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Trends in taxation of privately held assets

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Introduction

At the present time, when a rigorous budgetary policy is being imposed in most countries, there are those who argue that a rise in taxes, or even new levies on wealth and the income from wealth of private individuals, could make a contribution to the budgetary effort. Moreover, it is widely acknowledged that levies on employment are very high in Belgium. It therefore seems useful to find out whether part of the budgetary revenues could come from other sources of finance. At issue in particular are additional taxes on consumption or activities that cause pollution, but also supplementary revenues drawn from taxes affecting the assets of private individuals.

This article attempts to position Belgium's existing levies on income from wealth and wealth itself in relation to those applying in the other countries of the EU. Whilst not claiming to be exhaustive in any way, it is intended to present the main characteristics and trends.

The article is structured as follows. Firstly, it takes a brief look at some statistical and methodological aspects of levies on wealth and the income from wealth. Then, the situation in Belgium is analysed. This analysis is followed by an international comparison, within the bounds of what is possible, of the scope and level of the various levies linked to the assets of private individuals. Lastly, a concise commentary is provided on advances with respect to cooperation on tax matters at the international level as well as on the European Directive on taxation of savings.

1. Preliminary observations: statistical and methodological aspects

It should be emphasised firstly that levies on wealth cover a far more extensive spectrum than the (annual) tax on net assets in the strict sense, which consists of a rate of taxation applied to the value of the wealth. Besides, this type of levy does not exist in Belgium. On the other hand, Belgium does have a system of taxation on transfers of assets and on the returns paid which forms an integral part of what is understood by the taxation of wealth.

It is a difficult task to carry out an international comparison of the scope of levies on capital and the income from capital held by private individuals, and to draw up reliable statistics in this respect is no easy matter. In fact, statisticians come up against a series of methodological problems. The international comparison carried out for the purposes of this article is based in essence on an annual study by the EC which has resolved several of these problems [1].

Alongside levies on wealth and the income from wealth, the system of personal taxation plays a major role in a number of countries. A withholding tax on income from movable property like the *précompte mobilier* in Belgium does not exist in some of them or, if it does exist, it does not provide full discharge, so that income from wealth is taxed in the context of personal taxation, at a specific rate or not. The taxation of property holdings is also very

* The authors wish to thank Hugues Famerée for its contributions to this article.
(1) EC (2010), *Taxation trends in the European Union, data for the EU Member States, Iceland and Norway*.

heterogeneous and sometimes included in the personal taxation. In addition, tax deductions are granted for certain types of savings in several countries. The EC gets round the problem posed by these different methods by breaking down the taxation of natural persons, on the basis of the stock of internal information obtained from the national tax authorities, depending on the tax base being looked at: the employed, the self-employed, the inactive population and capital flows. Account is therefore taken, as far as possible, of the proportion of total tax that relates to the income from wealth and the tax deductions granted on savings and on interest paid on a mortgage.

The treatment of the income of self-employed workers and the relevant levies is also a complex concept. In fact, this income remunerates both the labour supplied and the capital invested. The same is therefore true of the taxes to which the self-employed are subject. However, it is a particularly arduous task to undertake an accurate breakdown of these two components, with the result that the following comparison ignores levies on the income of the self-employed.

However, whilst with regard to income from wealth, the data from the EC allow the levies payable by private individuals to be isolated, they include, with regard to the other forms of levies on wealth, those borne wholly or partly by companies, which cannot be isolated entirely for each country. In the chapter devoted to Belgium below, it was nevertheless possible to ignore the taxes paid by companies alone, whereas in the international comparison which follows, they were still included.

Lastly, it should be emphasised that levies on income from wealth are generally made on the gross return whereas it may be thought that the latter is partly intended to compensate for the erosion of purchasing power by inflation, and consequently to preserve the real value of the wealth. The real rates of taxation that take account of levies on the real return on assets – and which are therefore higher – provide a more reliable picture of the fiscal pressure on income from wealth than the nominal rates of levy.

2. Levies on wealth and income from wealth of private individuals in Belgium

2.1 Outline of main levies

This section, which is devoted to the levies in Belgium, is based on the methodology of the EC in order to differentiate between levies on income from wealth of private

TABLE 1 LEVIES ON WEALTH AND INCOME FROM WEALTH OF PRIVATE INDIVIDUALS IN BELGIUM
(millions of €, unless otherwise stated)

	Proportion (percentages)	1995	2000	2005	2009	Proportion (percentages)
Federal government	55	3,352	3,442	2,342	2,048	20
Registration fees and gift duties	14	872	1,346	134	76	1
Tax on stock market transactions	2	133	465	157	129	1
Withholding tax on income from movable property (*précompte mobilier*)	39	2,386	1,737	2,064	2,039	21
Personal taxation (net revenues)	–7	–402	–495	–435	–596	–6
Other [1]	6	363	389	422	400	4
Regional government	20	1,208	1,900	4,656	4,982	51
Inheritance tax	11	647	1,042	1,485	1,780	18
Gift duties				265	270	3
Registration duties	7	438	681	2,728	2,744	28
Other [2]	2	123	177	178	188	2
Local government	26	1,567	1,875	2,408	2,759	28
of which withholding tax on income from immovable property (*précompte immobilier*)	24	1,482	1,773	2,340	2,684	27
Total		**6,126**	**7,216**	**9,405**	**9,788**	
p.m. Percentages of GDP		*3.0*	*2.9*	*3.1*	*2.9*	

Sources: EC, NBB.
(1) This relates particularly to revenues drawn from tax on long-term savings as well as stamp duty, court office fees, mortgage fees and documentation fees.
(2) This relates in particular to tax levied by the Brussels-Capital Region on property holdings.

individuals and other levies on wealth. It does not take account of levies on wealth that are paid exclusively by companies[1]. With regard to registration fees and some other levies, it is impossible to differentiate between the portion paid by households and that paid by enterprises so that a part – albeit limited – of the revenues referred to below originates from companies.

The revenues from the various levies and competence in this respect are spread between federal, regional and local government. Whilst slightly over half of the revenues originating from levies on wealth and on income from wealth went in general to the federal government prior to 2002, this share represented no more than around a fifth in 2009. In fact, half of the revenues arising from levies on wealth and income from wealth of private individuals fell into the purse of the Regions as a result of the Lambermont agreements, which involved an almost wholesale transfer of registration and gift duties to the Regions with effect from 2002.

Part of the registration fees, tax on stock market transactions and documentation fees is still collected at the federal level. In Belgium, the levies on income from wealth are primarily made up of the withholding tax on income from movable property and the net revenues from personal taxation linked to wealth, made negative by the scope of tax deductions. Apart from the Lambermont agreements, the decline in revenues drawn from the withholding tax on income from movable property has also had a negative impact on the portion going to the federal government. In nominal terms, revenues going to the latter even contracted in 2009 in relation to the level shown by them in 1995. This decrease is essentially explained by the fall in nominal returns on the assets to which the levy applies. The Regions draw the bulk of their revenues from registration fees, gift duties and inheritance tax, as well as the withholding tax on income from immovable property (*précompte immobilier*). The reforms instituted during the last few years, particularly the reduction in the rate of levy with respect to gift duties, contributed to the growth of revenues which also benefited from the upward movement in prices on the property market.

As regards local government, the revenues originating from levies on wealth correspond more or less to the additional percentages levied on the withholding tax on income from immovable property. These represent around a quarter of the levies on wealth and income from wealth of private individuals in Belgium. The cadastral income on which the withholding tax on income from immovable property is levied is only index-linked and has not been reviewed since 1975. As a consequence, local government is obliged to raise the rates of levy in order for its revenues to develop in line with real economic growth.

(1) These involve in particular part of the withholding tax on property and the circulation tax paid by companies, as well as the supplementary distribution tax imposed on nuclear power operators in 2009.

