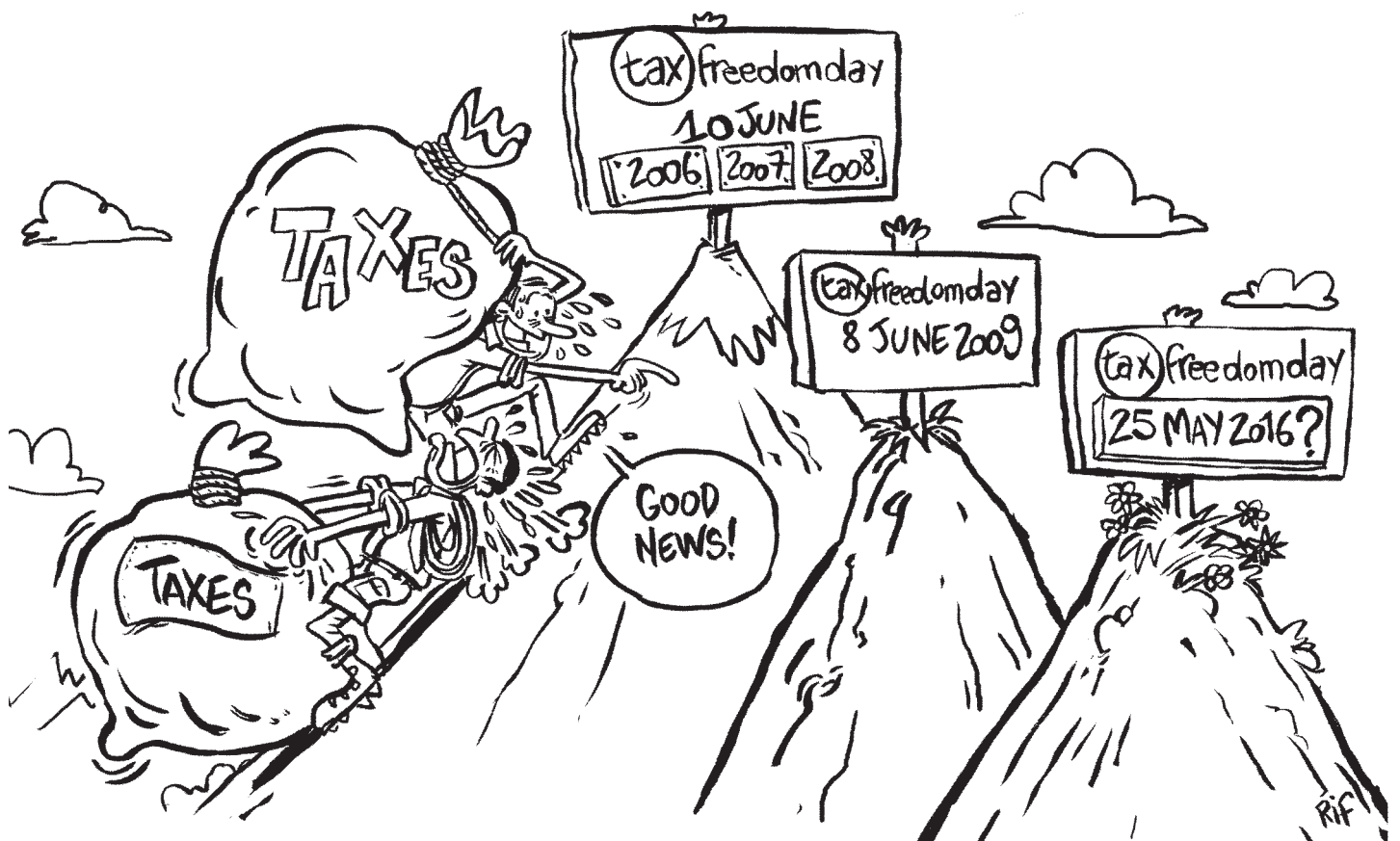


Tax Freedom Day 2009

Navigating through and competing
in a period of economic turmoil



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1. Executive Summary

This is the fourth year in a row that we have computed Belgium's 'Tax Freedom Day' i.e. the day from which the representative inhabitant in the country stops paying taxes and starts working for himself or herself.

Unlike the three former years, where this day fell on 10 June, it appears based on the latest data from the Federal Planning Agency that this year Tax Freedom Day will fall on **8 June**.

As it is the first time in 4 years that there seems to be a move forward towards the beginning of the year, one immediately wonders whether the various changes introduced by the last governments are 'finally' going to take effect in reducing our substantial tax burden.

Unfortunately, this would appear not to be the case. As a matter of fact the 'shift' of two days merely results from the mathematical effects of the formula due to the crisis that has hit us.

Indeed, with the crisis hitting us full-blown 'both' the numerator and the denominator of the fraction determining the Tax Freedom Day have decreased. In other words, both the 'total taxes' and the 'gross national product' have dropped, but the first factor has dropped slightly more resulting in a 2-day shift. The overall result, however, remains very stable (i.e. a **tax burden of 43.3%** of the gross national product for this year, versus 44.1% last year and 44.2% for the two preceding years). Our tax burden is still one of the highest in Europe.

This burden therefore has not yet shifted downwards, although there clearly seems, if the government apparatus would be made more efficient, to be a possibility to do so as we have explained, based on Professor Moesen's Report in our last year's edition. Indeed, last year we were able to report that by making the government more efficient, it should be possible by 2016 to move the Tax Freedom Day till 25 May (resulting in an overall tax burden of just under 40% of our gross national product). The current economic climate might, however, stop the appetite for such more drastic reduction.

Indeed, **the crisis** might deflect attention from what is the real position of Belgium in the world-wide economy, i.e. that we are an entirely open economy that has to live from outside investors and that because of globalisation companies can easily move across the globe and even more rapidly outside a small country like ours.

Obviously, any measure to boost the economic development will be welcome these days. However, considering our open economy, our dependency on foreign investment and actually specifically the fact that

on a world-wide basis, Belgium traditionally ranks high for the so-called 'transnationality index', measuring which countries derive the most benefit from inward investment, one should specifically focus on those measures that attract and foster such foreign investment as they will have the highest impact.

At the same time, our government like many others is also confronted with huge borrowing needs to finance and fuel the required capital injections of troubled banks and the economy. Similarly, private enterprises are also in dire need of new capital.

