

Foreign Investors' Agenda

AmCham Belgium's Recommendations for Increased Investment in Belgium

First Edition — October 2005

FOREIGN INVESTORS' AGENDA 2005-2006

IN FULL, AMCHAM BELGIUM'S KEY RECOMMENDATIONS FOR 2005/2006 ARE:

1. Reduce social security charges to a maximum of 20% of underlying remuneration. Review the principle of across-the-board social security charges and consider limiting employers' social security costs to 20% of salary expenditure and excluding bonuses from social security calculations.
2. Cut the corporate tax rate to 15%. This reduction would send a clear message to business while limiting the budgetary impact.
3. Increase flexibility of hours worked and work organization. Allow more discretion in the application of flexible working time regulations and reduce administrative formalities, especially for contingent workers and in the context of flexible working measures.
4. Increase flexibility in benefit packages -- simplify and reduce the cost of the Belgian holiday pay system; allow employers more freedom to reward merit and productivity; increase flexibility to build up private pensions; allow individuals greater freedom in how they contribute to and benefit from their private pension plans.
5. Make terminations of white collar employees less costly.
6. Link education to market needs and encourage collaboration between business, education and public sectors to help ensure the needs of employers are met.
7. Ensure R&D investments still generate sufficient return after tax and related government charges.
8. Lower personal taxation, beginning with the tax rates on lower levels of pay. Significantly increase tax-free allowance and reduce the top tax rate to 40%.
9. Develop a clear branding strategy that is properly resourced and widely promoted (following the example of other federal states such as Switzerland).

FOREIGN INVESTORS' AGENDA 2005-2006

EXECUTIVE SUMMARY

The American Chamber of Commerce in Belgium (AmCham Belgium) actively promotes increased US investment in Belgium. Our **Foreign Investors' Agenda** is updated annually to continue the successful tradition of ongoing consultation with Belgian national and regional authorities on issues of concern to business.

To create an environment attractive to foreign investors, Chamber members have three top recommendations:

1. **Reduce social security charges to a maximum of 20% of underlying remuneration.**
2. **Cut the corporate tax rate to 15%.**
3. **Increase flexibility of hours worked and work organization.**

These changes require political will but will result in a win-win situation. Investing in Belgium would become an attractive proposition for business – a win for business. The difference between pay and unemployment benefit will increase, making work more attractive and increasing employment – a win for employees. Rising employment will increase tax revenues and reduce unemployment expenses – a win for the government.

The October 2005 federal government declaration contains a number of important and positive steps in terms of relaunching the Belgian economy and addressing the social dilemma of high unemployment, an ageing population and maintaining a proper social protection. Nevertheless, more and drastic changes are necessary to resolve the issues of weakening competitiveness and decreasing investment.

High social security contributions coupled with a high nominal rate of corporate tax and little flexibility over hours worked and work organization are a real challenge for business in Belgium, especially as the global economy is opening up cheaper alternative locations. This challenge has to be met effectively by the government. High personal taxes make it difficult to adequately reward and motivate people to work. In addition to the three top recommendations highlighted above, **the Foreign Investors' Agenda** makes several other recommendations that AmCham Belgium members believe will:

- encourage business and enterprise to prosper;
- promote employment through increased labor flexibility; and
- demonstrate Belgium's belief in the importance of a business-friendly environment.

This document draws on data collected in our **United States Direct Investment and Business Confidence Surveys** earlier this year¹. The Business Confidence Survey showed managers in Belgium consider that:

- high gross employment costs represent a serious handicap for business.
- the rate of corporate taxation and the lack of tax neutral consolidation need to be addressed.
- industrial relations and labor regulations are less favorable in Belgium than in neighboring countries.

