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## When should you start your own limited company ?

If you are running a business as a **self-employed or sole trader**, you have probably asked yourself at which point it is normally **a good time** to start your own **limited company** in Belgium. Before you should decide switching to a company, there are **some pros and cons** to consider.

While being self-employed, the **level of admin** needed is **minimal**; you only need to submit a VAT return every quarter and an individual tax return once a year. It is recommended to do some bookkeeping, but you have – as such – **no legal accounting requirement** when you are self-employed. The downside is that both your business and personal tax affairs **are seen as one**, which means that your **personal assets could be at risk** if your business goes bankrupt.

Another disadvantage is that your business profits are classed as **personal income** subject to the (higher) individual tax rates (25%–50%) and social security contributions (approx. 20%). Belgian companies pay tax at the standard corporate rate of **25% (2024)**. Under certain conditions **small and medium-sized enterprises** (SMEs) can even benefit from **a reduced tax rate of 20%** on the **first € 100k** of taxable profit.

With a company you have **limited liability** which protects your personal assets and at the same time will **reduce your overall tax burden**. The general idea is to pay yourself **a relatively low director salary** and leave the rest of your profits in the business. In Belgium, company directors are always considered to be **self-employed**. As a result, you will continue to pay **quarterly social security contributions as before**, but they should be **significantly lower**, considering the smaller salary you will draw from your company.

Working via your own company provides **greater long-term tax planning opportunities** than being self-employed. The profits that remain in the business can be used to further invest with the company (e.g. in real estate, financial investments, pension planning) or they can be distributed to the shareholder(s) as **dividends**. The standard tax on dividends in Belgium is **30%**, but under certain conditions can be reduced **for SMEs to 20% or even 15%**. Any dividend distribution for an amount up to **€ 833 per year** is fully tax exempt per taxpayer (2024).

If you trade through a limited company, you can also **claim back expenses** associated with your business. For example, if you make **your private car or home office** available to your company, you can **charge a rent to your company**, which is taxed more favourable than salary. Your company can also provide you **taxable fringe benefits**, e.g. a company car, fuel card, housing, etc. The company **can deduct these as a cost**, while the director will be taxed on a **benefit in kind** which, in general, costs less than having to pay for the benefit yourself. Finally, your limited company will be **registered for VAT**, not you yourself as a sole trader.

TAXPATRIA® can assist you with **incorporating your limited company**, as well as provide **accounting, VAT & corporate tax filing services** afterwards.