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# Update on the proposed Income Tax Reform in Belgium

**by An De Reymaeker-Tax Lawyer Vandendijk & Partners**

Especially after the Covid-19 crisis our extremely high labor cost will be a huge obstacle not only for attracting new investments but also to keep the right talent working in Belgium. Reducing the cost of labor should therefore be a key objective for the economic recovery.

If we compare Belgium to other neighboring countries like for example The Netherlands and Luxemburg, it is the unlimited social security contributions which are due by an employer in Belgium and the high individual tax rates of 50% (+ municipal tax) as of a taxable income of 41.360 euro (2021), which creates a significant cost disadvantage for Belgian companies.

The last OECD 2021 report on "Tax wedges in the OECD in the context of covid 19", confirms that Belgium has the highest tax wedge (51.5%) of all OECD countries. (The average tax wedge measures that part of labor cost which is taken in tax and social security contributions.)

**If Belgium wants to remain attractive for key global talent, the labor cost for employers needs to be reduced to make sure that Belgium remains competitive in comparison with other countries.**

The individual tax reform which has been announced by our government is necessary, but we would like to underline already **our concern about the eventual abolishing of certain exceptional regimes for cash**, which could lead to a higher labor cost in certain cases for employers. If certain benefits in kind, which are actually calculated on a lump sum basis (which is actually the case for example for Stock Options on the basis of the Law of March 26 1999, for electricity bills paid by the employer or the benefit in kind for cars) would be abolished and become taxable on the real value this would lead to a direct tax increase, which we suppose cannot be the purpose of the tax reform!

The July 2021 report of the High Council of Finance with regard to the announced tax reform, stated in his introduction that "*The fiscal and parafiscal burden on labor way is way too high in our country. The additional budgetary revenue resulting from certain tax measures (the elimination of some exceptional regimes) should primarily be used to reduce the burden on labor.*"

We agree that our individual tax system is too complex and that we need a fair and more simple system based on legal certainty. However, we need to see this also in a more European and international context, and therefore we need to also take into account the very high labor cost in Belgium.

Our Minister of Finance just announced this weekend a reduction of labor cost for employees. However the abolition of the special social security contribution (which is maximum 731,28 euro/year (2021)) will not be enough to make salaries more attractive in Belgium in comparison to some other neighboring countries.

Therefore we need also to revise the progressivity of the individual tax rates, as the highest individual tax rate of 50% is already applicable as of a taxable income of 41.360 euro. If we compare this to our neighboring countries (NL 49,50% as of 68.508 euro, France 45% as of 158.123 euro, Luxemburg 42% as of 200.004 euro and Germany 45% as of 274.613 euro) Belgium is the only country which taxes professional income at 50% as of a taxable income of 41.360 euro.

**Conclusion :**

**Labor cost needs to be reduced in Belgium in order to allow Belgian companies to be more competitive with other countries. It is important that the tax reform will take this into account. This will enable us to attract more investors to Belgium and create more jobs in Belgium.**

Do not hesitate to contact us if you would have any questions with regard to the announced income tax reform. Our office is following this up very closely.

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