COMPETITIVENES AND THE BELGIAN CIT REFORM

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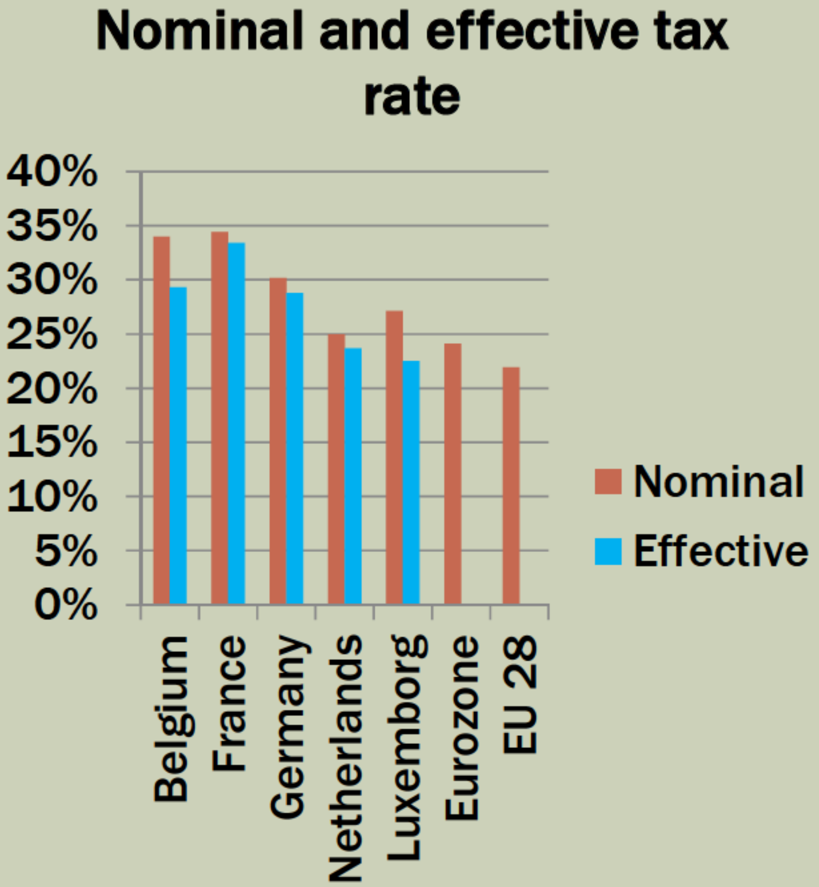
- Some characteristics of Belgium
- Is taxation one of the main determinants of competitiveness ?
- The main components of the CIT reform

SOME CHARACTERISTICS OF BELGIUM

- Small open economy
  - Exports and imports account for 75-80% GDP
- Prior to the reform, high nominal CIT rate
- Less clear-cut for effective tax rate
- During the past decades, Belgium has been competing by niche regimes, while keeping a relatively high nominal CIT rate
- Allowance for Corporate Equity introduced in 2005
  - Economic merits are widely recognised
  - But concerns about its use for tax planning by MNE's



