

# Applications of METR/AETR analysis in Belgium

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- METR/AETR and other tax burden indicators
  - Main differences between METR and AETR
  - Applications
    - Main trends
    - 2003 CIT tax reform
    - The effect the ACE on METR's and AETR's
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# METR/AETR and other tax burden indicators

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- Nominal tax rates
    - Poor guide for effective taxation
    - They just give a partial signal for investors
    - May matter for tax planning
  - Implicit tax rates
    - Taxes assessed or paid/ Proxy of the tax base
      - Net operating surplus of the corporate sector
      - Profits before taxes (profits and losses accounts, national accounts)
  - AETR and METR
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# METR/AETR and other tax burden indicators

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## □ AETR and METR

- Captures the effect of tax rate and some tax base provisions on a (ante-) marginal investment
  - They take into account tax depreciation and investment tax credits, tax treatment of interest, dividends and capital gains (when personal taxes are included)
  - They highlight non neutralities across assets and in financing (debt, equity, retained earnings)
  - Difficult, but not impossible, to account for tax planning techniques
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# METR/AETR and other tax burden indicators

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- On the other hand, ITR's
    - May incorporate the effects of tax planning if the denominator is not affected by tax planning
    - Include the effect of ANY tax relief, tax credit etc... while M&AETR only incorporate some of them
    - Unable to illustrate non-neutralities: they just give an average
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# Main differences between METR and AETR

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- METR: KING and FULLERTON (1984)
    - Case of a marginal investment (Return = cost)
    - *Answer to « How much to invest in a given location ? »*
  - AETR: DEVEREUX and GRIFFITH (1998)
    - Computed for investments that earn an economic rent
    - *More convenient to look at location advantages*
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# Applications

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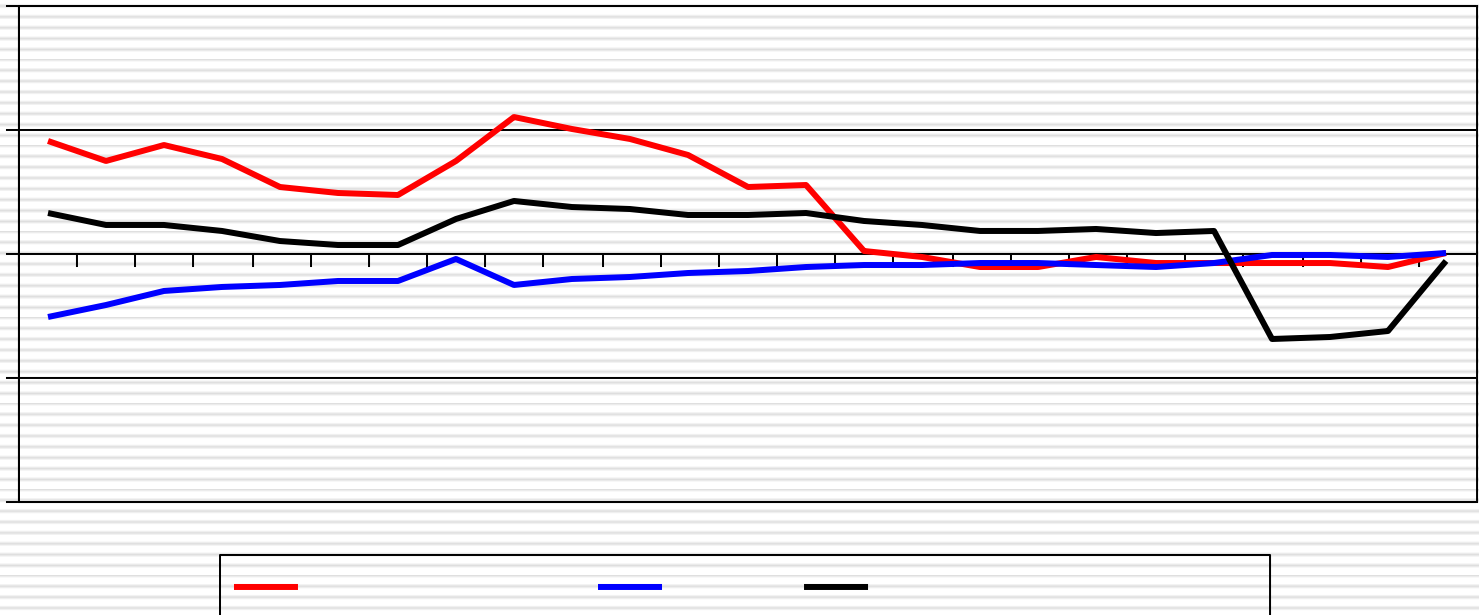
- Main trends
  - Is my country an interesting location for foreign investors ?
  - Tax reforms
    - 2003 CIT Reform
    - The introduction of the Allowance for Corporate Equity
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# Application

