Tax Newsletter

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Why 'the management company' deserves more respect!

- The 'management company' ("MgtCo") is not a specific type of company. It is a standard company, often taking the form of a private limited company (BV). MgtCo has its own legal personality, which is separate from that of its shareholder(s).

- Anyone who starts a business takes risks and therefore has the option to operate through a MgtCo with limited liability. This protects the personal assets of the individual involved against their managerial and/or professional liability. MgtCo will also (have to) take out the necessary insurance. There is no social safety net for sick leave or severance pay that an employee could rely on.

- Entrepreneurs also incur costs. MgtCo finances e.g. a company car, laptop, the annual social security contribution, insurance premiums, accounting, marketing, etc.

- Entrepreneurs are therefore entitled to a risk premium. Failure is not excluded. The entrepreneur also chooses a non-financial cost (but will rarely complain about it openly): this is not a 9-5 job and there is the constant restlessness in the mind: will the client stay on board? Will the cashflow stay positive? This ongoing sense of responsibility for business and family is often underestimated. But it is there.

- MgtCo is subject to corporate tax. On a taxable profit of EUR 200,000 MgtCo pays 20% corporate tax on the first EUR 100,000 and 25% on the excess. If MgtCo then distributes a dividend to the shareholder – a natural person – the effective tax cost becomes 36.45% (with 18% withholding tax) or 45.75% (with 30% withholding tax). MgtCo will likely also pay a Director's salary giving rise to personal tax and social security contributions. The various costs mentioned above still need to be added.

- Whoever undertakes creates value. There is the intrinsic business value of MgtCo and of its clients. Many MgtCos additionally invest in real estate and/or financial products and pay corporate tax on the on the returns. So MgtCo is a catalyst for growth and therefore structurally contributes to prosperity (for everyone!).

- In short, working through MgtCo isn't 'abuse' in itself. MgtCo invoices (with VAT) and therefore doesn't feed the black market. However, anyone working through MgtCo but behaving structurally like an 'employee' can already be penalized socially and fiscally for sham self-employment.

- Whether MgtCo has its own staff or not doesn't change the above. What precedes mainly illustrates that MgtCo structurally contributes to social solidarity. Anyone who doesn't recognize that is out of touch. An entrepreneur never is on strike. The rock god from Ostend, Arno, summed it up like this: "*On est moche, mais on s'amuse*." But let's not turn the Belgian entrepreneur into an 'ugly camel'!