

HOME IS WHERE THE SUPPORT IS

How to utilize tax incentives and
government grants for international
business success in Flanders



Flanders
State of the Art

CONTENT

01 / A BIRD'S-EYE VIEW OF TAX INCENTIVES

The 2017 tax reform in 6 takeaways	4
Corporate tax rate deductions	6
Transparent ruling practice	8
Dividend withholding tax exemptions	8
Fiscal consolidation	8
Tax incentives for foreign executives	10
Partial exemptions from withholding tax	10
Working at night, in shifts or in a continuous regime	10
Investments in economic support areas	10

02 / AN R&D-FRIENDLY TAX SYSTEM

Innovation income deduction	12
Payroll tax incentive for R&D personnel	14
R&D investment deductions	14
Fiscal exemption of regional subsidies	16

03 / FINANCIAL SUPPORT

Grants for strategic transformations	18
Grants for ecological investments	22
Support for R&D projects	24
Support for SMEs	26
Support through PMV	28

04 / CUTTING LABOR COSTS

Labor costs – the bigger picture	28
Specific local law provisions	30
Employment incentives	30

05 / INNOVATION CLUSTERS IN FLANDERS

PAGE 36

06 / CONTACT DETAILS

PAGE 40

MAKE YOURSELF AT HOME

Thousands of foreign companies like yours are reaping the rewards of Flanders' business environment. Think of the region's proximity to key European markets, its excellent logistics network, its productive and multilingual workforce, its business-oriented legal framework, its renowned and collaborative knowledge and research centers, and much, much more...

To help you make the most out of these and other assets, Flanders Investment & Trade (FIT) provides you with the latest insights in available government grants, tax incentives and advantageous cluster policies. More than just making you feel welcome in Flanders, our goal is to make you feel at home in our region for many years to come. We therefore compiled this brochure to give you a practical overview of the main governmental instruments, measures and advantages for which your company may be eligible.

This brochure, however, is only the tip of the proverbial iceberg! Flanders Investment & Trade can do much more for you. From tailored international benchmarks and business propositions to market studies and access to a far-reaching network of structural partners: you name it, we provide it. And by going the extra mile, we seek to ensure that Flanders remains the place to be for your international business success.

01

A BIRD'S-EYE VIEW OF TAX INCENTIVES

Flanders offers access to highly competitive tax incentives. From the notional interest deduction (NID) to targeted deductions for foreign firms, executives and specific business activities: here's a general overview of the most prominent must-know measures and benefits.

THE 2017 TAX REFORM IN 6 TAKEAWAYS

In the summer of 2017, the federal government reached an agreement on key socio-economic reforms that impact businesses in Belgium and Flanders. The resulting corporate tax reform is being implemented in phases between 2018 and 2020. Featured below are the main takeaways.

1. Reduced corporate tax rate

In Belgium and Flanders, the standard **nominal corporate tax rate for 2018 and 2019 is set at 29.58%** (previously 33.90%). In 2020, it will be lowered to **25%**. For SMEs, a reduced rate of 20.40% will be applicable with respect to the first EUR 100,000 earned. Any taxable income exceeding this amount will be subject to the standard corporate tax rate.

2. Tax exemption for dividends

The dividends that companies based in Flanders receive from their subsidiaries will be 100% exempt from taxation (instead of the previous 95%). As a result, it becomes even more attractive to repatriate profits from abroad to the region of Flanders – for both foreign businesses deciding to establish a local holding and multinationals and family businesses operating a local base or HQ.

3. Possibility to deduct losses sustained by subsidiaries or branches

As of 2019, corporate groups will **be allowed to aggregate gains and losses from their various Belgian subsidiaries or branches**. As a result, they only need to pay taxes on the total amount of profit. This means that a company will no longer be taxed if it generates a relatively small amount of profit while operating a subsidiary at a loss.

4. Incremental notional interest deduction (NID)

The notional interest deduction – intended for companies with a great deal of equity capital – will no longer be granted based on the total amount of own funds, but based on the growth of their own capital over the past 5 years.

5. Wage withholding tax exemption for researchers

The wage withholding tax exemption for scientific research personnel (80% for holders of a master's degree) is extended to include holders of a bachelor's degree. The exemption is applicable for up to 40% of this wage withholding tax from 1 January 2018, and for up to 80% from 1 January 2020.

6. Minimum tax charge for profits over EUR 1 million

A minimum tax charge is imposed on companies making profits of more than one million euros by limiting the number of corporate tax deduction items ("tax attributes"). Also, a new order of deduction applies. As of 2018, deduction items outside the basket are fully deductible. Deduction items within the basket can be claimed on 70% of profits exceeding the one-million threshold. The remaining 30% of profits are fully taxable at the above new rate.



Central Station - Antwerp

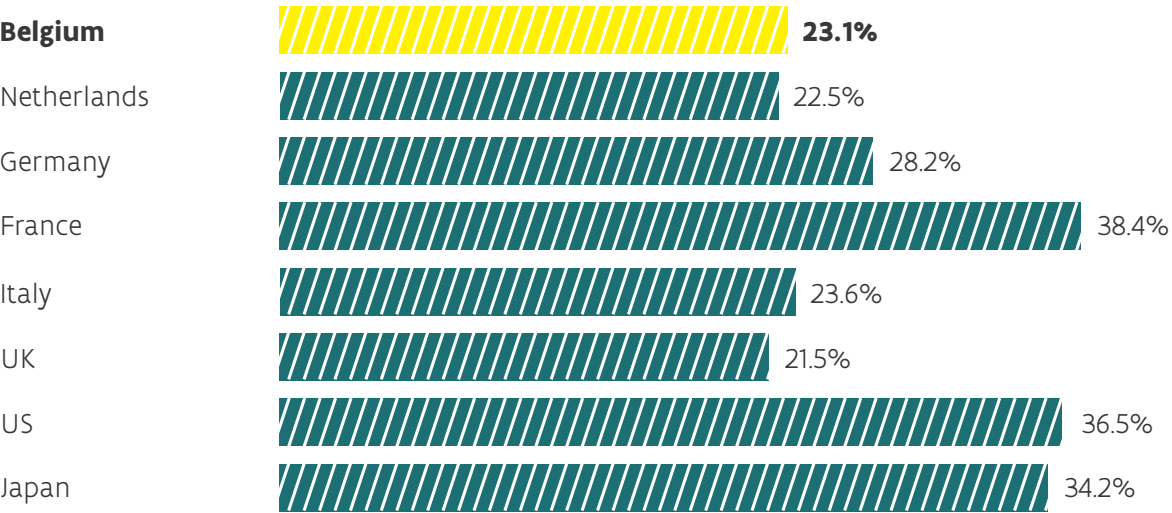
CORPORATE TAX RATE DEDUCTIONS

In 2018, the basic corporate tax rate was lowered in Belgium and Flanders as a region, dropping from 33% to **29%**. Better still, **from 2020 onwards**, companies will only need to pay **25%**.

Year	Rate	Crisis contribution	Total
2017	33%	3%	33.99%
2018/2019	29%	2%	29.58%
2020	25%	0%	25%

Nominal vs. effective tax rate

It's a country's or region's effective tax rate – and not the nominal rate – that drives investment decisions. In that respect, the average spread between nominal and effective tax rate in Belgium is among the widest across the EU (according to ZEW, the Center for European Economic Research in Mannheim, Germany). As the nominal corporate tax rate is being lowered in the coming years, this should also result in an even lower effective corporate tax for multinational enterprises in Belgium and Flanders as a region.



Comparing average corporate tax rates (ZEW, figures for 2017)

NOTIONAL INTEREST DEDUCTION FOR RISK CAPITAL

The notional interest deduction (NID) – also referred to as the “deduction for risk capital” – allows your company to deduct a specific percentage of its ‘adjusted’ equity capital from taxable profits. It’s a powerful tool to offset operational or financial income, lowering your effective tax rate in the process. As part of Belgium’s general fiscal reform, this measure will be computed differently from tax year 2019 onwards (financial year 2018). Instead of looking at a company’s full net equity amount, the deduction is now granted based on the average 5-year increase of that net equity or ‘incremental equity’.

In other words, the annual amount of NID that is tax deductible for a given financial year (x) will be 20% of the company’s qualifying net equity for financial year (x) reduced by the corresponding net equity amount of financial year (x-5). Currently, the NID rate amounts to 0.726% for large companies and 1.226% for SMEs. The exact rate is determined on the basis of the linear bonds (OLO) interest.