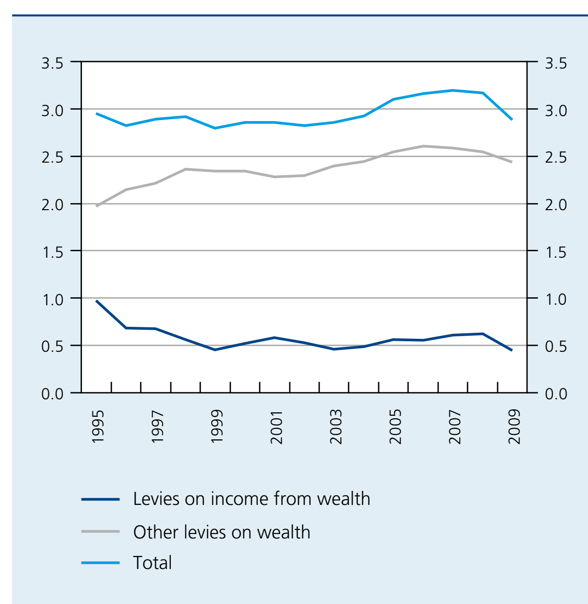
2.2 Development of levies on wealth and income from wealth of private individuals in Belgium

The revenues drawn from levies on wealth and income from wealth of private individuals in Belgium have fluctuated around 3 % of GDP during the last fifteen years. This movement is explained by the increase in receipts with regard to levies on wealth, on the one hand, and by the contraction in revenues resulting from levies on the income from wealth, particularly the withholding tax on income from movable property, on the other. Expressed as a percentage of GDP, these revenues were reduced by half between 1995 and 2009, in particular due to the fall in the interest rates on deposits.

The growth in revenues originating from other levies on wealth results from the increase in receipts relating to registration fees and inheritance tax. Revenues from registration fees increased from 0.6 to 1 % of GDP in 2007 but this net increase does not stem from a raising of the rate of levy. On the contrary, most of the reforms have been in the direction of a reduction in the rates or an expansion

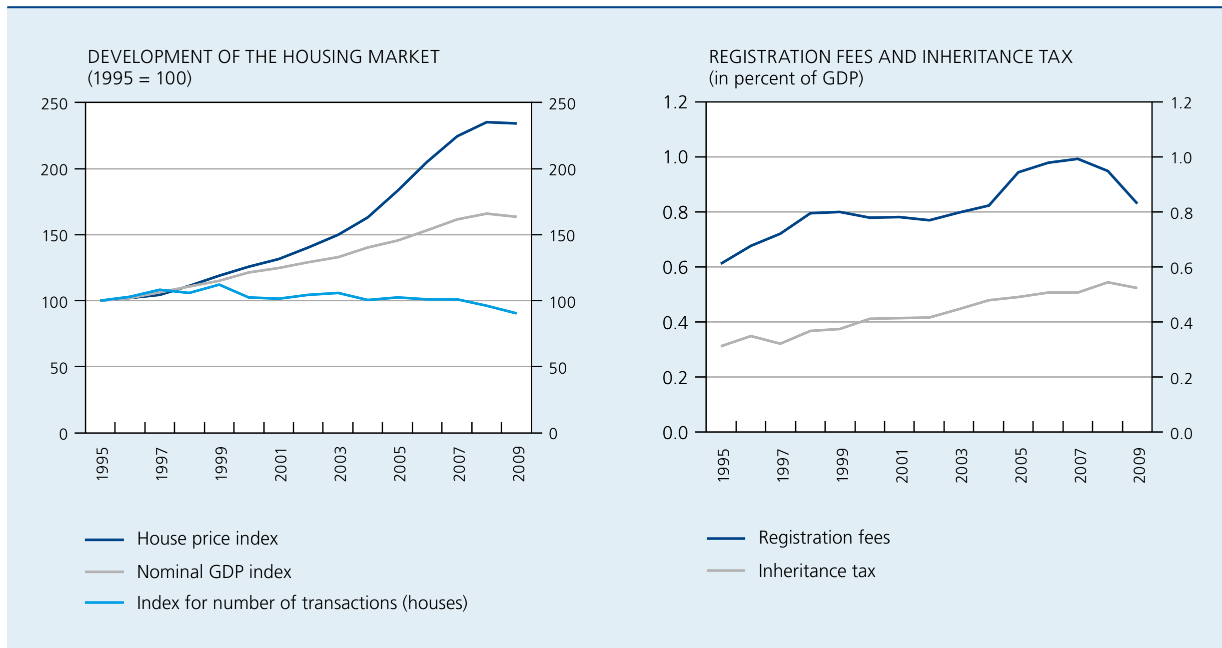
CHART 1 DEVELOPMENT OF LEVIES ON WEALTH AND INCOME FROM WEALTH OF PRIVATE INDIVIDUALS IN BELGIUM

(percentages of GDP)



Sources: EC, NBB.

CHART 2 PROPERTY PRICES AND REGISTRATION FEES & INHERITANCE TAX IN BELGIUM



Sources: OECD, NAI.

of tax deductions. The favourable developments on the property market combined, probably, with a decline in the proportion of non-registered payments pulled revenues upwards. Since then, the financial and economic crisis has brought with it a fall in the number of transactions and in prices, leading to a decline in the revenues from registration fees, to 0.8 % of GDP in 2009. As for inheritance taxes, these grew from 0.3 to 0.5 % of GDP between 1995 and 2009, without any increase in the rate of levy.

2.3 Policy with respect to levies on wealth

Alongside levies on the different assets, various tax deductions are granted by the federal government in the context of the system of personal taxation with the aim of influencing the savings behaviour of taxpayers. Essentially, it is thus the possession of one's own home and various forms of long-term savings that are encouraged.

The losses in revenues stemming from these tax deductions form the subject of an estimate in the Inventory of fiscal expenditure (*Inventaire des dépenses fiscales*) published by FPS Finance in the parliamentary documents. With regard to the tax year 2007, the fiscal expenditure relating to property holdings amounted to € 1,441 million [1]. Of this, the tax deductions linked to the system of mortgage borrowings entered into prior to 2005 represent the most significant amounts, particularly the additional reduction for home buyers' tax savings. This reduction, which is applied at the marginal rate, applies to part of the capital depreciation and life insurance linked to mortgage borrowings entered into prior to 2005 with the aim of acquiring a house to live in. If the latter were entered into with the aim of financing a new construction, the interest payments exceeding the taxable property income can give rise to a supplementary deduction.

The capital depreciation and the life insurance that is not taken into account for home buyers' tax savings can be deducted, in the context of long-term savings, up to an amount of € 2,080 (tax year 2011), at the special average taxation rate [2].

The deduction for a sole and own home was introduced with effect from the tax year 2006. This new deduction covers the interest, the capital depreciation and the insurance premiums for the mortgage protection life insurance on home loans entered into with effect from 2005, at a level of € 2,080 plus € 690 for the first ten years. The deduction for a sole and own home will gain steadily in importance. The decrease, between the tax years 2005 and 2007, in losses in revenues stemming from the

(1) It is not possible to isolate the losses in revenues stemming from life insurance policies taken out with a mortgage loan.
(2) This lies between 30 % and 40 %.

TABLE 2 FISCAL EXPENDITURE RELATING TO PROPERTY HOLDINGS AND SAVINGS [1]

(losses in tax revenues in millions of € per tax year)

	1996	2000	2005	2007
Fiscal expenditure relating to property holdings	892	1,142	1,303	1,441
Additional reduction for home buyers' tax savings	576	806	965	883
Complementary deduction of interest on mortgage borrowings	127	106	83	58
Life insurance premiums and capital depreciation	189	230	255	249
Deduction for sole and own home				251
Fiscal expenditure relating to savings	251	326	387	473
Acquisition of shares or stakes in the company	7	5	6	4
Staff contributions for group insurance / pension fund (second pillar)	81	94	94	92
Pension savings (third pillar)	163	227	286	377
Total	**1,143**	**1,468**	**1,689**	**1,914**
p.m. As a percentage of GDP	*0.6*	*0.6*	*0.5*	*0.6*

Sources: HCF and various editions of the "Inventory of fiscal expenditure".

(1) The deduction applied to the cadastral income of the home is not included in the table because, since 2005, the cadastral income of the taxpayer's own home may no longer form part of personal taxation if there are no mortgage borrowings going back to the system prior to 2005. In both systems, the cadastral income relating to the taxpayer's own home is only taxed to a small extent or not at all.

deduction for home buyers' tax savings and the complementary deduction of the interest on borrowings has been more than offset by the growth in fiscal expenditure linked to the deduction for a sole and own home.

Apart from the long-term savings referred to above, it is possible to deduct the expenditure allowed for the purchase of shares in the company and for individual pension savings (third pillar) at a level of € 870 (tax year 2011) at the special average taxation rate [1]. Personal contributions in the context of group insurance or a pension fund in the second pillar also provide an entitlement to a tax reduction calculated at the special average taxation rate. The grant of a tax break upon payment of the premiums gives rise to a fiscal levy on the amounts collected when the contract matures, whether it involves pension savings in the second or the third pillar. The amount deductible in the context of individual pension savings was raised considerably (by around a quarter) with effect from the tax year 2006, a fact which helps to explain the growth in revenue losses.