Taking all of the above into account, it would therefore be good, for any new tax incentives, to focus on making our capital market more fiscally neutral as this would enable to attract foreign capital (which is what we apparently benefit the best from) and which would also allow easier access of the government and enterprises alike to new financing sources.

To place the above in a wider economic context, we have again asked **Professor Moesen from the KUL** to conduct a study showing the sources of the current crisis and proposing his view on measures needed to allow to combat the same.

It appears from this study that:

1. Apart from some of the technical reasons, like the apparent fact that undue risks have been taken, it likewise appears that especially the 'extent' of the crisis is due to **falling trust** in the system.
2. The so-called **real economy** has also clearly **suffered** from the financial debacle.
3. The extent of the financial crisis will now lead to a reflection on the scope of the regulation needed in the financial sector and is likely going to show a **return of government intervention** in the broader economy.
4. **Governments** are facing **huge borrowing needs** to finance tax stimulus packages and to fuel the required capital injection of troubled banks.
5. **Restoring trust** is essential and this will likely also require intervention in the capital markets. Professor Moesen, amongst others, proposes in this respect to create **euro-denominated bonds that would be guaranteed collectively by the governments of the Eurozone**. Apart from creating an instrument that allows investors to find assets with acceptable risk limits again, this proposal would also offer governments a new financing source with acceptable spreads.

From a [tax point of view](#), in turn, it clearly appears that our competitors have grasped every opportunity to improve their tax regimes and thus have not been sitting still either; they are currently, as we speak, continuing to modernise their tax systems to attract foreign investors.

The current crisis, on the other hand, is likely not going to allow a lot of room to make drastic reforms. At the same time, doing nothing under the excuse that the crisis does not offer any possibility would clearly be the wrong thing to do since we have already fallen on the direct investor's top list and our neighbouring countries are also still adapting their systems.

Taking this into account it would be essential to look at least at 'those' measures that either can be implemented without too big a burden (i.e. that do not have a big cost) and/or that can have substantial pay-backs.

As a matter of fact it would be possible by maintaining and just tweaking our system a little bit, to be on top again of all agendas for inward investments.

Indeed, if one looks at the tax systems of our surrounding countries and our direct competitors for attracting foreign investments, 3 things could merely bring us again on top of the list:

1. First of all, in light of what is also said by Professor Moesen relating [to restoring trust](#), it would be essential that all incentives that were made so far are offered the [stability](#) they deserve. Changing any of the incentives introduced to attract foreign investments would indeed be detrimental to our 'image' and this has to be avoided at all cost as in stead of 'restoring trust', this is inevitably going to 'break' trust.
2. Secondly, our experience on the international tax scene shows that establishing a regional headquarter/holding is very often the first of many steps in the international expansion plans of foreign investors. Introducing a true [100% exemption for incoming dividends](#) instead of only a 95% deduction as we have right now, would bring us in line with the rest of Europe, where the exemption regime has become the standard.
3. Finally, in order to really attract foreign groups and foreign capital to Belgium, which will be essential to rebuild trust and provide oxygen to the capital markets, it would be essential to [abolish the withholding tax on dividends paid to non-residents](#), in order to bring us into line with other financial capitals like the UK.

Apart from not requiring any additional investment or cost, [the first measure](#) would offer stability and trust and this is exactly what has also been the ground for the fact that the current crisis has been so widespread and it should therefore be avoided that this trust can be broken or threatened. The [second](#) and [third](#) measure in turn, apart from bringing us at the same level of some of our competitors, would specifically enhance the fiscal neutrality of our capital markets which is exactly what is needed to boost our position in the list of countries companies would look to for making an investment or entering the EU.

On the other hand, as regards the tax treatment of Professor Moesen's proposal i.e. the creation of 'euro-denominated bonds that would be guaranteed collectively by the governments of the Eurozone', we actually already have good instruments to foster such issues. Indeed, while interest is in principle subject to a withholding tax, which would be a deterrent for such issues, there are several exemptions from such withholding taxes, including the fact that registered bonds can benefit from an exemption from withholding tax. The X/N system of our stock exchange is also well equipped to verify whether the exemption should be available. The same X/N system should in addition also be a good tool to verify whether our proposal i.e. the exemption from withholding tax for dividends paid to non-residents, should be granted.

The above measures would be the ingredients to [create the basis of trust in our desire to attract foreign investments](#) towards our country. It would also, with other existing measures like the notional interest deduction or the various withholding tax exemptions for interest, allow to foster and attract the new market that could develop by the creation of euro-denominated bonds that would be guaranteed collectively by the governments of the Eurozone as described by Professor Moesen in his contribution.

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2. Tax Freedom Day - what is it?

Tax Freedom Day 2009 falls on Monday 8 June

Hopefully the weather will be nice on Monday 8 June when the Belgian citizens return to work. They may have an additional reason for enjoyment: [Tax Freedom Day](#). Symbolically, from then on, all income that the average taxpayer earns can be entirely spent on purely private outlays.

This year Tax Freedom Day will fall on 8 June according to a calculation using the latest authoritative government data on taxes and income from the Federal Planning Agency.

Tax freedom day in Belgium and some neighbouring countries*

Country	date
 Romania	12 March
 USA	13 April
 Slovakia	27 April
 Spain	9 May
 Luxemburg	14 May
 United Kingdom	14 May
 The Netherlands	24 May
 Hungary	2 June
 Belgium	8 June
 Germany	8 June
 Italy	10 June
 France	11 June
 Sweden	5 July

* Calculated by dividing the total tax revenue of general government by a nation's Gross Domestic Product. Figures are based on latest known data.

Tax Freedom Day relates to the total taxes paid by the average taxpayer as a percentage of that individual's total income. It is calculated by dividing the total tax revenue of general government by a nation's Gross Domestic Product. The Belgian result of 43.3% for 2009 is then converted into days of the year starting from 1 January onwards. Stated otherwise, Tax Freedom Day refers to the overall tax burden of the citizens of a specific country in a particular year.