TRANSPARENT RULING PRACTICE

As part of Belgium's open tax culture, the tax administration determines how tax laws are to be applied on a case-by-case basis following a taxpayer's request. The main advantage of obtaining such a tax ruling?

You obtain certainty on the application of specific incentives or the tax implications of a certain transaction or structure. The Service for Advance Decisions offers a proactive approach in this regard. For example, it's possible to hold informal pre-filing meetings to discuss the potential success of your ruling request. These meetings also enable you to fine-tune and complete the ruling request. Afterwards, a decision is reached within three months, as prescribed by law.

For European distribution centers and headquarters, a cost-plus method is in place for obtaining rulings. The accepted percentage is generally between 3 and 6% of the cost.

DIVIDEND WITHHOLDING TAX EXEMPTIONS

In Belgium, dividend distributions are subject to a withholding tax of 30%, although a reduced rate is possible if certain conditions are met. However, a **full exemption** may be obtained if the dividends are distributed by a Belgian tax-resident company to a recipient firm that:

- ✓ is established in Belgium or another EU member state;
- ✓ has a direct holding of at least 10% in the capital of the distributing company (or EUR 2.5 million book value);
- ✓ maintains this holding for an uninterrupted period of at least one year or commits to holding it for this minimum period;
- ✓ is incorporated in the distributing firm in an appropriate legal form (in a cross-border context).

What's more, Belgium abolished the **dividend withholding tax for dividends paid to corporate shareholders in treaty countries**. Following some minor formalities, this complete exemption can be obtained if the recipient company:







- ✓ holds a participation of at least 10% in the Belgian distributing company for an uninterrupted period of minimum 12 months;
- ✓ is subject to tax in its country of residence;
- ✓ has a legal form similar to the ones listed in the EU Parent-Subsidiary Directive;
- ✓ is based in a country with which Belgium has concluded a double taxation treaty, ensuring sufficient exchange of information. Currently, Belgium has tax treaties with more than 85 countries.

Furthermore, dividends distributed by subsidiaries to their parent companies in Belgium and Flanders are 100% exempt from taxation. As a result, repatriating profits from abroad to Flanders is highly attractive – for both foreign businesses deciding to establish a local holding and multinationals and family businesses operating a local base or headquarters.

FISCAL CONSOLIDATION

In 2019, tax consolidation was introduced for the first time in Belgian income tax history. Consequently, Belgian companies of the same corporate group are able to offset their tax losses against profits of another Belgian affiliated company. In other words, only the consolidated tax base is subject to corporate income tax.

Belgium increasingly attractive for foreign investors

	Corporate tax rate		Dividends received	Fiscal consolidation
Netherlands	21%		100% exempt	yes
→ Belgium	25%		100% exempt	yes
Luxembourg	27.08%		100% exempt	yes
Germany	30-33%		95% exempt	yes
← Belgium	33.99%		95% exempt	no
France	34.43%		95% exempt	yes

TAX INCENTIVES FOR FOREIGN EXECUTIVES

Foreign executives can benefit from a special expatriate tax status when deciding to relocate to Belgium and Flanders to manage a subsidiary or provide specific know-how. As such, these foreign residents maintain their status as non-resident taxpayers in Belgium, meaning that they are only taxable on their Belgian source income, i.e. income attributable to working days spent in Belgium. The portion of the salary attributable to the working days spent elsewhere is exempt from taxation in Belgium. What's more, certain allowances are also tax-free for the expatriate employee and deductible on the part of their employer.

PARTIAL EXEMPTIONS FROM WITHHOLDING TAX

Working at night, in shifts or in a continuous regime

Companies can receive fiscal advantages for employees working in shifts, at night or in a continuous regime. This also applies to agencies that employ workers in companies following such working schedules. Employers are exempted from paying part of the advance tax payment that they've deducted from their employees' wages. This exemption amounts to 22.8% of the total taxable wages, including the bonuses for working in shifts or at night. For continuous work, this exemption amounts to 25% of the total taxable wages, including the bonuses.

Investments in economic support areas

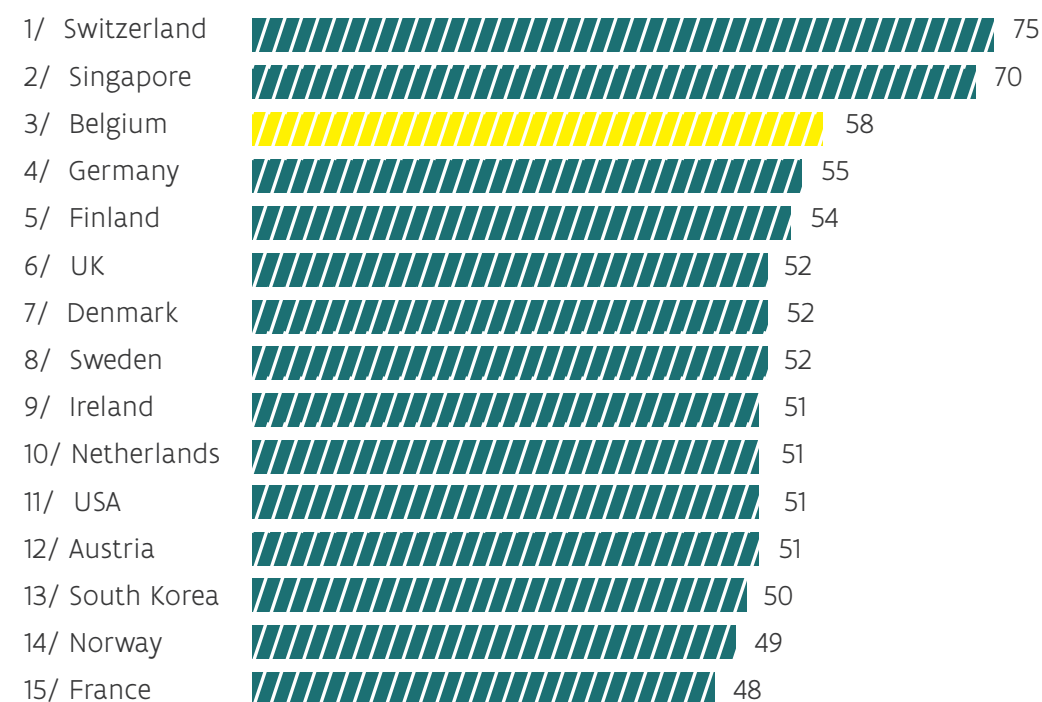
Companies that invest in a so-called 'free zone' receive a salary withholding tax exemption of 25%. This, for a period of two years per additional job created and maintained over a number of years. Currently, Flanders has two free zones, situated around the cities of Genk and Turnhout. These economic support areas cover the region's eastern-most province of Limburg as well as parts of the provinces of Antwerp and Flemish Brabant.

02 AN R&D-FRIENDLY TAX SYSTEM

Flanders is one of Europe's most innovative regions, according to the 2018 Regional Innovation Scoreboard compiled by the European Commission. What's more, according to the 2017 ZEW Global Innovator Index, Belgium and Flanders as a region rank 3rd in the list of most innovative economies worldwide. No wonder that the share of foreign direct investments in Flanders-based R&D activities has risen from 3.82% in 2006 to a whopping 23% in 2018.

Flanders' not-so-secret recipe for innovative success? The presence of state-of-the-art research institutions and universities, bolstered by a highly skilled workforce and world-class education system, is certainly part of the picture... The same goes for the region's competitive R&D tax incentives and dedicated government support and funding.

Flanders is part of the world's 3rd-most innovative economy



Source: ZEW, Global Innovator Index, 2017

INNOVATION INCOME DEDUCTION

To help companies, research centers and other organizations stay ahead of the pack in terms of R&D, Flanders offers access to a fiscal deduction scheme applicable to net earnings from innovation. Basically, under this innovation income deduction, **up to 85% of a company's net earnings from innovation is exempt from corporate taxation**. This results in an effective tax rate of 3.75%. If not used, the deduction is transferable to the next accounting years.

What qualifies as innovation income?

