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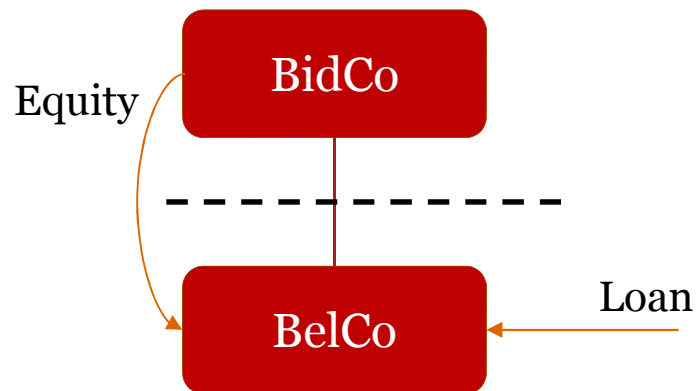
Doing business in Belgium

Belgian tax highlights
6 December 2016

Key features of the Belgian tax regime

33.99% CIT rate	Investment via company or branch	Low set-up costs	Flexible financing regime
Various R&D incentives	Broad WHT exemptions	Tax shift reducing the cost of labor	No CFC regime
TP Documentation (BEPS Action 13)	Notional interest deduction	Wide treaty network & access to EU Directives	VAT unity / various VAT & customs deferrals
Expatriate regime	Belgium – Turkey Tax Treaty	Knowledgeable ruling/APA practice	Reform of CIT regime announced

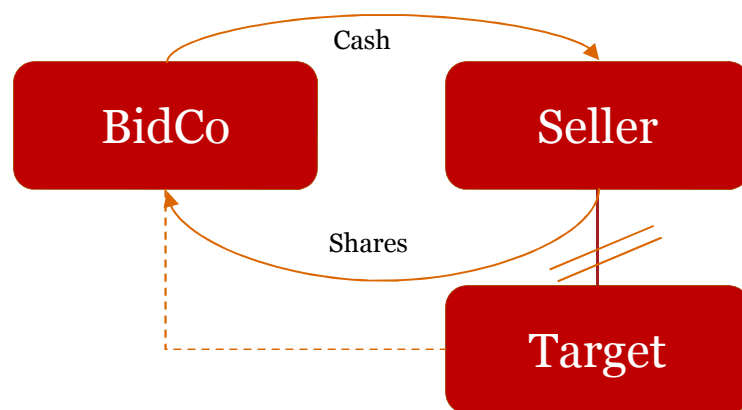
Doing deals in Belgium



- Structured and professional sales process
- Shareholder-friendly tax regime:
 - No stamp duties upon acquisition
 - WHT exemption on dividend distributions from BelCo to EU and DTT countries (conditions)
 - No Belgian capital gains tax when selling BelCo
- BelCo:
 - Flexible additional financing: limitation of 5/1 debt-equity only for group financing
 - Broad WHT exemptions for interest and royalty payments by BelCo
 - Notional interest deduction
 - Double Tax Treaty btwn Belgium & Turkey
 - R&D Incentives

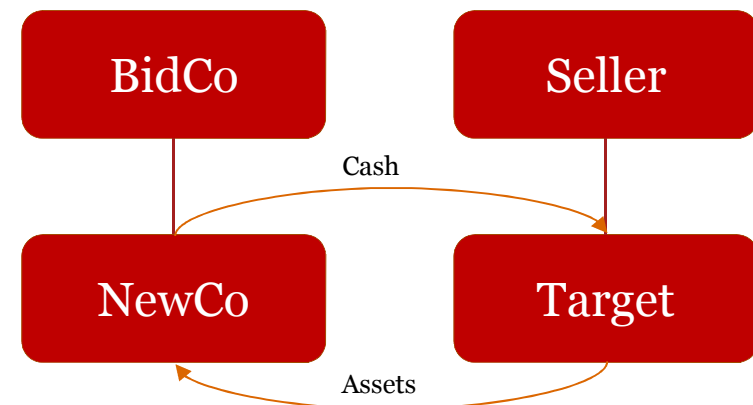
Doing deals in Belgium – share deal vs asset deal

