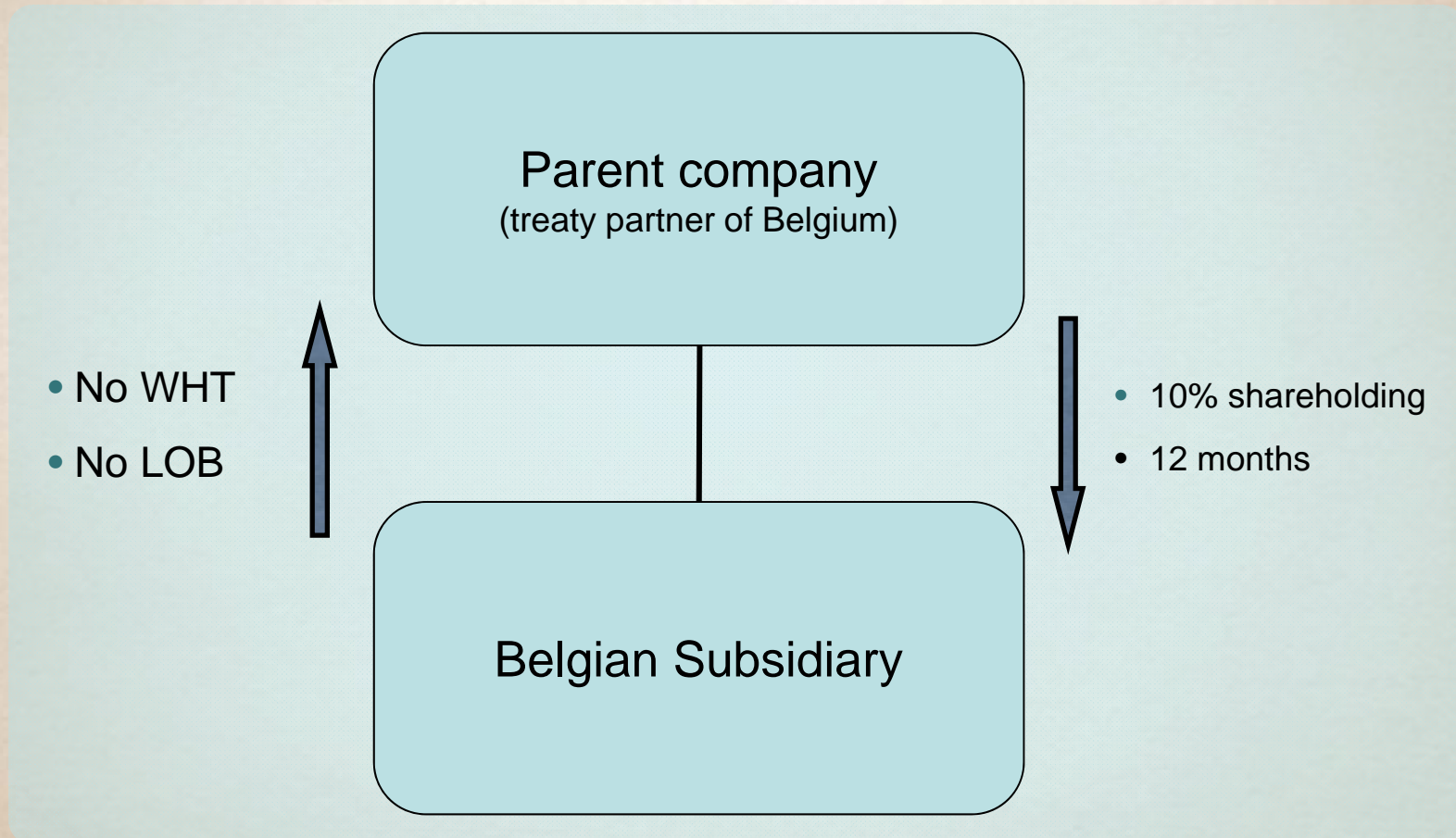
– Invest. ded. on patents:	$13.5\% \times 2,000 =$	270
– Patent Income Ded.:	$80\% \times 300 =$	240
– N.I.D.	$3.8\% \times 10,000 =$	380
– Taxable basis:		310

→ Corporate Tax: $(310 \times 33.99\%) =$ **105**

→ Effective tax rate: **8.7%**

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4. Dividend withholding tax exemption



5. Holding regime

- Participation exemption
→ dividends received : deduction of 95%
- Deductibility of interest paid to acquire shares
- No capital duty
- Exemption of realized capital gains on shares

6. Expatriate status

- For foreign executives and managers temporarily detached in Belgium :
 - Tax free expatriate allowance
(cost of living, cost of housing, tax equalization)
 - operational entity: 11,250 € / an
 - HQ or R&D center: 29,750 € / an
 - Reimbursement of non-repetitive expenses
(installation costs, moving expenses, school fees) → unlimited amount tax free
 - « Travel exclusion »:
workdays performed outside Belgium
→ tax free in Belgium

6. Expatriate status

→ For employers:

- No tax, no social security contributions on expatriate allowances and reimbursement of expenses
- Deductible from Corporate tax

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INVEST IN BELGIUM – increase your profits

Need to know more ?

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