



# Business Memo from Belgium

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## Corporations in Belgium To Benefit from New Tax Deduction for Risk Capital (Notional Interest Deduction)

Recent studies have shown that Belgium has become one of the most profitable countries for US companies to do business in the world. US tax magazines (like *Tax Notes*) pointed out that, in the period from 1999 to 2002, the effective tax rate for US companies in Belgium decreased to 12%, while US profits in Belgium increased by 84%.

Dedicated to reinforcing opportunities for local and international investors, Belgium significantly reduced its corporate tax rate in 2003. In the same spirit, the Belgian Parliament adopted on June 2, 2005 a new tax law to provide Belgian companies and Belgian branches of foreign companies a tax deduction based on their equity as of January 1, 2006.

### **What Is It?**

Under the so-called 'notional interest deduction', a new and innovative measure in international tax law, all companies subject to Belgian corporate tax will be able to deduct from their taxable income an amount equal to the interest they would have paid on their capital in the case of long-term debt financing.

At the same time, the 0.5% registration duty on capital contributions will be abolished.

The notional interest deduction will enter into force as from assessment year 2007 (this means, for companies that keep their books on a calendar year basis, as from 1 January 2006). The equity capital on 31 December 2005 will, in principle, serve as the basis for the calculation of the first deduction.

### **Objectives**

The new rules are intended to ensure equal treatment of loan and equity capital. They will have the following positive effects:

1. A general reduction of the effective corporate tax rate for all companies, and a higher after-tax return on investment.
2. Encouragement of capital intensive investments in Belgium, and an incentive for multinationals to examine the possibility of allocating such activities as intra group financing, central procurement and factoring, to a Belgian group entity.
3. Continuing opportunities for tax-efficient, equity-funded, inter-company financing from Belgian companies, such as the Belgian Coordination Centers (BCC) already present in the country.

### **How Does it Work?**

- The calculation of the tax deduction will begin with the 'equity capital' as stated in the company's opening balance sheet for the taxable period.
- Based on Belgian accounting law, 'equity capital' includes capital, share premiums, revaluation gains, reserves, carry-forward of profits or losses and capital investment subsidies.
- Increases or decreases of the capital during the taxable period will be taken into account on a pro rata basis.

### *(Notional Interest-Continued)*

- The equity capital will be adjusted by eliminating, among others, the following items:
  - The net book value of the shares the company holds in its own share capital;
  - Shareholdings recorded as financial fixed assets;
  - The net book value of real estate (or entitlements in real estate), or assets of permanent establishments, the income of which would be tax-exempt in Belgium based on double taxation treaties;
  - Capital grants (subsidies)
- The notional interest rate will be set each year and will follow the average annual 10-year government bond rate. Currently, that rate is around 3.5%. The law sets a maximum deviation of 1% from one year to the next and a maximum percentage of 6.5%. The government may change these percentages by Royal Decree.
- Small- and medium-sized companies may in some cases apply a 0.5% higher deduction rate.
- To the extent that the interest deduction does not have a direct tax effect (e.g. in loss situations), the interest deduction can be carried forward for the next seven years.
- To benefit from the notional interest deduction, the company will need to record an amount equal to the deduction in a separate account on the liabilities' side of the balance sheet and keep it there for a period of three years following the taxable period during which the deduction was claimed.

### **Legal Certainty for Investors**

The notional interest deduction does not discriminate between companies and complies fully with existing Belgian and EU law. Discussions with EU authorities have taken place and the measure is compatible with EU State Aid rules and the Code of Conduct.

## ***US Investments in Belgium***

### **Internet Security**

**SonicWall**, a Californian designer, developer and manufacturer of Internet security solutions, has opened a new office in Mechelen, Flanders, as a bridge between its operations in Europe, the Middle East and Africa (EMEA), and in the United States. The purpose of the new office is to bring business partners together as well as to provide a training base.

### **IT Management**

California-based **Niku Corporation**, a global leader in IT Management and Governance (IT-MG) solutions, has announced a new Brussels office. The office will serve customers and partners throughout the Benelux region.

### **Automotive**

**Ford** is to produce its new 'cross-over' model at its Flanders plant in Genk beginning next year. Production will go hand-in-hand with that of the Ford Galaxy and in 2007, the new Mondeo will also start rolling out of the plant. The company expects its current production of 200,000 vehicles a year at Genk to increase, as will the labor force. A 715 million euro investment is currently in progress.

### **Flooring**

**Mohawk Industries Inc.**, the US carpet and tile maker, has agreed to buy the Unilin Group. Unilin, the maker of Quick Step laminate flooring, employs more than 2,400 people in Belgium, France, the Netherlands and the US.

### **Household Products**

**Tupperware** will invest \$19.53 million in the construction of a new production plant in Aalst. The new facility, scheduled to be opened in 2007, will take over the operations of Tupperware's current plant, which was the company's first in Europe. Tupperware also built a distribution center in Aalst in 1995.

### **Internet Technology**

**Google** has decided to open an office in Brussels. Previously Google activities in Belgium were led from the Benelux office in Amsterdam.