Share deal



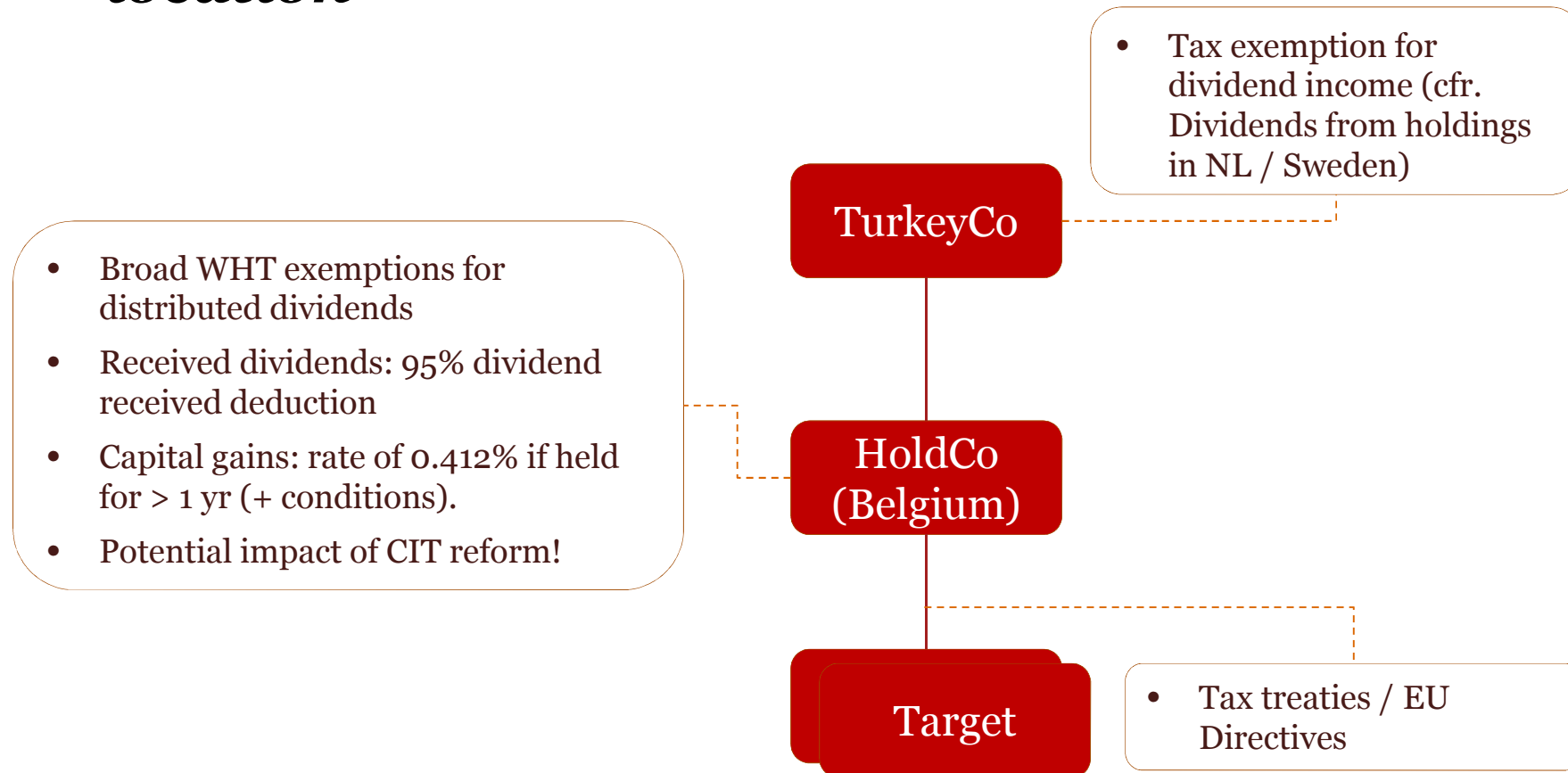
- Take-over of entire company incl. historic risks
 - Risk-focused due diligence and SPA wording are crucial!
- No step-up
- Usually tax-free capital gain for Seller
- Financing at BidCo level

Asset deal

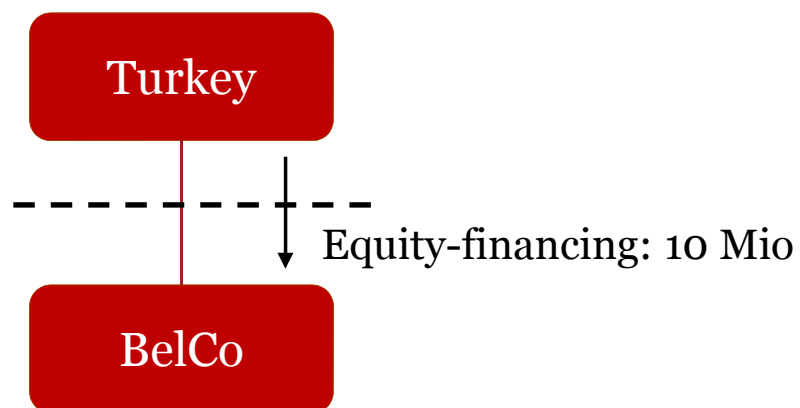


- Take-over of specific assets
- No transfer of historic risks if properly structured
- Stepped-up amortization basis for NewCo
- Usually taxable transaction for Target (use of tax attributes, such as NOLs)
- Financing at NewCo level

Doing deals in Belgium – Belgium as holding location



Notional interest deduction: how does it work?

