How does the 'exemption with progression' work exactly ?

Belgian tax residents are required to report their ***worldwide* earnings** on their Belgian tax return. That includes income from **foreign** property, professional earnings, pensions as well as foreign investments. It goes without saying that this can **potentially result in double taxation**. To avoid this, Belgium has concluded double tax treaties with **more than 100** countries.

Essentially, there are two ways to **avoid double taxation** in a cross-border context:

(i) the **credit method**, i.e. foreign-sourced income is taxed but the tax paid abroad is deductible in the country of residence; in other words, a 'credit' is granted domestically for foreign taxes paid; and

(ii) the **exemption method**, i.e. foreign-sourced income is exempt from domestic taxation but is taken into account to determine the total income tax rate.

In Belgium, the latter is generally used, and it is called the '**exemption with progression**' method.

If the relevant double tax treaty stipulates that a certain type of income **is taxable abroad**, it will be **exempt from taxation in Belgium** under the 'progression rule'. This means that you will not pay any Belgian income tax on this foreign income, but it will **increase the average tax rate** that applies to your other income taxable in Belgium. The more exempt foreign income you report in Belgium, the higher the tax will be on your other income that is effectively taxed here.

The following **example** will illustrate the impact of this exemption method (tax year 2025):

	Case 1	Case 2
Belgian *taxable* earnings	€ 7,000.00	€ 7,000.00
Foreign *exempt* earnings	€ 0.00	€ 20,000.00
Worldwide income reported	**€ 7,000.00**	**€ 27,000.00**
Income tax due	€ 1,750.00	€ 8,427.00
Reduction foreign income (*)	n/a	-€ 6,242.22
Total Belgian tax due	**€ 1,750.00**	**€ 2,184.78**
Effective tax rate	25%	31.21%
(*) € 8,427.00 x 20,000 / 27,000 = € 6,242.22		

If the taxpayer earns a foreign income of € 20,000.00 that is 'exempt with progression' in Belgium, there is **€ 434.78 of additional tax due** on the same taxed income of € 7,000.00.

In some cases, a **local (municipal) surcharge** will apply to the (fictitious) Belgian income tax due on the foreign exempt income. This surcharge is calculated at rates specific to each municipality. Rates vary between 0% and 9%, but **on average** amount to some 7%. This local tax can only be charged in case the relevant double tax treaty **explicitly stipulates** this.

TAXPATRIA® can help you to determine the **Belgian tax treatment of your foreign-sourced income** and assist you with your **personal tax filing**.