The innovation income deduction is valid for innovation revenues from patents, plant variety rights, orphan drugs, data and/or market exclusivity, and copyrighted computer programs. Compensation payments for the breach or transfer of intellectual property rights may also be included in the scope. In short, the following qualifies as innovation income:

- / arm's-length license fees;
- / embedded royalties (income included in the sales price of innovations whose IP the company owns and whose commercial activity it manages);
- / legal damages received for IP infringements;
- / IP income from process innovation;
- / capital gains (if they relate to one of the qualifying intangibles that were created in the previous taxable period or acquired 24 months in advance).

How to calculate the deduction?

The innovation income deduction applies to net income: the gross IP income minus current-year expenditures for the development of the IP asset. The following elements are included in those expenditures and should be deducted from the gross income:

- a expenses made by the taxpayer (incl. private equity abroad);
- b expenses paid to an unrelated party (outsourcing);
- c expenses paid for acquiring the qualifying IP rights from a third party;
- d expenses paid to a related party with markup.

Once the net income is determined, the following formula is used to calculate the deduction:

$$\begin{aligned} &\text{innovation income deduction} \\ &= \\ &((\text{qualifying expenditures (a + b) x 130\%}) / \text{overall (a+b+c+d) expenditures}) \\ &\quad \times \\ &85\% \times \text{net qualifying income} \end{aligned}$$

Note: the fracture above cannot equal a result higher than 1, as the maximum exemption level amounts to 85% of the net innovation income.

What about the former patent income deduction?

The patent income deduction was abolished on 1 July 2016 but will remain available for a 'grandfathering period' of 5 years. In other words, you may still benefit from the patent income deduction scheme till 30 June 2021. Its scope includes self-developed patents filed before 1 July 2016 and improved patents and patent licenses acquired prior to 1 July 2016.

If you opt for the patent income deduction, you won't be able to apply for the innovation income deduction in relation to the relevant patent for the taxable periods ending before 1 July 2021.



PAYROLL TAX INCENTIVE FOR R&D PERSONNEL

Employers in Belgium and Flanders must pay a wage withholding tax on their employees' remuneration. If, however, you employ scientific researchers in Flanders, you need only pay 20% of this advance tax payment (provided that you deduct 100% of the normally due advance tax payment). In other words, **80% of the advance tax payment on your researchers' wages is exempt** from payment.

On average, this incentive reduces the total payroll cost significantly. (Note: this measure does not have an impact on the fiscal situation of the researchers themselves.)

For which companies and employees?

To be eligible for this cash-in-hand benefit, you must employ researchers and academic staff with a doctorate, master's or bachelor's degree in science who also must be involved in R&D projects. Note that the exemption rate for bachelor's degrees is currently 40% instead of 80%. As of 1 January 2020, the rate will be increased to 80% as well.

- More specifically, this tax incentive is intended for companies that pay salaries to researchers:
- who are working on research projects as part of co-operation agreements with universities or university colleges (established in the European Economic Area) or other recognized scientific institutions;
 - who are employed in R&D programs and own a PhD (in applied science, exact science, medicine, veterinary medicine, pharmaceutical science or civil engineer) or a master's, bachelor's or equal degree in a specific course or combination of courses.

Example: how does the R&D payroll tax incentive work?

	Without tax incentive	With tax incentive
Total cost of personnel	€ 4,375	€ 3,665 (= 16.2% cheaper)
Employer's social security contributions (25% rate)	€ 875	€ 875
R&D payroll tax incentive		€ 710 (i.e. 80% of € 875)
Researcher's gross salary	€ 3,500	€ 3,500
Employee's social security contributions (13.07 rate)	€ 457	€ 457
Payroll tax withheld	€ 841	€ 841
Researcher's net salary	€ 2,202	€ 2,202

R&D INVESTMENT DEDUCTIONS

To offset the costs associated with R&D investments, Flanders offers companies access to two powerful tax instruments. R&D investments can either be:

- deducted immediately as professional expenses; or
- activated as immaterial fixed assets and written off with fixed annuities over a period of at least 3 years.

Increased R&D investment deduction

You can deduct a percentage of the acquisition or investment value of certain fixed assets related to R&D which are obtained or created within the taxable period.

Intended fixed assets

- patents;
- fixed assets that are used to stimulate the development of new products and future-oriented technologies that do not have an impact on the environment and which are meant to minimize the negative impact on the environment.

Modalities and rates

It is possible to apply the increased investment deduction in whole and at once. In this case, it amounts to 13.5% of the acquisition or investment value.

The investment deduction can also be spread over the depreciation period of the fixed asset concerned. Note that this possibility is not applicable to patents. Should you decide to spread the investment deduction, it will amount to an annual 20.5% of the depreciations – i.e. for fixed assets obtained or created during the financial year.

Transfer to later tax years

If it cannot be (fully) balanced with the profits of the taxable period, the non-used part of the investment deduction is transferred successively and without time limit to the profits of the following taxable periods. However, the use of the transferred deduction is limited per taxable period.

Tax credit for research and development

Companies in Flanders have the possibility to opt for the application of a tax credit instead of the increased investment deduction. The tax credit makes it possible to show the fiscal advantage directly in minus of the operational R&D costs.

Intended fixed assets

- / patents;
- / fixed assets that are used to stimulate the development of new products and future-oriented technologies that do not have an impact on the environment and which are meant to minimize the negative impact on the environment.

Modalities and rates

It is possible to apply the tax credit in whole and at once. In this case, the credit amounts to 13.5% of the acquisition or investment value, multiplied by the corporate tax rate.

The tax credit can also be spread over the depreciation period of the concerned fixed asset. Note that this possibility is not applicable to patents. Should you choose to spread the credit, it will amount to an annual 20.5% of the depreciations, multiplied by the corporate tax rate – i.e. for fixed assets obtained or created during the financial year.

Transfer to later tax years and repayment

If there is not enough tax to be settled, the tax credit may be successively transferred to the next four tax years. However, the settlement of the transferred tax credit is limited per taxable period. The balance of the tax credit that has not yet been used, is repaid once these four tax years have passed.

No cumulation with the increased investment deduction

The company that opts for the application of the tax credit makes an irrevocable choice and may no longer claim the increased investment deduction.

FISCAL EXEMPTION OF REGIONAL SUBSIDIES

If your company receives capital or interest subsidies from Flanders for the acquisition of intangible or tangible assets in the context of economic expansion, then this financial support is exempt from corporate tax as well as from the tax on non-residents/companies.

Similarly, regional institutions in Flanders may also grant your company allowances, capital or interest subsidies on intangible and tangible fixed assets in the context of R&D support. These are also exempt from corporate tax and from the tax on non-residents/companies.

INNOVATION BONUS

An employer may use the innovation bonus as an instrument to reward financially an employee who proposes an innovation with a real added value for the company. This financial compensation is exempt from social security contributions and is not taxable if specific conditions are met. The intrinsic added value of the new idea put forward by the employee for the company's day-to-day activities, products, services, processes, etc. will be the decisive eligibility criterion. This value must have to do with technology, productivity, environment, organization and so on.

The innovation bonus – which is 100% net – can be awarded to a maximum of 10 employees per innovation project and may not exceed their monthly gross salaries. Furthermore, the total amount of innovation bonuses granted may not exceed 1% of all salaries in the companies. The bonus applies to maximum 10% of all employees.

Granting an innovation bonus follows a very strict procedure. In addition to requiring transparent communication on the criteria and procedures, the process involves notifying the Federal Public Service (FPS) for Economy using a standardized document. The FPS Economy will check the validity of the innovative aspects of the employee's idea, and may request additional information.

Notification of the names of the beneficiaries and the amounts they receive to the National Social Security Office (NSSO) is another mandatory step of the procedure. This needs to be done within the month following the attribution of the innovation bonus, via: innovatiepremies@rsz.fgov.be.



Gruuthusenmuseum - Bruges

03 FINANCIAL SUPPORT

Companies active in a wide variety of sectors and businesses may seek financial support from the government of Flanders. A complete overview of all available subsidies in the region can be found on www.subsidi databank.be. This practical – and soon to be translated into English – website is hosted by Flanders Innovation & Entrepreneurship (VLAIO), one of Flanders Investment & Trade’s structural partner organizations. To make things even easier, here’s an overview of the grants and subsidies most used by foreign companies in Flanders.

