

distributed in equal amounts of 10 percent over a 3-year period beginning in the year in which the investment is made. However, if the profits in any year are insufficient, the unused portion of the deduction may be carried forward for 5 years. The deduction does not affect the depreciation allowance otherwise available on the property. Thus, the total of the special deduction and depreciation will exceed the cost of the property. The special deduction gives a maximum benefit of 9 percent of the investment (30 percent of the 30 percent maximum effective tax rate on undistributed profits). Since the deduction applies only to the undistributed profits tax, the result is, in a sense, only a tax deferment, with the deferred tax being collected at the time of distribution of the profits as dividends.

The deduction is available only to industrial enterprises engaged in the extraction, fabrication, or transformation of items. It does not apply, for example, to farmers, transportation firms, hotels, and beauty parlors. The source of funds used for the investment is not restricted. The tax incentive is aimed at expansion rather than mere replacement and, for this reason, the proceeds from the sale of capital assets during the year must be subtracted from the qualified expenditures during the year. Thus, an enterprise which replaces its buildings or machinery with other buildings or machinery of the same value does not obtain the benefit of the deduction. Investment qualifying for the special deduction must be made in "business real property and machinery." Such property includes land bought on which to erect "industrial buildings" as well as business buildings, apparatus, tools, office equipment and furniture, and laboratory equipment. It is immaterial whether the taxpayer buys new or used items. However, leased equipment may not be taken into account either by the lessor or the lessee. Only investments in items used in Belgium qualify for the deduction, although there is no rule that the items acquired must have been made in Belgium. Items under contract but not yet delivered may be taken into account to the extent that progress payments are made during the year. For new enterprises the entire amount of the investment during the first year qualifies for the special deduction.

Adjustments for price level changes

Taxpayers were allowed in 1947 to revalue assets acquired before December 31, 1940. Subsequent depreciation deductions are permitted on the basis of such revaluation in order to make allowance for the extraordinary rise in prices during and immediately after the war.

Treatment of gains on sale of depreciable property

Generally, gains on the sale of buildings and equipment are treated as ordinary income in the case of corporations. However, under a law enacted in 1959 and subsequently extended to 1962, only one-fifth of the gain is subject to tax if the proceeds of sale are reinvested in fixed assets or equipment located in Belgium. Total exemption of the gain is permitted if the reinvestment is made in designated regions which have suffered from high rates of unemployment.

Treatment of losses on sale of depreciable property

Losses on the sale of buildings, equipment, and machinery are fully deductible from income.

Relationship of book and tax depreciation

Depreciation allowed for tax purposes is limited to the amount shown on the books.

Provisions of prior law

A special deduction of 30 percent for "productive investment" in excess of BFr250,000 (approximately \$5,000) per year was allowed between mid-1954 and mid-1956. This deduction was spread over a 3-year period and was independent of the depreciation deduction. It differed from the special deduction introduced in 1959 in that it was not related to depreciation or the proceeds from the sale of capital assets.

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Corporate tax rate

The maximum corporate tax rate is 50 percent including the 3-percent old-age security tax.