## (1) Main trends

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*Tax wedge (p-s)*

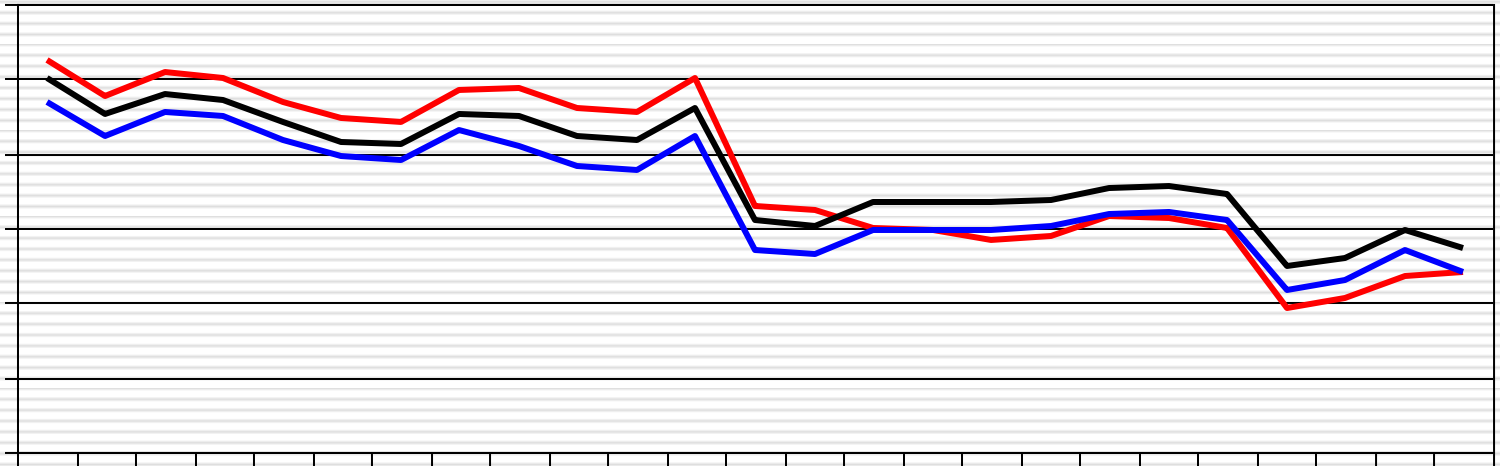




# Application

## (1) Main trends

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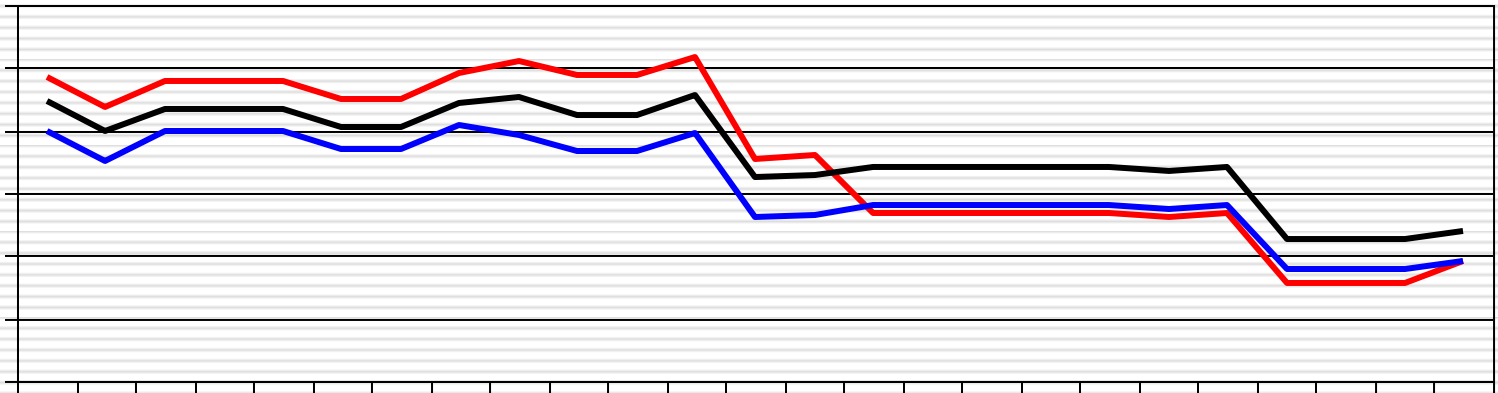