¹ The *Business Confidence Survey* was mailed to 1,280 companies and had a 10% response rate. The survey was carried out by Daniel Van Den Bulcke and Haiyan Zhang (UAMS)

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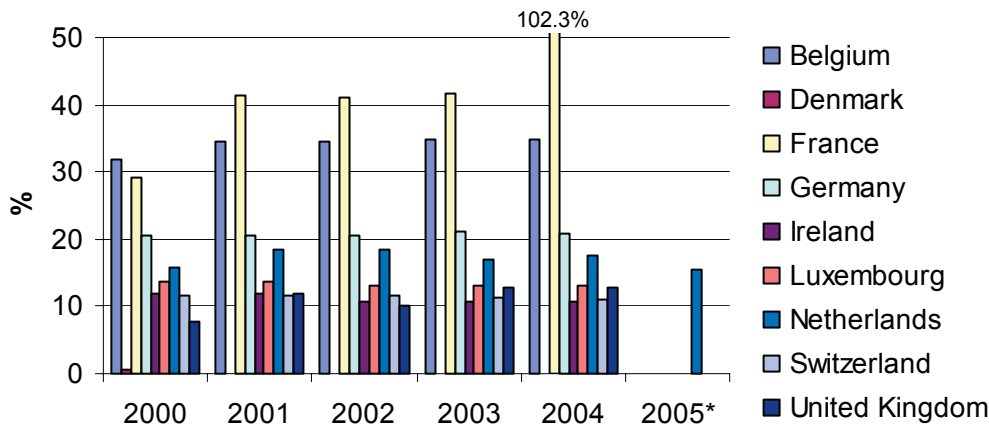
A. ENCOURAGE BUSINESS AND ENTERPRISE TO PROSPER

1. Competitive Employment Costs increase buoyancy in the job market

In the knowledge era, employers invest more in people than in industrial plants. Employment costs have a significant impact on company investment decision-making. Competitive employment costs encourage companies to retain and expand their operations and more jobs are created as a result.

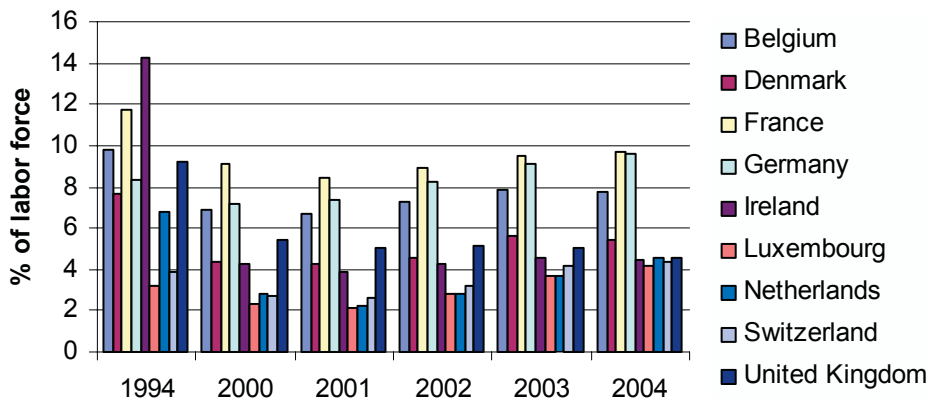
Graph 1 below shows employer social security costs and Graph 2 shows unemployment rates in selected EU countries

Graph 1 - Employer Social Security Costs



OECD Tax Database 2004: Marginal social security contribution rates on gross labor income 2004
 * 2005 figure supplied by Ernst & Young, Netherlands and included to demonstrate ongoing reductions

Graph 2 - Percentage of Labor Force Unemployed



OECD Employment Outlook 2005

These graphs show that the very high social security charges for employers in Belgium have not led to lower unemployment but to the reverse. Countries with much lower social security contributions for employers have lower rates of unemployment. We encourage Belgium to go beyond its recent measures to address the employment cost issues, which are currently restricted to certain important concerns such as overtime, young and older people.