GRANTS FOR STRATEGIC TRANSFORMATIONS

Enterprises or groups of enterprises that make sizeable commercial investments and educational efforts as part of a strategic transformation project in Flanders may be eligible for government funding. The transformation project must make a significant contribution to strengthening Flanders’ economic fabric. This may include:

- ✓ investments in strategic clusters and main plants in Flanders;
- ✓ supporting the international growth of innovation-oriented SMEs in Flanders;
- ✓ supporting transformational investments that lead to the sustainable anchoring of significant employment in Flanders.

A transformation review will determine whether the project meets the support requirements. This assessment happens in 2 phases and on 3 levels (see table below).

Phase 1	Phase 2
Level A: overall assessment of the transformation project	Level B: assessment of the project’s impact on the enterprise(s) involved
Criteria: <ul style="list-style-type: none"> ✓ Degree of innovation ✓ Project quality and management 	Criteria: <ul style="list-style-type: none"> ✓ Strengthening of the enterprise(s) ✓ Internationalization ✓ Internal sustainability
	Level C: assessment of the project’s impact on Flanders’ economy
	Criteria: <ul style="list-style-type: none"> ✓ Knowledge transfer and spillover effects ✓ Collaboration and clustering activities ✓ Indirect employment creation ✓ Sustainability of Flanders’ economy

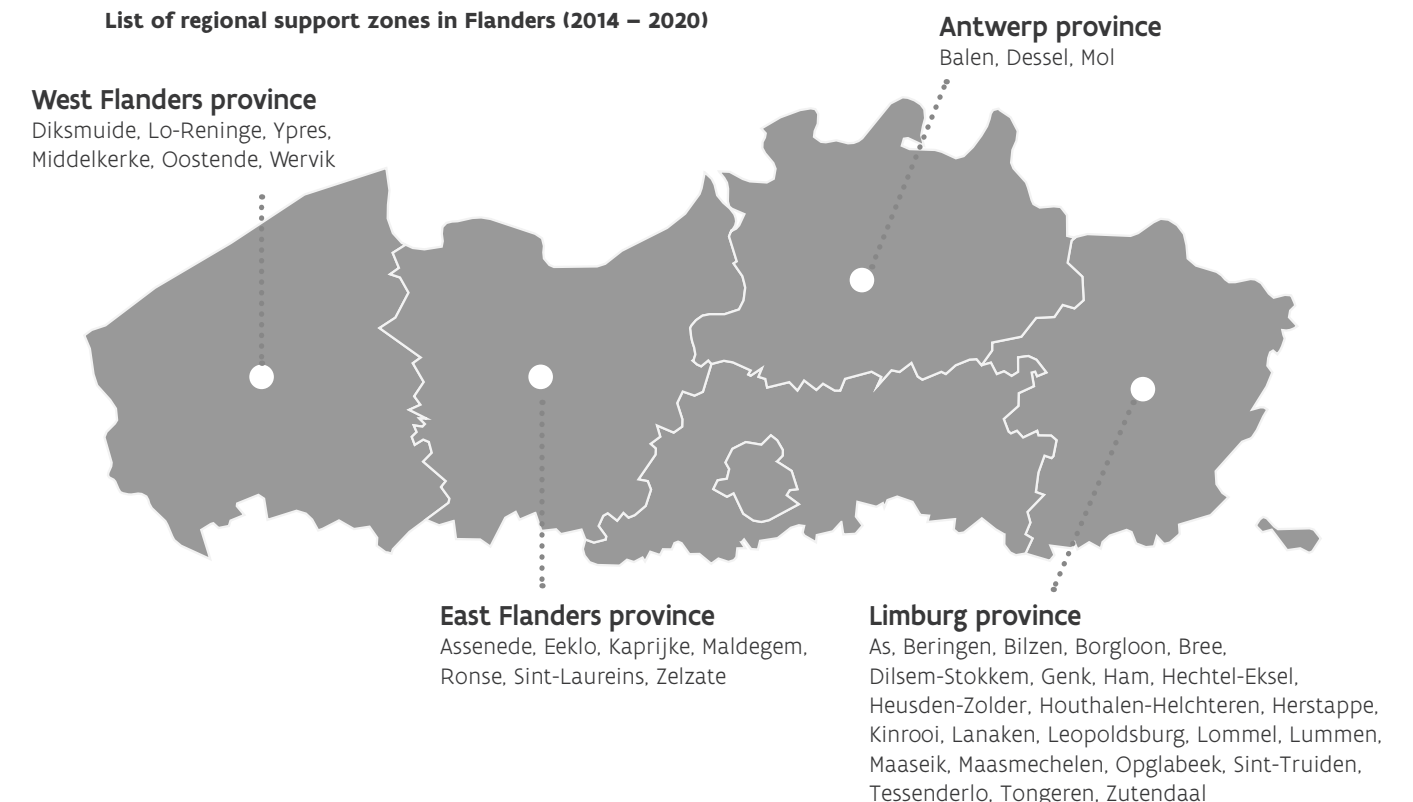
Who is eligible?

Both individual enterprises and groups of cooperating enterprises can submit an application, provided that they carry out an acceptable main activity. Contact Flanders Innovation & Entrepreneurship to obtain a list of NACE codes and find out which economic activities are included in the scope.

Company size, location and whether the company is investing in training or goods are other eligibility criteria for an individual enterprise’s project.

Type of investment	Company size	Location in Flanders
Investments in training	Small and medium-sized enterprises (SMEs)	Companies in the entire Flanders region are eligible.
	Large enterprises	
Investments in goods	SMEs	Companies in the entire Flanders region are eligible.
	Large enterprises	Only companies in a regional support zone are eligible (see map and list).

List of regional support zones in Flanders (2014 – 2020)



Which investment is eligible for funding?

Over a period of three years, the eligible investment in training and/or goods must at least be equal to the following investment thresholds:

Applicant(s)	Minimum eligible training costs (3 years)	Minimum eligible investment costs
Individual small enterprise (SE)	€ 100,000	€ 1 million
Individual medium-sized enterprise (ME)	€ 200,000	€ 2 million
Individual large enterprise (LE)	€ 300,000	€ 3 million
Cooperating enterprises, all SEs	€ 300,000	€ 3 million
Cooperating enterprises, including at least one ME	€ 400,000	€ 4 million
Cooperating enterprises, including at least one LE	€ 700,000	€ 7 million

For investments in training, the following types of expenditure are included in the scope:

- ✓ trainers' payroll costs;
- ✓ transportation expenses of trainers and trainees;
- ✓ other ongoing expenses for equipment and training material;
- ✓ depreciation of machinery and equipment;
- ✓ costs of services for training and consultancy;
- ✓ trainees' payroll costs up to the amount of the total of the aforementioned costs.

For investments in goods, the following types of expenditure are eligible:

- ✓ **investments in fixed assets:** all investments in building (purchase, lease, renovation), machinery, equipment (purchase & lease);
- ✓ **investments in intangible assets:** purchase of patents, exploration licenses, or licenses of (patented) technological know-how. These assets must be purchased from third parties and at competitive prices.



Gaasbeek Castle

Grant amounts

The financial support will be split up into basic funding (for the transformation project) and bonus funding (for the creation of additional jobs).

- ✓ Basic funding amounts to 8% for investments and 20% for training. The support will be capped at a maximum of EUR 1 million per enterprise.
- ✓ Bonus funding amounts to a maximum of 25% of the basic funding (and hence a total of max. 10% of investment and 25% of training grants). The more hires, the higher the bonus.

GRANTS FOR ECOLOGICAL INVESTMENTS

Thinking of going green with your investments? Consider applying online for one of two possible investment grants from Flanders Innovation & Entrepreneurship (VLAIO): the **Ecology Premium Plus (EP-Plus)** for standard ecological investments in a limitative list of technologies, and the **Strategic Ecology Support (STRES)** for strategic ecological projects. For both grants, the maximum funding amount is set at **EUR 1 million over a period of 3 years**.

Ecology Premium Plus (EP-Plus)

The Ecology Premium Plus (EP-Plus) is only granted to investments in technologies that feature on a limitative technology list or LTL. This list contains about 37 technologies, and exists in two versions, one per sector and one subdivided into the following three categories:

- / environmental technologies;
- / energy technologies;
- / renewable energy and combined heat and power.