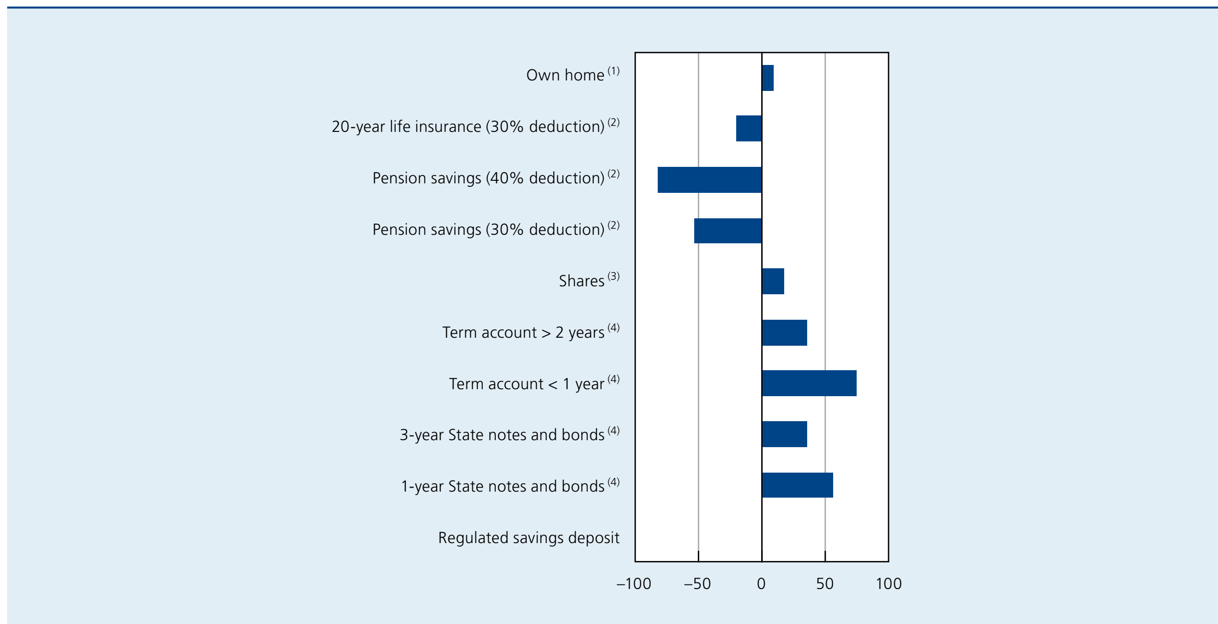
The significance of these various tax deductions in the context of personal taxation remained fairly stable as a proportion of GDP, at about 0.6 %, between the tax years 1996 and 2007.

This tax deduction policy, combined with specific levies on certain assets and the exemption of certain kinds of income, such as the interest on regulated savings deposits, but also the non-taxation of capital gains, results in the fact that the various forms of savings are taxed in a very different way in Belgium. This situation can be partly justified by the wish to stimulate or promote certain forms of savings. But it may also bring with it an adjustment by private individuals of their asset portfolio on the basis of strictly fiscal considerations, without this behaviour necessarily constituting an optimum.

The impact of the different levies and tax deductions on the assets of private individuals is taken into account in the real rate of taxation. This rate takes account of levies on acquisitions, annual taxes, exit taxes and also the tax deductions granted [2]. The taxes are generally collected on the gross return from the asset despite the fact that the latter is partly intended to offset the negative impact of inflation on the real value of wealth. This offsetting does not correspond strictly speaking to a supplementary income since it is aimed at maintaining purchasing power. That is why the calculation of the real rate of taxation is applied to the net return after the deduction of inflation. This exercise has been performed for State notes and bonds, savings accounts, pension funds, shares and property holdings. Especially in view of the fact that it is calculated on the net return, this real rate of taxation is

(1) However, the two tax deductions cannot be combined.
(2) The method used in this context is based on Valenduc (1993).

CHART 3 ACTUAL RATE OF LEVY ON DIFFERENT ASSETS OF PRIVATE INDIVIDUALS
(percentages)



Source: NBB.
(1) Based on the purchase of a home at € 200,000 subject to registration fees of 10 %, and financed by mortgage borrowings conferring the right to the deduction for a sole and own home.
(2) Based on an assumed annual return of 6 % and inflation of 2 %, as well as a term of 20 years, taking account of annual levies, exit taxes and any tax deductions.
(3) Based on the dividend yield and the capital gain in the Belgian All Shares index between 2004 and 2009; the dividends distributed are assumed to be taxed at 25 %. Furthermore, a tax on stock market transactions of 0.17 % is taken into account.
(4) For the period 2004-2009.

very volatile for certain assets [1], particularly for short-term savings products. In order to take account of this aspect as far as possible, it is the real average rate of taxation for the period 2004-2009 which has been used.

The comparison of levies on the different assets shows that as the investment horizon is reduced, the real rate of taxation increases. With regard to the period 2004-2009, the average real rate of taxation on a term account with a duration of less than a year stood at close to 75 %, whilst it reached no more than 36 % for term accounts with a duration of more than two years. This is simply due to the fact that the return on an investment is generally higher where its duration is longer.

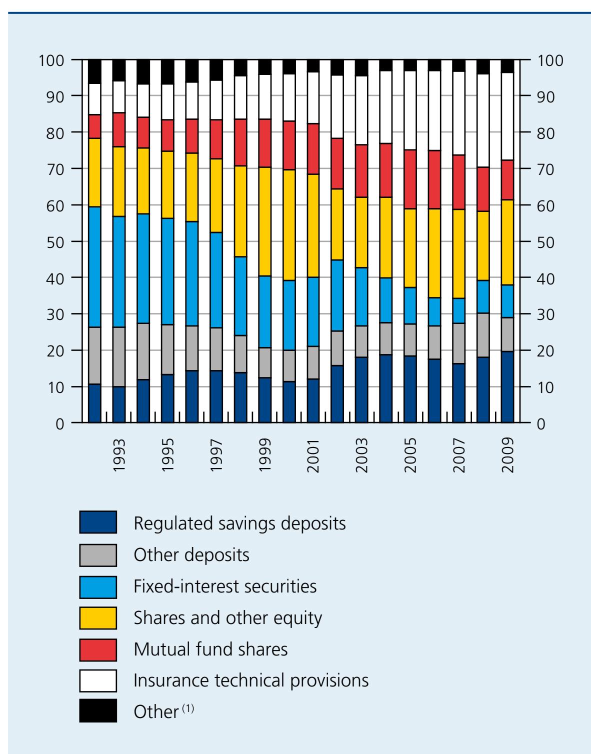
The rate of levy diverges even more between the different types of asset. Thus, the negative rate of taxation shows that pension savings are heavily subsidised, both for the deductions made at the minimum rate of 30 % and at the maximum rate of 40 % Despite specific levies on payments [2], life insurance also benefits from very favourable tax treatment. Based on the average return on Belgian shares between 2004 and 2009, calculated to take account of dividend distributions and capital gains, the effective rate of taxation on these assets was 17.6 %, that is to say less than the withholding tax on income from movable property at 25 % [3]. This situation is attributable to the fact that capital gains realised during this period were not taxed. The zero rate on regulated savings deposits also distorts the neutrality of taxation in relation to the various forms of savings. The OECD and the fiscal and parafiscal section of the High Council of Finance have drawn attention in the past to the fact that the lack of competition in the area of savings deposits means that this tax exemption mainly benefits the banking sector. In effect, the banks reward savings deposits at a lower level.

Holdings in undertakings for collective investment (referred to as "OPCs" in Belgium) constitute another financial product for which the tax incentive plays a significant role in the savings behaviour of households. In 1990, variable-capital and fixed-capital investment companies, "SICAVs" and "SICAFs" respectively, were created in response to the SICAV in Luxembourg. Up to

(1) With regard to products of this type, the gross return is less than inflation in some periods, which entails negative returns in real terms.
(2) This involves the tax of 1.1 % on payments made into insurance products and the annual tax on beneficial holdings.
(3) The dividends distributed represent around 44 % of the annual return of 5.7 % over this period.