Case Study: Several years ago, the Dutch government began a strategy of making the Netherlands more attractive to foreign investment. Part of that strategy was the restructuring of the social security system. Dutch employer social security contributions were relatively high and an apparent disincentive to investment. The reform therefore comprised a transfer of some of the employer's social security contribution to the employee; this was accompanied by an income tax reform and other measures that substantially reduced the extra cost burden to the employee. The Netherlands now has globally one of the lowest employer social security contribution rates, lower, in most cases, than the UK that is often considered an attractive location with regards to employment costs.

The reform also included a reduction in other allowances that discouraged work: for example, long-term disability benefits. In 2006 tax penalties will be placed on bridge retirement plans. While these plans are financed by the private industry and not the social security system, they are very often introduced by sector collective agreements that do not take into account the views of employers. Forward-thinking corporations have already criticized the plans.

The success of social security reform in the Netherlands makes a strong case for similar reform in Belgium and shows that reform doesn't always lead to reduced government budgets.

Recommendation 1: Reduce social security charges to a maximum of 20% of underlying remuneration. Review the principle of across-the-board social security charges and consider limiting employers' social security costs to 20% of salary expenditure and excluding bonuses from social security calculations.

2. Be bold with Corporate Taxation

A significant reduction in corporate taxation would send a powerful message to business and encourage companies to invest in Belgium. It will also encourage more companies to locate/retain their Headquarter operations in the country.

Table 3 below compares the nominal and effective rates of corporation tax in selected countries

Table 3 – Percentage of Corporate Tax

	Nominal tax 2004	Effective tax 2002
Belgium	33.9	30.8
Denmark	30	26.8
France	34.33	22
Germany	39.58	28.8
Ireland	12.5	2
Luxembourg	30.38	24.5
Netherlands	34.5	30.2
Switzerland ¹	7.83	20.96
United Kingdom	30	20.1

¹ ZEW Economic Studies 2003, average effective tax nominal tax includes Federal tax only while the effective tax figure includes cantonal taxes.

Source: "Vennootschapsbelasting in Europees perspectief" Prof. Hylke Vandenbussche, K.U.L. April 2005, L' Echo 02/08/05

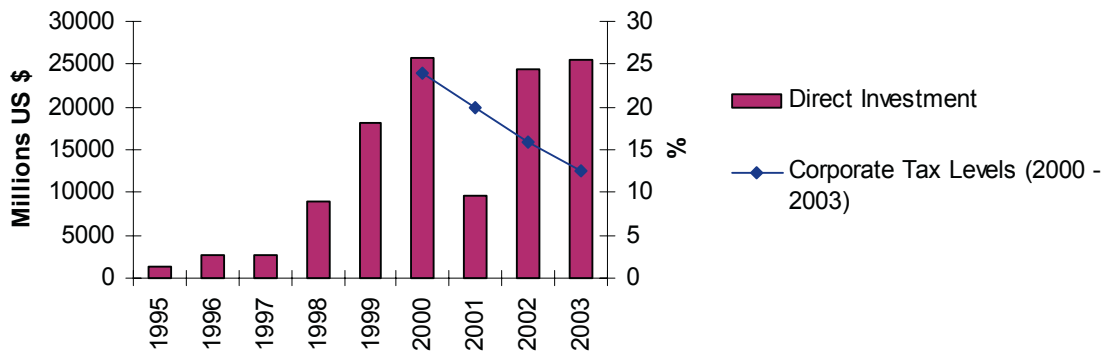
The following measures will make Belgium more attractive to investors:

- Refining the Notional Interest Deduction (NID), a good system by removing the need to block money for three years.
- Introducing tax consolidation and pursuing tax neutral cross-border mergers.
- Devising an attractive tax and company law regime for European companies (Societas Europaeae, SA).
- Renegotiating the US-Belgium Income Tax Treaty and ratifying the Estate Tax Treaty.

