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Notional Interest Deduction Regime in Belgium: What Indonesia Should Learn to Design the CFC Regulation?

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ABSTRACT
Notional Interest Deduction (NID) regimes, which were implemented for the first time in Belgium, have provided many results and benefits for Belgium. The introduction of NID strengthens the attractiveness of Belgium as a favorable location for treasury centers and capital-intensive investment in general. While Indonesia as a contracting state in tax treaty also has an interest in the proportion of income from international taxation related to the operations of Belgian companies operating in Indonesia. In this study, it was found that the application of NID regimes has reduced the effective tax rate and allowed companies to strengthen their capital structure with the added benefit of tax-deductible interest costs. However, the existing CFC rules are not enough to ward off the NID Regimes abuses of the MNEs group. Therefore, Indonesia in the formulation of CFC Rules must include all aspects that can limit excessive claims related to the reduction of notional interest on equity, such as limiting dreguloubble deduction, acquisition of business operations, contributions or transfers of participation between related parties executed for resulting in a higher notional interest deduction in equity, an internationally coordinated interest rate reduction and royalty reduction, a reverse tax credit, withholding tax on all interest and royalty payments, withholding tax as an anti-tax-avoidance regulation.
Keywords: *NID, regimes, Belgium, CFC, Indonesia*

1. INTRODUCTION

Notional Interest Deduction (NID) also called Risk Capital Deduction (RCD) [1] allows for tax deductions for notional/capital costs and applies to both Belgian companies and foreign Belgian branch companies. This allows equity to finance Belgian companies and branches to significantly reduce their effective tax rates [2]. Reflecting Belgium's status as a financial center, Belgian law regulates a unique tax measure for Belgian and foreign-driven investment, known as "Notional Interest Reduction" [2]. In 2014, 12 European countries operated an Intellectual Property (IP) regime that provided a substantially reduced corporate tax rate for revenues from important forms of intellectual property [3].

NIDs are designed to align the tax treatment of equity costs with debt costs (eg dividends cannot be deducted, while interest on financing is tax-deductible costs) and, therefore, carry equity financing equivalent to debt financing. This will be achieved by allowing companies and partnerships to claim reductions for "interest on risk capital" [4]. Some countries have introduced a NID regime which calculates the allowable deduction by multiplying the pre-determined interest rate by the amount (qualification) of taxpayer equity. The effects of a NID regime must amount to less (excessive) debt financing and more equity financing. The NID regime results in lower effective tax rates [5].

NID reflects changes in tax incentives caused by notional interest deductions due to (1) notional interest reductions cause a significant reduction in simulated average marginal tax rates and (2) changes in simulated marginal tax rates due to the introduction of significant notional interest reductions in explaining changes debt ratio [6].

This paper argues that the NID Regimes in Belgium has succeeded in attracting investors to invest in Belgium. Although the effective tax rate has fallen considerably, MNEs are still looking for loopholes to avoid tax. While on the other hand, Indonesia as a contracting state that has signed a tax treaty with Belgium has not been able to pursue the strategy that has been adopted by Belgium which already adheres to the NID Regime. The need to design tax law rules to overcome tax avoidance, especially the abuses of NID Regime. For this reason, the Government of Indonesia must continuously improve the existing CFC Rules.

1.1 Methodology

The research method used is qualitative research [9] that describes Notional Interest Deduction Concepts, Notional Interest Deduction Regime in Belgium and Italy, Notional

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Interest Deduction Regime Practices, advantages of NID Regimes, implications of NID regimes, lessons from NID regimes in Belgium. A comparative study [10] is applied in this study to find out Belgium's strategies and policies in the NID regime concepts, abuses of NID practices, and restrictions in the case of NID regimes so that Indonesia has a contribution of experience and a map of reference to design future CFC Rules.