CHART 4 STRUCTURE OF FINANCIAL ASSETS OF PRIVATE INDIVIDUALS

(percentages)



Source: NBB.

(1) The item "Other" includes commercial credit and various claims against the public authorities and the financial institutions, as well as the currency in circulation held by private individuals.

a few years ago, the incomes issued from capitalisation SICAVs were regarded in all cases as capital gains and were therefore not subject to the withholding tax on income from movable property.

Since 1 January 2006, new rules have applied to capitalisation SICAVs that have invested at least 40 % of their assets in bonds and benefit from the "European passport" [1]. Thus, since that date, the capital gain obtained upon buy-back of the units – and therefore upon their sale by the private individual – or the complete or partial sharing-out of the assets of the SICAV is subject to the withholding tax on income from movable property at 15 % with regard to the part corresponding to the interest collected by the SICAV. Since 1 January 2008, the withholding tax on income from movable property also applies to the capital gain generated by the bond portfolio, after the deduction of losses.

During the last two decades, the significance of holdings in OPCs has grown considerably within the wealth of private individuals, owing to the favourable tax treatment of these financial products. The success of the regulated savings deposits is also partly explained by the exemption of this product from the withholding tax on income from movable property. In the last few years, a net rise in technical reserves in insurance has also been seen. These include the reserves formed in the context of group insurance (pension in the second pillar), savings insurance (pension savings in the third pillar) and individual life insurance, all three of which benefit from favourable tax treatment.

3. Positioning of Belgium in relation to other countries

3.1 General outline

In Belgium, levies on income from wealth of private individuals and other levies on wealth increased from 3.9 % of GDP in 1995 to a maximum of 4.3 % in 2008. This share fell back to 4.1 % in 2009 in the wake of the financial and economic crisis. As a percentage of GDP, the scope of these levies is thus slightly higher in Belgium than in the EU on average, where these revenues grew from 3.2 % in 1995 to 3.8 % in 2008. In order to avoid influencing the international comparability of the data, levies on wealth paid by companies are taken into account, whereas they were excluded from the analysis of levies in Belgium in the previous chapter.

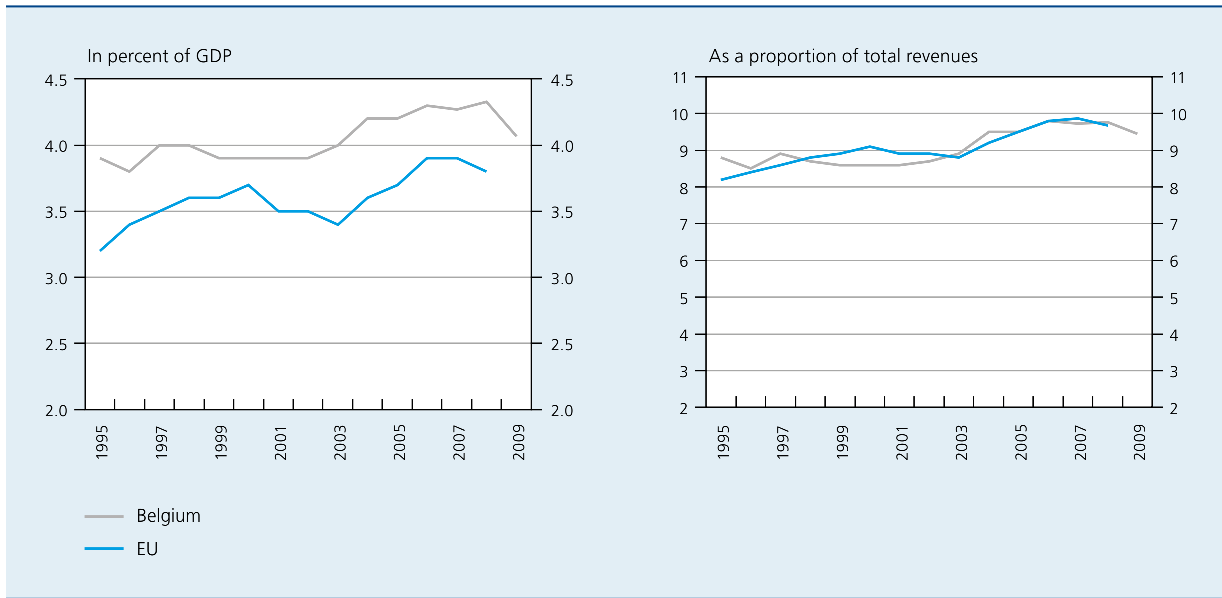
Levies on wealth and income from wealth of private individuals represent a little under 10 % of total tax revenues both in Belgium and in the EU. The development of revenues in the EU is similar to that seen in Belgium.

The comparison between the EU Member States of revenues originating from levies on wealth and the income from wealth of private individuals as a percentage of GDP shows the significance of these levies in Belgium in 2008 compared to the European average, with only the United Kingdom, France and Cyprus being ahead of Belgium. In several countries that have joined the EU during the last ten years, the scope of these levies is less than 1 % of GDP. The significance of levies on income from wealth is less than that of other levies on wealth [2] in almost all the economies. This is very clearly the case in Belgium: levies on income from wealth of private individuals only account for 0.6 % of GDP, as against 1 % of GDP in the EU. In

(1) These funds come under the European Directive on investment funds and can therefore be distributed more easily in the EU.

(2) In the Netherlands, the net effect of levies on income from wealth is actually negative owing to the considerable impact of the tax deduction on mortgage loans and the deduction of social security contributions in the second pension pillar, which result in significant tax refunds.

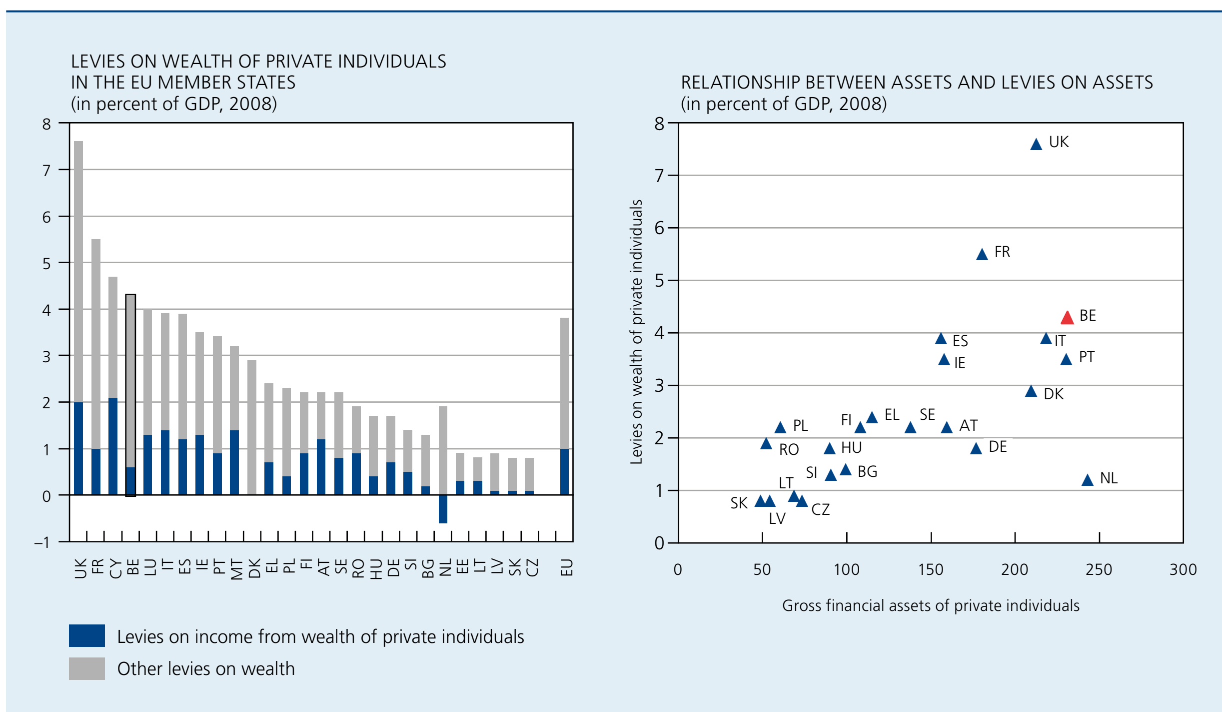
CHART 5 DEVELOPMENT OF LEVIES ON WEALTH OF PRIVATE INDIVIDUALS



Source : EC.