Lowering the corporate tax rate, however, should be the government's first priority. An analysis of this AmCham proposal (e.g. "Vennootschapsbelasting in Europees perspectief" by Prof. Hylke Vandebussche of the Catholic University of Leuven) -- indicates that the budgetary payback of such a measure would be almost immediate.

The beneficial effect of low corporate taxation on investment in Ireland is the illustrated by graph 4 below.

Graph 4 - Direct Investment from Abroad Compared to Corporate Tax Levels (Ireland)



Source: OECD International direct investment database

Recommendation 2: Cut the corporate tax rate to 15%. This reduction would send a clear message to business while limiting the budgetary impact.

Recent development: AmCham Belgium has made a number of strong public statements urging that Belgium adopt a 15% corporate tax rate, in line with the general trend throughout Europe to consider lower corporate tax rates. Furthermore, AmCham and other organizations have successfully supported amendments to Notional Interest Deduction legislation, and the Chamber is continuing to call for the requirement to block funds for three years to be dropped. This call is being heard: the federal finance minister recently indicated that he will consider an AmCham-backed amendment

B. PROMOTE EMPLOYMENT ! THROUGH INCREASED LABOR FLEXIBILITY

1. New Industrial Relations for the knowledge economy

Today's knowledge economy requires a different approach to industrial relations than the manufacturing era. A constructive dialogue with social partners is important, within which questions of work flexibility, control over pay, the scope of consultation obligations and strike regulations could be discussed.

- An increase in **working hours** should be envisaged to bring us in line with neighboring countries such as Germany and allow flexibility in the use of working hours spread over the year, including their use on Sundays and at night time. Restoring the individual employee's right to make their own decisions as to how many hours they work and when they work increase labor flexibility which is of key importance in a global economy
- Employment would be encouraged if **flexible regimes** covering contingent workers (part-time employees and interim workers) were not accompanied by burdensome administrative formalities such as the posting of work schedules and consultation processes. Contingent working practices (time-credits) should be more transparent and allow more discretion to the employer so that an absolute right to benefit from them is only acquired in a limited number of clearly enumerated cases.

Recommendation 3: Increase flexibility of hours worked and work organization. Allow more discretion in the application of flexible working time regulations and reduce administrative formalities, especially for contingent workers and in the context of flexible working measures.

- On the **remuneration and reward** side, AmCham Belgium supports measures that would allow employers to properly reward performance and productivity. Such measures could include a more flexible use of pension plans, making these pension plans a more effective HR-management tool. The Chamber recommends allowing more flexibility in adapting contributions to and use of pensions to available personal resources. This would also help alleviate the cost of pensions borne by the government.
- Similarly, AmCham Belgium supports reducing the administrative complexity of current remuneration systems. One proposal would be to create more simplicity and transparency in the holiday pay system. This could be achieved by shifting to a system where holiday benefits are accrued based on the current year's work record. We also recommend a limitation to the number of pay components which are subject to holiday pay. For example, there should be no holiday pay on variable pay and benefits in kind.

Recommendation 4: Increase flexibility in benefit packages - simplify and reduce the cost of the Belgian holiday pay system; allow employers more freedom to reward merit and productivity; increase flexibility to build up private pensions; allow individuals greater freedom in how they contribute to and benefit from their private pension plans.

- **Terminating a white collar employee's** contract is very expensive in Belgium. Neighboring countries such as France and Germany are taking drastic initiatives in this area. Lowering such costs for the employer by, for example exempting termination payments from social security charges, will add to the dynamism of the labor market, encourage economic growth and create more jobs. The experience of Denmark is a case in point.