# Application

## (1) Main trends

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### *Fixed interest and inflation rates*

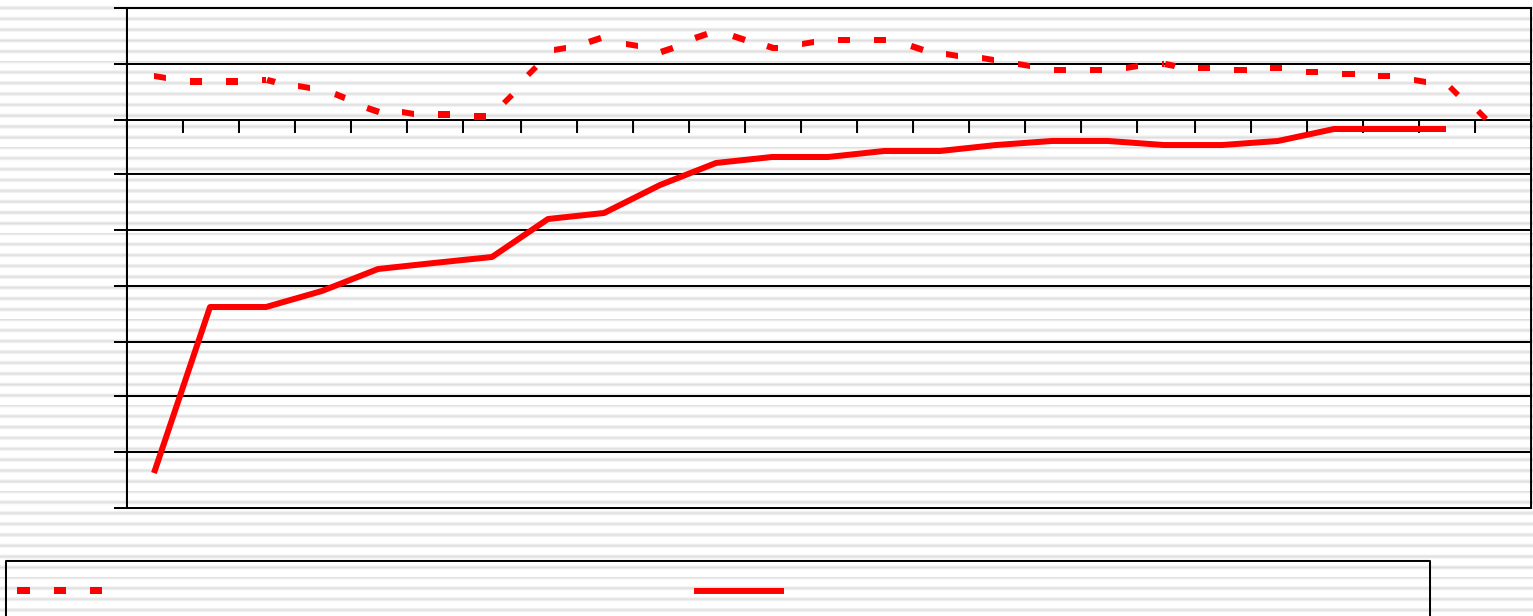


# Application

## (1) Main trends

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### *With and without Coordination centre*