1.2 Paper Structure

After the introduction, section 2 (background) will discuss the NID concepts, the NID regime in Belgium and Italy which studies the Notional Interest Deduction regime practices, and in section 3 (results) discuss the Implications of NID regimes; and lessons from NID regimes. In the end, will present some closing notes from this paper.

1.3 Our Contribution

Our main contribution is to look qualitatively at NID concepts and arrangements in Belgium aimed at Belgium's strategy to attract investors to them and win challenges for competition between countries. Certainly, look further about the tax relationship between Indonesia and Belgium which is regulated in a tax treaty since 1997 [7]. While since 2006, Belgium has implemented NID regulations to attract investors to Belgium [8]. With the tax treaty, Indonesia is also in a difficult position to offset the tax policy of Belgium, the relevant country participating in the tax competition between Belgium and Indonesia. Therefore, this research needs to be done to see the position of Indonesia to follow and analyze the development of tax rules in Belgium to improve the accuracy of the design of CFC rules and future tax treaty.

2. BACKGROUND

2. 1. NID Concepts

NID is an explicit equity reduction that was introduced in 2006 to reduce tax-driven distortions that support the use of debt financing [11]. NID allows companies to deduct from their taxable income the notional cost that is equal to the product's book value of equity multiplied by the reference interest rate based on historical long-term government bonds. As a result, and very different from traditional tax incentives, the company's marginal financing decision is given with a significant tax reduction regardless of the source of its financing [12].
The NID illustration can be illustrated as follows, for example a company has a balance sheet with 1 million receivables from group companies, bears an interest rate of 4%, and 1 million share capital. As such, the company has used all its share of capital to finance the group. This means that profit before tax is 40,000 (4% of 1 million). Assuming that the corporate income tax rate is 25% and the notional interest rate reduction applied to the rate is 3%, the effect on the effective tax rate is as follows (see.Table 1) [5]:
NID reduces tax discrimination between debt and equity financing by allowing companies to reduce the notional interest expense on their equity, in the same way, that interest on loans can be tax-deductible [13]. The deductible amount from the taxable basis is equal to the cost of fictitious interest on adjusted equity capital [14].

Table 1: An Example Illustrating the Effective Tax Rate (ERT)

Profit and loss account	Without NID	With NID
Profit before tax	40.000	40000
NID 3%	N/A	-30000
Taxable profit	40.000	10000
CIT rate 25%	10.000	2500
ETR	25%	6,25%

NID = notional interest rate x adjusted equity

In this way, NID allows an actual reduction in proportion to the equity invested in a Belgian company or branch office. By harmonizing the tax treatment of debt and equity financing, NID allows companies to strengthen their capital structure with the added benefit of tax-deductible interest costs. This measure applies to all companies with a taxable presence in Belgium, whether local or foreign and regardless of their size, industry or activity (although the NID rate for small and medium-sized companies is 0.5% higher than the standard level) [14].

2. 2. NID Regimes in Belgium and Italy

The big challenge and big opportunity for multinational companies today is to manage local and foreign taxes effectively in a way that is in line with their overall business goals and operations. On June 22, 2005, the Belgian parliament passed a law to reduce notional interest (NID) to replace the central coordinating regime and counteract the country's high nominal corporate tax rates [15]. Effective since the beginning of the 2006 tax year (2007 valuation year), NID has changed the Belgian taxation system and has helped preserve the overall appeal of doing business in Belgium [14].
The NID regime is expected to encourage the use of equity capital into the corporate structure [16] which will effectively produce economic de-leveraging and encourage economic growth. NID will remove any distortion between equity and debt financing by bringing equity and debt to the same level because both will be entitled to tax deductions [17]. This step was very successful, with a significant increase in foreign direct investment into Belgium. While the new Belgian Government reaffirmed