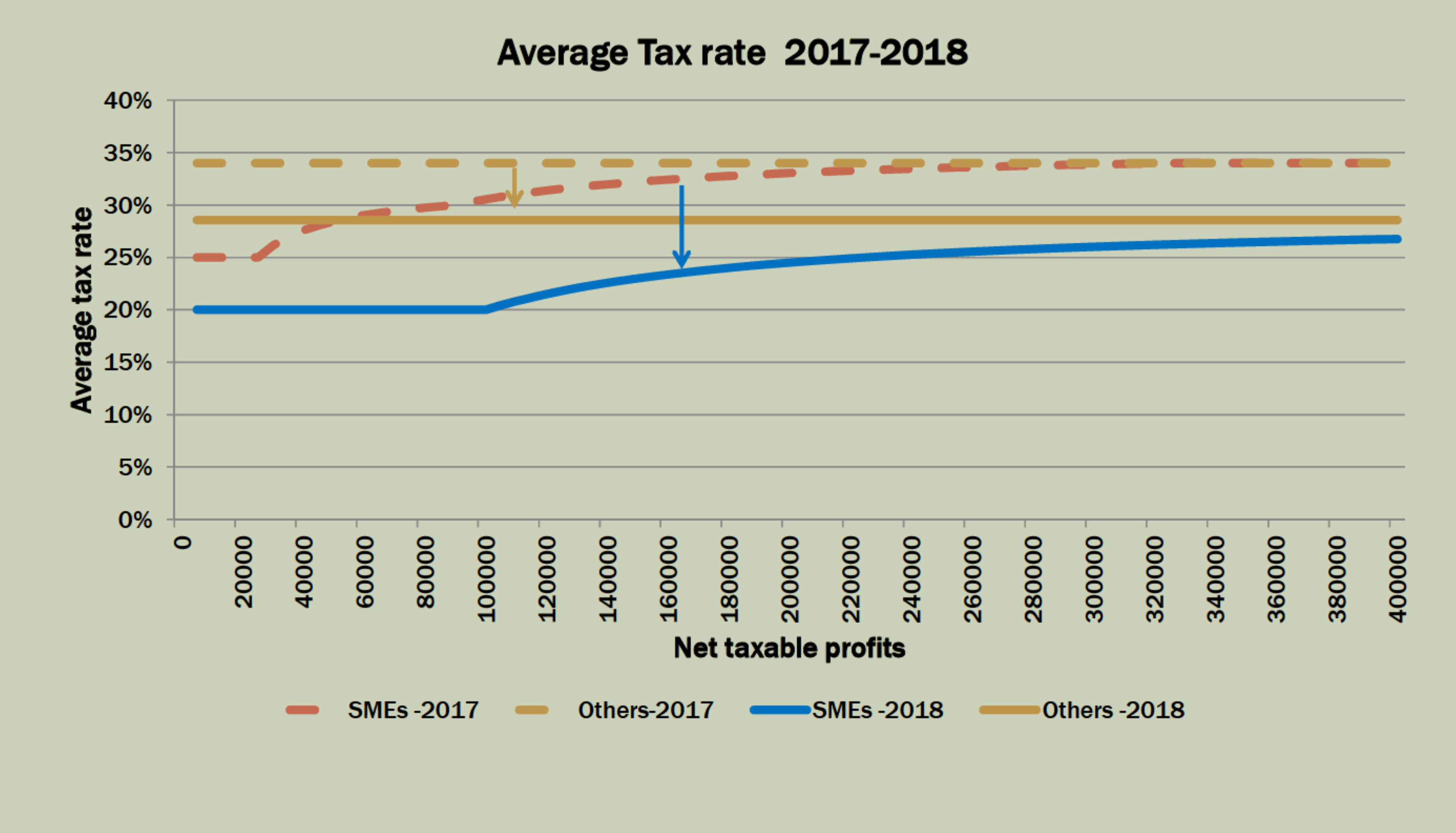
TAXATION AND COMPETITIVENESS

- We do not discuss competition on tax baseS, just competition to attract real economic activity
- CIT is for sure neither the single determinant, nor the main
- From an economic point of view what matters is the real exchange rate
  - What means, on the short-medium term horizon, price competitiveness
  - Tax may matter as they have an effect on the cost of capital
  - But the cost of labor, infrastructure etc..; also matter
  - The CIT reform is part of a broad policy agenda that aims to restore competitiveness
    - Tax shift from labour to consumption
    - Wage moderation
    - And the CIT reform..

THE CIT REFORM
LOWER RATES..

- Phased on the 2018-2020 period
- « Broad base, low rate »
  - The CIT rate will be cut from 33,99% to 29,58% in 2018 and to 25% in 2020
  - *SME's rate*
    - *Current structure: increasing marginal tax rate, with the average tax rates that converges to 33,99%*
    - *Will be changed into a reduced rate for the first 100.000 € of profits and the normal rate applying above the ceiling*
    - *Anti abuse rules remain..*
    - or re-enforced (minimum remuneration of the manager increased from 36,000 to 45,000 €)

THE CIT REFORM
LOWER RATES..