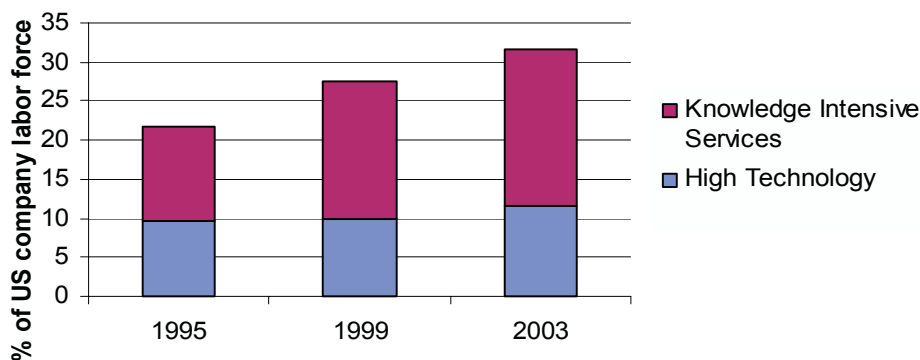
Recommendation 5: Make terminations of white collar employees less costly.

2. Innovation, R&D and a qualified work force

- **Unskilled employment** will inevitably shift to countries with low labor costs (for example developing countries, “new” EU countries). In addition to lower costs, industrial companies which do remain are likely to require more highly-trained employees. It is also essential to create employment in the “knowledge economy” and service sectors, sectors which also require skilled and trained employees.

Graph 5 below shows that US companies in the high technology, and knowledge intensive services areas have increased personnel in Belgium since 1995. At the same time, recent figures released by Eurostat show that, while R&D spending in Belgium is around the EU average, it has not resulted in a higher level of exports of high technology goods or knowledge intensive services similar to that experienced by other countries. Companies that carry out R&D in Belgium are manufacturing elsewhere.

Graph 5 - US presence in Belgium's Knowledge Economy



Source: AmCham USDI Survey 2004/2005

Belgium spends 6% of its GDP on education, above the EU15 average of 5% (Prospero²). Yet children in the Walloon and Brussels regions do not emerge from school better educated, as Table 6 (PISA scores) below illustrates. This issue needs to be addressed.

² Prospero, A new momentum to economic prosperity in Belgium, McKinsey & Company 2004

Table 6 - 15-years-olds Reaching Specific Thresholds on PISA Combined Reading Literacy Scale, 2000 (%)

	Above Level 3	Level 1 or Below
Belgium FL.	74	12
Belgium FR.	52	28
Denmark	60	18
France	63	15
Germany	55	23
Ireland	71	11
Luxembourg	37	35
Switzerland	58	20
United Kingdom	68	13

Source: PISA 2000

The importance of a high level of broad general education cannot be underestimated but at the same time our educational systems need to be more closely linked to, and interact with, the needs of business and the market.

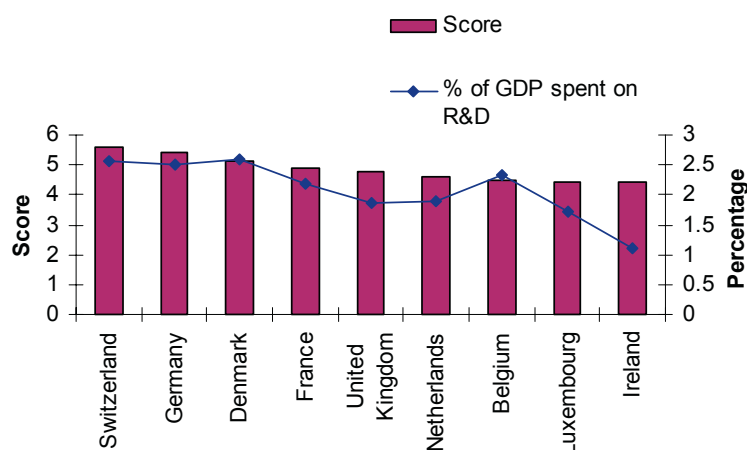
Recommendation 6: Link education to market needs and encourage collaboration between business, education and public sectors to help ensure the needs of employers are met.