its commitment to reducing notional interest and launched a related international promotion campaign, it simultaneously issued a circular to address the potential of 'rough schemes' lacking the right economic substance [15]. Belgium and Italy are well-known countries with laws governing NID regimes. Belgium was one of the first countries to introduce a regime of NID [5]. Initially, the interest rate previously set was 6.5%, which is the same as the interest rate on 10-year government bonds. Since the NID regimes were a huge success, and because it was too expensive for the government, that number has been gradually reduced. At present, 1.63% (2.13% for small and medium-sized entities). Eligible equity is defined as total capital stock, stock premiums, revaluation gains, reserves including retained earnings) and capital investment subsidies. To avoid the accumulation of tax benefits, certain goods are excluded from the equity base, for example, revenues and profits which fall under the exemption from Belgian participation and released profits attributed to foreign Permanent Establishment (PE) from entities living in Belgium [5].

In Belgium, arrangements for corporate taxation consist of:

- *Residence* – A corporation is a resident if its principal establishment, registered office or place of management is in Belgium [18]. A resident company is liable to Belgium resident corporate tax on its worldwide profits (with Belgium tax relief for eligible foreign-source profit) [19].
- *Basis* – Residents are taxed on their worldwide income. Belgian source income of non-resident companies is subject to the non-resident income tax. In specific cases, nonresident companies without a taxable PE may be taxed on certain Belgian-source income if Belgium is allocated taxation rights under a tax treaty concluded with the nonresident's state of residence; or, if there is no treaty, if the nonresidents cannot demonstrate that the income has been effectively taxed in its residence state [18].
- *A taxable income* – A resident company is liable to corporate income tax on its worldwide income, including capital gains and less allowable deductions [18]. Companies may deduct all business expenses when calculating taxable income, subject to the general condition that sufficient documentation is available and that the expenses are legitimate and at arm's length. Royalties and fees generally are deductible without additional requirements (except if made to tax havens). Income from the foreign real estate or branches located in countries with which Belgium has concluded a tax treaty is exempt (except for three countries, where, under the relevant treaty, only a proportional reduction of the Belgian tax is granted). Taxable income also includes income attributed to the Belgian company under the controlled foreign company (CFC) legislation (under Anti-avoidance rules). Although subsidies are, in principle, part of taxable income, certain job creation subsidies, capital grants, and interest rate subsidies are exempt for corporate income tax purposes. A non-resident company is taxed only on Belgian-source income. A non-resident company without a PE in Belgium is liable for final withholding tax on Belgian-source dividends, interest and royalties and to the nonresidents' tax on Belgian real estate income. Certain other payments (e.g. service fees or fees for technical assistance) made to nonresident companies (or individuals) without a Belgian PE or a Belgia establishment (as defined under domestic legislation) may, under specific circumstances, be subject to a 16.5 % withholding tax (unless the rate is reduced under a double tax treaty). The NID rate is set annually on the basis of the average 10-year government bond rate of the third quarter of the penultimate year before the tax year, with a maximum deviation from year to year of one percentage point. The rate for qualifying SMEs is increased by 0,5%. The maximum NID rate has been capped at 3% for large enterprises (3.5% for SMEs). For the tax year 2019 (i.e for accounting years ending between 31 December 2019 and 30 December 2020), the NID rate will be 0.726% for MNEs and 1.226% for SMEs. Most corporate taxpayers (both subsidiaries and branches) generally are entitled to benefit from NID, but certain assets reduce the NID equity and anti-abuse rules exist [18].

Likewise with the regulation of withholding tax aspects, including:

- *Dividends* – the default withholding tax rate on dividends paid to both residents and non-residents is 30%. Under Belgium's implementation of the EU parent-subsidiary directive, no tax is withheld on dividends paid to a company established in Belgium or another EU member state that holds directly at least 10% of the company paying the dividends, provided the participation is held an uninterrupted period of at least one year [18];
- *Interest* - Interest paid is subject to a 30% withholding tax (15% for certain government bond interest and deposits that are set to exceed a certain threshold), unless the rate is reduced based on a tax agreement or an exemption applies under the direction of EU interests and royalties or domestic law [18].
- *Royalties* - Withholding tax rates on royalties are 30%, reduced by a standard 15% reduction in fees. The rate as 15% for certain income is literally and related rights and from legal and compulsory licenses not to exceed EUR 59,970 (for tax 2019). Above this threshold, the tax rate depends on the nature of the activities that generate income [18].
- *Technical service fees* - withholding tax also must be withheld on certain other payments to non-residents (both companies and individuals) at a rate of 33%. The effective withholding tax rate is reduced to 16,5% as the result of a 50% lump-sum cost deduction. Further reductions may be available under an applicable tax treaty [18].
- *Branch remittance tax* – No [18].
- *Capital duty* – No, except for a fixed fee of EUR 50. An exception may apply in the case of "mixed" contributions [18].

3. Results

3. 1. Implications of NID Regime

Although it seems counterintuitive for a system that reduces taxes for large multinational companies, NID is one of Belgium's main wealth creation mechanisms. NID is also reduces the company's taxable base and results in higher returns after-tax, the move encourages more businesses to set up shop in Belgium. Because by definition it is more attractive to the largest capitalized companies, NID often has a structural influence on the financial behavior of economic agents in Belgium. Therefore, the introduction of NID strengthens Belgium's attractiveness as a favorable location for treasury centers and capital-intensive investments in general [14].

On the other hand, NID also faces challenges from the MNEs group, for example in the case of Argenta Spaarbank NV. Argenta Spaarbank NV is a Belgian financial institution with a PE in the Netherlands. The company does not exclude the Dutch branch's net assets from the NID base in Belgian company tax returns as required by law. Therefore, the Belgian tax authority refuses to give a NID on the number of net assets associated with foreign branches [14].

Litigation before the First Antwerp Court of Justice took place, resulting in a request for an initial decision from the European Court (ECJ) regarding the suitability of the Belgian NID regime with the freedom of European formation. More specifically, the request for an initial decision is related to the exclusion of net equity of permanent companies located in the other EU Member States on the basis of NID [14].

Compare to the Italian NID regime, introduced in 2011, Italian resident companies and Italian PE of non-resident companies can deduct from their net tax notional interest on "new" equity, i.e. the amount of equity increase after 31 December 2010. This means whereas the total equity as of 31 December 2010 was carved out of the equity basis to calculate notional interest deduction. In Italy, the national interest rate is set annually by the Ministry of Finance and is based on the average return on Italian public debt securities and risk factors. For the period 2011-2013, the percentage is set at 3%. In 2014, this figure increased to 4%; it increased to 4.5% in 2015 and will further increase to 4.75% in 2016 [5].

The amount of notional deduction that exceeds the net tax base can be forwarded to mitigate future taxable income without a time limit. The Italian notional interest reduction rules provide specific up and down adjustments to the equity base [5].

The advantages of the NID regime include [20]:

- Lowering the nominal and effective corporate tax rate;
- Inhance and increase the equity of Belgian companies;
- Keep the remaining coordination centers in Belgium;
- Reduce the gap in the tax treatment of interest payments and dividends;
- Promote capital-intensive investments in Belgium.

Meanwhile, the possibility of abuses can occur through, even with the exception and anti-avoidance measures, NID offers the potential for double dipping, especially if the parent company has issued a bank loan to subscribe to the newly issued share capital of a Belgian company that will claim the risk of reduction capital [1]. The parent company has the right to reduce interest, while the Belgian subsidiary can cancel the tax on dividends distributed by reducing notional interest. Especially because NID has to encourage treasury and corporate finance centers within the group of companies, the parent company has the potential to borrow from the Belgian treasury center to subscribe to its share capital. Because ownership of shares in group companies must be excluded from equity, NID is not very attractive to the parent company. Companies that hold such participation in group companies, however, can transfer ownership of these shares to other companies in the group to optimize their deduction. Investment companies, banks, and insurance companies have used this technique [1]. In Verhofstadt's opinion, that the Belgian business that the company should not try to combine NID with a reduction in loan interest taken to capitalize their operations [1].