Which taxes have to be taken into account? All taxes, direct and indirect, which are levied by any level of government: i.e. the federal, regional and local government. Also contributions to the social security system should be included. These taxes nearly constitute the total revenue side of general government. Direct taxes include the personal income tax, the business profit tax and property taxes. The value added tax and excises on petrol, tobacco, alcohol, etc. are considered as indirect taxes. Government revenues from user fees are not included e.g. the entrance fee of a public swimming pool. Dividends from public enterprises (e.g. Belgacom) are also excluded. This also holds for the sale of government property (e.g. public buildings).

Conceptually and statistically, the exact calculation of Tax Freedom Day may be debatable. Just a few major issues will be mentioned. Should income transfers from the government to its citizens be considered as 'negative taxes' and thus be excluded from the tax burden? It is often claimed that over an average lifetime about $\frac{3}{4}$ of the social security contributions are returned in the form of pension, child benefits, unemployment benefits, sickness pay, etc. to a typical citizen within the framework of a collective 'insurance' system.

Legitimately, critics are also reluctant to interpret Tax Freedom Day as the split between the number of days the typical Belgian works for the government and the number of days he or she works for himself or herself. Instead they view taxes in a civil society as the price for public services such as law and order, education, health, maintenance of public infrastructure, etc..

Opinions on the adequacy of the Tax Freedom Day may diverge but its announcement provides a focal point to lead to reflections on the functioning of the State.



3. Navigating in the financial debacle and beyond

It rarely happens that, in the span of two decades, the economist witnesses two natural experiments in his domain. The first, after the fall of the Berlin Wall, was the transition from a planned to a market economy in central and eastern Europe. And, more recently, there has been the financial debacle and the turmoil in the real economy. For an economist these are laboratory situations where standard theories are tested and tortured. What have we learned and how do we navigate through these troubled times?

At first sight, the two natural experiments have nothing in common. The first concerns a failure within the planned economy system and the move towards a free market economy. The second concerns a crisis within the market economy system itself. Let us examine whether there is any common ground, whether there have been any similar failures.

After 1989, transition economies hired smart economists from Harvard and the likes as consultants with the textbooks under their arms. Two principles were forcefully advocated and implemented: privatisation and deregulation. Unfortunately, for ten consecutive years, real production performed substantially below the levels of the previous command regime. How come? The classic factors of production were available in fairly ample quantities: natural resources, human capital and physical capital. But what was missing was correctly functioning government, law and order, an absence of corruption, values and norms, often aggregated under the label of 'social capital'. As Adam Smith said in his recipe book for the [Wealth of Nations](#): 'We do not expect our dinner from the benevolence of the butcher, the baker and the brewer, but from their regard on their own interest.'

In a 'laissez-faire' economy, markets blossom, albeit on condition that the market is embedded in an adequate institutional setting. That is what the economists, perhaps harshly, learned from the first natural experiment. Otherwise stated, the invisible hand needs elbow support from a properly functioning government: a sufficient reservoir of social capital is required. And, a prominent indicator of social capital is trust in public institutions and trust between citizens. The positive correlation between social capital and economic performance is now well established, both theoretically and empirically. See for instance the seminal study by Hall and Jones: '[Why do some countries produce so much more output per worker than others?](#)'.

Missing markets

Let us now focus on trust and the more recent credit crunch. Any economic transaction involves trust. Take as a simple example buying a sandwich. The buyer trusts the seller in the sense that the sandwich will not be 'infected' by salmonella bacteria. On the other hand, the seller trusts the buyer that he will pay with legal currency, not counterfeit money. If one of the two parties does not trust the other, then the transaction does not happen, the market dries up and ultimately we are confronted with a missing market.

As a case in point I would identify three missing markets that, due to a lack of trust, have contributed to the financial crisis. In the autumn of 2008, banks obstinately stopped lending to each other. The so-called interbank market dried up. Banks distrusted each other as they were unable to discern the toxic assets on the others' balance sheets. Subprime mortgages, originated by independent brokers, were securitised, packaged and repackaged across the whole financial system. As the funding acutely collapsed, central banks rushed in to supply liquidities. National governments offered state guarantees on interbank loans. A first missing market was partially restored by government intervention.

Startled by the bankruptcy of some major players, even retail customers might be tempted to withdraw their deposits from their bank accounts. This might happen where the public at large distrusts the banks. Fortunately, it was possible to avoid a panic with long queues in front of local bank branches. Here, too, governments stepped in, guaranteeing a fixed amount of deposit per account-holder.

In an orderly market, strong competitors buy out the weaker players. Mergers and acquisitions are part of the game. Not so in the financial debacle. After a while, a solvency problem supplemented the liquidity problem in the banking and insurance sector. Gigantic write-offs, not helped but further damaged by the international financial reporting standards, edged financial institutions towards bankruptcy. Capital increases were badly required. Again a missing market, as healthy competitors hesitated to step in, fearing to get contaminated and not trusting the other. Governments had to provide the capital injections needed to keep the banks solvent. At the end of the day, national governments now substantially own their banks.

Thus it is that the absence of trust between the market participants is a common feature for a missing market. How is it that trust has disappeared and how can it be restored? Here we enter the sphere of values and norms. Excessive rewards have surely fuelled excessive risks and greed in the world of finance. Instead of managing the risks, they have been obscured by high-level mathematics and probabilistic magic. Models and methods became the savant servants of greed, stock-options, bonuses and performance fees. With devastating short-termism as a consequence.

Quite often, the blame is also directed at the regulators, who performed poorly in their role of surveillance and oversight. Surely, they were outsmarted by the wicked operators of the financial sector, who are better qualified and certainly better paid.

Trust is to the market what health is to the body. When you have it, you take it for granted. But whenever it is absent, you realise how necessary it is. One cannot declare trust by decree. It needs to grow and requires nurturing. In the next section, I reflect on the aftermath of the crisis and what can be done. And, in a later section, I elaborate on a proposal for a common Eurobond, which could serve to enhance trust.

A return to narrow banking and regulation

Excessive risk had been surfing on various waves. Greed and the drive for financial rewards have already been mentioned. Against the sophistication and opacity of financial products, regulatory bodies, often quite dispersed, lacked either capacity or capability in the field. On an analytical level, the need for regulation was belittled by the efficient market paradigm, engineered by several Nobel Prize winners in economics. Deregulation became the popular and dominant mantra. Self-regulation would do the job in those rare corners where it was necessary. The facts turned out otherwise.