Belgium, these revenues originate essentially from the withholding tax on income from movable property paid by private individuals. This is reduced by the net tax on capital within the system of personal taxation, this being negative following the significant tax deductions in the context of personal taxation.

CHART 6 LEVIES ON WEALTH



Source : EC.

The level of taxes on wealth and the income from wealth as a percentage of GDP does not constitute a relevant piece of information with regard to the scope of rates of levy for a given country. In fact, it is strongly dependent on the size of the wealth of private individuals in this country, an approximation of which can be given by their gross financial assets as a percentage of GDP, therefore excluding the value of property holdings. In general, those countries where private individuals have a relatively large amount of wealth as a percentage of GDP show higher revenues originating from levies on wealth and the income from wealth as a percentage of GDP.

Nevertheless, the relationship between assets and the levies on assets, as a percentage of GDP, shows that countries posting a similar level of wealth may display levies on wealth that differ considerably. Thus, the United Kingdom and the Netherlands, both of which have a high level of gross financial assets as a percentage of GDP, post very different levels of revenues levied on wealth and the income from wealth. These reached 7.6 % of GDP in the United Kingdom in 2008, whilst they were only 1.2 % of GDP in the Netherlands. Compared to countries where private individuals hold financial wealth of a comparable scope in relation to GDP such as Italy, Portugal, Denmark and the Netherlands, Belgium applies relatively sizeable levies on assets and the corresponding income. In the United Kingdom, on the other hand, fiscal pressure on the wealth of private individuals is around twice as great as in Belgium.

In view of the effect of the tax base, it is necessary to complete the analysis with the main rates of levy for the main taxes on property and financial assets. The analysis presented below can only be regarded as an indication of the way in which wealth and the income from wealth are taxed in Belgium. In fact, it is not possible to be exhaustive owing to the complexity of the different systems which generally include numerous exceptions to the standard rates.

3.2 Taxation of property holdings

Property holdings are a key component of households' assets. A study carried out on Belgium by the OECD in July 2009 included an analysis of the size of levies on property holdings [1]. The data from 2007 reveal that the scope of annual levies on property holdings (this involves the withholding tax on income from immovable property, which is reduced by the tax deductions in the context of personal taxation) was, at 0.4 % of GDP, lower in Belgium than the average of the EU15, where revenues amounted to 0.8 % of GDP, and much lower than that recorded in the United Kingdom and France. Amongst the countries for which information was available, only Hungary, Austria, the Czech Republic and Greece had lower revenues as a percentage of GDP. The OECD underlined the fact that the relatively weak fiscal pressure on property holdings in Belgium results from the tax treatment of mortgage loans and the withholding tax on income from immovable property. The system of mortgage deductions is based on the marginal rate of taxation and is wider than in most of the other countries, given that it relates not only to the interest payments but also to the capital repayments and the premiums for the mortgage protection life insurance.

The converse is found if levies on transactions relating to the purchase of housing are considered. A study carried out by the European Mortgage Federation in 2010 reveals that, in relation to the overall purchase price of a home, the levies on the purchase are highest in Belgium out of the fourteen countries included in the comparison. These significant levies represent, on average, close to 10 % of the overall price when a purchasing a home.

In the analysis referred to above, the OECD indicated that tax deductions ultimately lead to higher housing prices and are harmful, along with significant transaction costs, to mobility on the labour market and the allocation of the workforce. Furthermore, the institution highlighted the fact that, according to its empirical studies, levies on property holdings weigh less heavily on economic growth than other taxes, so that this tax base can be utilised to a greater extent than is currently the case. It therefore advocated increasing the annual levies on housing on the basis of a realistic cadastral income and limiting the tax deduction to interest payments.

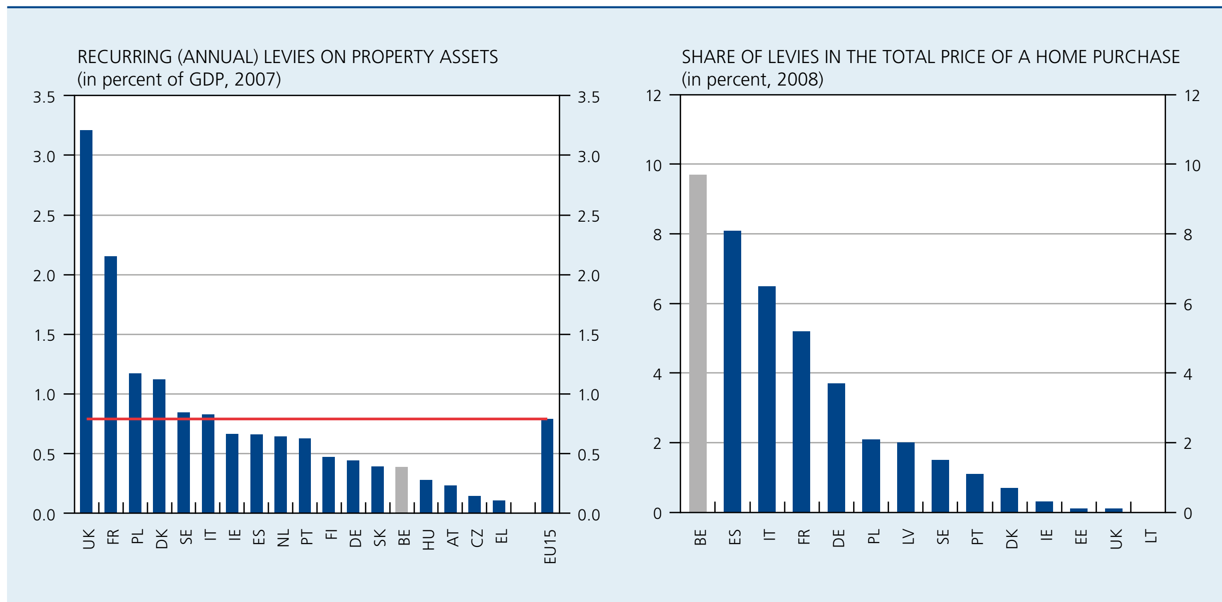
3.3 Taxation of financial assets

In Belgium, the withholding tax on income from movable property applicable to interest and dividends is the main levy on income from financial assets. This provides full discharge if the taxpayer wishes. This income need not be listed in the declaration relating to personal taxation, therefore. In several countries, there is no system of withholding tax on income from movable property or if there is, it does not always provide full discharge.

The comparison of the tax treatment of dividends is based of the data from the OECD. These data take account of the fact that there is no withholding tax on income from movable property providing full discharge in several countries and that the income from dividends is either

(1) The OECD does not distinguish in this regard between levies paid by private individuals and those paid by companies.

CHART 7 LEVIES ON PROPERTY ASSETS



Sources: OECD, European Mortgage Federation.

taxed or not at a particular rate in the system of personal taxation (1). The data take account of the highest marginal rate at which this income can be taxed. It appears that the highest rate of withholding tax on income from movable property applicable to dividends in Belgium, which is 25 %, is positioned at the average of that applied in the other countries, whilst the rate of 15 % on the dividends of certain shares is below the average (2). Around one-third of the dividends distributed in Belgium between 2004 and 2006 were taxed at a rate of 15 %.

When levies on interest from government bonds are considered, it appears that the withholding tax on income from movable property providing full discharge at 15 % in Belgium is also lower than the average of the other countries. Only Luxembourg, Greece and Italy apply a lower rate for residents. In the United Kingdom and Denmark, this income is taxed at the marginal rate for personal taxation, the rates of taxation thus potentially amounting to more than 50 %.

A general levy on capital gains is lacking in Belgium where they are not normally taxed, with notably the exception of carry transactions for property holdings and, as already indicated, capitalisation SICAVs that invest more than 40 % in bonds.

