Carat Tax – Technical note

The Carat Tax is a clear-cut and predictable fiscal regime that applies to diamond-trading companies. The regular corporate tax rate – or income tax rate for natural persons – will be levied on taxable income that is calculated on the basis of a lump sum margin instead of on the actual margin that is realized.

How does it work?

The total Cost of Goods Sold (COGS) is defined as a lump sum of 97.9% of the turnover of a diamond-trading company generated by genuine and habitual diamond trade. As a result, the gross margin used for taxation purposes is 2.1% of that turnover.

Subsequently, expenses and tax deductions may be deducted from that gross margin. The net taxable income after deductions however cannot be lower than 0.55% of turnover. A slightly higher floor rate of 0.65% will be applicable only during the first year of implementation of the Carat Tax.

The turnover generated by genuine and habitual diamond trade is the sum of all diamonds sold during a given tax period, as reported on the invoices issued by the diamond-trading company. This significantly increases the clarity and predictability of the total taxes due.

Like in the current fiscal regime, taxable income from diamond trade implies that at least one director receives remuneration that is no lower than a certain threshold. This threshold varies according to the total turnover of the company and will be specified in the Law.

When and to whom does it apply?

The Carat Tax will be applicable as from fiscal year 2016 (tax year 2017).

The regime is compulsory for diamond-trading companies that are registered in Belgium, but its scope is restricted to the turnover generated by genuine and habitual diamond trade. Turnover generated by other activities, such as services provided, are taxed separately as they are not in the scope of the Carat Tax.

The Carat Tax is not compulsory for mining companies and their sales offices. These companies may choose to apply the Carat Tax instead of the normal corporate tax regime.

The Carat Tax does not apply to other companies active in the diamond industry that do not sell diamonds out of an inventory for their own account, such as service providers (brokers, forwarders, diamond laboratories, etc.).

What are the benefits of the Carat Tax?

The complex and burdensome discussions on the control and valuation of the stock of diamond traders, an annually recurring grievance for many diamond-trading companies, will no longer occur as a result of the Carat Tax. The stock is entirely taken out of the equation for fiscal purposes, hence increases and decreases in the value of the inventory are tax neutral. Under the Carat Tax, diamond-traders will be able to monitor their total corporate taxes due throughout the year, as these taxes are based solely on the turnover generated by the sale of diamonds. This significantly increases simplicity, predictability, stability and clarity.

The effects of the Carat Tax, however, are not limited to the ease of doing business. It will have compelling secondary effects on the activities of diamond-trading companies, in particular on their access to banking services. The capital base of companies will be stronger, increasing their health and appeal to banks. Moreover, the Carat Tax will be an incentive for companies to perform independent valuation of their stocks, which will increase their transparency and credibility towards the banks.

Regulatory framework

The Carat Tax will be enshrined in law, which is the best way to increase legal certainty and create a stable business climate. The Belgian Parliament will discuss and likely adopt the law before the end of the year.

The major hurdle that delayed the approval of the Carat Tax was the mandatory opinion of the European Commission. The European Commission must review any fiscal measure that applies to a specific group of economic actors to determine whether or not said measure constitutes State aid. After an investigation that took approximately one year, the European Commission decided on July 29 2016 that the Carat Tax does not constitute State aid.

Additional information

The Antwerp World Diamond Centre (AWDC) will provide an in-depth briefing to accounting firms that are active in the diamond industry. They will be the primary resource for additional information.

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