

Belgium Newsletter

Federal Government Agreement 2025–2029: Overview of Key Tax and Social Measures in the Government Agreement 2025–2029

Since February 3, 2025, after five and a half months of waiting, Belgium has a new center-right federal government composed of a coalition of five parties: the Flemish nationalists (NVA), the French-speaking liberals (MR), the French-speaking centrists (Les Engagés), the Flemish Christian Democrats (CD&V), and the Flemish socialists (Vooruit).

The main measures that this government plans to implement during the 2025–2029 legislature are outlined in a government agreement. This agreement includes several tax and social reforms that will impact both businesses and individuals.

In this newsletter, we analyze the key tax and social provisions of this agreement and their concrete implications for our clients.

It is noted that these measures are not yet in effect but are expected to be adopted soon. As is customary in Belgium, it is not excluded that the final measures adopted may differ slightly from those provided in the government agreement.

I. TAXATION

I.1. Corporate Taxation

I.1.1. Definitively Taxed Income (DTI) Regime

The "definitively taxed income" (DTI) regime (which stems from the EU Parent-Subsidiary Directive) allows, under certain conditions, companies to avoid double taxation on dividends and capital gains.

Currently, to qualify for this regime, a company must meet three criteria (qualifying participation): it must hold, without interruption for at least one year, a participation of at least 10% or €2.5 million in another company.

The government agreement introduces the following changes:

- The regime shifts from a deduction system (where amounts are added to taxable income and then deducted) to an exemption system (where amounts are not included in taxable income at all). This will prevent companies from carrying forward non-deducted dividends and capital gains to future fiscal years.
- The criteria for qualifying participation are modified for large companies and transactions between them (while thresholds remain unchanged for SMEs). Specifically, the minimum participation threshold for qualification—if the company holds less than 10% of another company's shares—will increase from €2.5 million to €4 million.

Additionally, investments in certain SICAV funds (investment funds benefiting from the DTI regime) are used by companies to manage cash surpluses. The agreement introduces a 5% tax on capital gains realized from the sale of these SICAV shares. Furthermore, a company will only be able to offset the withholding tax retained at source against its corporate tax if it pays its managing person a minimum annual salary of €50,000 (as mentioned in section I.1.4).

I.1.2. VVPRbis and Liquidation Reserve (VVRPter)

The government plans to harmonize the reduced withholding tax on dividends (VVPRbis) and the liquidation reserve regime (VVRPter).

The reduced withholding tax on dividends (“VVRPter”) allows SME’s, subject to certain conditions, to distribute dividends with a reduced withholding tax of 15%.

Currently, liquidation reserves are taxed at 10%, and they are exempt from taxation upon the company’s liquidation. If distributed before liquidation (but at least five years after being set aside), they are subject to a reduced withholding tax of 5%, resulting in a total tax burden of 13.64%.

The government agreement provides for:

- Reducing the required holding period for liquidation reserve distribution from five to three years.
- Increasing the withholding tax rate on liquidation reserves from 5% to 6.5% from 2026, raising the total tax burden from 13.64% to 15%.

I.1.3 Exit tax

The taxation of companies emigrating from Belgium without maintaining a Belgian establishment triggers corporation tax on the latent capital gains but also results in withholding tax on the fictitious liquidation surplus. The application of withholding tax on a fictitious liquidation surplus was uncertain and a source of fiscal uncertainty.

The agreement now confirms that such emigration without maintaining a Belgian establishment will trigger not only corporate tax on latent capital gains but also withholding tax on the fictional liquidation surplus, thus assimilating the emigration to an effective liquidation of the company in Belgium.

I.1.4 Reduced Corporate Tax Rate for SMEs

The corporate tax rate remains at 25%, with a reduced rate of 20% on the first €100,000 for SMEs, provided certain conditions are met. One such condition is a minimum annual gross salary of €45,000 to be paid to the managing person; the government agreement provides that this amount will now be increased to €50,000 and subject to an annual cost of living increase.

Additionally, the manager's remuneration can only include benefits in kind up to a maximum of 20% of their gross annual salary.

I.1.5. Innovation and R&D

The investment deduction allows companies to deduct a percentage of an asset's acquisition or investment value. The government agreement provides for:

- Removing the requirement for a regional certificate to qualify for this tax incentive.
- Allowing unused investment deductions to be carried forward indefinitely.
- Increasing the deduction rate to 40% for certain investments (e.g., energy, mobility, environment).
- Accelerated depreciation for certain R&D, defense, and energy transition investments.
- Creating a "research center" qualification to ensure a stable tax framework.

I.1.6. Tax Consolidation Between Related Companies

Belgium has long been one of the few European countries that did not allow tax consolidation between companies within a group.