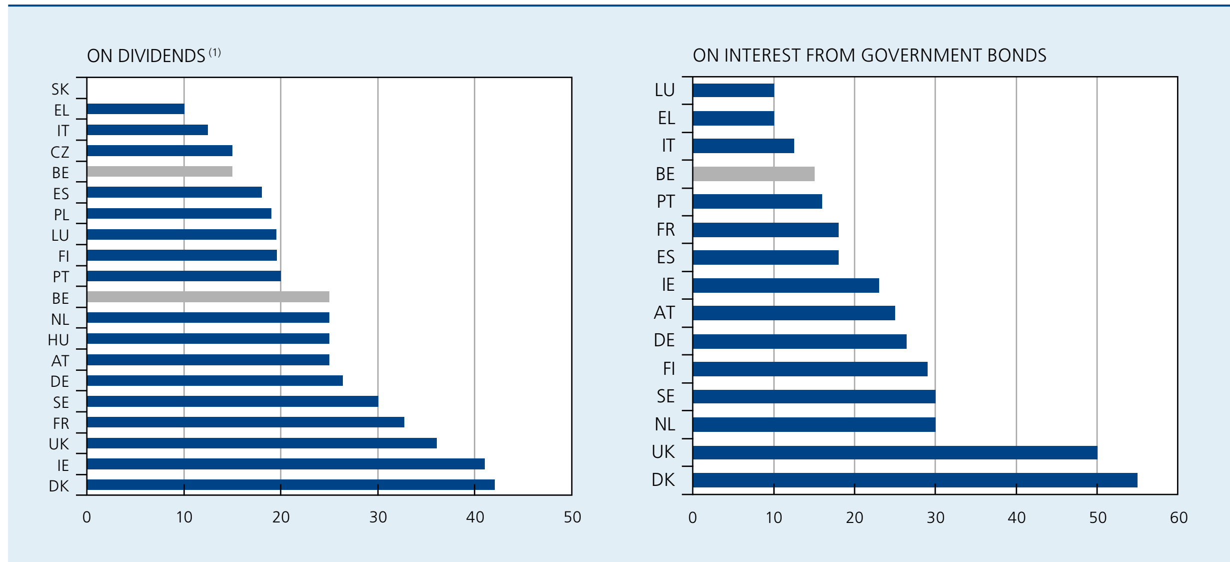
The Netherlands, Luxembourg, Lithuania, the Czech Republic and Cyprus do not tax capital gains on shares (3) either. Other countries such as Austria and Portugal have systems that only tax the capital gains on shares if they are made within a particular timeframe. In most of the other countries, the rate of taxation on capital gains approaches the withholding tax on income from movable property levied on dividends. This makes the tax system more neutral in respect of the type of growth in wealth.

3.4 Inheritance taxes and gift duties

A comparison of revenues from taxes on inheritance and gifts as a percentage of GDP reveals that Belgium records the most significant revenues, based on the data from the OECD. This stems partly from the relatively high level of wealth in Belgium, but also from relatively high rates. However, comparing the systems is a very complicated matter owing to the differing taxation depending on the degree of blood relationship, which constitutes a key factor in determining the rate in a large number of countries. But if the highest marginal rate for inheritance taxes in the direct line is considered – that is to say to children, between spouses or, in certain circumstances, between cohabitees – it can be seen that the rate is relatively

(1) No account was taken of company tax on distributed profits since it was considered that this tax is only borne to a very small extent by the saver in a world of capital mobility and that it mainly results in a fall in investment.
(2) The rate of 15 % applies to the dividends on shares issued from 1994 onwards, the dividends of SMEs listed on a stock exchange and the dividends distributed by investment companies.
(3) It is impossible to compare the levies on capital gains on property holdings owing to the complexity of the systems in force in the different countries.

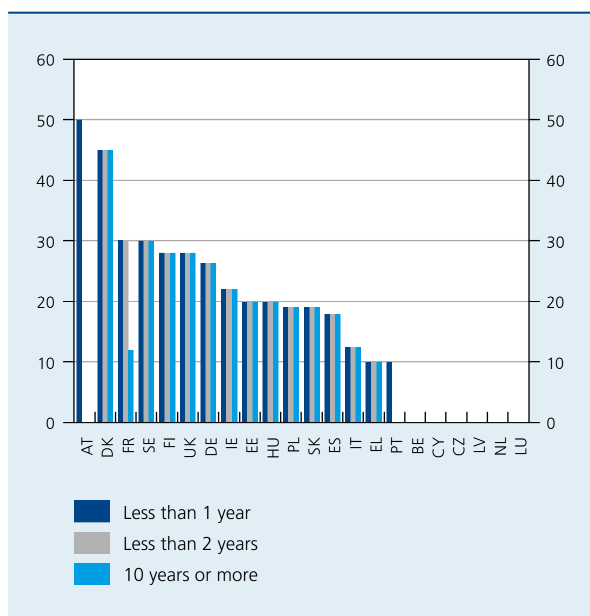
CHART 8 LEVIES ON INCOME FROM FINANCIAL ASSETS
(percentages)



Sources: OECD, NBB.
(1) With regard to Belgium, the rate of 25 % and the reduced rate of 15 % are both listed.

significant in the Belgian Regions. The rate is only higher in France, the United Kingdom and Spain. In the United Kingdom, however, where the highest marginal rate is 40 %, the first portion of the estate is exempt from tax and the amount of this exempt portion is relatively significant, at £ 312,000. In many countries, and more particularly in the countries that have joined the EU recently, there is no system of inheritance taxes. Other countries, such as Portugal and Austria, have abolished their systems of inheritance taxes in the more recent past – in 2004 and 2008 respectively.

CHART 9 LEVIES ON CAPITAL GAINS ON SHARES



Source: NBB.

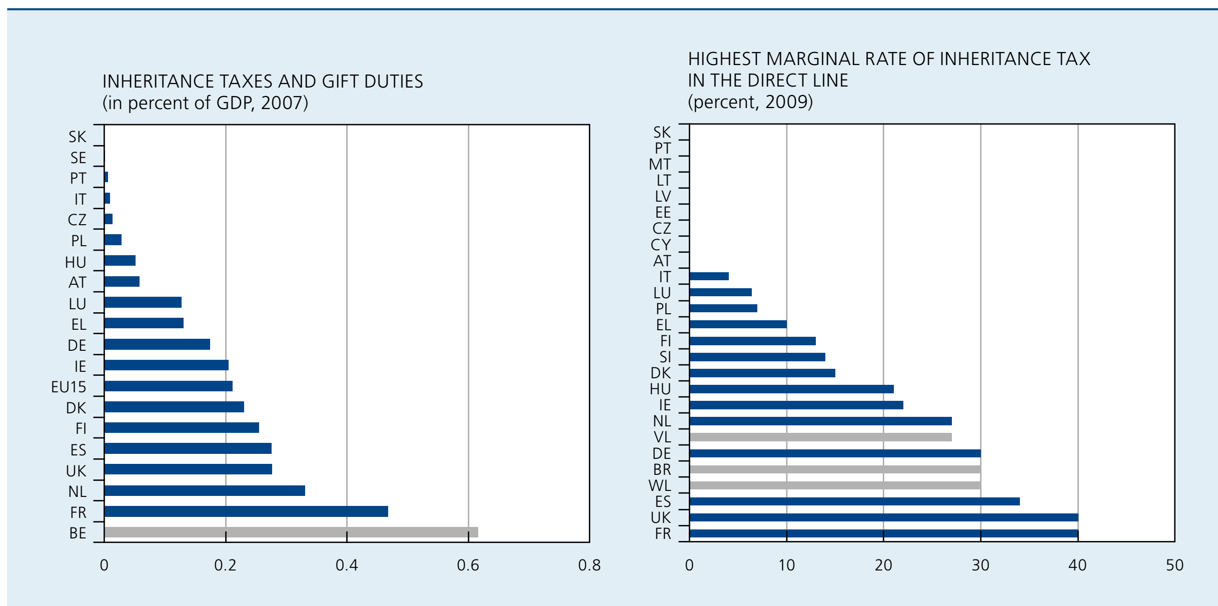
3.5 Levies on wealth in the strict sense

Levies on wealth are generally understood in the first instance to mean an annual levy on the net wealth of private individuals. This type of levy no longer exists except in a small number of European countries. Only France, Switzerland, Norway and Liechtenstein still apply this type of taxation. In the Netherlands, the levy on wealth was replaced in 2001 by a levy on a notional return, which corresponds *de facto* to a levy on wealth.

In other European countries, these levies have been abolished during the last few decades. Thus, levies on wealth have disappeared in Austria (1994), Denmark (1997), Germany (1997), Finland (2006), Luxembourg (2006), Sweden (2007) and Spain (2008). These reforms were frequently accompanied by an increase in other taxes on income (from capital).