- **Innovation** necessitates risk and can only thrive when R&D is rewarded. One way to effectively reward R&D is by taxing income generated from the granting of patents and licenses more favorably (the so-called “Royalty Box”) than income generated from other sources. Secondly, the government should not impose extra charges on certain sectors (or companies) that have succeeded in realizing important (R&D driven) innovations in Belgium (e.g. pharmaceutical sector). In general the government should ensure that all sectors and companies operate under the same conditions.

Graph 7 below shows the R&D spend in selected countries.

Graph 7 - Company Spending on Research and Development

(1 = do not spend money on R&D, 7 = spend heavily on R&D relative to international peers)



Source: Global Competitiveness report 2005 & Eurostat.com

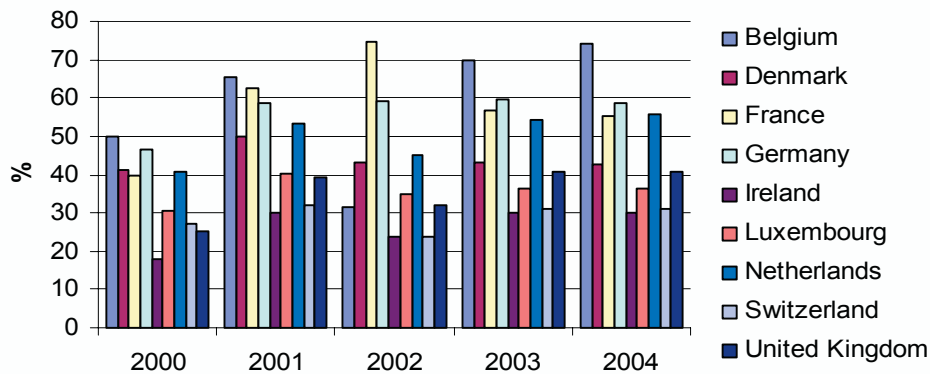
Recommendation 7: Ensure R&D investments still generate sufficient return after tax and related government charges.

C. THE IMPORTANCE OF A BUSINESS-FRIENDLY ENVIRONMENT

1. Keeping investors – Macro-economic climate

- Ensuring work pays:** A vibrant job market indicates a healthy and growing economy. If the recommendations above are acted on, an environment where “work pays” will be created. A reduction in social security charges will automatically increase the difference between take-home pay and unemployment benefits.
- Giving control over pay back to employers:** If, in addition, employers are allowed the flexibility to reward exceptional performance (“merit pay”) in a tax-effective fashion (AmCham recommends treating it as “divers” income), it will increase the incentive to raise standards. Abolishing the automatic indexation of salaries and handing control over wages back to employers will also help to ensure that work pays and that good work pays better. Such a move will lead to a motivated work force. Graph 8 shows the tax wedge imposed on lower paid workers³ in selected countries.

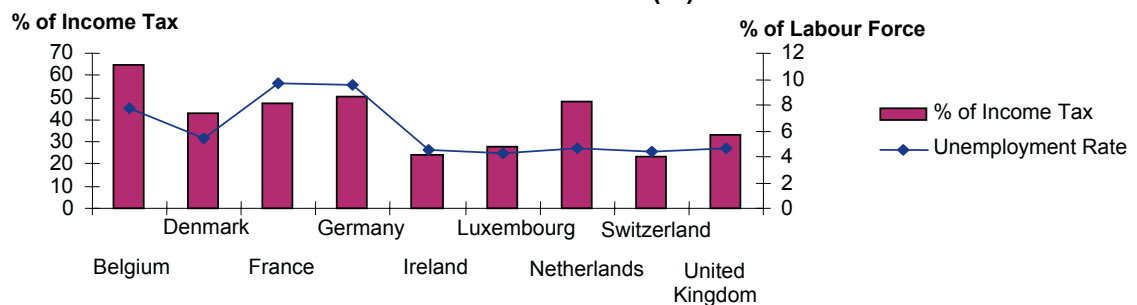
Graph 8 - Tax Wedges for Lower Paid Workers (%)



*Marginal personal income tax and social security contribution rates for a single person without dependents, at a multiple of 67% of the Average annual production wage
Source: Tax Database 2004 Taxation of Corporate and Capital Income

Graph 9 shows the unemployment levels compared to the levels of taxation on low pay.