Also at an analytical level, there remains the issue of moral hazard. Banks are too big to fail, and bankers know it, which again supports their risk appetite. The massive intervention of governments will make inroads into the pockets of taxpayers. People find it an unfair game when profits are privatised and losses socialised. Either the banking industry operates as a public utility and is stringently regulated, or banks are purely private enterprises at the mercy of the market both for profits and losses.

One avenue for further action is a return to regulation and narrow banking. The vocation of a bank is the efficient allocation of credit to consumers, business and other economic agents. It is expected that a bank prudently manages risk when transforming short-term debt into long-term loans. If a financial institution opts

for this design, it can make an honourable profit under strict regulation by the official bodies. When a financial institution is more inclined to pursue soaring profits and what is now labelled as shadow banking, then so be it, but without the protecting umbrella of a government rescue. Unfortunately, the choice is not so clear-cut, as we operate in a dynamic environment. Even with strict regulation and the renaissance of classic banking, there will be spill-overs from investment banking, hedge funds and private equity. How can it be avoided that, in the future as well, the search for more return on equity will gradually alienate the narrow banks into more hybrid institutions and eventually degenerate into casino-capitalism?

Stringent regulation should be enforced even though we know that it will never be perfect. But we can learn from best practices in the current financial turmoil. Take Canada as an example. It is interesting to note that apparently none of the five Canadian banks suffered from financial collapse or a loss of reputation. How come? Is there more stringent surveillance there? Is there a single regulatory regime for commercial and investment banks? Is there a ceiling for leverage ratios? The answer is yes. It thus seems safe to posit that a stronger regulatory framework can mitigate excessive risk-taking.

Surveillance is also a task of corporate governance within banks. Stock-owners have lost billions of euros in wealth. Why, then, such docile behaviour at general meetings and in the selection of boards of directors? The agency theory prescribes that a substantial part of the board of directors should be represented by non-executive and independent directors. In a two-tier system, the board of directors acts as the principal vis-à-vis management. They supervise the strategy of the company, the integrity and remuneration of the managers and the accuracy of the financial reporting. On average, boards were rather late in spotting the real problems. What is problematic? The professional qualifications of the directors? The time and effort they parsimoniously devote to their board duties? Do they, as principal agents, have enough of the calibre of 'principled' agents? Here, again, we move into the sphere of values, norms and trust.

At the height of the liquidity crisis, I read an article in a newspaper which caught my interest. About eight banks, all formally cooperative firms, had agreed to supply credit to each other purely on the basis of reputation. If I remember correctly, Rabo and Cr dit Agricole figured in that network. In essence the members were aiming at partially making up for the missing interbank lending market, apparently based on mutual trust inspired by the status of a cooperative, which favours the stake-holder model rather than the usual stock-holder model.

The shape of the real economy

The real economy is suffering badly from the financial debacle. The delta of real output is significantly negative, consumer demand and investment are decreasing, unemployment is on the rise. All these negative indicators have been unseen since the Great Depression of the thirties.

As it stands now, there are mixed signals about the shape of the underlying real economy. Has the bottom been reached? Is recovery around the corner? Will long-term potential growth be well below our previous experience? In a **V-shaped scenario**, one optimistically expects a short contraction followed by a quick, fierce recovery. But this is not the dominant view of the economic think-tanks. In a **W scenario**, a temporary recovery will be followed by a new bottom: the worst is not yet beyond us before the real recovery shows up. The **L scenario** pessimistically predicts a stagnant economy at low levels for a succession of years. In my opinion, we may envisage a hockey-stick shape. The downturn is substantial and the third quarter of this year will be pivotal for indicating whether the bottom has been reached or not. After all, the impact of national governments' stimulus packages must materialise. But the recovery will be different from and more modest than the historical achievements of recent times prior to the second laboratory experiment. I elaborate on that in the next section.

Nowadays any estimate is tricky, so I will summarise my own 'guesstimate'. (1) The third quarter will be crucial for signalling whether economies can lift their heads from the floor; (2) the recovery, if real, will take off at high speed; (3) long-term potential output growth will likely be below previous levels.



Government inside the tent

I first learned that catchy phrase from an intriguing study by PricewaterhouseCoopers 'The day after tomorrow' (2009). There's no doubt about it: government is back in the tent. In the previous sections I have on several occasions underlined the fact that the problem of missing markets has been fixed by government intervention. All these rescue operations suggest that government will be involved in financial services for some time to come. Guarantees now extend from retail deposits to liabilities and the issuance of new debt. After straight capital injections and other loans, governments now own preference shares in many banks and common stock in others.

A second battery of government action has been targeted at the real economy. The fiscal stimulus packages honour Keynes in dazzling volumes. The US has taken the lead, Europe follows (with some hesitation) and Asia is also playing its part. Given the well-known lags between decision and implementation, the fiscal injections should soon materialise in the real economy. But the prominent role of government in the financial and real economy is having predictable consequences for budget deficits and public debt. Leading economists put forward a 100% debt ratio for most mature economies in the next couple of years. In the next section, a proposal for a common eurobond will be presented to tackle borrowing needs. In this section we defend the view that governments should focus on efficiency gains within their own realm, so that actual tax burdens can more or less be maintained.

It has frequently been suggested that only a large, strong government can create the proper conditions for productive nations. If we measure the size of a government by its total tax burden (i.e. the sum of both direct and indirect taxes and social security contributions), it can easily be argued that a large government is able to invest more in infrastructure, education, innovation or the adequate working of institutions. Indeed, establishing a government brings stability, law and order to a country. In turn, this enhances productivity as property rights are protected and public goods are provided. It is often suggested that, beyond a certain government size, the public sector is inefficiently large. High tax rates create a burden on the economy as they reduce effort and spending in higher-yielding investments. In this section, I empirically investigate whether there is any systematic relationship between the size of government and the competitiveness of nations.

For competitiveness, I borrow the data from the Global Competitiveness Index 2007-2008 (GCI) by the World Economic Forum. Although the index provides data for almost all countries in the world, I only consider 23 easily comparable OECD countries (Organisation for Economic Cooperation and Development, Paris). To proxy government size, I obtained OECD data for total tax and non-tax receipts from general government (i.e. all government levels) in 2007. The data is graphically presented in the two-dimensional figure 1 with budget size on the horizontal axis and GCI on the vertical axis. Casual eye econometrics reveals that it is hard to find a systematic relationship in this scatter diagram.