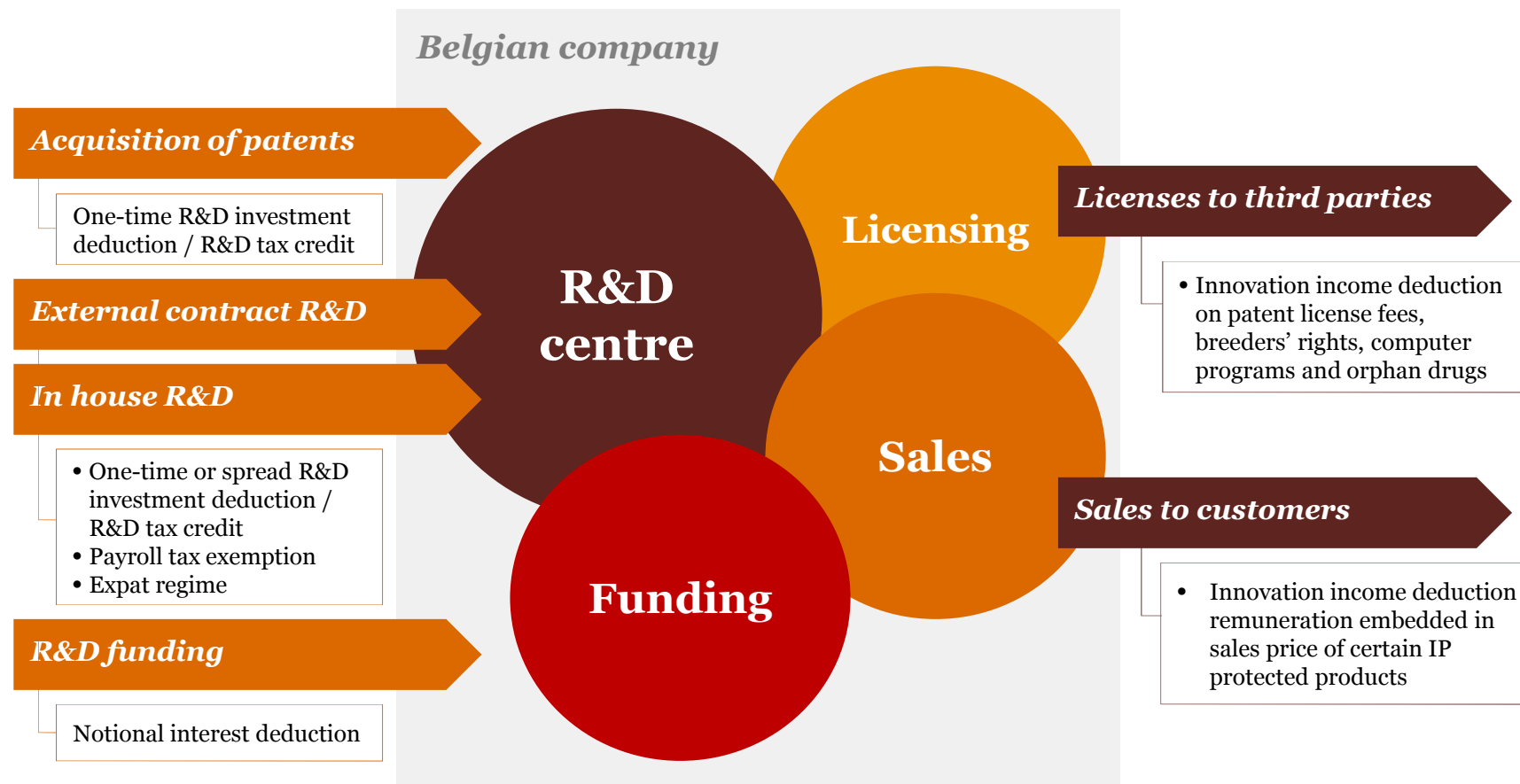


Assets		Liabilities	
Various	10 Mio	Equity	10 Mio

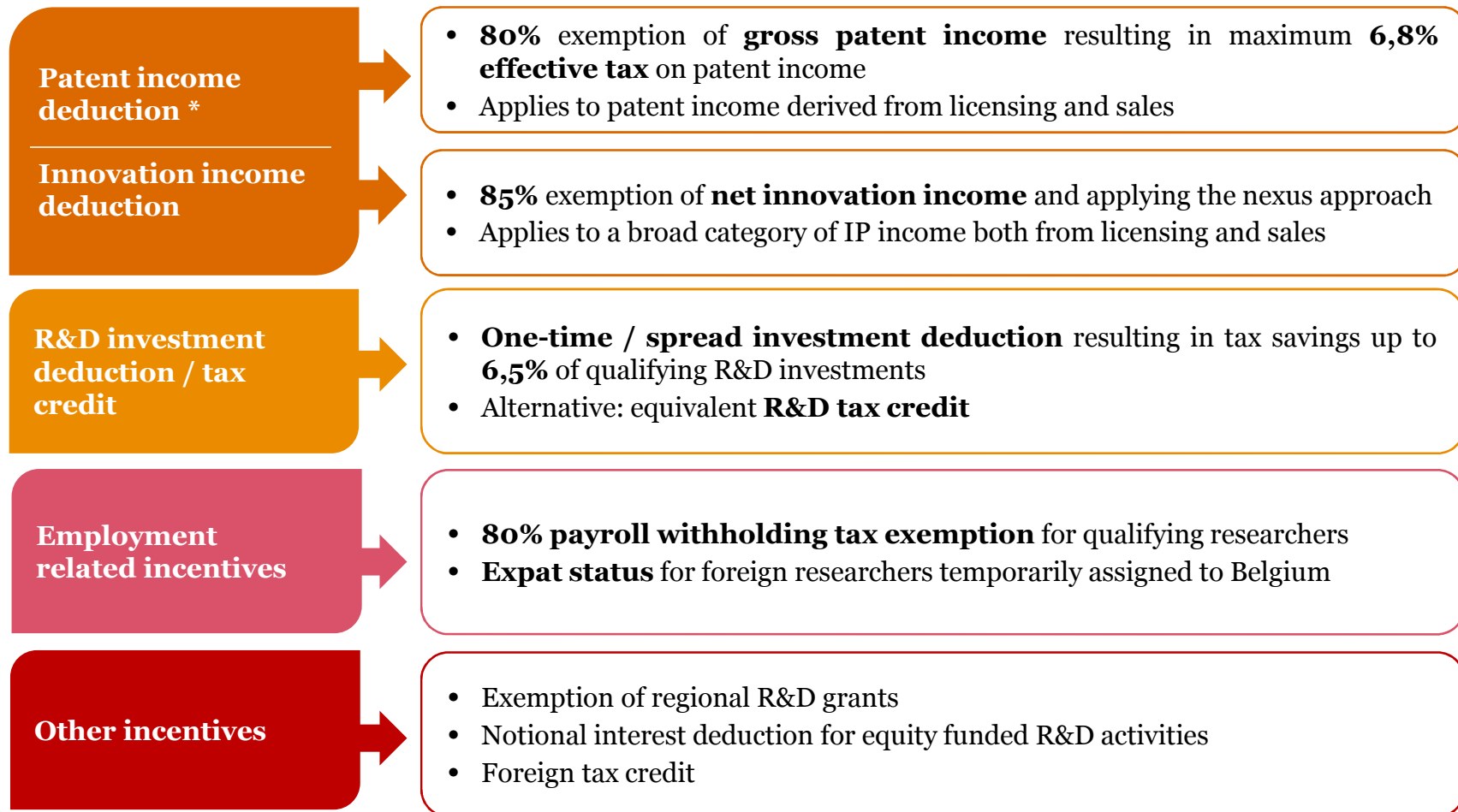
- Deemed interest deduction on invested equity
- Available to all companies and branches
- NID rate fixed annually (max. 3%)
- Automatic application - No need for a ruling

RoE (4%)	400k
Minus: notional interest deduction (@ 1.13% for FY16)	(113k)
CIT basis	287k
CIT (@33.99%)	97k
ETR	24.25%

R&D in Belgium



R&D in Belgium – Tax measures



* Abolished as from 1/7/2016 but transition period applies. IID to apply as from 1/7/2016

R&D in Belgium – Innovation income deduction

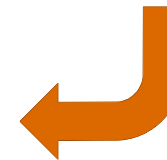
- *Abolition of the current PID system as of 1 July 2016*
- *Transitional regime allows taxpayers to still apply the PID system on patent income obtained until 30 June 2021 for patents requested or acquired before 1 July 2016*
- Replacement by the Innovation Income Deduction as from 1 July 2016
 - **85% deduction on net innovation income after application of modified nexus limitation**
 - Broader scope of qualifying IP:
 - including IP of copyrighted software as from 1 July 2016
 - Income may include capital gains on qualifying innovation intangibles (reinvestment condition)
 - Broadening of timing effect

R&D in Belgium – Innovation income deduction

- BEPS Action Plan 5: Modified nexus approach:

$$\frac{\text{Qualifying expenditure incurred to develop IP asset}}{\text{Overall expenditures incurred to develop IP asset}} \times \text{Overall income from IP asset} = \text{Income receiving tax benefits}$$

