

Foreign Investors' Agenda

update 1

Focus on Innovation

For These Changing Times...

As times are changing – and changing fast – AmCham Belgium has produced its first Foreign Investors' Agenda Update 1: Focus on Innovation, which serves as our manifesto for the regional elections. It highlights the vital role innovation, entrepreneurship and education will play in re-invigorating the world's faltering economy.

This update contains five key recommendations:

1. Increase the supply of qualified scientific and technical personnel
2. Stimulate collaboration between education, government and business to increase critical mass
3. Stimulate an entrepreneurial culture and make it easier to set up a business
4. Implement tax measures that encourage innovation
5. Clearly communicate incentives and cut administrative burdens, and “red tape”

Much has changed since we published our Foreign Investors' Agenda. The worldwide economic crisis has deepened and, although signs of recovery are starting to appear, it is clear that it will be a long process before we achieve full recovery.

Thus, now is the time for Belgium to lay the groundwork to prepare for the coming of the “New Economy”. And in order to establish this country as a place in which to make profitable investments, government – at all levels – has to be forward thinking and proactive. While the “War for Talent” has come to a temporary standstill, before long it will become even more pressing given demographic developments, hence the need to act now. When the global economy

recovers and new companies grow into international corporations and begin to seek investor-friendly nations, *Belgium must be ready*.

What will drive investment decisions in the New Economy? In the information and service age, investment follows a knowledge-based economy, specifically in research. Even prior to the economic collapse, Belgium witnessed a slower growth rate in this sector than countries such as France, Germany, Ireland and The Netherlands.

Knowing what a company is looking for, the next question is “what can the Belgian Federal and Regional Governments do to attract more investors to Belgium, thereby ensuring a vibrant, knowledge-based economy and new employment opportunities?”

What can the Federal and Regional Governments do? A great deal. AmCham Belgium remains committed to working together with the Federal and Regional Governments to ensure Belgium becomes increasingly attractive for investment and job creation. For example, AmCham Belgium will be proposing tax measures to encourage innovation and entrepreneurship.

Below, we present to you a comprehensive roadmap for navigating Belgium through these economic uncertainties. By focusing on building from its strengths and laying the necessary groundwork to attract investors in the New Economy, Belgium has a unique opportunity to emerge from the current crisis as an investment leader.

Recommendations

1

Increase the supply of qualified scientific and technical personnel

Transform the education system:

- Develop interactions between businesses and secondary/tertiary educational institutions to raise awareness of career paths available to those with scientific and technical skills.
- Integrate part-time work experience/internships, for a period of at least six months, in as many course programs as possible (both in secondary and technical schools and higher education). Follow the example of Germany, where technical school students follow four-year apprenticeships.
- Facilitate internships by removing the negative impact of the income earned by young people on their parents' tax deductions and child allowance as a part of their full-time education and ensure that study-related internships have no impact on a student's social security status (after finishing their studies).

Facilitate immigration for individuals with needed skills:

- Implement one-stop procedures, ideally having a single desk providing one permit covering all requirements (residence, work, driving) with all conditions harmonized between communes and regions.

Encourage the mobility of Belgians within Belgium:

- Offer a tax-free premium or tax credit to persons who move to a new job in a different area or region of the country. The same tax benefit could be offered to qualified immigrants.

Stimulate life-long learning:

- Provide tax incentives for investments in training, whether by employers or employees.
- Require a certain number of training days for both employers and employees.

2 Stimulate collaboration between education, government and business to increase critical mass

- Develop an easy-to-use portal where companies and institutes can list the areas in which they are working. This can be used to identify possible partnerships (e.g. Alibaba in China). Such a portal can also serve as a further enhancement of existing initiatives, such as the Innovation Relay Centres (IRC) Network.
- Replace bureaucratic and complex subsidy programs with grants or well-defined tax credits as an incentive for projects that produce research identified as essential for future technological developments.
- Make funding and extra resources available to universities (and possibly SME's) to facilitate collaboration.
- Establish "knowledge zones" (tax-free or with significant tax credits) that make it cost-effective for companies to cluster.

3 Stimulate an entrepreneurial culture and make it easier to set up a business

- Ensure every individual who leaves school has undertaken some entrepreneurial training and has had direct contacts with business.
- Encourage risk-takers by viewing failure as part of understanding what is needed to reduce the risks of setting up a business.
- Encourage company laws that are user-friendly and less of a "turn off" for start-ups.
- Amend bankruptcy laws so one failure does not prevent a second attempt.
- Minimum income/unemployment protection should be implemented for start-ups.
- Raise the public's awareness on the importance of business for Belgium's welfare and social security model as this will improve the public's perception of business and entrepreneurs.
- Facilitate start-up funding through appropriate tax incentives.

4 Implement tax measures which encourage innovation by ensuring there is a sufficient after-tax return on investment

- Create tax-free knowledge zones. Companies that satisfy the criteria to set up a business in such a zone will benefit from tax-free status and/or special funding conditions. Obviously, established companies will be attracted to such zones. Offering (refundable) tax credits and special funding mechanisms in these zones will also attract start-ups. Of course, these measures must meet EU standards and criteria.
- Ensure companies can generate a sufficient return after tax and related government charges are deducted from their R&D investments. Do not penalize successful and innovation-intensive sectors (e.g., the pharmaceutical industry). Create open and stable Belgian market conditions, as the local market determines whether or not R&D is done in Belgium.

Success! In line with AmCham Belgium's earlier recommendations, the Government has introduced an 80% tax exemption for royalty income.

5 Clearly communicate incentives and cut administrative burdens

- Clearly communicate incentives and funding possibilities to business (including in the private sector: Venture Capital, “Business Angels”, etc.).
- Tax incentives must be presented in a clear, understandable package that the Belgian Government can sell to investors. A lower corporate tax rate is easier to sell than a higher rate with complex deductions.
- Ensure the stability, consistency and transparency of all measures offered.
- Introduce systematic account management of all (existing) investors to build long-term relationships. Ensure future requirements for skilled resources and other needs have been identified and provided for.
- Coordinate messages between all government levels (regional and federal).
- Simplify the administration related to grants and subsidies, tax deductions, innovation premiums and immigration.
- Keep the requirements needed to apply for a tax benefit or premium to a minimum and do spot checks (a posteriori) to verify the system is not being abused.

In such challenging times, it is easy to get caught up in the negatives and thereby become distracted from the numerous opportunities that arise during a downturn. We forget that, traditionally, when an economy goes sour and individuals suddenly find themselves jobless that is precisely when the entrepreneurial spirit is ignited. Small businesses appear and, as they grow into the New Economy’s “Next Big Thing”, they carry the global economy with them. Just think back to the last great recession of the 1970s – the same period that such entrepreneurial ventures as FedEx, Microsoft, Apple, SAS Institute, and Oracle appeared.

We believe that implementing these recommendations will leave Belgium well-placed to grow its economy and create jobs when the world economy recovers.

Reminder Priority issues defined in Foreign Investors’ Agenda

1. Lower employment costs – reduce social security costs to 20% and eliminate automatic wage indexation
2. Increase availability of qualified labor resources
3. Reduce corporate tax rate to 25% and retain the Notional Interest Deduction
4. Reduce administrative burdens on doing business in Belgium

American Chamber of Commerce in Belgium ASBL/VZW
(AmCham Belgium)
rue du Commerce 41 Handelsstraat
1000 Brussels

Tel +32 (0)2 513 67 70 Fax +32 (0)2 513 35 90 www.amcham.be