The picture is clarified somewhat if we identify each observation. Four clusters of countries can be recognised in figure 2. First, there are the Anglo-Saxon countries (Japan, the USA, Ireland, etc.), which obtain relatively high GCI scores with relatively small governments. A second type are the Mediterranean countries (Spain, Portugal, Italy and Greece). Although they have a larger public sector, they do not succeed to getting high GCI scores. A third type of nation is the Scandinavian countries (Finland, Denmark, Norway and Sweden) which realise relatively high GCI scores (comparable to the Anglo-Saxon nations) with a relatively large public sector. A last group of countries consists of the 'Rhineland' countries such as Germany, Canada, Belgium, France and the Netherlands.

Figure 1: Global Competitiveness Index versus budget size

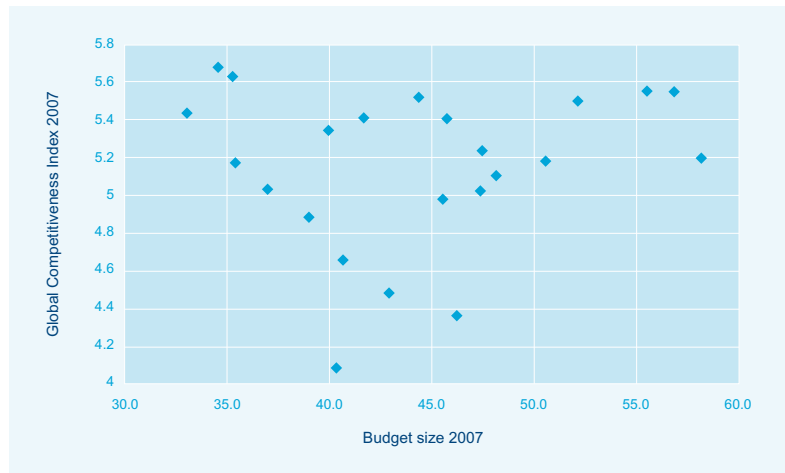
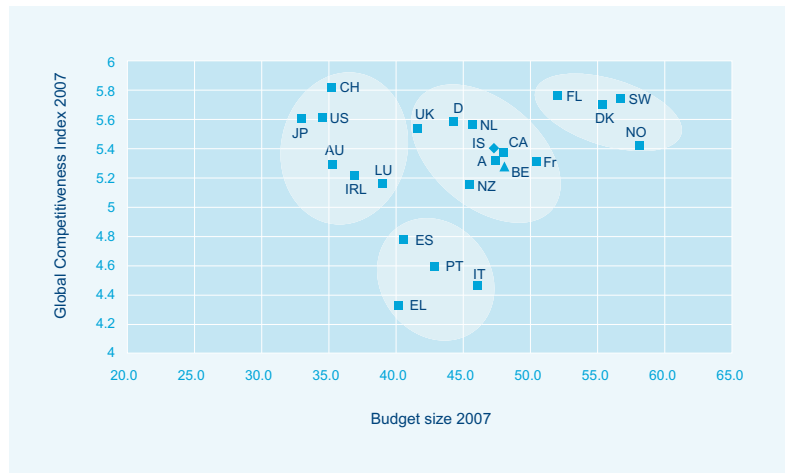


Figure 2: Global Competitiveness Index versus budget size – clusters of countries



Let us turn back to econometrics. The simple correlation coefficient between budget size and competitiveness is a mere 10%, which is not significant at all.

Let us elaborate somewhat on this puzzling finding. At an intuitive level, two opposing views may be held. A larger public sector supplies more public goods such as law and order, education and health, infrastructure, etc., which is supportive of economic competitiveness and performance. A positive correlation is then to be expected. On the other hand, it might be argued that a larger budget size requires ultimate finance from taxes, broadly defined (direct taxes, indirect taxes, social security contributions, etc.). A higher burden on the taxpayer may then act as a disincentive for productive effort. Combined with bureaucratic inefficiencies, associated with a dominant public sector, these negative effects may outweigh other, positive effects. As a consequence, one would expect a negative correlation for mature economies.

Neither of these simple reasonings seems to fit in with figure 2. Nor can an inverted U shape be observed. Curiously enough, best practices in terms of competitiveness appear to be compatible with both a small and a large budget sector. A bipolar pattern emerges referring to two different underlying economic systems. This leads us to conjecture that the quality of government, rather than its mere size, may be instrumental for competitiveness.

To proxy the quality of government, I use the 'Government Effectiveness Index' as developed by the World Bank (Kaufmann et al., 2007). This index, published as part of the influential 'Governance Matters' indicators, measures the 'quality of public service provision, the quality of the bureaucracy, the competence of civil servants, the independence of the civil service from political pressures, and the credibility of the government's commitment to policies'. When we examine the scores for the 23 OECD countries, we find a positive correlation coefficient of 0.75. These findings support the view that it is the quality of government, rather than mere budget size, that enhances national competitiveness.

Gains for all: a proposal for a common eurobond (*)

One observation stands tall: governments are confronted with huge borrowing needs to finance fiscal stimulus packages and fuel the capital injections required for troubled banks. The increased supply of public debt is matched by a forceful demand for government bonds, as a 'flight to safety' is witnessed. Until the eruption of the credit crisis in August 2007, financial markets were poisoned by a 'flight to risk'. The perception was that risks were very low. This perception was fed by the rating agencies, which liberally distributed top ratings to dubious assets. Dulled by this low risk perception, investors and financial institutions accumulated vast amounts of risky assets on their balance sheets. Today, the markets have moved to the other extreme and perceive risks everywhere. They are now gripped by a 'flight to safety'. This has profound implications for the workings of the government bond markets in the Eurozone.

Spreads of sovereign debt within the Eurozone have increased dramatically during the last few months. Mid-May, Germany was paying 3.35% for a bond with a 10-year maturity. Nominal rates for France were about 3.75% and 4% for Belgium or Spain. Greece stands out with a coupon rate of 5.20%. Since all these bonds are expressed in the same currency, the euro, these spreads reflect either a pure default risk (assuming that the German bonds are free of default risk) or a liquidity risk. The panic that followed the banking crises has led investors into a stampede away from private debt into assets that are deemed safe. These are mainly the government bonds of a few countries that are perceived to provide safety. The US, Germany and possibly France are a few of these countries that have been singled out as harbours of safety. Other countries have not profited from the same 'panic flight to safety'.