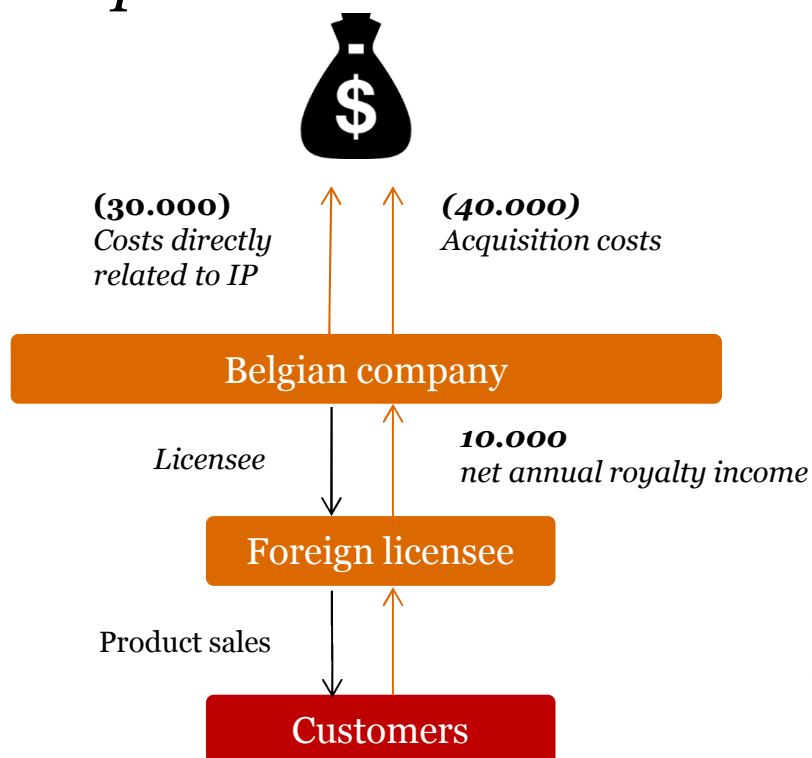
85% of the resulting net innovation income can be deducted from the tax base.



- **Qualifying expenditure (over the lifetime of the IP):**
 - Expenditure directly connected to the IP-asset incurred by the company itself or the compensation for the expenses of non-related companies of outsourced R&D activities
 - Uplift of max. 30%
- **Overall expenditure (over the lifetime of the IP):**
 - Qualifying expenditure + expenditure for related party outsourcing and acquisition costs for the qualifying intangibles

R&D in Belgium – Innovation income deduction

Example



Calculation of basis for IID in the hands of the Belgian company

1. Qualifying expenditure + uplift

Qualifying expenditure	30.000
+ 30% uplift	9.000
	<u>39.000</u>

2. Overall expenditure

Qualifying expenditure	30.000
+ expenditure for related party outsourcing	0
+ acquisition costs	40.000
	<u>70.000</u>

3. Overall income from the IP asset

Net annual royalty income	10.000
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4. Innovation income deduction

$$\frac{39.000}{70.000} \times 10.000 \times 85\% = 4.736 \text{ (ETR of 18\%)}$$

Innovation income: **(10.000)**
 Qualifying expenditure: **(30.000)**
 Overall expenditure: **(70.000)**

R&D in Belgium – Investment deduction

One-off investment deduction

- The one-time investment deduction is equal to **13,5% of the acquisition value** of qualifying R&D investments .

Spread investment deduction

- The spread investment deduction is equal to **20,5% of the depreciation** on qualifying R&D investments.

Qualifying R&D investments

- Tangible and intangible fixed assets used in the company's R&D centre, such as equipment, buildings and capitalized R&D expenses.
- Acquired patents (only one-off) investment deduction.

Other

- Requirement of an R&D Centre
- Special rates and categories apply for SMEs
- Can be converted into a tax credit
- Can be combined with Innovation Income Deduction

R&D in Belgium – Employment cost reduction




Partial exemption of wage WHT

- For researchers who are holding a qualifying degree and who are engaged in R&D activities, **80% of the payroll tax** can be retained by the company and should not be remitted to the Belgian treasury. This results in a **significant cash tax saving**.
- Can be partial
- Formalities to be fulfilled

Expat status for researchers

- Foreign researchers temporarily assigned to Belgium can benefit from the special expat regime.
- Conditions apply.
- Taxation is limited to Belgian-source income. Furthermore, tax free expat allowances and a travel exclusion apply.

