

Prepayments 2014: lower surcharge percentage

Companies are obliged to make prepayments. If they don't, they will be penalized. They will then have to pay a 'surcharge'. Each year the surcharge percentage is determined. For the prepayments for this year (tax year 2015) a lower surcharge percentage is applicable than for the previous years.

Who should prepay

Both for personal tax as for company tax, tax payers receiving profits or gains should make prepayments. This obligation also applies to liberal professions and entrepreneurs. Prepayments are also due for remunerations for directors and assisting spouses.

Starting entrepreneurs should not make any prepayments for the first three years: this applies to both persons established for the first time as independent as for beginning 'small' companies according to article 15 of the Belgian Companies Code. They are not penalized when they do not make prepayments.

When to prepay in 2014

The prepayments should be made ultimately on four pre-fixed dates:

- Prepayment 1: ultimately on 10 April 2014;
- Prepayment 2: ultimately on 10 July 2014;
- Prepayment 3: ultimately on 10 October 2014;
- Prepayment 4: ultimately on 22 December 2014.

Surcharge if no or insufficient prepayments (individuals)

The surcharge which is imposed for insufficient prepayments is calculated as a percentage of the tax amount. For tax year 2015 this percentage is 1,69%. Thereby the surcharge is much less than for the previous years.

For *individuals* the base tax amount is previously increased with 6% to calculate the surcharge. At the end the tax payer only has to pay 90% of this surcharge.

Example

An independent entrepreneur should pay 37.500€ (base) tax. He does not make any prepayment during the year. The following surcharge is due: first the base tax amount is increased with 6%: $37.500 \times 1,06 = 39.750$. On this amount the surcharge of 1,69% is calculated = 671,78. The entrepreneur will at the end only have to pay 90% of this surcharge = 604,60€.

Surcharge if no or insufficient prepayments (companies)

Also companies should pay a surcharge if they have make no or insufficient prepayments. The surcharge is however calculated differently: the increase up to 106% and the limitation of 90% do not apply.

Example

A company which has to pay 37.500€ tax, but did not make any prepayments, will have to pay the following surcharge: $37.500 \times 1,69\% = 633,75\text{€}$.

Eliminating the surcharge by making sufficient prepayments

By making sufficient prepayments the potential surcharge is neutralized. Each prepayment reduces the amount of the surcharge. This is calculated to apply a percentage of the prepayment (PP). Also these percentages are adapted:

- PP 1 (10 April): 2,25%
- PP 2 (10 July): 1,88%
- PP 3 (10 October): 1,50%
- PP 4 (22 December): 1,13%

On average this results in 1,69% $((2,25+1,88+1,50+1,13)/4)$

A prepayment made in the first quarter yields more than one made for the second, third or fourth quarter. A prepayment of 20.000€ on 10 April reduces the possible surcharge with 450€ (2,25% of 20.000), while the same prepayment on 22 December reduces the surcharge with only 226€ (1,13% of 20.000€).

How does it work in practice: an example for 2014 (tax year 2015)

An sme has to pay 100.000€ tax for accounting year 2014. If it would not make any prepayments, a surcharge of 1.690€ (1,69% of 100.000€) is due. The company attempts to eliminate the hypothetical surcharge by making the prepayments in the course of that year:

- On 10 April: 40.000€
- In July no prepayment was made for the second quarter
- On 10 October: 44.000€
- On 20 December: 13.000€
- The prepayments will eliminate the possible surcharge as follows:
- PP 1: $40.000 \times 2,25\% = 900\text{€}$
- PP 2: $0 \times 1,88\% = 0\text{€}$
- PP 3: $44.000 \times 1,5\% = 660\text{€}$
- PP 4: $13.000 \times 1,13\% = 147\text{€}$

Total = 1.707€

The possible surcharge of 1.690€ is herewith completely eliminated.

Personal income tax: bonus for who makes too much prepayments

For personal income tax purposes, the systems goes a step further. Who makes more prepayments than required to eliminate the surcharge, receives an allowance or 'bonus'.

This bonus is calculated at 50% of the percentage which applies to the prepayments:

- PP 1: 1,13%
- PP 2: 0,94%
- PP 3: 0,75%
- PP 4: 0,56%

Example

An entrepreneur has made too much prepayments. The entrepreneur has made a prepayment for the last quarter of 15.000€, while 10.000€ was sufficient. He consequently prepaid 5.000€ too much. The bonus amounts to: $5.000 \times 0,56\% = 28\text{€}$. The entrepreneur will have to pay 28€ less tax.

Optimization

Prepaying is on the one hand necessary to avoid the surcharge, but on the other hand requires pre-financing by the tax payer. The possible bonus in the personal income tax will not fully compensate this. Making too much prepayments does not have much sense. Correct prepayments require a correct estimate of the amount of tax due. In this way you can eliminate the surcharge without too much pre-financing.