As a result of this flight to safety, the liquidity of most government bond markets in the Eurozone has suffered, leading to an increased spread. (Note that I am not arguing that the whole of the spread is due to liquidity problems. Another part is surely also influenced

(*) This section draws heavily on P. De Grauwe and W. Moesen (2009), 'Gains for all: a proposal for a common eurobond', Centre for European Studies, Ceps-commentaries.

by the perception that default risk has increased.) To the extent that these spreads reflect reduced liquidity, they are creating distortions. Southern European countries and Ireland are being tempted to reduce their effort to stabilise their economies. Extra spending, which leads to higher deficits, are punished by a higher interest cost, discouraging these countries from stimulating their economies. Also, the rescue of banks in these countries is more expensive than in the rest of the Eurozone, making it more difficult to resolve the banking crisis there. This is likely to lead to a further weakening of economic activity in these countries, with possible backlashes again on the banking system, government budget deficits and the ratings applied by the rating agencies.

How should one deal with these distortions and externalities?

It will continue to be difficult to prevent cycles of euphoria and panic in order to affect perceptions of risk in the markets. Authorities can, however, attempt to offset the distorting effects these cycles produce. There are two possible approaches.

A first approach implies action by the European Central Bank. As the ECB will very soon be forced to engage in quantitative easing, it will be buying long-term assets, in particular government bonds. It should at that time privilege the purchase of Irish, Greek, Spanish and Italian government bonds. In so doing, it would increase the price of these bonds and reduce their yields. Such quantitative easing would tend to reduce the spreads in government bonds in the Eurozone, and would reduce the distortions and externalities that these spreads are creating. It would also make it possible to stimulate the economies of all Eurozone member countries, benefiting the whole area.

The second way to deal with the problem is through the issue of euro-denominated bonds guaranteed collectively by the governments of the Eurozone. These could be issued by a European institution such as the European Investment Bank (EIB), or directly by the member states' governments. In both cases, the guarantee would be provided by those Eurozone governments that have the taxing power to back up such a guarantee. The advantage of such a eurobond issue is that countries that now face high spreads would have easier, cheaper access to finance for their budgetary stimulus programmes. But this feature is also its drawback. Countries like Germany object. They fear

that a joint eurobond issue would create a free-riding problem. The governments of Ireland, Greece, Portugal, Italy, etc., which today face high spreads, would have less incentive to conduct sustainable fiscal policies. As a result, the countries with low spreads, and especially Germany, may have to bail out those countries' governments in cases of default. Whatever one may think of the motives of Germany, the German resistance to a joint eurobond issue is a fact of life. The question then is whether this opposition can be reduced by going some way towards allaying the Germans' fears that they would have to foot the bills. Here is our proposal.

The eurobond issue should have the following characteristics. First, each euro government should participate in the issue on the basis of its equity shares in the EIB. Second, the interest rate (coupon) on the eurobond should be a weighed average of the yields observed in each government bond market at the time of the issue. The weightings would also be given by the equity shares in the EIB. Third, the proceeds of the bond issue would be channelled to each government using the same weightings. Fourth, each government would pay the yearly interest rate on its part of the bond, using the same national interest rates used to compute the average interest rate on the eurobond. Thus, using the mid-May data, Greece (I use Greece here as the prototypical high-risk country) would have to pay yearly interest at 5.2% on its part of the outstanding bond while Germany would only have to pay 3.35%.

What are the advantages for the different countries?

Let us concentrate on Germany first. Much of the fear that a common eurobond issue would lead to a free-riding problem forcing Germany to foot the bill disappears in this scheme. Greece would pay the interest rate it faces in the market today. Thus the incentive to free ride on Germany would decline. In addition, in our proposed scheme Germany would pay the same interest rate it pays when issuing government bonds on its own. Thus, contrary to other proposals for joint eurobond issues, Germany would not be penalised by a higher interest rate.

This leads to the question of what the benefits are for Greece. If Greece pays the same interest rate as it does when it issues bonds on its own, it may have little incentive to participate in a common eurobond issue. I believe that Greece also would reap benefits from the common eurobond proposed here. These benefits arise

from the fact that Greece faces the problem that it may be shut out from the market as long as the 'flight to safety' syndrome exists. Thus the common eurobond issue is a gate for Greece to access funding that might not be as easily accessible to it were it to issue bonds on its own. And, Greece would obtain this easier access without imposing burdens on the other participants in the scheme.

There are some practical problems to think about concerning the common issue of eurobonds. I mention two here. The first relates to how the collective responsibilities underlying the bond issue are shared. If the common eurobond is issued by the EIB, national governments would be liable according to their equity shares in the EIB, as is the case for normal EIB bond issues. A similar formula of collective liability could be spelled out if the common bond were issued independently from the EIB.

A second issue relates to the possibility that the yield of the composite (common) bond would differ from the (weighted) sum of the yields of the national bonds constituting the common bond. The issue is reminiscent of the divergences that arose in the past

with ECU bonds. If our analysis is correct, i.e. some of the high-yielding national bond markets have high yields because of a lack of liquidity, their inclusion in a composite common bond would implicitly increase their liquidity. As a result, the composite common bond would have a lower yield than the weighted sum of the individual national bonds. This of course assumes that the common eurobond market itself would be of sufficient size to make these bonds liquid instruments.

I conclude that it is possible to create an attractive common euro-market for sovereign bonds. The formula proposed here avoids the free riding problem that has marred previous proposals. In addition, on the demand side it will meet the desire of investors and financial institutions for safety, and on the supply side it will make it easier for sovereign borrowers with different needs to have access to the capital market. In a nutshell, it is a proposal that is 'Pareto optimal', i.e. it allows improvement of the welfare of some without reducing the welfare of others. And, if successful as an alternative and adequate investment item for international portfolio diversification, all countries will gain.