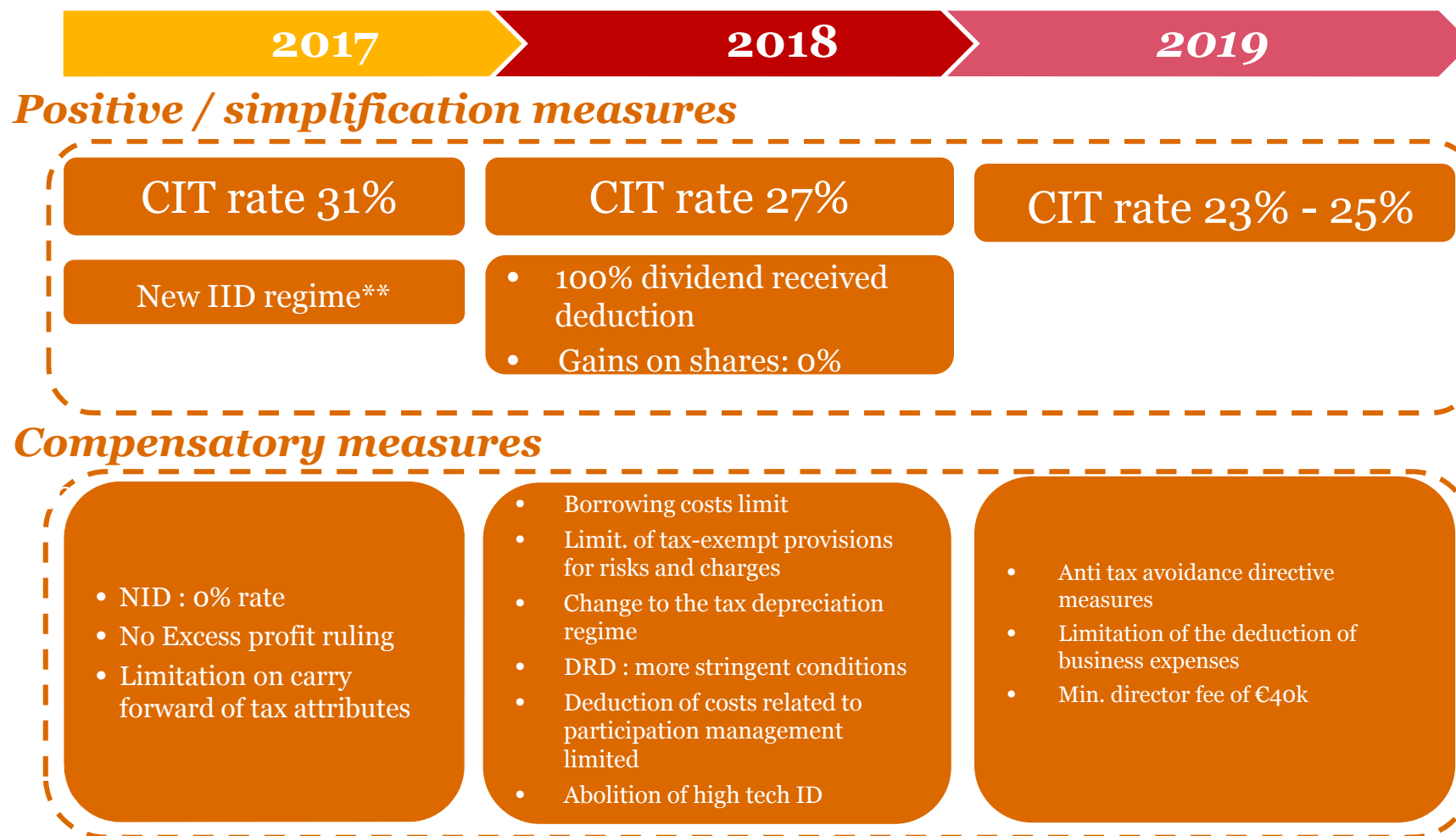
R&D in Belgium – Belgium vs NL vs Germany

	 Belgium	 The Netherlands	 Germany
New Patent Box regimes	<ul style="list-style-type: none"> • “Innovation Income Deduction” • Qualifying IP: Patents, supplementary patent certificates; breeders’ rights, orphan rights and copyrighted software • Qualifying income: Net income multiplied by 85% (resulting in 5% ETR) • Modified nexus approach • Grandfathering 	<ul style="list-style-type: none"> • “Innovation box” • Qualifying IP: Patents, utility models, breeders’ rights, orphan drug and supplementary protection certificate, software or other assets that are not common and/or novelty items. • Qualifying income: Net income subject to 5% ETR • Modified nexus approach • Grandfathering 	No intention to introduce a patent box regime
Investment deduction regimes	<ul style="list-style-type: none"> • One-time: 13,5% of the acquisition value. • Spread: 20,5% of the depreciation on qualifying R&D investments. • Alternative: R&D tax credit with an equivalent tax advantage 	<ul style="list-style-type: none"> • <u>As from 2016:</u> WBSO (= previous RDA and WBSO): R&D withholding tax credit (‘WBSO’): 32% (expenses up to EUR 350k) and 16% for remaining expenses. 	N/A
Wage tax incentives	80% Payroll tax exemption for researchers	<ul style="list-style-type: none"> • <u>As from 2016:</u> WBSO (= previous RDA and WBSO) 	N/A

Other items to keep in mind

- Tax Shift:
 - reduction of employer social security tax contributions to 25%
 - Specific exemptions of social security tax contributions
- Increased spread investment deduction for high-tech products
- CIT reform announced

Potential CIT reform in Belgium *



* Under political negotiation – subject to change

**Already as from 1/7/2016

Thank you!



