

## **Direct taxation: the European Commission asks Belgium to end two discriminatory arrangements**

*The European Commission has formally asked Belgium to end the discriminatory treatment of non-residents working in the Flemish Region and the discriminatory treatment concerning the interest paid to other Member States' financial institutions. These requests take the form of reasoned opinions. If there is no satisfactory response within two months, the Commission reserves the right to refer these matters to the Court of Justice of the European Union.*

### **Tax reduction in the Flemish Region**

Under Belgian legislation, a flat-rate tax reduction is granted to residents of the Flemish Region. By contrast, this is not granted to persons resident in another Member State, even if they work in the Flemish Region and earn all or virtually all of their income there.

Reserving the reduction only for residents of the Flemish Region, whatever their nationality, constitutes discrimination against non-residents.

The Commission considers that Belgium has not fulfilled its obligations deriving from the Treaty on the Functioning of the European Union, particularly as regards free movement of workers and freedom of establishment (Articles 45 and 49 TFEU), by restricting the application of this flat-rate tax reduction only to workers resident in the Flemish Region.

### **Tax-deductibility of interest**

Belgian legislation authorises the deduction as professional expenses of interest paid only in so far as they do not exceed an amount corresponding to the market rate. This deduction is nevertheless possible where the interest is paid to Belgian financial institutions.

The difference in treatment of interest paid to Belgian financial institutions and to foreign financial institutions is likely to restrict foreign institutions' freedom to provide services on the Belgian market and therefore contravenes Article 56 TFEU. The difference in treatment is also likely to restrict access for customers resident in Belgium to services provided by foreign financial institutions and therefore restricts the free movement of capital (Article 63 TFEU).

Press releases on infringement proceedings relating to taxation or customs can be consulted at:

[http://ec.europa.eu/taxation\\_customs/common/infringements/infringement\\_cases/index\\_en.htm](http://ec.europa.eu/taxation_customs/common/infringements/infringement_cases/index_en.htm)

The latest general information on infringement proceedings initiated against Member States is available at: [http://ec.europa.eu/community\\_law/index\\_en.htm](http://ec.europa.eu/community_law/index_en.htm)

For EU procedures regarding infringements, see [MEMO/10/530](#)