COMPETITIVENESS 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

**Nominal and effective tax rate**

<table>
<thead>
<tr>
<th>Country</th>
<th>Nominal</th>
<th>Effective</th>
</tr>
</thead>
<tbody>
<tr>
<td>Belgium</td>
<td>40%</td>
<td>25%</td>
</tr>
<tr>
<td>France</td>
<td>35%</td>
<td>20%</td>
</tr>
<tr>
<td>Germany</td>
<td>30%</td>
<td>15%</td>
</tr>
<tr>
<td>Netherlands</td>
<td>25%</td>
<td>10%</td>
</tr>
<tr>
<td>Luxembourg</td>
<td>20%</td>
<td>5%</td>
</tr>
<tr>
<td>Eurozone</td>
<td>15%</td>
<td>0%</td>
</tr>
<tr>
<td>EU 28</td>
<td>10%</td>
<td>0%</td>
</tr>
</tbody>
</table>
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..
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..

Average Tax rate 2017-2018

Average tax rate

Net taxable profits

THE CIT REFORM
LOWER RATES..
New incentives
- Temporary 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 changed from an 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 against the debt-Equity bias,
  - no windfall gain any more
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 recommendations

- 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 enterprises: 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