Ecological investments that are eligible for aid through green certificates and cogeneration certificates are not eligible for an EP-Plus grant. For ecology-oriented investments within the scope of the limitative technology list, the aid percentages are the following:

Type of investment			Subsidy percentages	
	Eco class	Eco No.	SME	LE
Environmental technologies	A	9	50%	40%
	B	6	30%	15%
Energy efficiency technologies	A	9	40%	30%
	B	6	30%	15%
Renewable energy	A	9	55%	45%
	B	6	30%	15%

The amount of the EP-Plus grant is determined by the performance of the technology in which you invest. It also varies according to the size of your enterprise and the type of category the technology belongs to. Expressed in an ecology number, the performance of a technology indicates to what extent this technology contributes to the Kyoto goals and environmental objectives of the government of Flanders. Based on this ecology number, the technology is assigned to an eco-class and linked to a subsidy percentage.

Strategic Ecology Support (STRES)

The Strategic Ecology Support (STRES) is an additional funding tool for companies using technologies which – due to their exceptional and unique character – do not feature on the LTL list and are being deployed in ‘strategic’ environmental projects. Such projects:

- / contribute to global solutions for environmental or energy issues;
- / focus on closed circuits (renewable energy, sustainable materials use or recovery); or
- / work on process integrated solutions.

Type of investment		Subsidy percentages	
Eco class	Eco No.	SME	LE
A	9-6	40%	30%
B	4-3	30%	20%



SUPPORT FOR R&D PROJECTS

Flanders Innovation & Entrepreneurship (VLAIO) stimulates innovation in Flanders and finances R&D activities carried out by and/or for Flanders-based companies. The support agency aims to stimulate innovation at companies using two main support instruments for:

- 1/ **research projects** – focusing on knowledge building that can lead to important changes within the company in the long haul;
- 2/ **development projects** – for innovative ideas (such as new or improved products, processes or services) that can change and enhance a company in the short term.

Research projects

Through dedicated research project subsidies, VLAIO aims to support enterprises in extending or reinforcing their R&D activities. The subsidies are granted for the implementation of individual projects by one or more companies. For the sake of definition, these projects start with an innovative idea that requires new knowledge and for which research and possibly development activities need to be carried out.

In short

- ✓ This subsidy is available to enterprises active in the Flemish Region.
- ✓ It can be used to cover staff and other costs related to the knowledge acquisition phase of an innovation initiative.
- ✓ It can amount to **25 to 60% of the project budget, with a minimum support amount of EUR 100,000.**

Development projects

Is your company working on an innovative idea with significant business potential in the short run? Do you still need to overcome specific hurdles or challenges to be able to fully develop this innovation? VLAIO offers financial aid specifically meant for development projects that play a key part in achieving a business case that can strengthen your company.

In a nutshell

- ✓ Both SMEs and large companies may eligible for this type of subsidy.
- ✓ The subsidy can be used to hire staff and cover other costs related to the development project.
- ✓ It amounts to **25 to 50% of the project budget, with a minimum support amount of EUR 25,000.**

SUPPORT FOR SMES

Two support mechanisms are specifically aimed at aiding SMEs located in Flanders: the SME growth subsidy for strategic investments and the SME e-wallet for training and advice.

SME e-wallet

To help SMEs further develop and grow, Flanders Investment & Entrepreneurship (VLAIO) offers **financial aid for training and advice**. You can apply for this support via the **'SME e-wallet'**, a web application through which entrepreneurs can obtain between EUR 10,000 and 15,000 in subsidies each year when purchasing services from training and advice providers.

	Support for training	Support for advice
Small enterprises	40% (max. € 10,000)	40% (max. € 10,000)
Medium-sized enterprises	30% (max. € 15,000)	30% (max. € 15,000)

SME growth subsidy

The SME growth subsidy is powerful financial tool for Flanders-based SMEs that wish to embark on a strategic growth trajectory through the purchase of external advice or the recruitment of a strategic employee. Is your company planning to implement a new business strategy, for example? Do you want to launch novel products? Or, are you considering exploring new markets? If so, the SME growth subsidy may be just the thing for you.

Through the SME growth subsidy, the government of Flanders subsidizes the strategic knowledge required for companies to be successful in their strategic endeavors. The way in which you wish to acquire this knowledge is entirely up to you: you may choose to collaborate with a strategic consultant, recruit a dedicated profile for the task, or even combine both of these options.

The SME growth subsidy in short

- ✓ All SMEs with a site in Flanders are eligible.
- ✓ The subsidy can be used to purchase strategic advice from an external service provider or to cover the gross salary cost for the recruitment of a strategic employee.
- ✓ The subsidy amounts to a maximum of **EUR 50,000 per year** per growth trajectory.

SUPPORT THROUGH PMV

Innovative companies of all sizes – from start-ups and scale-ups to multinationals – can call upon PMV to receive financial support for their investments in Flanders. Short for 'Participatiemaatschappij Vlaanderen', PMV provides funding to promising businesses at every stage of their life cycle. Working with and for the government and other partner organizations, PMV particularly focuses on projects that are important for prosperity and wellbeing in Flanders.

The main support criteria for PMV are:

- ✓ your company's impact on Flanders' economy;
- ✓ the strength of your business plan;
- ✓ your management team's vision and input.

Equity

Start-ups and fast-growing companies often face challenges such as insufficient cash flows or a long investment period. To alleviate this burden, a (venture) capital injection is a plausible option. But in later company lifetime stages, an additional capital injection can also be necessary, for example, to boost international expansion. In such cases, PMV acts as an active yet patient venture capital provider. For example, the organization does not impose a predetermined exit date. Instead, PMV structures your financing rounds to optimum effect, fully taking your needs as well as those of your co-investors into account.

(Subordinated) loans

Need money to start, expand or acquire a company? A loan from PMV can complete your financial picture, provide you with the financing you need to get started, or help convince other financing partners.

PMV provides financial loans for start-ups, scale-ups and mature companies. These loans can be granted independently or in conjunction with PMV's capital or guarantees, or even in combination with support from other financing partners. In addition to standard financing options for starters and SMEs, PMV offers access to tailor-made solutions for mature companies as well as companies in full expansion. The loans can be either subordinated (i.e. mezzanine financing) or non-subordinated.

Guarantees

The first option for many companies and business owners is to turn to their bank for business financing. But even though your application may be strong, your bank may be unwilling to lend you the money due to a lack of collateral. In this case, PMV can provide a guarantee, lowering the risk for your bank while increasing your company's creditworthiness.

In short

- ✓ A guarantee of up to EUR 1.5 million can cover up to 75% of the underlying loan at a very attractive guarantee premium.
- ✓ Guarantees above EUR 1.5 million can cover up to 80% of the underlying loan. All forms of credit are eligible. Note: for guarantees of this size, PMV also offers support and advisory services to strengthen your bank application and consultation efforts.

04 CUTTING LABOR COSTS

According to the 2018 US Conference Board, Flanders is home to the world's 4th most productive workforce. In addition, the region offers various fiscal advantages and wage optimization options to help your company cut labor costs.

FLEXIBLE LABOR IN FLANDERS

Companies can take advantage of Flanders' flexible labor structure which includes facilities such as economic unemployment, flexible scheduling and a straightforward right of dismissal procedure. Recent legal developments have taken this up a notch:

1/ Flexi-jobs

People were already allowed to take on a second so-called "flexi-job" in the hospitality industry with limited tax impact on their extra earnings. This system will be extended to the retail sector.

2/ E-commerce framework

A more flexible regime for working at night and on Sundays is now available. The prohibition of night work between 8 pm and 6 am no longer applies to e-commerce players. Now, night work is permitted for carrying out the necessary logistics and support services associated with e-commerce, not limited to any specific sector. However, a special procedure was imposed for prior notification and consultation of worker representatives for work between midnight and 5 pm. This procedure will, however, become less stringent in the future.

