

Do I pay less dividend tax under the VVPRbis regime ?

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**. Aiming to reduce this heavy tax burden on dividends, the so-called '**VVPRbis regime**' ("*Vermindering Voorafbetalingen/Réduction Précomptes Revenus*") was introduced in 2013. It allows **SMEs** to distribute their after-tax profits at a **more favourable tax treatment**, instead of paying a hefty 30% tax rate.

Profit distributions can benefit, under certain conditions, from a **reduced withholding tax rate**:

- **20%** for the dividend distribution of the **second financial year** after incorporation or contribution.
- **15%** for the dividend distribution of the **third and following** financial years.

After this **3-year waiting period**, the reserved profits of previous years can be distributed in **one lump sum amount**. From then onwards, every year the profits can **continuously** be distributed at 15%. The 30% withholding tax rate or the 3-year period would **not** apply anymore.

The VVPRbis regime only applies if the company meets the **following criteria**:

- The distributing company must **qualify as an SME**, which is determined at the moment of incorporation. Even if the company no longer qualifies as an SME afterwards, it will retain the benefit of the reduced tax rate.
- The dividends must be distributed through **newly issued shares** (issued after 1 July 2013), either through an **incorporation** or a **capital increase**.
- The shareholders need to maintain **full ownership** of the shares from the moment of incorporation or cash contribution.
- The shares must be **fully paid up**. Payment is required ultimately before the general meeting that decides on the dividend distribution. There is **no minimum share capital** anymore for the standard BV/SRL established under the 2019 Company Code. For companies established before, some specific **transitional measures** apply.

Example: if your company was established in October 2019 and the first (extended) financial year ended on 31 December 2020, you could make a 'normal' dividend distribution **taxed at 30%** in spring 2021 and 2022. The dividend payment in 2023 (profit distribution of the 2022 financial year) would be subject to a **20% withholding tax**. The dividend payment in spring 2024 (profit distribution for the 2023 financial year) or later, would be **taxed at only 15%**.

In case your company does **not** meet the above conditions, setting up a **Liquidation Reserve** may be a good alternative. Especially, if you **plan to close** the company within the next few years.

TAXPATRIA® can assist you with your **business accounting** and **various compliance formalities**.