



The tax framework before the Programme Act of 18 July 2025: how the VVPRbis and liquidation reserve tax schemes operate

The reduced withholding tax scheme, i.e., *Verlaagde Voorheffing* (in Dutch) or *Précompte Réduit* (in French), also known as the acronym “VVPRbis” scheme, was introduced to encourage financing of SMEs and to strengthen their equity. This, under certain conditions, allows for a reduced rate of withholding tax on dividends. This measure applies to newly issued registered as from 1 July 2013 in exchange for cash contributions to an SME’s share capital.

To benefit from this tax scheme, the issuing company must be classified as a “small company” in the sense of Article 1:24 of the Belgian Code of Companies and Associations (BCCA) for the tax year relating to the taxable period when the capital contribution took place. Before last July’s tax reform, dividends on these shares were eligible for a reduced withholding tax after a waiting period. The reduced tax rates would be 20% on the profit distribution of the second financial year after the contribution, and then 15% on the profit distribution of the third financial year.

This mechanism aims to encourage long-term capital holding of capital in SMEs while reducing the tax burden on dividends.

At the same time, the legislature introduced a specific tax scheme for liquidation reserves. This allows companies to anticipate withholding tax on liquidation bonuses. The latter, which is treated as dividends, are subject to 30% withholding tax (this has been so since 1 January 2017). Creating a liquidation reserve, which is subject to a separate 10% contribution, reduces the tax liability upon liquidation. Amounts allocated to the liquidation reserve could then be distributed exempt from withholding tax.

This mechanism also allowed for early distribution of dividends at a more favourable rate than the standard rate of 30% (i.e., if there is no liquidation reserve). If distribution takes place before 5 years, the withholding tax would be 20%. After 5 years, it would be reduced to 5%. This represented an actual rate of 13.64%, taking into account the separate 10% contribution.

This tax scheme aims to strengthen equity capital while offering a tax-efficient instrument for profit redistribution. Before the reform, it was only a legal optimization tool for planning liquidation or profit distribution effectively.



The Programme Act of 18 July 2025

The Programme Act of 18 July 2025 aims to harmonize the VVPRbis and liquidation reserve tax schemes.

For the VVPRbis scheme, the reduced rate of 20% continues to apply to only contributions that were made before 31 December 2025. Contributions made after this date will no longer benefit from the 20% rate. The reduced 15% rate will apply on profit distributions of the third financial year after the contribution. If the distribution takes place earlier, the 30% withholding tax rate will apply.

Regarding the dividends that are withdrawn from liquidation reserves that were created before 31 December 2025 and that were paid out from 29 July 2025, the 20% rate continues to apply if the distributed portion has been held for less than 3 years from the last day of the taxable period when the reserve was created. If this period is between 3 and 5 years, the rate will be 6.5%, and the rate of 5% will apply if the period is beyond 5 years.

Dividends withdrawn from liquidation reserves that have been created from 2026 onwards will be subject to a single rate of 6.5% only if the reserves are held for at least 3 years from the end of the taxable period when they were created. The reduced 5% rate is therefore abolished.

One must pay special attention in the event of early distribution: if the reserve is distributed before the expiry of the 3-year waiting period, a 30% withholding tax will apply. Adding the separate 10% contribution to this will bring the actual rate to 36.36%, which demonstrates the need for meticulous planning of distributions.

As from 2026, the VVPRbis and liquidation reserve tax schemes will be harmonized aligning the withholding tax rate at 15% and requiring a 3-year waiting period. This harmonization measure aims to create greater consistency in the tax treatment of the two schemes.

VVPRbis and liquidation reserves: Is a dual mechanism still relevant for tax optimization of distributions?

Maintaining the VVPRbis tax scheme continues to be favourable, as it offers the possibility of benefiting from a reduced tax rate without the obligation to pay the separate 10% contribution immediately, unlike what is required for the liquidation reserve tax scheme.

For the liquidation reserve scheme, it remains useful mainly because no additional withholding tax is due upon liquidation of the company. Only the 10% contribution will have been deducted when it was set up which corresponds to an actual charge of 9.09% given how it is calculated. This is considerably more favourable than the 30% rate that is usually applied to liquidation bonuses.

Conclusion

Before the tax reform, the VVPRbis and liquidation reserve tax schemes provided distinct tax advantages to SMEs. The 2025 reform aims to simplify their interaction by harmonizing rates and time periods, while preserving the specificity of each mechanism according to the distribution strategy adopted. It is therefore crucial to assess case by case the advisability of opting for one or the other scheme so that one could optimize the taxation of distributions, while considering accounting management objectives and shareholder structure.



Benoît Malvaux