Graph 9 - Income Tax Imposed on Low Paid Workers vs Unemployment Levels 2004 (%)



Source: Tax Database 2004 Taxation of Corporate and Capital Income & OECD Economic Outlook

³Workers earning 67% of the average national wage

Recommendation 8: Lower personal taxation, beginning with the tax rates on lower levels of pay. Significantly increase tax-free allowance and reduce the top tax rate to 40%.

- **Encouraging more people to work and remain in work:** Getting more people into the workplace and retaining people in the workplace once they are there will help fill skills gaps currently experienced by employers and at the same time increase government revenues. This could be achieved by discouraging the use of pre-pensions which would increase the retention of older, experienced, workers in the work place.

Belgium has recently announced several positive steps in this direction but given the enormous gap with the rest of Europe, other measures are inevitable.

Table 10 shows how many of the over 55-age group in Belgium remain active in the work force compared to other selected countries.

Table 10 – Labor Force Participation Rates of Population Age Group 55 to 64 (%)

	1990	2003	2004
Belgium	22,2	28.5	31.3
Denmark	57.1	63.1	65.5
France	39.3	42.3	44.3
Germany	55.9	52	54.8
Ireland	65	66.5	66.6
Luxembourg	43.2	39.4	39.1
Netherlands	45.8	58.7	58.7
Switzerland	86.4	79.7	79.1
United Kingdom	68.1	67.9	68

Source: OECD Employment Outlook 2005

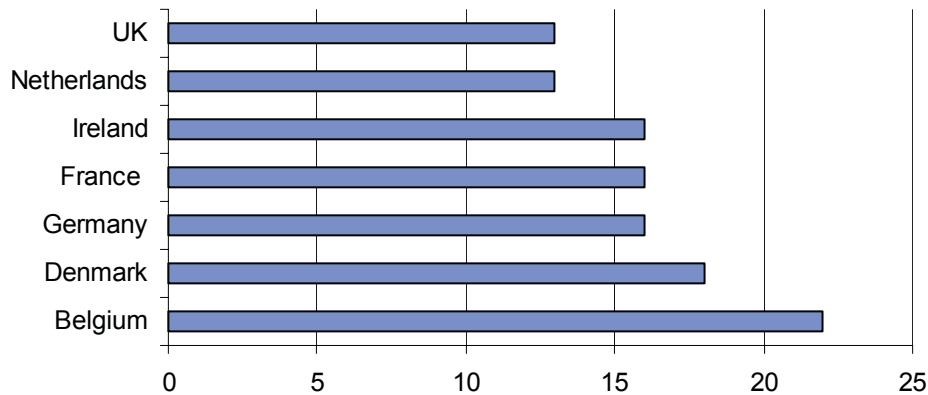
- **Linking the payment of unemployment benefits** to undertaking training would increase the individual's chances of gaining employment and, at the same time, fill the skills gaps currently being experienced by employers. Countries such as Denmark have shown that tighter control and other accompanying measures can drastically improve the unemployment situation.
- **Leaner Government and a smaller black economy:** Taking action on our three key recommendations will have the automatic effect of reducing the willingness of citizens to become actively involved in the black economy. An active black economy is an indicator that tax levels need adjusting. It also distorts unemployment data and only benefits those engaged within it, to the detriment of the economy as a whole.

The impact of acting on our three main recommendations would be reinforced by:

- Taking measures to discourage and control tax evasion.
- Realizing a more efficient public apparatus as a key source of financing for the necessary changes.
- Improving controls over public spending.

Graph 11 shows the estimated size of the shadow economy as a percentage of GDP.

