Death of the Belgian dentist

For decades Belgian dentists have upheld a reputation internationally as unsophisticated, reasonably well off investors with a predilection for bearer certificates. What is the attraction of bearer certificates?

Avoiding tax is a national sport for Belgians and bearer certificates (shares, bonds or cash certificates) have many advantages.

A bearer bond certificate, for instance, is a piece of paper with coupons. It represents a part of a loan issued by the State or a company, and can be sold as such. The coupons give the owner the right to collect the interest for a specific year without any formalities. By presenting the coupon at one of the specified banks, in Belgium or abroad, the owner can collect the interest. However, while a Belgian bank has to deduct the withholding tax (the 'précompte mobilier') of 15 percent and pay it to the Belgian State, a Dutch or a Luxembourg bank does not have to withhold any tax at all.

And this is what has made bearer bonds and cash certificates the preferred investment for many Belgian investors. They take the ‘couponnetjestrein’ to Luxembourg and collect the full interest there. Of course, these investors should still declare this income in their annual tax return and pay income tax at the rate of 15 percent, but this is often (conveniently) forgotten.

Another attraction of bearer certificates is that it is easy to pass them on to the next generation without paying inheritance tax. Securities held on a security account with the bank are fully visible, and the bank will declare them to the Tax Authorities. Bearer certificates are less visible.

Not declaring the bearer shares and bonds in the inheritance tax is illegal. But there is a completely legal manner to avoid the inheritance tax. If the dentist gives his bearer shares to his children in a hand to hand donation (the famous don manuel), no gift tax and no inheritance tax will be due. If the date of the donation is duly established and the donor lives for another three years, the bearer shares do not even have to be declared in the dentist’s inheritance tax return.

However, bearer certificates have their disadvantages. If you lose a bearer bond certificate, you can block it when the finder tries to sell it on. That is if you can give the numbers of the certificates and the correct details of the loan (duration, emission date, interest rate, …). This procedure cannot be used to block coupons. The finder of a lost coupon can cash it and the bank will pay without asking any questions.

This typically Belgian phenomenon is now threatened with extinction.

Until a couple of years ago, the banks were actively encouraging bearer certificates. They set up their own branches in Luxembourg to help their clients cash their coupons. And while they were promoting security accounts for their safety and security, they charged a fee. There was never a fee for bearer certificates, just a 0.2 percent tax on the physical delivery of bearer certificates.

The banks are now realising that if they have to keep and look after bearer certificates, this requires a lot of work. There is the cost of printing bearer certificates. Processing purchase and sales orders and cashing coupons on bearer certificates is labour intensive. The management of a portfolio held in a security account is much easier with the newest banking software.
Fortis, KBC and Dexia have started charging € 12.10 for the physical delivery of bearer shares, bonds, cash certificates and investment funds certificates, on top of the existing 0.2 percent tax charge. ING (which used to be BBL) charges € 15.125. However, they all have different policies on how they calculate these fees. Fortis does not charge for cash certificates, and KBC and Dexia do not deliver shares listed on another stock exchange than Euronext.

And the Tax Authorities have declared bearer certificates fair game a while ago. On Belgian treasury bills - bearer bonds issued by the Belgian State - the Belgian State only pays out 85 percent of the interest, even if the coupon is cashed in Luxembourg. The Belgian treasury always receives its 15 percent tax.

And if the EU Ministers of Finance have their way, Luxembourg banks will also have to withhold tax as of 2005. The trip to Luxembourg will not be interesting any more; the bank will withhold 15 percent tax, as much as at home, 20% as of 2008, and even 35% as of 2011.

Looks like Belgian dentists might not be paying so many visits to Luxembourg in the future.

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