## Science and Technology

### VIB Research on Alzheimer's Disease Receives Bristol-Myers Squibb Foundation Award

Dr. Bart De Strooper, a leading scientist of the Flanders Institute for Biotechnology (VIB) has received a 'Bristol-Myers Squibb Freedom to Discover Unrestricted Biomedical Research Grant in Neuroscience' of \$ 500,000 for his team's innovative research on Alzheimer's disease.

The Bristol-Myers Squibb Foundation awards such research grants to support innovative basic research by researchers in internationally renowned research institutions.

Robert Zaczek, group director of 'Neuroscience Biology' at the Bristol-Myers Squibb Pharmaceutical Research Institute, said upon the presentation of the award in Ghent that Dr. De Strooper's work over a decade had resulted in new insights crucial to efforts to discover new therapies that may eventually help treat Alzheimer's disease. (www.vib.be)

### US Companies Most Important Employer in Belgian Technology Sectors

US companies have overtaken Belgian companies as the dominant employer in the Belgian technology sectors, a new analysis by the Belgian sector federation Agoria reveals. Together they provide more than a quarter of all jobs (27.7%) in the technology sector, which includes the automotive sector, ICT, mechanics, metal products, and artificial fabrics. Overall, foreign companies provide almost 75% of all technology jobs. (www.agoria.be)

### UCB And Imclone Systems To Develop Antibody Against Tumors

Belgium's UCB and ImClone Systems Inc. have entered into a worldwide strategic partnership for the development and commercialization of CDP-791, a novel antibody against the growth of cancer cells. CDP-791 completed a first phase of testing earlier in 2005 in patients with refractory solid tumors. The study results showed that the antibody was well tolerated and met its safety goals at all dose levels. More studies are scheduled in the coming weeks.

UCB and ImClone Systems will share equally all agreed upon development costs for CDP-791 as well as worldwide profits (www.ucb-group.com)

### Human Embryo Cloned From Immature Eggs at University of Ghent

Researchers at the University of Ghent have managed to make the beginnings of a cloned human embryo using immature eggs incubated in the lab. If the technique can be perfected, they say it could provide a larger, more acceptable source of stem cells.

As reported in *Nature*, the cloned embryo cells have not yet developed enough to serve as a source of stem cells. But the researchers are convinced they can achieve this step within a few months.

At the moment, biologists rely on mature eggs when attempting to clone human embryos. These are often obtained from IVF clinics, where women may choose to donate some eggs for research. But since the majority of mature eggs are wanted for the IVF procedure, donation is relatively rare. However, up to 15 percent of eggs retrieved from women for infertility treatment are unripe and not used. If those can be used for cloning, the egg supply problem may be significantly eased. (www.nature.com)

### Flemish Government Streamlines Support Services for Businesses

The Flemish Government has taken a number of steps to streamline services to businesses in Flanders. On July 1, Export Vlaanderen, the foreign trade division of the Flemish Government, and the Flanders Foreign Investment Office (FFIO), the direct investment department, were brought together into a new agency, *Flanders Investment & Trade (FIT)*.

FIT brings together the knowledge bases and expertise of both previous agencies to provide tailor-made services to businesses. A new logo and a new look will accompany the merger, along with new e-mail addresses and a new portal site (www.fitagency.be), leading to the websites of both the export and the foreign investment agencies.

The Government is also planning the launch of a single department to deal with all matters relating to businesses, ranging from environmental and planning permissions to energy and subsidies, and business and export advice. The new department, VLAO, will serve as a single point of contact for all questions, information, and applications. It is expected to be launched on January 1, 2006.

## Kafka Helps Belgium

Most of us are all too familiar with complicated or just plain absurd regulations that sometimes make life miserable. The Belgian government, however, has been actively working at reducing this type of regulation. For two years a web site called Kafka ([www.kafka.be](http://www.kafka.be)) has encouraged individuals and businesses to come up with examples of needless rules and regulations. It was named after Franz Kafka, the late Czech-German author who hated irrational authority.

Belgian officials have said that the site has already resulted in \$281 million over two years. Thanks to Kafka, Belgians will for example be able to validate a new driver's license by the end of the year without a fiscal stamp, a form of administrative fee which could only be purchased at post offices.

## International Rankings

- World Bank figures released show that **Belgium remained the world's 18th largest economy in 2004**. The USA led the rankings, while India entered the Top 10 for the first time.
- **Six Belgian companies were listed in the 2005 Financial Times Global 500**, which ranks the 500 largest companies worldwide based on their market capitalization. Banking and insurance company Fortis was listed as no. 143 with a market value of \$37.1 billion, a jump of 37 places.

The financial KBC group jumped from 307 to 176. Other Belgian companies listed were Dexia, Electrabel, Inbev, and newcomer Belgacom.

Can't get enough of Business Memo? Earlier editions are available online, at [www.diplobel.us](http://www.diplobel.us).

The Embassy's website also lists other Investment Office publications, such as

- \*Fact Sheets about various aspects of the Belgian economy
- \*Setting Up in Belgium: a pocket guide for the business executive.
- \*Corporate Directory: an overview of the Belgian corporate presence in the US
- \*CD-ROM: Belgium: Gateway to Europe, with testimonials by US business executives

Hard copies of all publications are available from Bart Deelen, Business Development Manager, at [bart.deelen@diplobel.org](mailto:bart.deelen@diplobel.org)

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