**Graph 11 - Shadow Economy as a Percentage of GDP
2001-2002**



Source: F. Schnieder, *Shadow economies around the world: what do we know? 2004 Prospero team*

2. Attracting investors – Branding Belgium

Belgium is a great place to live, work and raise a family and would benefit from making this known outside of its own borders. Better communication of its considerable strengths would help win new investment. In addition, employees would be happy to move here to work. Belgium compares favorably to other European countries as the following facts underline:

- Brussels has maintained its overall position as 4th (out of 30) in the league table of best business cities for three years in a row⁴.
- Brussels, as the capital of Europe, scores highly for its geographical location, ease of access to the market, good international transport network and its telecommunications infrastructure.
- Its workforce is highly rated (4th) and its linguistic abilities are especially appreciated (3rd).
- Belgium is in the EU top three for quality of life⁵ and holds 6th position in the world in terms of health & life expectancy, education and learning.

These positive factors can be easily lost if there is a general perception that Belgium is an “unfriendly” environment for business. Government should therefore consider the perception and communication impact of new measures early in the process of drafting them.

Recommendation 9: Develop a clear branding strategy that is properly resourced and widely promoted (following the example of other federal states such as Switzerland).

⁴European Cities Monitor 2004 published by Cushman & Wakefield Healey & Baker

⁵ United Nations Human Development Report, 2004

3. Lower Energy Costs – Environment

Business cannot control the costs of rapidly increasing energy bills and nor can it control the costs involved in complying with environmental regulations. For this reason it is important that the government ensures that these costs are comparable with those carried by businesses operating in other EU Countries.

AmCham recommends that the government exercise vigilance in order to ensure that:

- Energy costs are at a competitive level.
- The environmental regulations are consistent with those in effect in other EU Member States.

4. Administrative Simplification – Keeping things simple

Reducing red tape encourages entrepreneurs. AmCham's latest Business Confidence Survey indicates that business people considering investments find the regulatory environment in Belgium less attractive than in neighboring countries. Regulations levy a hidden and unproductive charge on business. The situation is aggravated by regional variations in, and additions to, administrative requirements.

Several measures could be taken to reduce the cost of this "Hidden" charge on business. For instance:

- Aligning Federal and Regional requirements.
- Harmonizing procedures between communes in the same Community in the first instance. Ideally, procedures between all three Communities would be harmonized in due course.
- Allowing broader use of the internet and email to comply with administrative requirements.
- Not exceeding the level of regulation necessary to meet EU requirements in the employment and business areas.
- Introducing a two-tier system of work-permit formalities with less stringent regulations applying to expatriates in Belgium on fixed-term detachments.

In addition, unnecessary regulations for specific sectors, such as those currently envisaged in the area of logistics and postal services—a new additional licensing scheme has been proposed—should be avoided as they weaken Belgium's competitive position. Open markets are more attractive to potential investors. The benefits to business in Belgium brought about by the liberalization of the postal and energy markets are valued and the process should continue.

Success so far: On-going consultations with the Government to make it simpler for foreign nationals to work in Belgium, particularly for short periods of time, are progressing positively and a detailed proposal for reform has been drafted by experts and submitted to the Council of Ministers for approval.

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The American Chamber of Commerce in Belgium (AmCham Belgium) is a dynamic non-profit organization dedicated to improving business and investment opportunities for US companies in Belgium and the European Union. With approximately 1,200 US companies in Belgium, AmCham Belgium plays a pivotal role in an evolving business environment. Founded in 1948, AmCham Belgium achieves its goals by focusing on three key areas: lobbying, knowledge sharing, and networking. By regularly monitoring business issues, the Chamber actively lobbies the Belgian government on behalf of its members. An array of qualitative services and publications offers the business community timely information on pertinent topics. Throughout the year, the Chamber provides a forum for networking, bringing business leaders and decision makers together at well-attended events.

More information is available at www.amcham.be.