The implication of NID as a tool for conducting tax avoidance can be seen from intergroup financing and debt licensing strategies (see Figure 1) [5] playing an important role in the current debate about tax avoidance by MNEs. In the past two decades, many countries have taken steps to limit MNEs tax avoidance. These include various forms of thin capitalization rules; there is currently a debate about extending this approach to royalty payments. These steps aim to make the transfer of profits more difficult by extending taxes in the country of origin [21]. The main problem in the debate about anti-tax avoidance policies is that unilateral actions can easily lead to double taxation and may also have undesirable side effects on companies that are not involved in transferring profits [21].

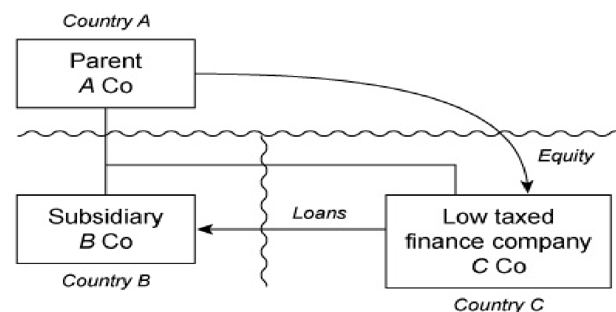

Figure 1 Tax Structures using a low-taxed group financing

The effectiveness of the intra-group financing structure, as illustrated in figure 1, can be reduced by the Control Foreign Company (CFC) laws that apply in the parent company (for example the United States and the United Kingdom). The effect of the CFC rule is that income arising at the level of a low tax finance company must be included as taxable income at the parent company level [5].

However, CFC rules are not always effective because they can be circumvented by applying check-the-box rules in the United States or by invoking an exception such as for group financing activities in the United Kingdom [5]. Furthermore, within the EU, the CFC rules are effective only concerning wholly artificial arrangements as stipulated by the ECJ in the Cadbury Schweppes case [5]. The notion of abuse of freedom of establishment, already addressed in Segers, Centros and Inspire Art judgments, has been further clarified by the ECJ in Cadbury Schweppes case (12 September 2006, case C-196/04, Reports, I-7995), where the parent company, Cadbury Schweppes, resident in the United Kingdom, had incorporated two subsidiaries in Dublin [22] in order to benefit from the more favorable Irish tax regime [23]. The ECJ had been asked to to a certain whether the fact that a company formed in a Member State establishes and capitalizes companies in another Member State, solely because of the more favorable tax regime applicable in that Member State, constitutes an abuse of freedom of establishment, and stated: Indeed, nationals of a Member State cannot attempt, under cover of the rights created by the Treaty, improperly to circumvent their national legislation. They must not improperly or fraudulently take advantage of provisions of Community law [24].

3. 2. *Lessons From NID Regimes*

The relationship between Indonesia and Belgium signed tax treaties on September 16, 1997, in Brussels, in this case, this agreement also applies to any identical or substantially similar tax which is subsequently levied as an addition, or as a tax substitute [7]. Competent authorities of the Contracting States will notify each other of substantial changes that have been made in their respective taxation laws.

Like many other countries, Belgium has signed many double tax treaties that allow people not to be taxed twice on their income and foreign entities are exempt from double corporate tax. The Belgian double taxation agreement) has been ratified after the OECD Tax Convention on Income and Capital [25].

The Federal Public Service in Belgium is the main regulatory body in terms of economic agreements. The Department of Foreign Affairs is responsible for conclusions from economic agreements such as multiple tax treaties but also other agreements. Belgium has concluded social security agreements intended to oversee national and foreign employees and bilateral investment agreements (BIT) intended to attract and protect foreign investment [25].