LABOR COSTS – THE BIGGER PICTURE

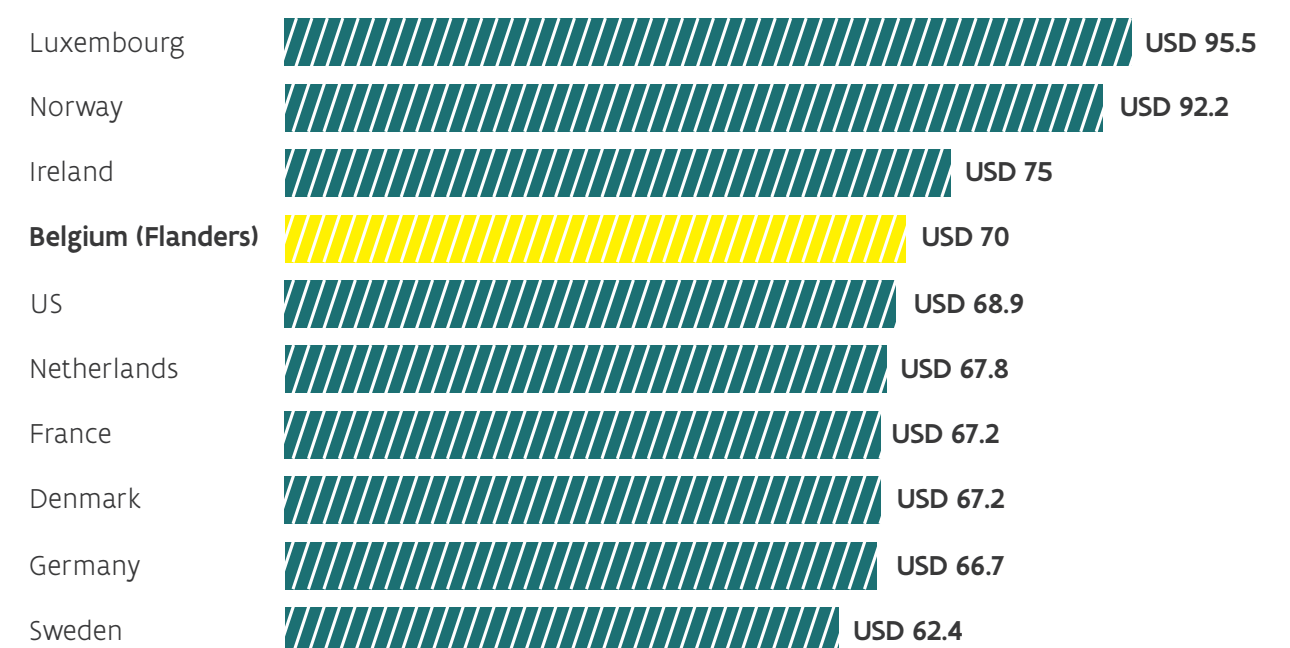
While it is true that the nominal rate of social security contributions (employer contributions) is relatively high in Belgium and Flanders as a region, various tools are available to local companies looking to reduce their labor costs while optimizing their employees' wages.

Employers in the private sector, for example, may benefit from deduction regimes that significantly lower the effective rate of social security contributions. In fact, every private sector employer is automatically entitled to flat-rate structural deductions, unlimited in time and applicable to any employee. What's more, the range of insurances covered by these social security contributions is far greater compared to other countries.

In addition, a considerable decrease in employers' social security contributions has been set into motion in the context of the so-called 'tax shift' – the federal government's shift from taxes on labor to taxes on property and consumption with the aim of generating the necessary revenue to finance a reduction in payroll costs. As a result, the rate lowers from 33% to 25% as of 1 January 2019.

What's more, labor costs in Flanders are for a large part compensated by the region's high labor productivity per hour worked (the 4th highest in the world, according to US Conference Board). Flanders' highly ranked education system – as evidenced by the OECD's PISA research results – also provides the local workforce with valuable and competitive language and technical skills.

Labor productivity is very high in Flanders (output/hour worked in USD)



(Source: US Conference Board, 2017)

SPECIFIC LOCAL LAW PROVISIONS

Expats: conditions for entry into the territory

Citizens of the EU or the European Economic Area don't need to comply with any particular formalities or apply for a work permit to carry out a professional activity in Belgium and Flanders as a region. However, a distinction is made between **temporarily assigned foreign employees and foreign employees subject to Belgian social security**.

Foreign employees temporarily assigned to Belgium

These employees have an employment contract with a foreign undertaking that posted them in Belgium on a temporary basis in order to carry out activities of organization, reorganization or control of its operations. These employees remain subordinate to their foreign employer which continues to provide them with instructions. Belgian statutory provisions relating to labor will apply, however. These include minimum wage, working time, paid leave days, etc. In short, the posted foreign employee:

- ✓ is not a member of the staff of the Belgian company and remains employed by the foreign undertaking which pays his or her wage;
- ✓ is still covered by the social security system of his or her country of origin – which means that both the employer and personal social security contributions must be paid in the country of origin for a period of up to 24 months.

Foreign employees subject to Belgian social security

Foreign companies must be registered with the Belgian Crossroads Bank for Enterprises (CBE) in order to become an employer subject to Belgian law. In that case, their employees:

- ✓ are subject to Belgian labor and social regulations in all aspects;
- ✓ belong to the company's Belgian staff;
- ✓ get instructions from the local Belgian undertaking and perform their tasks under the Belgian management's supervision;
- ✓ are subject to the Belgian social security system – which means that both the employer and personal social security contributions must be paid in Belgium.

EMPLOYMENT INCENTIVES

Allowances granted by the Belgian National Social Security Office

In addition to various employment subsidies aimed at reducing payroll costs in Flanders, all employers in the private sector and employees fully subject to Belgian social security may benefit from a **structural deduction in their social security contributions**.

What's more, employers can reap the rewards of **target group deductions for first recruitments**:

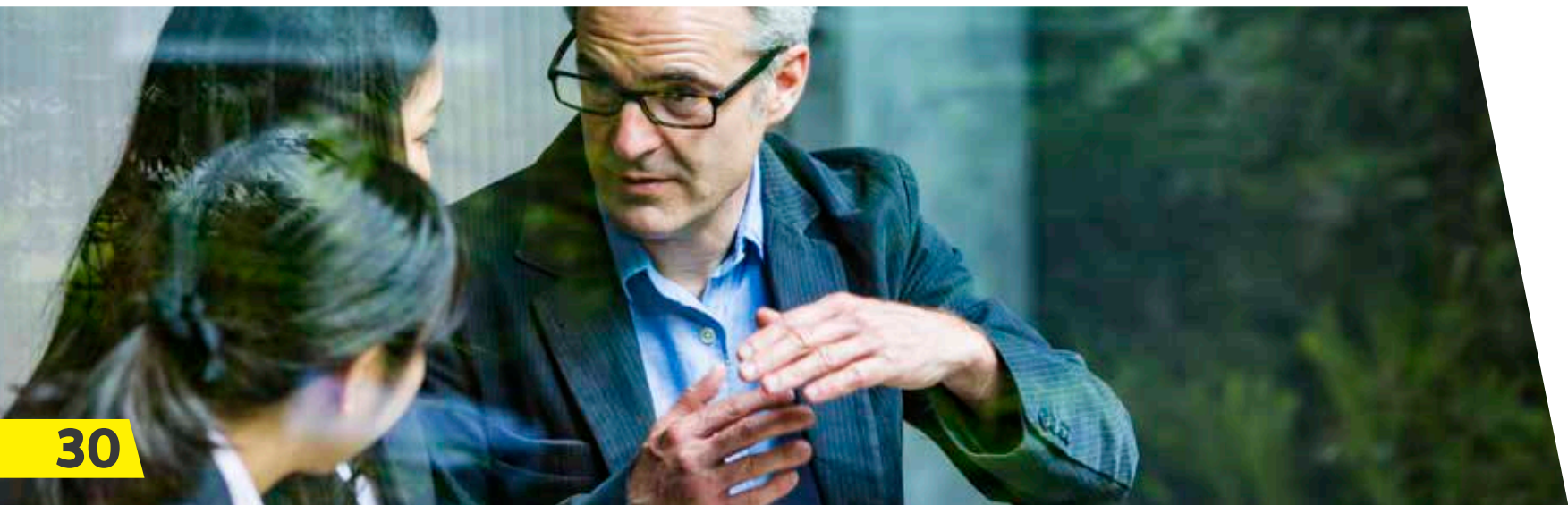
- ✓ a lifelong exemption from social security contributions (SSCs) for a first employee hired (2016-2020 period);
- ✓ SSC deductions – from 2016 onwards – for the next five employees hired.

Finally, there are several **target group deductions for specific employee categories**, such as seniors, young and unskilled workers, and job seekers.

