BELGIUM: New Federal Government Agreement

Tax Reform - Contemplated Tax Measures

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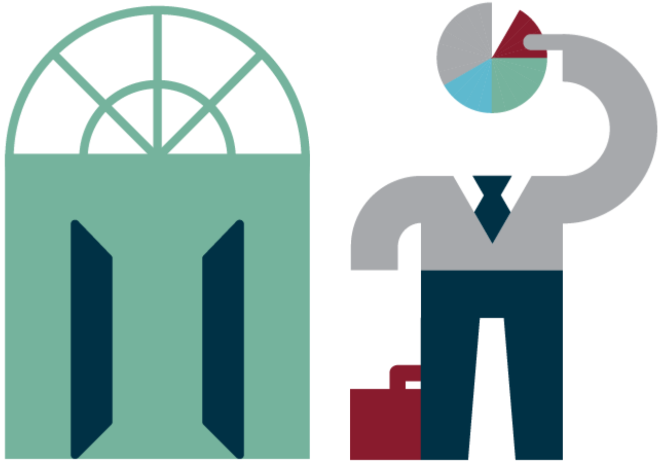
Olivier Lambillon
Tax Partner
Belgium

T +32 2 515 9334
olivier.lambillon@osborneclarke.com

Mathieu Lambeau
Junior Associate
Belgium

T +32 2 515 9330
mathieu.lambeau@osborneclarke.com



Introductory Note – Disclaimer

1) Entry into force:

The measures that will come into force during this legislature would all be implemented **from 2026**.

We cannot rule out the possibility of future clarifications which, depending on the measures, would bring forward or delay this entry into force.

2) The measures envisaged are subject to modifications:

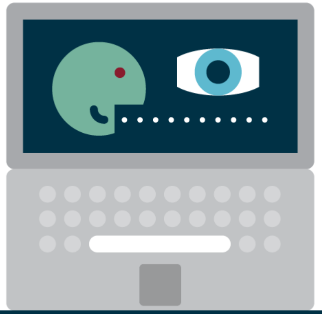
The present document provides a **non-exhaustive summary** of the principal tax measures proposed in the "*Federal Government Agreement 2025-2029*" as published on 31 January 2025, drafted and announced by the so-called Arizona coalition.

It is important to note that none of the proposed measures outlined in the Federal Government Agreement 2025-2029 have been incorporated into a draft bill for now and that no final budget has been submitted to, nor been voted on by the Parliament yet.

Consequently, any proposed measure mentioned herein is subject to further negotiation at the Federal Government and Parliamentary levels. Therefore, **the envisaged tax measures outlined in this document may undergo significant modification, amendments or may not be implemented at all in the future**.

1 Employers/Employees

Relevant Measures for Employers/Employees



Compensation & Benefits

- **Cap on employers' social security contributions** on low and medium salaries = reduction of wage costs.
- Introduction of a new legal framework for the reimbursement of **costs proper to the employer**.
- Encouraging the payment of the remuneration in the form of ordinary salary (i.e. cash):
  - **Flexible remuneration**: salary sacrifice limited to a maximum of 20% of the annual gross salary (= possible impact on cafeteria plans). Additional bonuses can still be granted on top of the salary.
  - Harmonisation of **collective bonus regimes** (CCT 90, beneficial premium, …) without additional cost for employers or tax burden for employees.
- **Meal vouchers**: amount will be increased twice during the next legislature (2 x EUR 2) + increased tax deductibility for the employer. All other vouchers (i.e., eco vouchers, culture vouchers, etc.) would be removed.

Miscellaneous

- **R&D WHT**: improvement, legal certainty, stability and scope would be reformed concerning research at universities, colleges, university hospitals and scientific research funds.
- WHT exemption **shift and night work**: improvement of legal certainty and stability of the scope of existing exemptions, new system with adjustments is expected.
- Simplification of rules linked to the car costs deduction, especially for **hybrid cars** (see below).
- Car sharing tax deduction: not limited to car sharing organised or paid by the employer.
- Abolition of the private PC plan regime.
- Non-indexation of the tax exemption for work-home commuting (only once).
- **Student work**: up to 650h and EUR 12,000 per year.