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Appendix

The Belgian ruling / APA practice

Personal tax & social security tax: Expat regime and 2016 update

VAT / Customs in a nutshell

Useful links

The Belgian ruling / APA practice

Principle

- Upfront agreement with the tax authorities
- Confirmation of application of the tax laws to a particular situation
- Legally binding for the Belgian tax authorities
- Possibility of a pre-filing meeting

Examples

- Transfer pricing
- Taxable presence
- Financing
- Restructuring
- R&D incentives
- Withholding tax
- VAT unity
- Customs
- ...

Personal tax: The expat regime

Main features:

- Non-resident taxation
- Tax free allowances
 - Limited allowances (EUR 11.250 standard limit)
 - Unlimited allowances (e.g. schooling)
- Foreign business travel exclusion

Scope

- Non-Belgian nationals
- Who exercises activities which are those of an executive or which require a special knowledge and responsibility
- And who works temporarily in Belgium

Example

	<u>Expat</u>	<u>Belgian</u>
Gross Salary	40.000	40.000
Tax free Allowances	-10.355	N/A
Social security	<u>-3.706</u>	<u>-5.202</u>
Subtotal	25.939	34.798
Travel exclusion(10%)	<u>-2.594</u>	N/A
Taxable income	23.345	34.798
Belgian income taxes	<u>-4.422</u>	-9.780
Special social security	- 77	-346
Net remuneration	31.795	24.672

Personal tax & social security: 2016 update

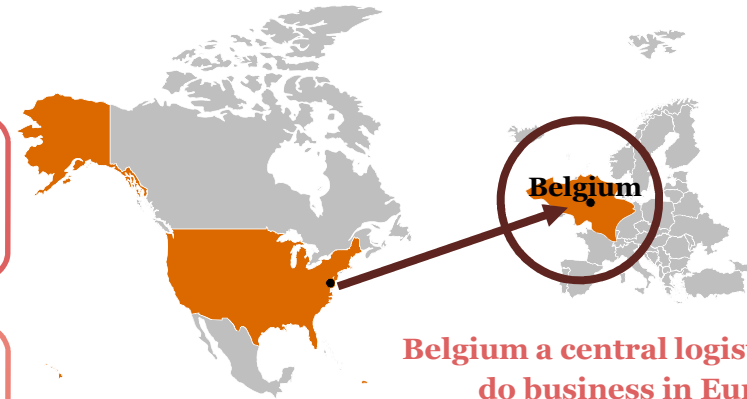
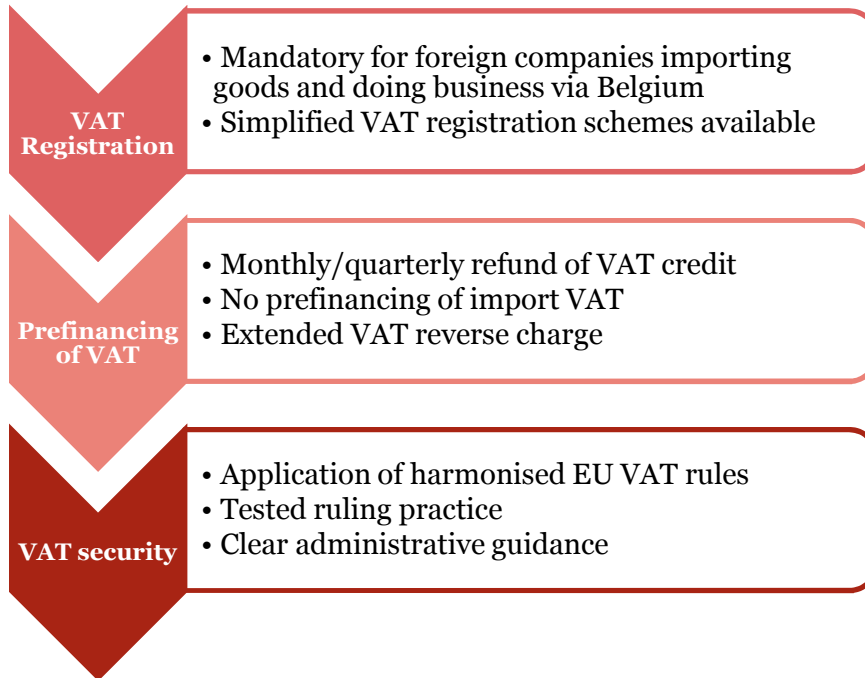
Personal tax

