



Do I pay less tax if I opt for the 'liquidation reserve' ?

Belgian companies currently pay a **25% corporate tax** on their earnings (or 20% on the first €100,000 of taxable profit if they qualify as an SME) and an additional **30% withholding tax** if they decide to distribute those after-tax profits **as a dividend**. Before, companies often used the liquidation procedure as an alternative to cash out their taxed earnings, as the **liquidation tax was only 10%**. Since 2014, the liquidation tax rate follows the standard dividend tax rate.

Aiming to reduce the tax burden on dividends, the so-called '**liquidation reserve**' (LR) was introduced in 2015. This allows **SMEs** to set up a LR for their after-tax profits, so they can benefit from a **more favourable tax treatment**, instead of paying a hefty 30% tax rate.

The taxation occurs in **two stages**: (i) first, the company will pay an additional **10% corporate tax** on its current-year after-tax BE GAAP profits that are to be transferred to the LR; (ii) **how much tax is due after that** depends on the timing of the dividend distribution from the LR:

- a) if the LR remains intangible on the company's balance sheet until the company is liquidated, no additional tax will be due;
- b) if the company **waits 5 years** before distributing a dividend, it will only pay an additional **5% withholding tax**;
- c) if the company distributes a dividend which is imputed on the LR, **within the 5-year waiting period, the withholding tax will be 20% instead.**

Since 2014 was the first year in which a LR could be created, 2020 is the first year in which your Belgian company can start distributing dividends at an additional cost of only 5%:

	Standard Dividend	LR: company liquidation	LR: dividend AFTER 5 years	LR: dividend WITHIN 5 years
After-tax profit	€100 000	€100 000	€100 000	€100 000
LR creation (10% taxation)	n/a	€9 091	€9 091	€ 9 091
reserved profit	€100 000	€90 909	€90 909	€90 909
dividend	€100 000	€90 909	€90 909	€90 909
withholding tax	€30 000	/	€4 545.45 (5%)	€18 181.80 (20%)
net result	€70 000	€90 909	€86 363.55	€72 727.20
tax liability	30%	9.09%	13.64%	27.27%

TAXPATRIA® can assist you with your **business accounting** and the **various compliance formalities** required in the context of creating a liquidation reserve.