Seeing the number of Belgian companies investing in Indonesia, it is necessary to study all aspects of taxation in Belgium as the Contracting States in the tax treaty to create an anti-avoidance policy for Belgian companies operating in Indonesia [26].

Each country will compete in obtaining taxes in relation to other countries [27]. Competition [28] promotes the free movement of best practices, not only for tax planning opportunities but also for tax laws. After the legislative step turns out to be successful in attracting investment, other countries use the legislative step. Belgium itself has enacted the NID Regime [29]. Because after all, tax competition between countries is common because countries tend to support MNEs from their countries to be able to compete with MNEs from other countries. However, MNEs domicile countries also try to prevent MNEs from avoiding taxes by having the opportunity to delay taxation on investments made in countries of origin Indonesia and Belgium share the principle of of withholding tax [30].

Therefore, in accordance with the OECD directives in the BEPS Project [31], it suggests that countries strengthen the CFC rules so that the new regime will capture all types of income that cause BEPS or tax avoidance issues. Strengthening recommendations (which could also mean adopting) CFC rules are based on the fact that MNEs can create low-tax non-tax affiliations where they divert income. These individual MNE units carry out their activities as a single integrated company operating within the overall MNE policy and strategy framework. The OECD has observed through several studies that there is a separation between the location of business activities and investments taking place and the locations where profits for tax purposes are reported [32].

While in the case of MNEs, according to Avi-Yonah [28], the risk in terms of difficulty in determining the company's place of residence and is relatively insignificant. Residence based on the establishment is formalistic and subject to taxpayer control, while the residence is based on management and control can also be manipulated. Also, multinational companies are not part of the community and their income does not belong to anyone especially for distribution purposes. Finally, MNEs can exert significant political influence in jurisdictions other than the residence of the parent company's jurisdiction, and hence concerns about foreign taxation are less applicable to them [28].

Comparing tax regulations in Indonesia, through the Indonesian Minister of Finance has issued a Regulatory number. 107 / PMK.03 / 2017 (PMK-107) which has been amended by Regulation of the Minister of Finance of the Republic of Indonesia No.93 / PMK.03 / 2019 (PMK-93) concerning Controlled Controlled Companies (CFCs) that apply from fiscal 2017 onwards. This regulation establishes major changes to the Indonesian CFC regime and will be relevant for any group where Indonesian entities have an interest in foreign companies. The CFC regime will now capture foreign ownership more directly and indirectly and is more likely to bring foreign income to tax in Indonesia, before the declaration of the actual dividend distribution. PMK-107 revoked the previous regulation issued in 2008 [33]. PMK-107 explicitly mentioned the direct and indirect CFC criteria as follows [34]:

- A direct CFC is a foreign company that is owned by an Indonesian taxpayer, or together with other Indonesian

taxpayers (s), with direct ownership of at least 50% of the total paid-in sharing capital.

- An indirect CFC is a foreign company at least 50% of whose shares are collectively owned by an Indonesian taxpayer and a direct or indirect CFC, or collectively owned by Indonesia taxpayer and another Indonesia taxpayer through direct or indirect CFC, or collectively owned by CFC direct and/or indirect.

PMK-93 provides several alternatives, for example, related to the calculation of dividends that were considered originally calculated based on profit after tax. That is, the government does not distinguish active and passive income, but now it is determined based on the net amount after tax on certain income that comes from passive income. Passive income in the latest regulations includes dividends, interest, rent in the sense of rent obtained from controlled non-financial foreign business entities related to the use of land or buildings or leases other than property originating from transactions with related parties, royalties, and excess profits from sales [35].

According to the regulation (PMK-107), domestic taxpayers who own shares abroad, both directly and indirectly, with a minimum percentage of ownership of 50% and those shares not listed on the stock market will be subject to a deemed dividend [36]. Deemed dividends are determined based on net income after tax of the direct CFC multiplied by the shareholding percentage in such direct CFC, i.e. the tax base is the indirect CFC's net income after tax multiplied by the effective shareholding percentage of the direct CFC over the indirect CFC [36].