In 2019, a (limited) form of tax consolidation was introduced. This is an optional tax consolidation mechanism involving a group contribution paid to a loss-making company, which is tax-deductible for the company making the contribution.

Now, the government agreement aims to make this intra-group transfer regime more attractive, more flexible, and administratively simpler by allowing both direct and indirect shareholdings and by no longer excluding newly established companies.

The plan also provides for an extension of the scope of the dividend received deduction (RDT) regime to profits derived from a group contribution. However, if definitively taxed income becomes an exemption for received dividends rather than a deduction, this measure will lose its relevance.

I.2. Personal Taxation

I.2.1 Capital Gains Tax on Financial Asset

The government agreement provides for a "general solidarity contribution" of 10% on future capital gains from financial assets, including crypto-assets, as soon as the tax is implemented (in principle, from January 1, 2026).

Historical capital gains will be excluded. Capital losses will be deductible in the year they are realized, but they cannot be carried forward.

The government will introduce a general exemption of €10,000 and an exemption of €1 million for substantial shareholdings of at least 20%. The tax will be progressive at the following rates:

<u>Capital Gains (€)</u>	<u>Tax Rate (%)</u>
0 – 1,000,000	0%
1,000,000 – 2,500,000	1.25%
2,500,000 – 5,000,000	2.25%
5,000,000 – 10,000,000	5%
Above 10,000,000	10%

This measure remains very unclear and is still being debated by the various parties forming the government (for example, some parties claim that this tax will only apply to shareholdings held for more than 10 years, etc.).

Further clarifications will be needed to understand its concrete application.

I.2.2. Increase in Tax-Free Allowance

The government agreement plans to increase the tax-free allowance in personal income tax (currently €10,910) so that all workers earn €500 more than those who do not work.

Additionally, the government intends to modernize the system of increasing the tax-free allowance based on the number of children.

I.2.3. Expatriate Tax Regime

The government intends to make more attractive the expatriate tax regime—which allows individuals benefiting from this regime to exempt part of their income and Belgian companies distributing this income to deduct it—by implementing the following measures:

- Increasing the tax-free portion from 30% to 35%;
- Removing the €90,000 cap so that employees and executives with a salary exceeding €300,000 can benefit from full exemption; and
- Lowering the minimum gross salary requirement from €75,000 to €70,000.

I.2.4. Carried Interest Taxation

Carried interest is a mechanism that allows investment funds (mainly in the private equity sector) to incentivize fund managers and professionals based on the fund's performance.

Currently, its taxation varies depending on how it is structured.

The government plans to introduce a specific and competitive regime for carried interest, aligned with existing regimes in neighboring countries, to boost fund activity in Belgium. This regime will include a maximum tax rate of 30% on investment income and will have no impact on existing plans.

I.2.5. Copyright Taxation

The government agreement plans to reinstate the tax regime for copyright income derived from the transfer or licensing of software programs.

This regime allows such income to be taxed at a reduced rate of 15% up to a ceiling of €73,070 for the 2024 income year, with a significant standard deduction for expenses.

I.2.6. Permanent Tax Amnesty (DLU)

The government agreement plans to reintroduce a permanent tax and social regularization mechanism. The applicable rates would be 30% and 45%, although the precise terms have yet

to be defined. An exception could be granted for taxpayers acting in good faith, but the conditions for its application have not yet been specified.

I.3. Tax Procedure

I.3.1. Tax Audit Deadlines

The government agreement provides for a reduction in the time limits for tax investigations and assessments as follows:

- 3 years from January 1st of the tax year;
- 4 years from January 1st of the tax year for complex and semi-complex tax returns;
- Except in cases of fraud (or suspected fraud), for which the time limits will be reduced from 10 to 7 years (or 8 years for complex and semi-complex tax returns) from January 1st of the tax year.

I.3.2. More Leniency

The government agreement stipulates that a taxpayer should not be automatically penalized in the event of a first-time good-faith infraction or an administrative error. The tax administration must first assess on its own initiative whether a sanction is justified, favoring adjustment and clarification over punishment.

Additionally, the restriction on deducting part of the adjusted result will be eased, allowing taxpayers to offset the adjusted result with any potential losses from the financial year.

I.3.3. From Tax Mediation to Tax Arbitration

The tax mediation service will be transformed into a tax arbitration service to reduce the number of tax disputes brought before the courts.

II. SOCIAL

II.1. Labor Market Reform

II.1.1. Reintroduction of the Probation Period

The government agreement provides for the reinstatement of the probation period for employees, which is the period during which an employer can terminate the employment contract with a reduced notice period of one week, ranging from 3 to 6 months.

This measure is expected to be reintroduced by the end of 2025.