Relevant Measures for Employers/Employees

Expatriate Tax Regime

The **expat regime** would be **improved** to attract and retain international talents:

- Minimum remuneration reduced from EUR 75,000 to EUR 70,000;
- The cap of EUR 90,000 is due to be abolished (reimbursement of costs proper to the employer) and;
- Increase of the exempt amount from 30% to 35%.

Mobility Budget

Reform of the mobility budget:

- The mobility budget would be offered by the employers to all employees (systematically offered as an option when employees are entitled to a company car).
- The employer would provide a budget, in which the advantages (car, other modes of transports, etc.) are spending options based on their real value.
- Would replace the existing employer intervention schemes for the employee's home-to-work commuting and private travel.
- The (reformed) mobility budget will benefit from an advantageous (para)fiscal treatment to ensure the attractiveness of the new system.

Relevant Measures for Employers/Employees

Copyright Tax Regime

- Following the previous reform of the regime, IT workers were excluded from the advantageous tax regime.
- The new government plans to (re)include the IT sector (copyrighted software) in the scope of the copyright tax regime to fix this discrimination.
- Attention: all other (new) conditions will continue to apply (e.g., necessity of a "communication" to a "public").

Management Company & Directors

Application of the reduced corporate income tax rate (20%) on the first EUR 100,000 of taxable profits → reinforcement of the minimal remuneration of the director:

- EUR 50,000 (subject to yearly indexation) *vs.* 45.000 EUR today;
- Max. 20% consisting of benefits in kind (= possible impact on free use of housing, warrants plans, etc.). Additional bonus on top of the gross salary remain possible.

VVPR*bis* dividends are maintained.

Equity-based Remuneration

- **Stock options**: The new "solidarity contribution" of 10% on capital gains on shares (see below) may imply a taxation upon exit (e.g. sale of the shares) for the beneficiaries.
- **Carried interest schemes**: 30% taxation regime (as moveable income), but no impact on existing plans/structures. The objective is to stimulate the activity of investment funds in Belgium.

2 Personal Income Tax

Personal Income Tax Measures

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- **Reduction of personal income tax** (target = difference of EUR 500 net/month between workers and unemployed) via:
  - Increase of the tax-exempt (lump sum) amount (up to the "minimal wage" level?);
  - Reduction of the *Special Social Security Contribution*;
  - Improvement of the employment bonus.
- Additional tax-exempt amount for children: **Same amount for each child**.
- **Miscellaneous/occasional income** (art. 90, 1° ITC): exemption below 2.000€ (for example second-hand sales)
- **Supplementary (professional) income for retirees**: 33% tax rate
- **Annex 270 MLH** (rent costs) will be replaced by a less constraining alternative

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- **Abolition of a range of tax reductions/deductions** (private PC plan, legal assistance, etc.).
- Abolition of the **Federal deduction for interest on loans** for immoveable properties other than the main residence of the taxpayer
- Tax deduction for **donations to charities decreases from 45% to 30%.**
- Gradual abolition of the **marital quotient** (50% by 2029)
- **Deduction of alimony payments** would gradually decrease from 80% to 50%. Payments to countries outside the EEA will no longer be deductible
- Elimination of the **tax reduction on unemployment allowances**
- End of **tax reduction for the highest pensions**

Self-employed Individuals

- Introduction of a **new deduction** allowing self-employed individuals to deduct a first bracket of their income or profits (after deduction of professional costs and social contributions). The amount would be increased in 2029.
- **Second pillar pension schemes for the self-employed** (PCLI, EIP, CPTI):
    - Reform of the 80% rule;
    - **Maximum contribution** percentage for the classic free supplementary pension ("*PLCI*") would increase **from 8.17% to 8.5%.** The maximum contribution for a "social" PLCI will also increase.
    - End of the tax (4.4%) on contributions into a pension convention for self-employed ("*CPTI*")
- Reform of the status of the **part-time self-employed**
- **Tax prepayments:**
    - Deletion of the tax increase ("*malus*") in case of insufficient prepayments as of 2026;
    - Additional date introduced to make tax prepayments (before 20/2 of the taxation year, i.e. N+1). Prepayment on the new additional date would also entitle to a bonification.
- Deductibility of car costs – see below.