If the dividends received from the controlled Non-Financial Foreign Business Entity directly exceed the deemed dividend that can be calculated, the amount of the income tax that can be credited is calculated as follows [36]:

- The portion of dividends received up to the deemed dividend that can be calculated, calculated in accordance with the provisions; and
- The portion of dividends that exceeds the deemed dividend that can be calculated, is determined based on the least amount among: The income tax that should be owed or should be paid abroad for a part of the dividend that exceeds the deemed dividend that can be calculated by taking into account the provisions in the tax treaty if a tax treaty is effective; The income tax that is owed or paid abroad on the share of dividends over the deemed dividend that can be calculated; or a certain amount calculated according to the comparison between the dividend portion that exceeds the deemed dividend that can be calculated against the Taxable Income, multiplied by the income tax payable on the Taxable Income, the highest amount of the income tax payable in the tax year or the tax year for which dividends are received [36].

Indonesia must also pay attention to tax policy and crisis mountains as a tax preference for corporate debt financing. For example in the Payment System in the United States and most in other countries who prefer funds issued from existing funds because of money spent and funds that cannot be deducted. In some cases, this can be offset by the tax liability of individual preferences for investment in assets, such as the imposition of a tax rate on dividends that began in 2003 in the US, but offset this is further increasing the interests of tax-exempt investors, wherever tax preferences apply: as a whole, the net preference for financing will almost certainly prevail. To the extent that leverage is higher than the others, so too is the trade sector linked to bankruptcy [37].Therefore CFC Rules in Indonesia must contain general anti-abuse rules and contain specific anti-abuse provisions [38] to limit claims that are too high related to the reduction of notional interest on equity. For this reason, the following additional restrictions and the abuse provisions regarding notional interest deduction on equity need to be allowed:

- If the parent company has a high level of debt financing and for its part finances a subsidiary company with equity, the parent company can claim a tax deduction for the interest on the debt and the subsidiary can claim the notional interest deduction on equity. This can lead to high combined interest deductions. To restrict double deductions, an anti-abuse provision is introduced [39]. This means that all subsidiaries which want to claim notional interest deduction on equity must be financed with equity at the parent company's level. Lacking equity financing at the parent's level will result in taxable amendments of interest deductions at the level of the parent company [40].
- The acquisition of business operations, contributions or the transfer of participation between related parties that are executed to generate a higher notional interest deduction on equity, are deemed abusive and the corresponding notional interest deduction on equity is disallowed. The specific cases of application of this anti-abuse provision and in particular the proof that these transactions were not driven by tax considerations, but rather by a business or other significant reasons will have to be defined through case law [40].
- International coordinated interest rate reductions and royalties [41].
- Reverse tax credit [42].
- Withholding tax on all payments of interest and royalties [43].
- Withholding tax as an anti-tax-avoidance regulation [44].

4. CONCLUSION

This paper has explained several matters related to NID regulations. The greatness of Belgium in designing the NID regime is very beneficial for Belgium because it can attract the attention of investors from abroad to invest in Belgium. While Indonesia as the Contracting States in the tax treaty with Belgium must be vigilant and prudent in formulating CFC Rules as a tool to prevent tax avoidance by Belgian companies operating in Indonesia since Belgium implements NID Regimes which we must respect its national tax law policy. In the formulation of the CFC

Rules, Indonesia must include all aspects that can limit excessive claims related to the notional deduction of equity interest, including limiting double deductions, acquisition of business operations, contributions or transfers of participation between related parties executed to produce a notional deduction of interest higher equity, interest limits and internationally coordinated reduction in royalties, reverse tax credits, withholding taxes on all interests and royalty payments, withholding taxes as an anti-tax-avoidance regulation. But more importantly, Indonesia must provide the best alternative to create tax regulations that attract outside investors to invest in the long term with rational restrictions.

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