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4. Ingredients for a competitive corporate income tax regime

The Belgian economy is facing extraordinary economic challenges not seen over the last few decades. It shrank by 1.6% in the first quarter of 2009 following a decrease of 1.7% over the last quarter of 2008. It is therefore technically in recession. At the same time, the world is increasingly globalising, which means that the conquest of new markets is becoming a priority. Because we are a small country, our economy is heavily dependent on foreign investment. Fiscal policy remains one of the main decisive factors in the quest for inbound investments. Therefore, having a transparent tax policy towards foreign investment, free from complexity, is a crucial challenge for Belgium in the years to come.

Extraordinary challenges call for extraordinary action. Is Belgium ready to take up the challenge? It better be if we want to be trustworthy and put a hold to the erosion of Belgium's competitive position!

Though some good things have happened...

Governments are well aware that the features of their tax regimes can help to attract foreign investment. Many have tweaked their tax legislation to make it more attractive for multinational groups to set up certain business activities in their jurisdictions. Sometimes tax measures are generic in nature, such as a low corporate income tax rate; other measures are more tailored to attracting specific activities or industries.

Belgium definitely came to understand this message a couple of years ago. We have to be honest, it's not all that bad and it would be unfair to say that the Belgian government has not taken any initiatives to stimulate investment in the Belgian economy and improve its image on the international (tax) scene.

Faced with a traditional competitive deficit compared to some 'usual suspect' countries like the Netherlands, Luxembourg and Switzerland as well as a gradual phasing-out of the popular coordination centre regime, Belgium's federal government has indeed taken a number of praiseworthy measures to stimulate local players to stay in Belgium and to bring foreign investors into the country.

To name but a few of the laudable tax measures that have bolstered our country's fiscal attractiveness and again put us on foreign investors' radar:

- the [notional interest deduction](#), allowing Belgian companies and Belgian establishments of foreign companies to deduct a notional interest charge at a rate calculated on the full amount of their (adjusted)

equity, including retained profits. Three dedicated practice notes have clarified its scope and application, bringing certainty and peace of mind for taxpayers. The regime is unique in an international context and is distinguished by its relative simplicity. It is a fine example of how a simple measure can have a major impact on the investment policies of major international operators;

- the [abolition of the 0.5% capital duty](#) on 1 January 2006, with the aim of encouraging equity investment;
- the [double taxation treaties](#) with Hong Kong and the USA facilitate both inward and outbound investment in the US and Asia regions;
- the (conditional) Belgian [withholding tax exemption](#) on dividends declared by a Belgian subsidiary to corporate shareholders in treaty countries can be seen as a first milestone in making Belgium a preferred location for international headquarters;
- special fiscal benefits for [R&D investments](#), such as:
 - wage withholding exemptions for qualifying researchers;
 - increased investment deductions;
 - the patent income deduction, providing a maximum tax charge of 6.8% on arm's length income from qualifying patents;

- Belgium's business-oriented, client-minded **rulings practice**, which gives investors certainty on the tax treatment of certain investment decisions, including the tax regime governing headquarters companies, distribution centres, service companies and finance companies;
- numerous **interest withholding** tax exemptions that are available amongst other for eligible quoted or intra-group financial companies and registered bonds¹ issued by Belgian tax resident companies/branches.

These relatively new measures, combined with some attractive existing regulations (such as the 100% capital gains exemption for qualifying shareholdings), mean that Belgium had made up some of the lost ground.

This is evidenced by the fact that the UNCTAD World Investment Report revealed that foreign direct investment into Belgium doubled in 2006 to USD 72 billion (only the United States, the United Kingdom and France did better). According to the UNCTAD Report, the notional interest deduction scheme was one of the main reasons why Belgium outperformed its competitors. Moreover, after Hong Kong, Belgium had the highest 'transnationality index',

measuring which countries derive the most benefit from inward investment. The index is based on the business assets owned by foreign companies in Belgium, the inward flow of new investment and the relative share of branches of foreign companies in Belgian GDP and total employment.

For a small country like Belgium, this was quite an impressive achievement and it clearly demonstrated that the effect of fiscal policy on foreign direct investment cannot be underestimated.

Unfortunately, sweet songs never last too long. Belgium dropped from 4th to 8th place in 2007, again losing ground to direct competitors like the Netherlands, Spain, France and Germany. At the same time, we see that the decision-making power of an increasing number of local players (with international dimensions) is shifting abroad e.g. as a result of take-overs, while the reverse trend is conspicuous by its absence.

Now is thus not the time for Belgium to rest on its laurels: the competition is becoming ever fiercer. If it wants to remain 'best of class' in attracting foreign investment, continual effort to adapt fiscal policy to assure long-term sustainability and attractiveness is a must.

... we must act to keep up with competition! The competitive gap remains.

Belgium was euphoric at the success of its 'revamped' tax regime. Our international fiscal competitors have not been dormant, however. On the contrary, they have rearmed (and still are doing) in the ongoing battle to attract foreign investment. Some examples:



Ireland

In Ireland's (pro-business) budget announcement on 7 April 2009, the Minister for Finance reinforced the strategic importance of Ireland's 12.5% corporation tax rate. Furthermore, in a very welcome move for business, he announced the introduction of a tax relief scheme for the acquisition of intellectual property (IP). This comes on top of a number of IP-related incentives already introduced in previous budgets.



United Kingdom

The UK government has released a Finance Bill containing draft legislation incorporating changes announced in its recent budget. The bill paves the way for some fundamental changes to the UK's international tax rules.

One of the eye-catching measures is the introduction of a dividend exemption for both UK and foreign dividends. The dividend exemption will apply to dividends and other distributions paid on or after 1 July 2009. The exemption, together with the absence of any domestic withholding tax on outbound dividends, definitely puts the UK on the short-list of preferred holding company locations.

¹ A same exemption could be applied for interest paid to non-residents on euro denominated bonds collectively guaranteed by the governments of the Eurozone as such an exemption would definitely make access to capital markets easier. We refer to Professor Moesen's contribution in this edition for more detailed information on his proposal for the creation of a common Eurobond.