3 Corporate Income Tax

General Corporate Tax Measures

- **Reduced corporate income tax rate (20%)** on the first EUR 100,000 of taxable profits.
  Condition regarding the **minimum remuneration for company directors** :
    - Minimum of EUR 50,000 gross yearly remuneration (instead of the current EUR 45,000 threshold) with the amount due to be indexed on a yearly basis;
    - Maximum of 20% of the yearly gross remuneration made of benefits in kind.
- **Introduction of a new optional regime for disallowed expenses (non-tax-deductible costs):** This could be in the form of a lump-sum amount;
- **Deletion of various exceptions and exemptions**: social passive deduction, private PC plan, capital gain on company cars, etc;
- **Simplification of rules on the deductibility of car costs and extension for hybrid cars:**
    - Decreasing deductibility cap from 2027 to 2029 (same as for full electric cars);
    - No deductibility cap until the end of 2027 if hybrid car with emissions below 50g CO_2/km;
    - Deductibility of fuel costs (50% until end of 2027) and electricity costs (same regime as for electric cars) of hybrid cars.
- Modifications in the **Crossroad Bank of Enterprises** → **Free of charge**

General Corporate Tax Measures

Accelerated depreciation rules for specific investments (R&D, defense and ecologic transition):

- Large companies: possibility to deduct 40% of the acquisition value in the first year or depreciation (temporary measure!);
- SMEs: Reintroduction of decreasing depreciation schemes.

Dividends: harmonisation of the liquidation reserve with the VVPR*bis* regime for SME's (i.e. dividends subject to 15% WHT *vs.* ordinary rate of 30%):

- Reduction of the waiting period for the liquidation reserve from 5 to 3 years;
- Distribution of the liquidation reserve after 3 year → 6.5% WHT tax instead of 5% currently (= 15% total effective tax rate – same rate as VVPR*bis* dividends);
- Distribution before 3 year → Application of the ordinary 30% WHT tax rate.

Investment deduction:

- Can be carried forward without limitation in time;
- R&D investments conditions: need for an attest from the Region abolished (possibly also for R&D tax credit?);
- Increase investment deduction for "thematic" investments → harmonisation to 40%;
- Possibility to be qualified as "research centre" → consequences still to be clarified.

4 Groups & International Taxation

Groups of companies

Participation Exemption Regime
(or "dividend received deduction")

- From a deduction to an exemption (via an increase in the initial state of the reserves, such as for exempted capital gains on shares)
- Participation condition:
  - **10%** participation condition remains **unchanged;**
  - If the above mentioned 10% threshold is not met, the participation condition of EUR 2.5 million (acquisition value) is increased to EUR **4 million** + participation must to be booked as a **financial fixed asset** by the recipient company (and not as a current investments)
  - this modification does not apply to SME (only for and between large companies)
- Minimum holding requirement and the subject-to-tax requirement remain unchanged

Application of the participation exemption regime for participations in a "*SICAV RDT/DBI BEVEK*" remains possible for but:

- a 5% (exit) tax would be applied on the capital gain upon exit, and;
- the possibility to offset the withholding tax with the corporate income tax would be subject to the minimum remuneration condition for the company directors (EUR 50.000 – see above)

Intragroup Transfer Deduction

More flexible, simple and appealing:

- 90% participation threshold would now take both **direct and indirect participations** into account;
- Newly incorporated companies would no longer excluded (as a possible exception to the 5-year participation requirement?);
- Participation exemption would be deductible of the group contribution

International Corporate Taxation

Exit tax: transfer of seat of the company outside of Belgium (emigration)

- Already treated as a fictitious liquidation for corporate income tax purposes;
- Will now be treated as a fictitious liquidation at the level of the shareholder as well → taxation (WHT) on a fictitious dividend received
  Note: >< interpretation of the ruling committee and possibly to EU law – will discourage foreign investment

Conclusion of **new double tax conventions** with foreign States (especially emerging economies).

Digital tax in Belgium: taxation of large digital companies even in the absence of a physical presence in Belgium → if no agreement is reached at EU or OECD level, would be implemented unilaterally by Belgium, no later than 2027.

Regimes based on situations involving **"tax havens"** (ex: CFC, non-deductible payments, etc.) → Applied on the basis of the list of tax havens as established on 1st January.

5 Investors & HNWI

"Solidarity Contribution" (i.e. taxation) on Capital Gains on Shares

Tax rate = **10%**

Targeted taxpayers = **private individuals**

Scope of application = **"financial assets", i.e. listed and unlisted shares, bonds, warrants, etc. (including crypto-assets)**

No retroactivity: Only **capital gains** realised and generated **in the future (as from 01/01/2026 - TBC),** meaning that historical capital gains will remain untaxed.