II.1.2. Increase in Voluntary Overtime Hours

Currently, a worker can perform a maximum of 100 overtime hours per calendar year, without exceeding 11 hours per day or 50 hours per week.

The government agreement states that, regardless of the sector, workers will now be allowed to work up to 360 voluntary overtime hours per year. However, these additional hours will no longer entitle workers to compensatory rest days. For 240 of these 360 overtime hours, no additional wages will be due, meaning the gross salary paid by the employer will be equal to the net salary received by the worker, with no tax or social security contributions.

For the HoReCa sector, the current 360-hour overtime limit will be raised to 450 hours, with 360 of these hours being exempt from extra wages and taxation with the result that the gross salary paid by the employer will be equal to the net amount pocketed by the employee

II.1.3. Simplification of Night and Part-Time Work Regulations

The general prohibition on night work will be abolished. Furthermore, night work (which entails additional wages and higher costs for companies) will now be defined as work between midnight and 6 a.m., rather than from 8 p.m. to 6 a.m.

II.1.4. Capping of Severance Pay

To encourage indefinite-term contracts and promote investment, the government agreement intends to limit notice periods (and consequently severance pay) to a maximum of 52 weeks for new hires as of the law's entry into force.

Currently, employees with more than 17 years of seniority are entitled to a notice period exceeding 52 weeks.

Additionally, the government aims to limit "special severance benefits," though the agreement does not specify what these entail.

II.1.5. Medical Certificate Requirement

Currently, employees can take up to three sick days per year without providing a medical certificate.

The government agreement plans to reduce this entitlement to two days.

II.1.6. Reduction of Dismissal Protection for Unsuccessful Candidates in Social Elections

Currently, worker representatives in the Works Council and/or the Committee for Prevention and Protection at Work benefit from protection against dismissal.

This protection begins 30 days before the announcement of the social election date and varies based on the candidate's result in the elections.

The agreement reduces the dismissal protection period for an unsuccessful candidate (who runs a second time unsuccessfully) from two years to six months.

II.1.7. Annualization of Working Time

Currently, working time compliance is monitored based on a reference period. Employers must ensure that the total hours worked during this period align with the legal average, while staying within set minimum and maximum limits.

Without explaining how this will be achieved, the government agreement proposes aligning the reference period on a full year, allowing businesses greater flexibility in adjusting work schedules according to real-time needs.

To ensure compliance, as had already been announced for some time, mandatory working time registration across all sectors will be introduced.

Employees will also be able to choose between compensatory rest or additional pay for extra hours worked.

II.1.8. Student Work Regulations

Currently, 16-year-old students benefit from tax advantages for up to 475 hours of work per year. A reduced social security contribution of 2.71% is applied, and no withholding tax is due, provided annual earnings do not exceed €15,586 (2025).

The agreement increases the maximum quota of student work hours to 650 per year and lowers the minimum working age to 15 years.

These changes were already adopted in early March 2025.

II.1.9. Flexi-Jobs

Flexi-jobs allow pensioners or workers to take on secondary employment under financially and fiscally favorable conditions for both employees and employers. These jobs are currently limited to sectors where collective agreements authorize them, with some exceptions (e.g., artistic field, healthcare).

The government agreement proposes the following changes:

- Raising the annual income ceiling for non-retired flexi-jobbers from €12,000 to €18,000, with a maximum hourly wage of €21 (cost of living adjusted).
- Allowing full-time employees to hold a flexi-job in a company affiliated with their primary employer, something that was previously prohibited.
- Extending flexi-jobs to all sectors.

II.1.10. Encouraging Workforce Retention

To ensure sustainable social security funding, the new government prioritizes workforce retention. Measures will be developed to balance family and professional obligations, including the introduction of a "family credit" system.

This would allow parents (and potentially grandparents) to share a set number of paid leave days for child care, applicable to employees, self-employed workers, and civil servants.

II.1.11. Gradual Phasing Out of Early Retirement

The government intends to stop new admissions to the unemployment scheme with company supplements (formerly known as early retirement).

Medical-based early retirements will still be permitted but will be subject to stricter oversight, with admissions being limited based on the number of approvals granted in the previous year.

II.1.12. Combatting Long-Term Work Incapacity

The government aims to reform long-term incapacity schemes to promote employee reintegration.

Measures include:

- Creating a "TRIO" platform for access by family doctors, occupational physicians, and healthcare medical advisors.
- Requiring family doctors to assess whether a patient can perform alternative work when extending incapacity periods.
- Making family doctors the main point of contact for occupational health discussions after two months of incapacity.

Additionally, data mining techniques will be used to identify and penalize doctors who prescribe significantly longer or more frequent incapacity periods than their peers. A whistleblower platform will be set up for employers to report suspected abuse to the social inspection and audit service.