Owing to the need to undertake budgetary consolidation, however, several countries are looking at reintroducing levies on wealth. This is the case in Spain and Ireland, for

CHART 10 INHERITANCE TAX AND GIFT DUTIES



Sources : OECD, NBB.

example. An outline of the levies on wealth applied in France and the Netherlands can be found below.

FRANCE

France has a long tradition of levies on wealth. In 1982, a tax on high levels of wealth (*impôt sur les grandes fortunes)* was introduced which was abolished in 1987 and subsequently replaced by a solidarity tax on wealth, the *impôt de solidarité sur la fortune*, abbreviated ISF. The latter is an annual levy, involving progressive rates, on the wealth of private individuals with the aim of increasing redistribution by way of the tax system. This levy is payable from the point where the net value of wealth is greater than € 790,000 (as at 1 January 2009) (1). The rate of levy increases from 0.55 % on the first slice to 1.8 % on net wealth of more than € 16,480,000. There are several restrictions in place to prevent income being taxed "excessively". In 2005, a so-called "tax shield" (*bouclier fiscal*) was introduced, by virtue of which the combined total of direct taxes on income, including the ISF, could not exceed 60 % of the aforementioned income. In 2008, this restriction was scaled back to 50 %.

The fairly small product of the levy has fluctuated between 0.15 % and 0.2 % of GDP in the last few years. The costs associated with its collection and its control are expected to remain limited, varying between 2 and 2.5 % of the product. According to an evaluation by the French national audit office (*Cour des comptes française*), the "ISF is increasingly developing in the direction of property taxation". Moreover, an outflow of capital has been observed, although its exact impact is difficult to calculate.

THE NETHERLANDS

In 2001, the levy on wealth in force in the Netherlands, at a rate of 0.7 %, and also the levy on income from wealth, were replaced by a levy on the return from wealth, which forms part of the system of personal taxation. This levy assumes a notional return on wealth of 4 %, on which a tax of 30 % is levied. This tax corresponds *de facto* to an annual levy on wealth of 1.2 % (2). Taking account of the way it operates, the levy is fairly stable and fluctuates in the region of 0.5 % of GDP.

The levy on notional income could bring about negative returns in a few years, after subtracting inflation, for those investors who have opted for a portfolio of defensive investments (e.g. savings deposit).

(1) The assets taxed consist in particular of property holdings that are unbuilt, built and in the course of construction, State notes and bonds, shares, jewellery, cars and horses. The value of the main home is reduced by 30 % Debts relating to these assets can be deducted.

(2) The wealth is taxed with effect from € 20,661 (in 2010) or € 41,322 for married persons or registered partners ; this threshold is increased by € 2,762 for each dependent child. The wealth includes in particular bank accounts, shares, bonds, investments and certain forms of property holdings (e.g. second homes). It is reduced by unpaid debts. The taxpayer's own home and certain financial holdings, and also works of art, are not included.

4. International cooperation

In the last few years, an effort has been made to reduce international tax evasion, particularly tax evasion relating to income from wealth. In fact, the free circulation of capital and the lack of coordination between countries provided private individuals with the opportunity to evade tax on income from wealth. This section briefly sets out the work of the OECD to combat tax evasion, as well as outlining the European Directive on taxation of savings.

4.1 Work of the OECD to combat tax havens and tax evasion

The OECD has been working to improve international cooperation with respect to transparency and the exchange of tax information for around fifteen years. In concrete terms, this institution advocates exchange of information between tax authorities on demand and in specific cases in order to provide the tax authorities with better tools to act against fraud.

In 1996, at the instigation of the G7, the OECD launched a project focusing on harmful tax practices. An initial report on the subject was published in 1998 (1). It served as the basis for discussions held within the OECD in order to eliminate preferential tax regimes, identify tax havens and urge them to adopt the standards of the OECD with respect to tax cooperation. Non-member countries were encouraged to join in with the OECD's work (2).

In a report published in 2000 (3), the OECD drew up a list of 35 countries and territories fulfilling the criteria of tax haven (4). In the wake of this report, numerous countries undertook to observe the principles of the OECD with respect to transparency and exchange of tax information.

In April 2009, the members of the G20 put pressure on uncooperative countries by raising the threat of sanctions. For its part, the OECD drew up three lists in a report published on 2 April 2009 to classify countries according to their degree of tax cooperation: a black list, a white list and a grey list. The countries on the white list are regarded as sufficiently observing the standards; those on the grey list have promised to conform to them although they have not done so yet and those on the black list have refused to commit to them. In the wake of this report, clear improvements were observed in 2009 when the OECD's standards were approved and adopted by numerous countries.

When the report was published, Belgium appeared on the grey list. Under international pressure, it then made a commitment to quickly implement observance of the OECD standards. In various ways since then, it has shown its willingness to increase tax transparency: bringing forward its participation in the system for exchanging information in the context of the European Directive on the taxation of savings (1 January 2010 instead of 1 July 2011), systematic incorporation of the exchange of tax information at every renegotiation of a bilateral convention and the signing of numerous agreements observing the OECD standards.

In July 2009, Belgium signed the 12th agreement on the exchange of information for tax purposes, an act which allowed it to move off the grey list (29 countries moved from the grey list to the white list in the course of 2009). Furthermore, it has established numerous bilateral contacts in order to multiply the number of tax agreements.

4.2 European Savings Taxation Directive

The free circulation of capital and the lack of coordination between the Member States of the European Union regarding taxation of income from savings allowed private individuals to evade taxation on interest collected in a Member State other than their country of residence. This situation generated movements of capital between Member States and distortions that worsened the conditions on the internal market. In the context of the fight against detrimental fiscal competition, the Member States finally decided in 2003 to adopt a Directive in order to rectify these distortions.

In concrete terms, the aim of this Directive, which has been in effect since 1 July 2005, is to ensure the effective taxation of income from savings collected in the form of interest payments that are made in one Member State in favour of natural persons having their place of residence in another Member State, in accordance with the legislative provisions of the latter country. In order to do this, it envisages that the Member States undertake the automatic exchange of information relating to these payment flows. Whilst the exchange of information is the cornerstone of the Directive, three countries (Belgium, Luxembourg and Austria) have nevertheless obtained a temporary exemption, allowing them not to exchange this information but to levy a deduction at source. These countries raised the

(1) OECD (1998).
(2) The OECD standards with respect to tax cooperation require in particular the exchange of tax information on demand, the abolition of banking secrecy, access to reliable information, observance of taxpayers' rights and an assurance of the confidentiality of the data exchanged.
(3) OECD (2000).
(4) According to the OECD definition, a tax haven is defined on the basis of several criteria, particularly the following four: insignificant or non-existent taxes, lack of transparency on the tax regime, absence of information exchange and attraction of dummy companies with fictitious activities.

objection that the mechanism for exchanging information was contrary to their legislation on banking secrecy. During the transition period, the three Member States are nevertheless entitled to receive information from other Member States and to bring forward the introduction of automatic information exchange. When this is done, the countries concerned will no longer make a deduction at source. Belgium has decided to take part in the system for exchanging information under the European Savings Taxation Directive with effect from 1 January 2010.

The deduction at source stood at 15 % between 1 July 2005 and 30 June 2008, and at 20 % between 1 July 2008 and 30 June 2011. It will be 35 % with effect from 1 July 2011. This taxation is rebated at a level of 75 % in the beneficiary's country of residence. The State levying the deduction at source keeps 25 % of the proceeds generated in this way to offset the administrative costs associated with collecting the tax (1).

In order to prevent a flight of capital from the EU, the Member States have opened negotiations to encourage associated and dependent territories and certain third-party countries to adopt similar provisions. The Directive has been partly or fully adopted by the following countries : Switzerland, Liechtenstein, San Marino, Monaco, Andorra, Anguilla, Montserrat, the Cayman Islands, Guernsey, Jersey, the Isle of Man, the British Virgin Islands, the Turks and Caïcos Islands, the Dutch Antilles and Aruba.

Every three years, the EC submits a report to the Council of Ministers about the operation and effectiveness of the Directive. The first report, drawn up in 2008, reveals that amongst the countries having opted for the exchange of information, it is the largest economies that show the highest figures with respect to declaration of interest collected by non-residents. Thus, the United Kingdom posted an amount of € 9.1 billion for payments made between 1 July 2005 and 5 April 2006 (the end of the tax year). Between 2005 and 2007, France declared € 5.1 billion ; Italy 3.1 billion and Germany close to 3 billion. The case of Luxembourg, which declared € 11.6 billion of interest collected by non-residents over the period 2005 to 2007, also deserves to be highlighted. The tax amnesty offered in Germany between 31 December 2003 and 1 April 2005 could explain this high figure.