→ **Recommendation**: Taxpayers should seek to obtain a valuation report in 2025 to substantiate the market value of their participations (especially for unlisted financial assets).

Realised capital gains will be taxed, however, **capital losses in the same taxable period will be deductible** (cannot be carried forward);

The taxation regime depends on the importance of the participation:

- **Small participations (i.e. less than 20%):**
  - **10%** tax rate or progressive tax rates (see below – still uncertain*)**;**
  - **Tax-exempt lump-sum amount of EUR 10,000 year** (subject to yearly indexation).
- **Substantial participations (i.e. more than 20%):** Progressive tax rate depending on the importance of the capital gain:
  - Under EUR 1,000,000 EUR: **general exemption (0%)**
  - EUR 1,000,000 – EUR 2,500,000: **1,25%**
  - EUR 2,500,000 – EUR 5,000,000: **2,5%**
  - EUR 5,000,000 – EUR 10,000,000: **5%**
  - Above EUR 10,000,000: **10%**

*Note:

The tax rate applicable to capital gains on "small participations" (<20%) seems (already) to be subject to differing interpretations:

- **MR**: The progressive tax rates also apply to small participations (excl. The first exempted bracket up to EUR 1,000,000);
- **Vorruit**: small participations capital gains are subject to a 10% flat-rate tax (progressive tax rates only apply to important participations >20%)

! The federal government has not yet clarified how this new regime will **interact with the existing various tax regimes** applicable to capital gains (i.e. exemption for the normal management of private estate, taxation of certain capital gains on important participation above 25%, capital gains realised upon contributions in kind, etc.)

Other Measures for Investors & HNWI

- **Introduction of a new obligation to report the existence of crypto-accounts** at the Central Contact Point (National Bank of Belgium)
- No modification of the **tax on securities accounts** (0,15%) but more efforts to prevent abuses;
- Merging of the Start-ups and Scale-ups **tax shelters**;
- Harmonisation of reductions and exemptions applicable to **saving deposits**;
- Simplification and modernisation of the **tax on stock markets transactions**;
- **Share deals**: the federal tax authorities will offer his assistance to regional authorities to fight against (potentially abusive) share deals (i.e sale of the shares of real-estate companies in which case no registration duties apply);
- More flexible regime for **private pricaf/privak** regarding (i) duration (12 y + 3y), (ii) number of shareholders (6 non-related investors), (iii) authorised investments;
- Specific regime for **carried interest**: **30% taxation** (as moveable income);
- New (permanent) regularisation regime (**DLU/EBA *quinquies***) for time-barred untaxed income and capital:
    - For time barred **income**: will be subject to their ordinary tax rate **+ 30%;**
    - For time-barred **capital**: **45%** flat rate.
- Reminder (see above): (i) Emigration of companies (**exit tax**) taxation of a dividend at the level of the shareholder; (ii) Modification of the **participation exemption regime**; (iii) Modification of the **liquidation reserve regime**;

6 Not-for-profit

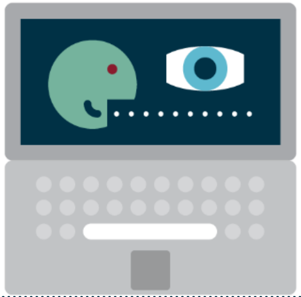
Relevant Measures for (I)NPO

Adjustment of not-for-profit taxation (tax on legal entities)

- The application of not-for-profit taxation will be adjusted in light of the new Code of Companies and Associations;
- The effectiveness of prohibition of profit distribution will be evaluated;
- Fight against the use of not-for-profit organisation to conduct commercial activities without taxation;
- All different taxes applicable to not-for-profits, such as estate-tax, tax on legal entities, etc., will be evaluated.

Fight against abusive private foundations

- Clarification of the "disinterested objectives" concept;
- Accountability of public notaries;
- The tax authorities will be able to request the dissolution in case of improper use.