It is possible to cumulate the structural deduction with any of the target group deductions. However, cumulating the different target group deductions is not permitted. Note that all these deductions apply to full-time employment contracts and for a minimum of four consecutive quarters.

Main deductions available from the Belgian National Social Security Office (as of 1 January 2017)

Type	Deduction per quarter	Period of time	Conditions
Structural deduction	€ 462.60	Complete period of employment	All employers of the private sector
1st recruitment	No social contributions	Lifelong	1st employee (hired between 1/1/2016 and 31/12/2020)
2nd recruitment	€ 1,550 + € 1,050 + € 450	5 quarters 4 quarters 4 quarters	2nd employee
3rd, 4th, 5th and 6th recruitment	€ 1,550 + € 450	9 quarters 4 quarters	3rd, 4th, 5th and 6th employee
Senior employees Young employees unskilled workers job seekers	€ 400 - 1,500	Limited period or complete period of employment	Employee is at least 54 years old or under 26



Partial exemption from withholding tax

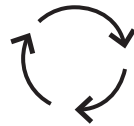
For R&D employees and researchers

Companies in Flanders can recover up to 80% of the withholding tax on professional income for academic staff and researchers. See page 12 for all the details.

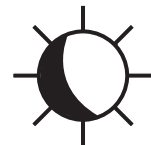
For working at night, in shifts or in a continuous regime

Companies may claim tax allowances for employees who are working in shifts, at night, or in a continuous regime. This also applies to agencies that employ workers in companies adhering to such working schedules. The fiscal advantages are awarded in the form of a bonus to employees who are working in shifts, at night or in a continuous regime.

Definitions



Working in shifts: minimum two shifts involving at least two employees who are doing the same work and who succeed each other in time without having a break or without having an overlap that is larger than one fourth of their day's work.



Night work: employees who work exclusively between 8 pm and 6 am.

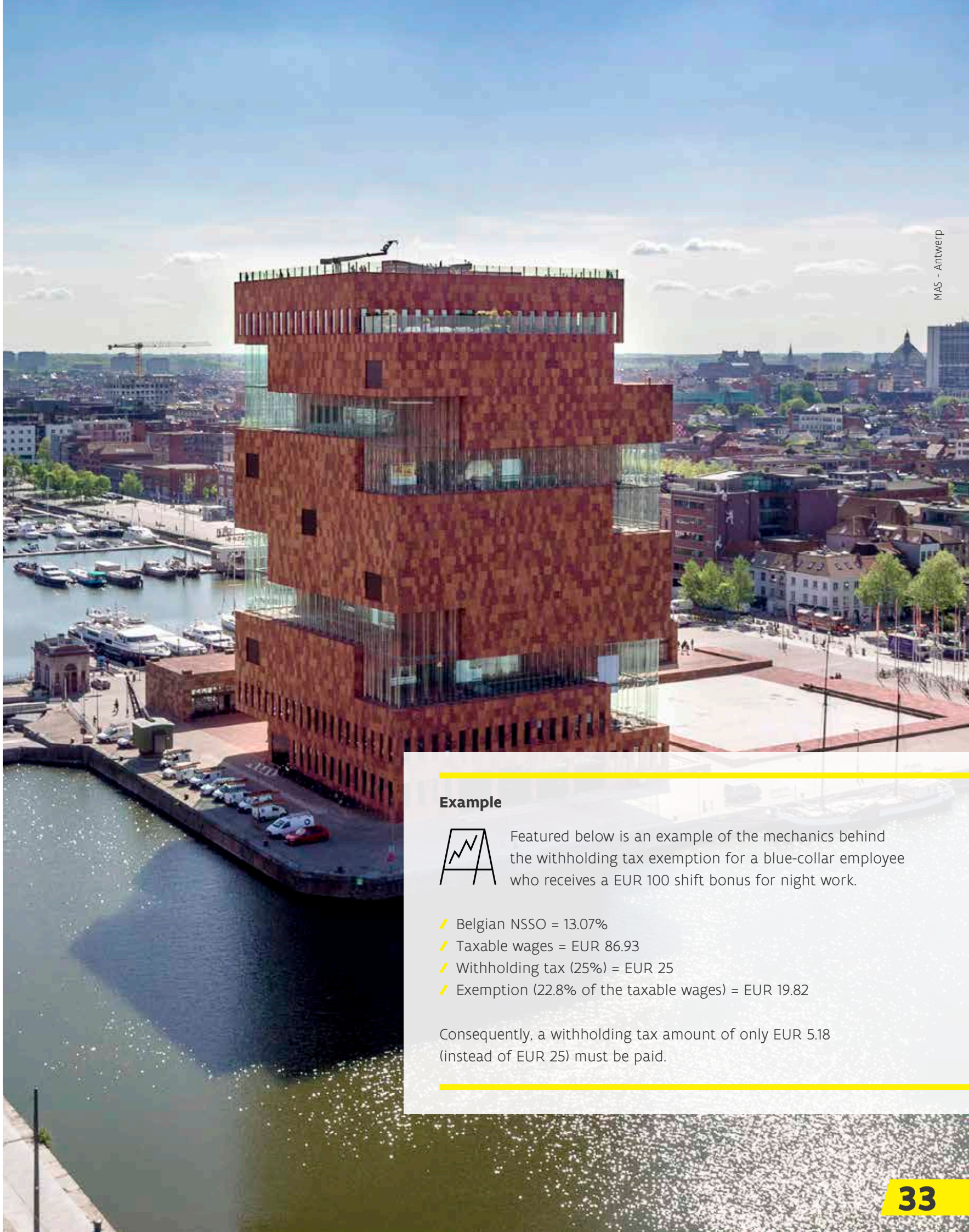


Continuous work: employees who work in a process that follows a non-stop regime.

Employers are exempted from paying part of the withholding tax that they have deducted from the employee's wages. This exemption amounts to:

- 22.8% of the total taxable wages, including bonuses, for working in shifts or night work;
- 25% of the total taxable wages, including bonuses, for continuous work.

Note that these exemptions do not apply to holiday allowances, end-of-year bonuses and overdue remunerations. The calculation has to be done per employee.



MAS - Antwerp

Example



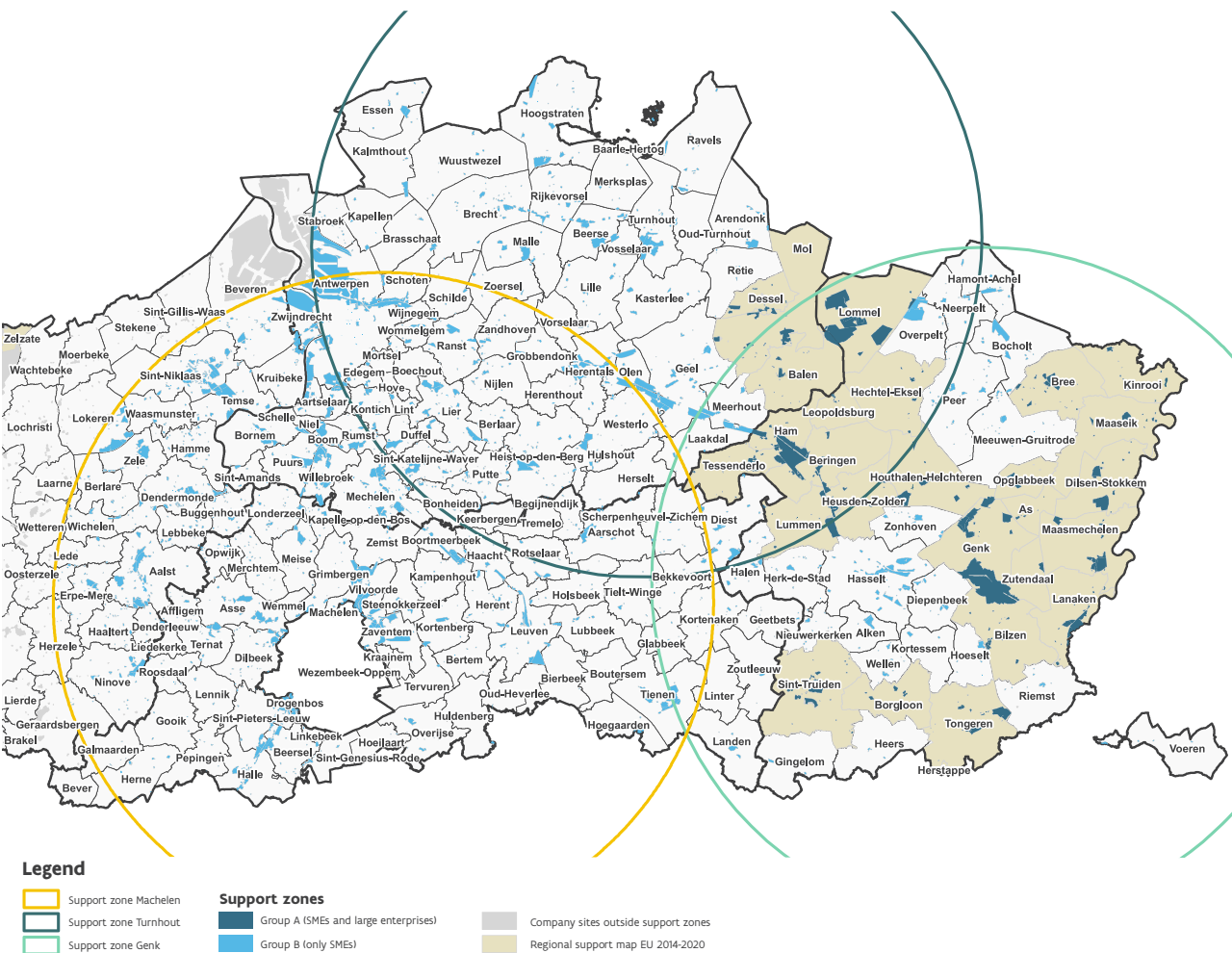
Featured below is an example of the mechanics behind the withholding tax exemption for a blue-collar employee who receives a EUR 100 shift bonus for night work.

