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Belgium, EU's Gateway for Chinese Companies

This fact sheet from KPMG Tax Advisers civil cvba provides a brief overview of important competitive advantages and tax incentives for companies investing in or through Belgium.

1. Competitive advantages of setting up an EU holding company in Belgium

A Belgian company that operates as an intermediary holding company enjoys the following benefits

- Exemption from withholding tax on dividends paid to its affiliated companies in the EU and in more than 90 countries or jurisdictions that Belgium has tax treaties with.
- Specific exemption from withholding taxes on the payment of interest and royalties.
- Belgian Participation Exemption means that:
  - Only 5% of the dividend received is taxable (subject to certain conditions). This 5% can further be compensated with other costs incurred by the company.
  - Capital gains on shares are only subject to a separate taxation of 0.412% (subject to certain conditions).
- Exemption, for the Belgian holding company, from the income derived from foreign branches based on almost all the tax treaties.

Setting up a Belgian holding company also means:

- A deduction of interest on the acquisition of shares
- The absence of controlled foreign corporation rules and a thin capitalization rule only applicable if a 5/1 debt-to-equity ratio is exceeded.

Therefore, the holding company can easily be combined with a more operational activity, as the income from foreign shareholding is often not taxed.

Tax Free on Profit Repatriation
Belgium has extended the exemption of withholding tax on dividends paid by Belgian subsidiaries to parent companies established in other EU Member States to include countries with which Belgium has concluded a tax treaty (for example the treaty with China and Hong Kong).

2. Notional interest deduction (NID) reduces the tax bill

All companies that are subject to Belgian (non)-resident corporate tax can deduct a deemed interest, based on their adjusted equity capital from their taxable basis. For assessment year 2014, this deduction is 2.742% of the company's equity.

For example: if a Belgium company faces a normal income tax rate of 33.99%, after NID, its effective tax rate can be lowered considerably

Equity	3,000
NID rate	2,742%
Profit before taxes (assume ROE = 4%)	120
NID	82,26
Taxable base	37,74
Corporate income tax (at 33.99%)	12,83
Effective tax rate (*)	**10.7%**

(*) in case of a dividend distribution, a fairness tax might become due on the non-taxed distributed retained earnings.

3. Patent Income Deduction / R&D incentives

Belgium wants to encourage Belgian companies or Belgian branches of foreign companies to invest in innovation, R&D and to own patents (including the acquisition of right of usage on patents, and the manufacturing of products based on the patents). The tax benefit of this policy is a reduction of 80% on profits from the patent income of Belgian companies or Belgian branches of foreign companies, resulting in a tax rate of 6.8%.

The R&D payroll incentive allows companies to recover up to 80% of the wage withholding tax of their researchers provided certain conditions are met, resulting in a sensitive cash saving for the company.

Furthermore, provided certain conditions are met, companies can benefit from the one off investment deduction/tax credit for R&D, calculated as 14.5% (assessment year 2014) of the acquisition value of the qualifying asset (also applicable for patents). Alternatively, the spread investment deduction/tax credit, calculated as 21.5% (assessment year 2014) of the annual amortization applied to the qualifying asset can be opted for.

All the above tax incentives can be combined

As a result, although the standard corporate tax rate of 33.99% seems quite high in a European context, companies in Belgium will in general be taxed at a considerably low effective rate.

4. Advance tax rulings in Belgium creates assurance

Belgium also has a very business-oriented ruling commission that allows for obtaining advanced rulings to determine the taxable basis of e.g., finance, distribution and shared service center in order to obtain legal certainty for a period of five years. In addition, substance requirements are reasonably tailored to the type of business activity. It ensures a legally binding, accurate forecast of all the tax implications related to your investment.

5. Expats pay less taxes

Qualifying expats are only taxed in Belgium on Belgian source income. A considerable lump sum which is deemed to cover expatriate expenses is deductible. In addition, several other expenses (among which school fees) can be deducted entirely. Furthermore, income relating to time spent in other countries for business purposes is tax exempt.

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