Publication of annual accounts to the Central Balance Sheet Office (National Bank of Belgium)

7 VAT

VAT Measures

- Reduced rate of 6% for deliveries of the **construction** of private homes after the **demolition** of an existing building will be re-established (but the surface area condition will be strengthened: 175m^3 instead of 200m^2);
- Clarification of the **definition** of "renovation"
- Modification of VAT rates:
  - **Heat pumps** → 6% (instead of 21%) for the next 5 years;
  - **Fossil fuel boilers** → 21% (instead of 6%) in the context of renovation works;
  - **Coal** → 21% (instead of 12%);
- **Donation of goods**: relaxing of the conditions (fight against waste);
- Introduction of "**real-time reporting**" of VAT invoices as of 2028;
- **VAT sanctions** (such as fines, tax increases, etc.) → Possibility to take into account the absence of prejudice for the State (mitigating circumstance);
- Abolition of various VAT registers.

8 Tax Procedure

Reduction of Statutes of Limitation (Investigation and Taxation)

Current statutes of limitation (since tax year 2023)

- Ordinary term = **3 years**;
- Absence of tax return = **4 years**;
- Semi-complex tax returns = **6 years**;
- Complex tax returns (automatic) = **10 years**;
- In case of tax fraud (notification of fraud evidences) = **10 years;**

New contemplated statutes of limitation

- Ordinary term: **3 years**
- For **semi-complex** and **complex** tax returns: **4 years**
- In case of tax fraud = **7 years** (ordinary tax returns) or **8 years** (semi-complex and complex tax returns.

Taxpayers acting in **good faith** should also be able to improve their declaration

Reminder

Semi-complex tax return in the case of

- Country-by country declaration (**transfer pricing**);
- Payments to **tax havens**;
- **WHT reduction/exemption** for div./int./royalties;
- Lump-sum **foreign tax credit**;
- **DAC 6**;
- **DAC 7** (> EUR 25k);

Complex tax return in the case of

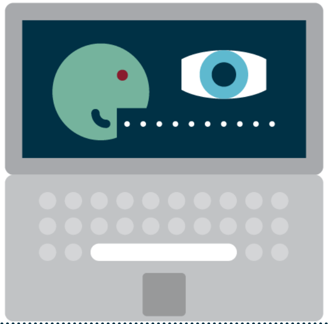
- **Hybrid** entity or arrangement;
- Application of **CFC** tax regime;
- Application of **Cayman tax** regime.

Tax Procedure – Sanction Policy

- "**Right to make mistakes**" in case of good faith:
    - Possibility for taxpayers to "**improve" their tax return without risking sanctions** (i.e. fine, tax increase or interests);
    - **No more automatic sanctions in case of a 1st violatio**n committed **in good faith** (the taxpayer would only receive a warning);
    - **Trust principle**: absence of sanction if the tax authorities refuse the application of a tax practice by the taxpayer if it has been subject to a tax audit (and accepted) in the past and that the legislation has not changed in the meantime;
    - **Objectively defensible position**: Exemption when it can be argued that the taxpayer acted correctly (in light of case law).
- **Corporate income tax**: the **prohibition** to apply **certain tax deductions following a tax audit with a 10% tax increase** will apply in case of **repeated violations only** (and **not** to violations in **good faith** or **administrative omissions**).
- The tax authorities will **automatically assess whether the conditions for the non-application of a sanction** are met (the taxpayer does not need submit a request and arguments);
- The current system of **penalty payments** **(introduced in 2023)** applicable when a taxpayer refuses to collaborate to a tax audit would be replaced by the taxation of a minimum lump-sum taxable income;
- **New (permanent) regularisation regime (DLU/EBA *quinquies*)** for time-barred untaxed income and capital:
    - For time barred **income**: will be subject to their ordinary tax rate **+ 30%;**
    - For time-barred **capital**: **45%** flat rate.

Tax Procedure - Other Measures

- Creation of a new "**taxpayer charter**" to organise the rights of the taxpayers and the relation with the tax authorities;
- **Personal contact details of the tax auditor:** Re-establishing direct contact and dialogue between taxpayers and the tax authorities in the framework of an audit;
- Ensuring the **decisional autonomy of the Ruling Committee**;
- Transformation of the tax conciliation service into a **tax arbitration service:**
    - Only accessible following the end of the administrative procedure;
    - Independent and impartial arbitrator;
    - Cost of tax arbitration on the losing party.
- Introduction of a legal framework on the **use of evidence illegally obtained** by the tax authorities ("**Antigone doctrine**");
- Faster publication of administrative circulars and commentaries;
- Commitment from the Government not to implement retroactive tax rules.



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