- Belgian NSSO = 13.07%
- Taxable wages = EUR 86.93
- Withholding tax (25%) = EUR 25
- Exemption (22.8% of the taxable wages) = EUR 19.82

Consequently, a withholding tax amount of only EUR 5.18 (instead of EUR 25) must be paid.

Partial exemption from withholding tax: investments in economic support areas

In Europe, regional governments may take measures to economically support areas affected by heavy collective redundancies. Flanders has received approval to create such zones around Genk and a zone around Turnhout. These areas cover the province of Limburg and parts of the provinces of Antwerp (Turnhout region) and Flemish Brabant. To check whether a specific location is situated in a ‘free zone’, please visit www.geopunt.be (available in Dutch only).



What does this measure entail?

Companies that invest in a ‘free zone’ are granted a 25% exemption on their employees’ salary withholding tax for a period of two years per additional employment contract maintained over a number of years. The exemption corresponds to a saving of 4 to 5% on payroll costs may also be applied when staff is taken over as a result of acquisition investments.

Who is eligible?

SMEs are eligible if they invest in and create new jobs at industrial sites and science parks located within a free zone. **Large companies** are only eligible for such aid if the free zone coincides with the regional aid map (see page 26) and if the investment relates to new branches and new operations of existing facilities. Note that the maximum possible aid is limited to the most favorable ceiling for the company, whether the 10% support on investment or 10% exemption on payroll costs.

Maximum investment aid:	Outside regional aid map	Within regional aid map
Small enterprise	20%	30%
Medium-sized enterprise	10%	20%
Large enterprise	0%	10%



Special tax regime for foreign executives and researchers temporarily employed in Belgium

Foreign executives and researchers temporarily employed in Belgium (and Flanders) fall under a special tax regime. These are the main advantages:

- Some allowances paid to the foreign executive are not subject to social security contributions and income tax. Instead, they are considered as the “employer’s own costs”. This is the case of additional expenses associated with the stay of the executive in Belgium such as one-off expenses and costs (moving to Belgium, accommodation in Belgium, moving from Belgium to another country, etc.) and recurring expenses (children’s school fees, annual travel expenses to the place of origin). With the exception of school fees, these expenses are covered up to a maximum of EUR 11,250 (or EUR 29,750 in the R&D sector).
- The foreign executive continues to be considered as a non-resident in Belgium for taxation purposes. Only his or her income from a Belgian source is taxed in Belgium.

Note that the special taxation regime for foreign executives must be obtained from the tax administration **within 6 months** of the executive starting his or her functions in Belgium, and needs to be renewed **every 12 months**. In addition, the foreign employee needs to comply with one of two conditions:

- he or she is assigned by a foreign company to work temporarily with its Belgian undertaking; or with another undertaking controlled by the foreign company or by a Belgian enterprise that is part of an international group; or in a controlling and coordinating office set up within the international group.
- he or she is recruited to work in Belgium by a foreign company’s Belgian subsidiary or by a Belgian enterprise that is part of an international group.

05 INNOVATION CLUSTERS IN FLANDERS

As part of the region’s official cluster policy, Flanders is home to two types of clusters: **6 spearhead clusters** and **20 Innovative Business Networks**. Through this policy, the government of Flanders aims to increase the region’s international competitiveness by uniting the private, public and academic sectors in innovative long-term collaborations. The ultimate goal is to unlock underutilized economic potential and boost growth within Flanders’ business environment.

Spearhead clusters

Spearhead clusters are linked to Flanders’ main strategic domains and receive financing for up to ten years to develop and implement their competitiveness programs.



Innovative Business Networks

Innovative Business Networks aim to build a dynamic collaboration between a group of companies. These networks are expected to implement concrete action plans with visible economic added value for the participating companies, and include mutual initiatives in innovative domains. Innovative Business Networks differ from Spearhead Clusters in scale, maturity, time horizon and ambition level. They are small-scale initiatives with a support time horizon of three years.

Want to know more about the networks currently supported? Check out **www.vlaio.be**.

06

CONTACT DETAILS

To help you achieve your ambitions, Flanders Investment & Trade relies on a vast network of private partners, structural partners, universities, federal and regional agencies, federations and clusters, which, each in their particular domain, can provide you with their expertise and professional support.

Flanders Investment & Trade is committed to bringing you in contact with those organizations that match your plans, the scale of your projects and your market approach. Ask your FIT investment officer for a list of partners who can help you turn your ambitions into a resounding success.

We work in close collaboration with – among others – the following organizations:

**FLANDERS
INNOVATION &
ENTREPRENEURSHIP**



Flanders Innovation & Entrepreneurship (VLAIO)

VLAIO's 'Team Invest' provides guidance and information regarding:

- ✓ grants;
- ✓ location advice;
- ✓ financing;
- ✓ finding partners;
- ✓ knowledge of the local economy (each province);
- ✓ networking and introductions.



**Federale
Overheidsdienst
FINANCIEN**

Federal Public Service Finance

The Fiscal Department for Foreign Investments provides guidance and information regarding:

- ✓ Belgian tax regimes covering foreign investments;
- ✓ contact with Belgian tax administrations as an intermediary;
- ✓ federal tax matters.



PMV (Participatie- maatschappij Vlaanderen)

PMV is Flanders' investment company for innovative enterprises, real estate and infrastructure. It provides funding for promising start-ups, scale-ups and international firms in every stage of the business lifecycle. Working with and for the government and other partners, PMV implements projects that drive prosperity and wellbeing in Flanders.



FLANDERS INVESTMENT & TRADE

Guiding you all the way

If you are looking to expand your operations, Flanders Investment & Trade guides you all the way. That is our mission. We provide confidential information and support. Our experienced staff is happy to answer your questions regarding investment subsidies, recruitment, benchmark studies, legal matters, location for expansion, fiscal incentives, and more.

Close to you

We more than 70 regional offices worldwide to assist you, free of charge, wherever you are. Contact us today. We would be delighted to help you grow in Flanders.

Find out what we can do for you

Visit us at **www.investinlanders.com**.

Call us on **+32 2 504 88 71** or

email us at **invest@fitagency.be**.

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This brochure is just a starting point.

At Flanders Investment & Trade, we can do much more for you: provide you with tailored international benchmarks, business propositions, market studies; give you access to a whole network of structural partners, ... you name it.

Thinking of expanding your business in Flanders? For expert advice and more information about finding the right talent, resources and financial instruments to support your company's ambitions, please contact Flanders Investment & Trade (FIT), the go-to organization for international business in Flanders.

Partners

This document was created in collaboration with the following partner organizations:



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FLANDERS
INNOVATION &
ENTREPRENEURSHIP



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