THE CIT REFORM
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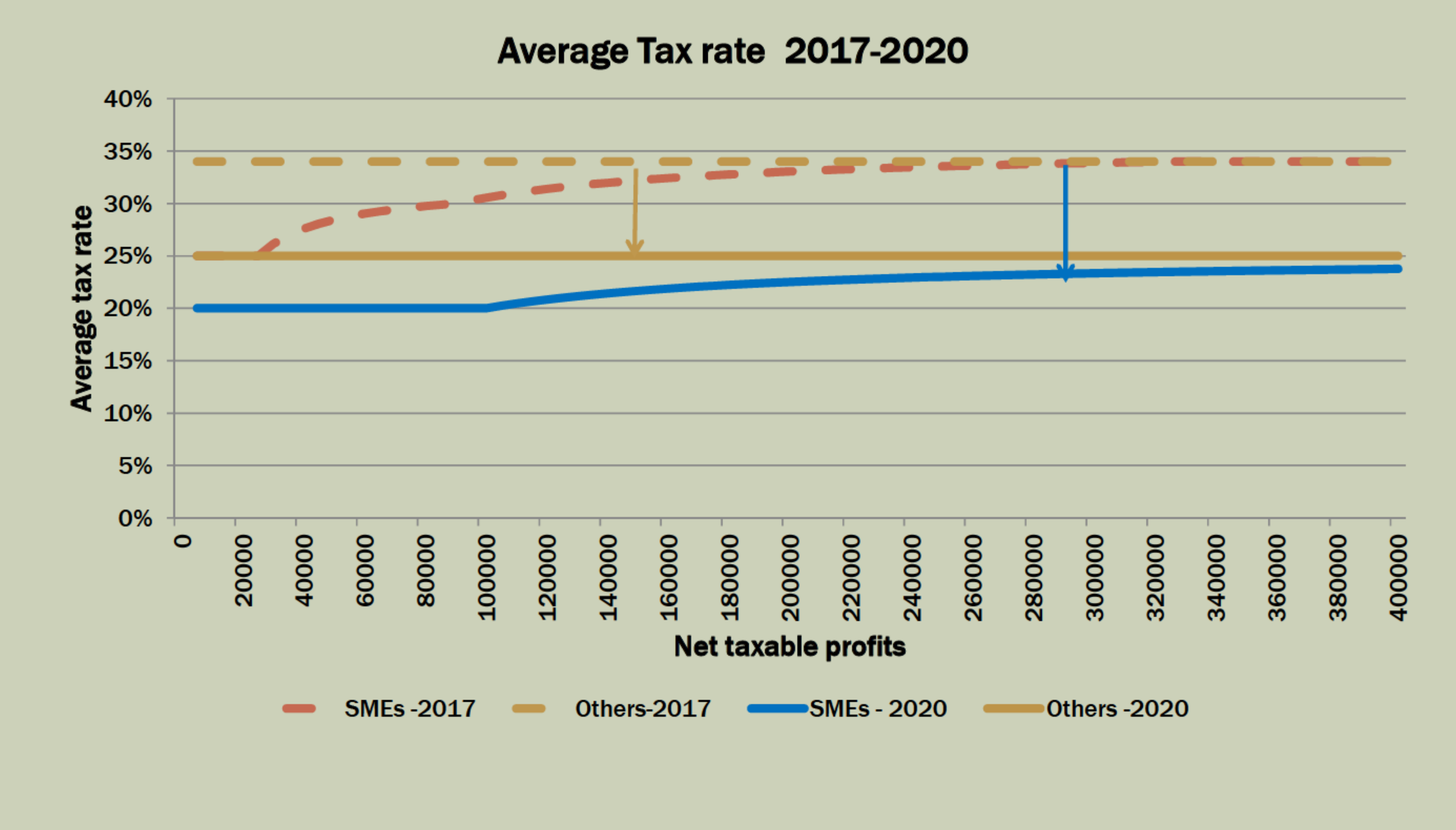