- A. Expat regime (reduced wage cost) for certain foreign executives or researchers
- B. R&D: partial exemption from payment of wage tax for researchers
- C. Increase of the tax free bracket, of the employment bonus and of the professional costs lump sum deduction : decrease of the tax burden for individuals
- D. New progressive tax brackets : tax bracket of 30% has been narrowed in favour of the 25% bracket. marginal tax rate reached as of EUR 38.080
- E. Dividends are (under conditions) taxed at 15% or 20% (instead of 27%)
- F. Author rights are taxed at 15% (instead of 27%)
- G. Income generated by saving accounts are taxed at 15% (instead of 27%)
- H. Upcoming changes : as of 01/01/2017 => general increase of the withholding taxes on movable income from 27% to 30%

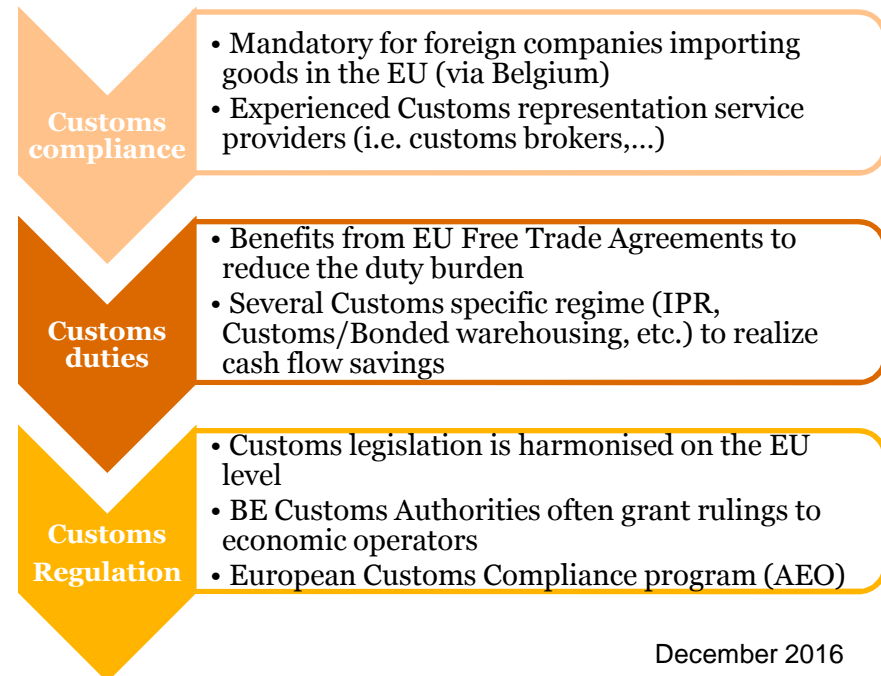
Social security updates

- A. Employer social security contributions will decrease from 35% to 25% (progressive decrease as of 2016). Currently the employer social security contributions have decreased to 30%.
- B. Exoneration of social security contributions for the first employee of a new employer (under some conditions) and advantageous rates for the 2nd - 6th employees (final regime foreseen in 2020)
- C. Decrease of the social security contributions for self-employed persons (progressive decrease as of 2016)

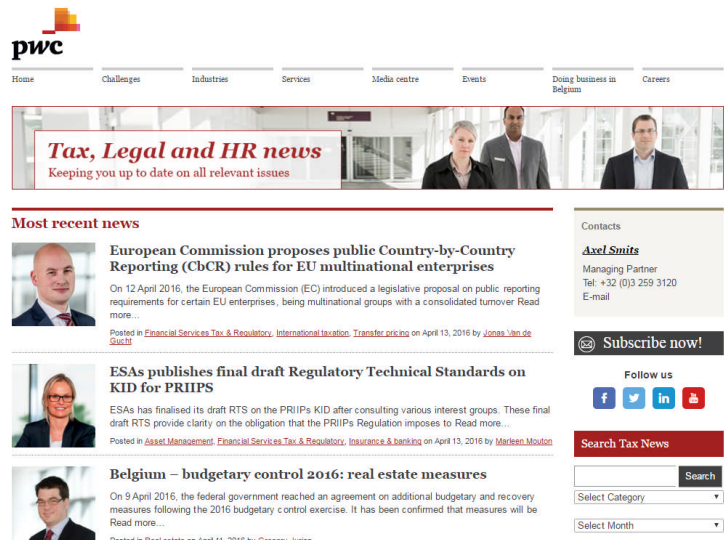
VAT/Customs in a nutshell



Belgium a central logistic hub to do business in Europe



Useful links



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