## (2) Is my country an interesting location for foreign investors?

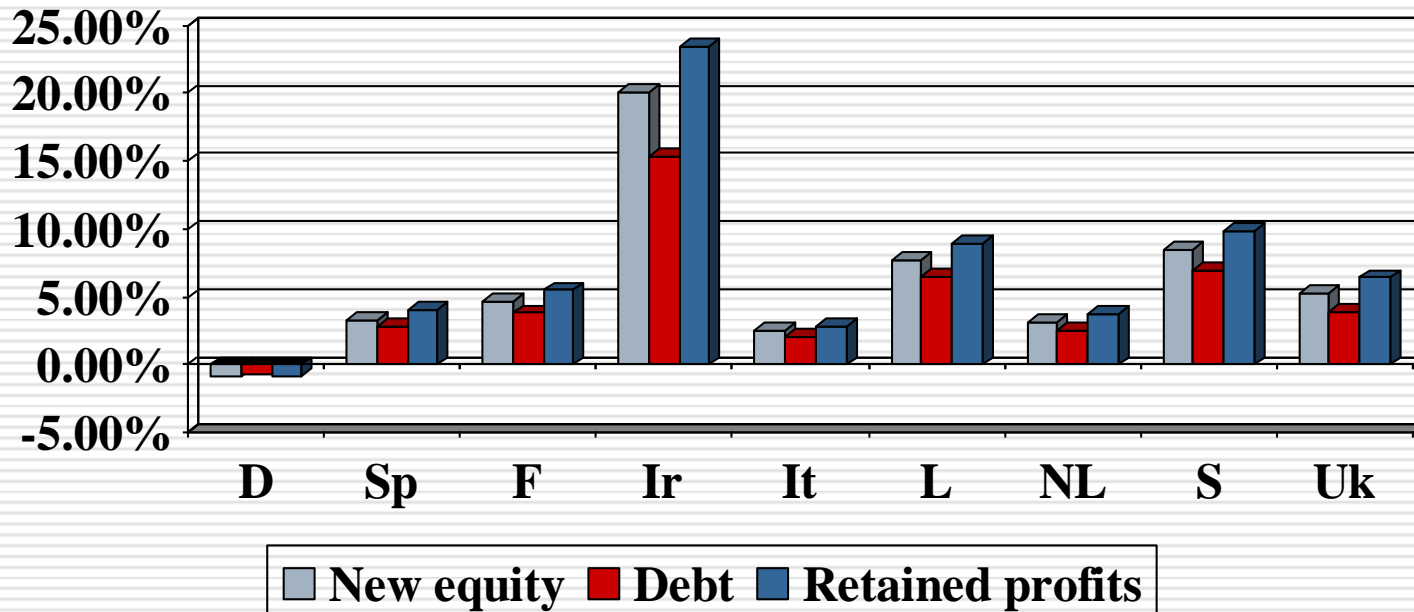
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## (2) Is my country an interesting location for foreign investors?

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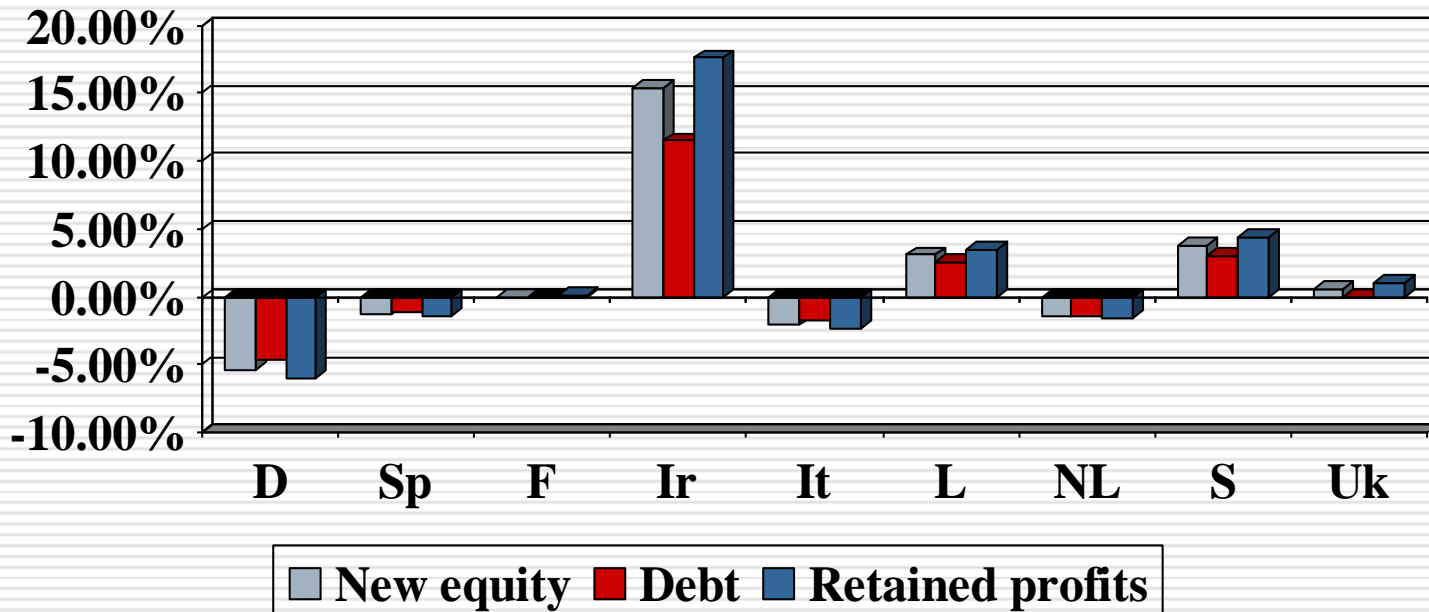
**AETR and incentive (+) or disincentive to invest  
outside of Belgium with CIT rate = 39%**