As for the countries applying a deduction at source, the lion's share of the revenue for 2005, 2006 and 2007 originates from Switzerland and Luxembourg, at 46 % and 23 % of total revenues respectively. Austria and Belgium account for 8.3 % and 3.9 % of the amounts collected at source respectively ; and Jersey and the Isle of Man 6.2 % and 4.2 % respectively (2). The other countries having opted for a deduction at source (third-party countries and associated territories other than those referred to above) only represent a small proportion of the total collected. In Belgium, the portion retained from the deductions at source levied on interest payments to non-residents represented between 5.5 and 11.8 million annually from 2006 to 2009 (3).

Over the period 2005-2006, the largest beneficiaries of the deduction at source were Germany (€ 192.7 million) and Italy (112.9 million). Belgium received € 56 million in 2006, 53 million in 2007, 83 million in 2008 and 49 million in 2009. This income originates essentially from Luxembourg and Switzerland (on average, 73 % of the income received during the period 2006-2009 originates from Luxembourg and 24 % from Switzerland).

According to the EC report, the analyses compiled from the data gathered over the period 2000-2007 by other sources (BIS, Eurostat and the European Fund and Asset Management Association) do not show any noticeable change in the behaviour of private individuals with respect to savings following the implementation of the Directive. Whilst certain significant developments are observed, they were already in existence prior to the introduction of the Directive (4).

In its report, the EC puts forward changes in order to strengthen the effectiveness of the Directive. In fact, several weak areas in the text give rise to opportunities to get round the legislation. In the first place, the Directive only applies in countries that are signatories ; consequently, it runs the risk of generating relocation effects. Secondly, it only applies to natural persons ; it is therefore easy to get round through recourse to legal persons. Thirdly, the definition of income from interest makes it possible to circumvent the Directive by using innovative financial products.

The first change requested by the EC in order to rectify these weaknesses would be to ask the paying agents to use all the information at their disposal about the true actual beneficiary when payments are made in favour of artificial persons or legal entities. This method should make it possible to detect cases where a payment made

(1) It should be noted that the mechanism of deduction at source is optional for the actual beneficiary who can in fact authorise the paying agent to send the required information to the tax authorities in his Member State. The actual beneficiary must produce a certificate issued by his country of residence to avoid the deduction at source on the interest paid to him.

(2) That is to say € 631 million for Switzerland over the period 2005-2007, 313 million for Luxembourg, 113 million for Austria, 84 million for Jersey, 57 million for the Isle of Man and 53 million for Belgium.

(3) That is to say € 5.5 million in 2006 ; 8.3 million in 2007 ; 10.1 million in 2008 and 11.8 million in 2009.

(4) This observation could also result from the fact that the directive was anticipated during the period under analysis.

TABLE 3 DEDUCTIONS AT SOURCE RECEIVED

(in millions of euro, largest beneficiaries only, list not exhaustive)

	2005 (2nd half)	2006	2007
Belgium	16	56	53
Austria	2	8	10
Germany	38	155	n.
Spain	13	39	46
France	13	50	64
Greece	5	14	n.
Italy	28	85	107
Netherlands	7	23	27
United Kingdom	33	62	86

Source: Hemmelgarn T. and G. Nicodème (2009).

in favour of an artificial person is actually intended for a natural person.

In order to clarify the concept of paying agent "upon receipt", the EC advocates as a further change the use of a positive definition of the intermediate structures established within the Member States and required to act as paying agents "upon receipt". These structures would thus be forced to apply the provisions of the Directive unequivocally.

The third element of the EC recommendations covers several aspects. Firstly, the definition of interest payment is too restrictive. Consequently, certain innovative financial products which can be equated with the products explicitly covered by the Directive make it possible to get round the legislation. The EC proposes widening the definition of interest payments by taking account of developments in savings products and the behaviour of investors. Secondly, the treatment of securities issued by OPCs is not consistent. Depending on their technical characteristics, certain OPCs come under the scope of the Directive whilst others escape it. In order to remove these differences in treatment, it is important to establish a precise definition of the entire group of OPCs to be incorporated in the Directive's area of application. The use of a definition that is both simple and inclusive would make it possible to reduce the risk of getting round it. Furthermore, certain Member States wished to widen the area of application of the Directive to payments of dividends and capital gains originating from investments that do not offer any substantial protection of capital. This position was not widely shared since the Directive is not the ideal framework for improving cooperation between tax authorities in this respect.

Based on this report, the EC adopted a proposal to modify the Directive on 13 November 2008. The European Parliament approved the proposal from the EC and put forward a series of amendments. The favourable Opinion of the European Economic and Social Committee was adopted on 13 May 2009. On 25 November 2009, the Ecofin Council reached a policy agreement and submitted a proposal for a Directive amending the European Directive on taxation of savings. Whilst the text is regarded as acceptable overall to the Council, certain countries have nevertheless expressed reservations. Discussions are currently still in progress.

4.3 Discussions regarding the possible introduction of a tax on banks

The possible introduction of a tax on banks is the subject of a debate on the international stage (G20, EU). No consensus has been reached at the present time. Certain countries which have been only slightly affected by the financial crisis (such as Canada) are opposed to it. Nevertheless, at the European level, the unilateral introduction of a tax on banks has been decided on for the territory of the EU. This decision was taken at the meeting of the European Council on 17 June 2010. The Member States wish "to introduce systems of levies and taxes on financial institutions to ensure fair burden-sharing and to set incentives to contain systemic risk". The European Council emphasised the importance of coordinated and consistent action by Member States in order to prevent distortions of competitiveness between national markets and problems of multiple taxation for cross-border institutions.

The taxation package to be introduced is still causing debate. Several lines of action are envisaged: on the one hand, there is taxation of the profits or the activities of financial institutions; on the other hand, taxation of financial transactions. This summer, the European Council asked the EC to consider the terms of a tax on banks. On 7 October 2010, the EC submitted its ideas in this respect, proposing a dual approach. At the global level, it suggests introducing a tax on financial transactions. The EU hopes to convince its international partners of the merits of a global process. At the EU level, however, a tax on financial activities would be preferable according to the EC. The latter will shortly carry out an impact analysis on the aforementioned measures, in order to deliver concrete proposals in 2011.

Conclusions

It is no simple matter to compare levies on the wealth of private individuals, owing to the complexity of the systems and the diversity of the components of wealth. Nevertheless, several general findings can be expressed.

Compared to the average in the EU, levies on the wealth of private individuals and the income that they draw from it in relation to GDP are fairly substantial in Belgium overall. This is due in part to the relatively significant volume of assets held by private individuals in Belgium, but also to the rates of certain levies. The comparison between Belgian rates and those applying in other countries does not allow a clear-cut conclusion to be drawn. It should nevertheless be noted that in Belgium, the annual income from wealth is generally taxed moderately and levies on capital gains are virtually non-existent. On the other hand, wealth-related transactions such as property purchase and the inheritance of estates are taxed relatively heavily. The actual rate of taxation is distributed very unfairly between the different forms of assets. Some are heavily subsidised, by way of tax deductions granted in the context of taxation of natural persons, such as pension savings, whilst some financial products, particularly those with short terms to maturity, are taxed quite heavily.

At the international level, it is the case that levies on wealth in the strict sense have disappeared in most countries over the last twenty years. They have persisted in a number of countries and it is not impossible that the need to undertake budgetary consolidation will prompt others to reinstate them.

In the last few years, an effort has been made to reduce international tax evasion, particularly those relating to income from wealth. In fact, the free circulation of capital and the lack of coordination between countries provided private individuals with the opportunity to evade tax on income from wealth. In order to combat tax evasion effectively, the OECD has been encouraging transparency and the exchange of tax information for about fifteen years. In 2009, under international pressure, numerous countries (including Belgium) took measures to comply with the OECD's tax standards. At the EU level, the Member States adopted a Directive on the taxation of income from savings in 2003. Omissions in the current text (in effect since 1 July 2005) provide private individuals with various opportunities to get round the Directive. In 2008, the EC proposed some amendments to the Directive in order to rectify these problems. Nevertheless, the new legislative text has not yet been adopted by the Ecofin Council.

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