THE CIT REFORM
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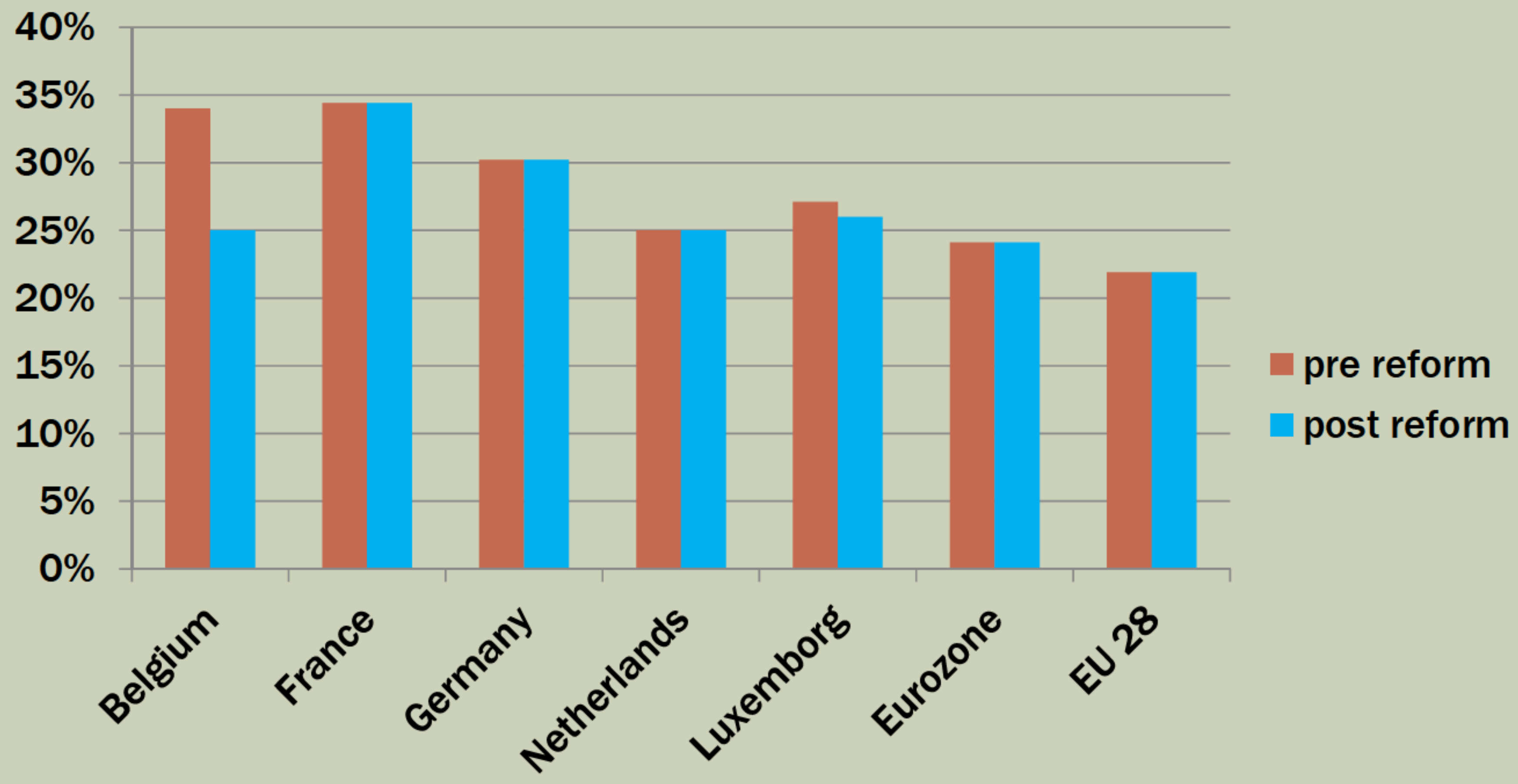

THE CIT REFORM
CHANGE IN TAX INCENTIVES

- New incentives
  - Temporay increase of the investment allowance (from 4 to 20%)
  - Increased support for R&D (Existing wage subsidy will be gradually extended to bachelors)
- Fundamental change of the ACE
  - The ACE has been change from on allowance based on the stock of equity to an allowance based on the increase in equity
  - Based on a rolling average
  - Stronger anti-abuse rules
  - The new ACE puts the emphasis on the economic merits of the ACE
    - acts againt the debt-Equity bias,
    - no windfall gain any more

THE CIT REFORM
BASE BROADENING

- Losses and other carried forward allowances will only be deductible up to 1 million € + 70% of the taxable profits.
  - This minimum a minimum tax base of 30% for profits exceeding 1,000,000 €
- Implementation of the ATAD Directive and of the main BEPS recommandations
  - Interest limitation rule
  - CFC legislation – ATAD art 7 and 8
  - Exit tax – ATAD
  - Tackling hybrid mismatches
  - Permanent establishment: implementation of Beps – Actions 1 and 7.
- Broadening of the tax base
  - More strict rules for depreciation (straightline only, DDB repealed)
  - Stricter rules for deductible expenses

THE CIT REFORM
IMPROVING NEUTRALITY

- Specific capital gain tax of 0,4 % repealed
- Participation exemption: same rules for dividends and capital gains
- Incorporated/unincorporated entreprises: same rules for the company car regime.

CONCLUSIONS

- Tax is not the single determinant of competitiveness
- But the CIT reform is part of a broad policy agenda targeted to the main determinants of competitiveness
- Broad base – low rate
- The new ACE put the emphasis on the economic merits of the ACE
- BEPS implementation