## (2) Is my country an interesting location for foreign investors?

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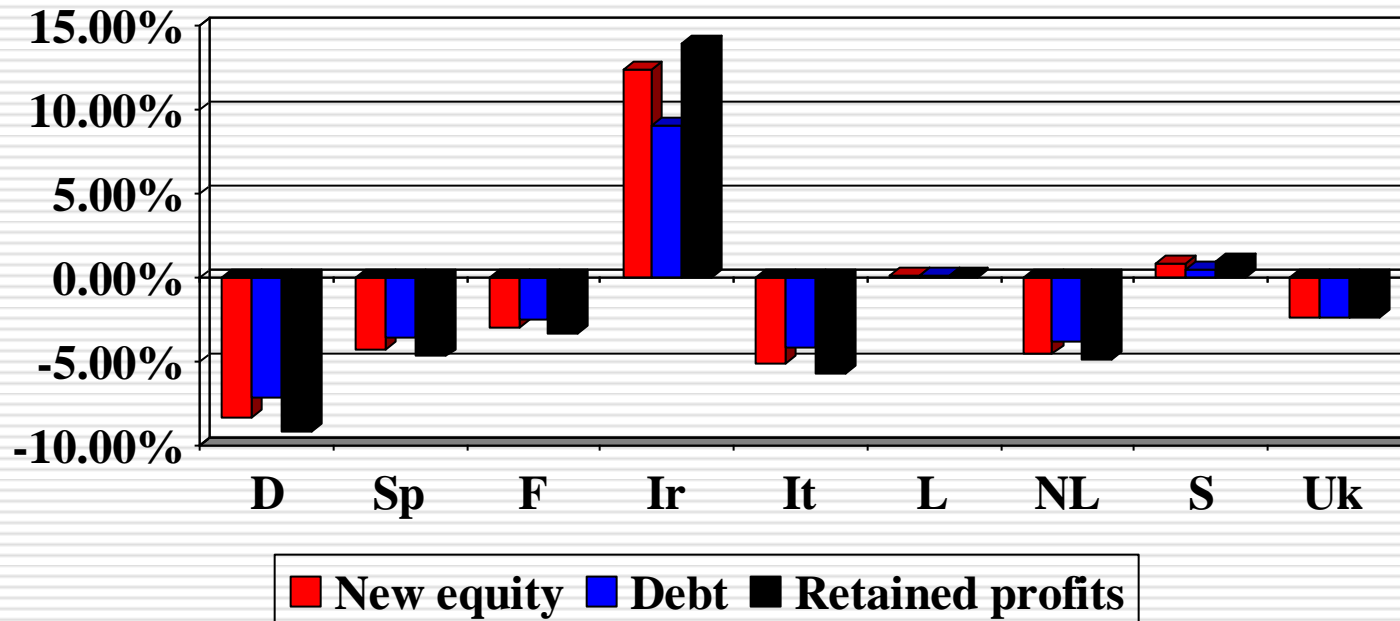
**AETR and incentive (+) or disincentive to invest  
outside of Belgium with CIT rate = 33%**



## (2) Is my country an interesting location for foreign investors?

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**AETR and incentive (+) or disincentive to invest outside of  
Belgium: C.I.T rate at 30 %**



# (3a) The 2003 CIT Reform

## *Concerns and answers*

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- ❑ Concern about competitiveness
  - ❑ Concern about the cost of capital for SME's
  - ❑ Implementation of EU and OECD code of conduct
  - ❑ The reform has to be budgetary neutral
  - ❑ Lowering of the rate
  - ❑ Lowering the reduced rates, « investement reserve »
  - ❑ Preferential tax regimes abolished, ruling system introduced
  - ❑ Broadening of the tax base
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# (3a) The 2003 CIT Reform

## *Broadening of the tax base*

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- ❑ Non-deductibility of regional taxes
  - ❑ Change in the depreciation rules
  - ❑ Strengthening of thin capitalization rules
  - ❑ Strengthening of audits for participation exemptions
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# (3a) The 2003 CIT Reform

*How METR have changed*



# (3b) The 2006 tax reform

## *The case of SME's*

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