II.1.13. Unemployment Benefit Reform

The government agreement aims to accelerate the reducing scale of unemployment benefits and limit their duration to two years.

Initially, the unemployed will receive a higher benefit, which will then decrease more rapidly to encourage job-seeking.

Additionally, for the first time, unemployed individuals will be able to claim benefits after resigning from a job, provided they have worked for at least 10 years.

II.2. Pension Reform

II.2.1. Stricter Conditions for Early Retirement

Currently, it is possible to opt for early retirement provided the following conditions are met:

- 60 years old with 44 years of service
- 61 years old with 43 years of service
- As of 63 years old with 42 years of service

For the moment, a year counts as a year of service if an employee works 104 days, a self-employed person 2 quarters and a public servant 4 months

From January 1, 2027, for all all classes, only years with at least six months (156 days) of actual work will count toward early retirement eligibility.

Transitional measures will be introduced for those meeting current eligibility criteria in 2025.

II.2.2. Introduction of an Actuarial Correction

Currently, early retirement naturally reduces the amount of the pension, given that the period of service is shorter and thus generates less benefit.

From 2026, early retirement will result in a penalty (malus):

- 2% reduction per year until 2030
- 4% per year until 2040
- 5% per year from 2040 onward

This penalty applies to employees having the required minimum number of years of service but who have not accumulated 35 years of service with at least 156 days effectively worked per year and an overall total of 7.020 days worked.

Conversely, those who postpone retirement beyond the legal retirement age and meet the following conditions will receive a pension bonus at the same rates:

- +2% per year (until 2030)
- +4% (until 2040)
- +5% (as of 2040).

Periods of maternity leave and care leave will be assimilated to effective days of work for the calculation of the required 35 years

II.2.3. Reduction of Pensionable Non-Work Periods

According to the government figures, almost one third of the pension entitlements of Belgian employees would be based on non-working days which are legally assimilated to days worked (sick leave, unemployment, parental leave etc.)

The government plans to reduce the possibilities for assimilating periods of inactivity (e.g., unemployment, sick leave) to days effectively worked, maintaining only a few exceptions.

II.2.4. Mandatory Supplemental Pension Scheme

A second-pillar pension will be introduced, financed by a minimum 3% employer contribution by 2035.

II.3. Combating Social Fraud and Social Dumping

The government plans to increase staff and technology resources available to the social inspection and audit service, focusing on:

- Tax residency verification
- Prevention of social dumping (e.g., enforcement of the 183-day tax rule)

- Crackdown on subcontracting abuses
- Addressing fake self-employment cases
- Fighting undeclared work

Additionally, fines and penalties applicable in labor matters will increase:

- Minimum fines will rise to 50% of the maximum penalty if aggravating circumstances exist
- Additional charges will increase from 70% to 90%, meaning a €100 fine will become €900

III. SUMMARY

CORPORATE TAXATION

- Reform of the RDT (Definitively Taxed Income) regime: Transition from a deduction system to an exemption system and an increase in the qualifying participation threshold (from €2.5M to €4M for large companies).
- Capital gains tax on RDT SICAVs: Introduction of a 5% tax on realized capital gains.
- Increase in withholding tax on liquidation reserves: Rate raised from 5% to 6.5% (total taxation increasing from 13.64% to 15%).
- Exit tax: The emigration of a company without an establishment in Belgium will be subject to taxation similar to liquidation.

INDIVIDUAL TAXATION

- New tax on financial capital gains: A 10% solidarity contribution on certain capital gains, with exemptions and progressive rates.
- Reform of the tax regime for expatriates: Increase in tax exemption from 30% to 35% and removal of the €90,000 cap.
- Creation of a tax framework for "carried interest": Maximum tax rate of 30% on investment fund managers' financial income.

SOCIAL MEASURES

- Reintroduction of the probation period: Simplified dismissal with a reduced notice period of one week during the first six months.
- Increase in voluntary overtime hours: Annual cap raised to 360 hours, with no additional pay for 240 of these hours.
- Reform of flexi-jobs: Income ceiling raised to €18,000 per year, extended to all sectors, and removal of certain restrictions.
- Stricter conditions for early retirement: Only years with at least six months of actual work will be counted.

- Introduction of a pension malus and bonus: Reduction (up to 5% per year) for early retirement; increase (up to 5% per year) for delayed retirement.
- Cap on severance pay: Notice period limited to 52 weeks for new contracts.
- Unemployment reform: Faster reduction of unemployment benefits and a maximum duration of two years.
- Creation of a mandatory supplementary pension: A minimum employer contribution of 3% of gross salary by 2035.