Luxembourg

The Luxembourg government has been very prolific in enacting new measures (on top of its already attractive fiscal regime) to stimulate inward investment. It recently enhanced its fiscal appeal by adopting the following measures:

- an exemption from withholding tax on dividends where the recipient is a company resident in a country that has a double taxation treaty with Luxembourg;
- the abolition of capital duty;
- a double taxation treaty with Hong Kong;
- a progressive 4% reduction in the rate of corporate income tax;
- an 80% exemption for income and gains from copyright on software, patents, trade marks, designs and domain names, resulting in an effective tax rate of 5.7% on IP. The IP regime has been topped off with a full exemption from the 0.5% tax levied on net wealth for assets comprising IP rights.

Luxembourg's regulatory and legislative framework has therefore clearly been tailored to the many specific needs of (foreign) investors.



Switzerland

Recently, the Swiss government announced that it would table a bill aimed at significantly reforming corporate taxation in Switzerland. The reform project is intended to relieve corporations from unnecessary tax burdens and improve Switzerland's overall position in today's international tax competition. The government is also convinced that the reform will improve the country's prospects for economic growth and employment.

The measures suggested mostly cover issues that have regularly been raised by taxpayers and tax experts in the past. The main points of the reform will be:

- the abolition of stamp duty on the issue of equity and debt capital;
- the elimination of fiscal barriers to group financing; and
- certain changes in the cantonal corporate tax statutes.

The reform is set to be an extension to various successful major tax reforms over the last decade, which have helped maintain and improve Switzerland's reputation as a highly attractive place to do business.



Spain

The Spanish government has approved major tax legislative amendments, which came – generally – into effect on 1 January 2009.

- Dividends and capital gains from EU subsidiaries located in tax havens (Cyprus, Luxembourg 1929 Holdings and Gibraltar) may also be tax-exempt in Spain if the taxpayer proves that there were economic reasons for incorporating and operating the subsidiary there and the entity carries on business activities.
- Assets acquired during 2009 and 2010 can be fully depreciated in the year of acquisition provided the average number of employees is maintained during the year of acquisition and the following year.
- Expenses related to R&D and technology-innovation activities undertaken within the EU and the European Economic Area also qualify for a tax credit (previously the activities had to be undertaken in Spain).
- Portfolio depreciation continues to be deductible for tax purposes irrespective of whether it is booked for accounting purposes after conversion to IFRS. In addition, portfolio depreciation relative to subsidiaries resident in an EU tax haven may now be tax-deductible if the taxpayer proves that there were economic reasons for incorporating and operating the subsidiary there and the entity carries on business activities.



The Netherlands

In December 2008, the Dutch Minister of Finance announced that they would investigate the pros and cons of a range of potential far-reaching measures in relation to interest taxation. The preferred option seems to be a complete de-fiscalisation of interest (i.e. a tax exemption/no deduction for interest received from or paid to related parties) or the introduction of an obligatory interest box (taxation and deduction at a reduced tax rate). Most likely, a bill will be submitted to parliament soon.

The idea originated in a proposal made by three professors who, in addition to the change in the taxation of interest, suggest a reduction in the nominal corporate income tax rate and the abolition of dividend withholding tax.

All this clearly demonstrates that many jurisdictions are stepping up their efforts to enhance their – already attractive – tax regimes in a bid to charm the business world and attract additional investment.

Only if we keep up with our competitors and are willing to go that extra mile will we become a spontaneous candidate on the short-lists of the multitude of international tax directors when it comes to investment locations.

With the economy in a downturn, this is easier said than done. Conventional wisdom has it that, in such cases, you have to tighten your belt, take cost-containment measures, and so on, to stem the decline. Cash flow and monitoring working capital are key

issues that businesses are focusing on. In most cases, investment is not even a consideration. Many companies fail to see the latent opportunities offered by an economic downturn. Taking them means having to be aware of the vulnerabilities and then acting decisively to minimise them. Doing so positions companies to seize future competitive advantage.

Although the government's 'operating model' clearly differs from a commercial organisation's, its focus should not be that different: (fiscal) policy action should be taken now to lay the groundwork for future growth. In this challenging economic environment, it should be prepared to go the extra mile to safeguard our country's competitiveness, which clearly is under pressure.



Ingredients for a more-competitive corporate tax regime

Going the extra mile: what does that mean in practice?

We believe that there are three 'must haves' for boosting Belgium's competitive position and thus making it attractive as a location for foreign investors, and especially for attracting regional headquarters/holding companies.

1. Stability of the current regime

It is imperative that the current (partially attractive) tax incentives – with the notional interest deduction and the 100% capital gains exemption on top – continue in full force and effect. Amending or repealing existing tax incentives to substitute them with new ones would be perceived very negatively by investors. It would definitely not nurture clarity and certainty. One of the primary characteristics assessed by foreign investors is the stability and sustainability of a tax regime. Constant changes in legislation lack transparency and create a high degree of complexity. When it is realised that the (complexity of the) tax legislation is very often the ultimate decisive reason for an investor rejecting a location, stability is the watchword here. The stability of a jurisdiction's tax regime moreover enhances its credibility on an international level. Credibility and sustainability create trust which is of key importance in these times of economic turmoil. Or as stated by Professor Moesen: '(...) **the absence of trust between the market participants is a common feature for a missing market**'.

2. A 'true' holding company regime

Our experience on the international tax scene shows that establishing a regional headquarter/holding is very often the first of many steps in the international expansion plans of foreign investors. Allowing the repatriation of after-tax operating profit without the (Belgian) shareholder having to bear any other Belgian corporate income tax will pave the way for further investment in Belgium and abroad and thus have a positive secondary impact (e.g. in terms of jobs).

Many countries realised this years ago (e.g. the Netherlands, Luxembourg, Cyprus, Switzerland) while others are considering it (e.g. the UK). If we do not want to lose ground to our 'traditional' competitors in terms of attracting regional headquarters/holdings, our dividends-received deduction (DRD) is in need of further reform.

It is open to question what changes may be necessary given that the current holding company regime is actually already fairly effective:

- (subject to conditions) it generally exempts dividends to the extent of 95%. The remaining 5% can in most cases be reduced by, say, interest expenses, thus resulting in a nil effective tax rate on dividends at the present time;
- although anti-abuse rules are in place to prevent dividends from companies with special tax regimes qualifying for the DRD regime, intra-EU dividends generally escape them; and
- capital gains are fully exempt where the dividends qualify for the DRD regime.

And that's just the point; it is not a substantial reform that is needed to make the regime more attractive. If it were merely to be tweaked just a bit and made a truly tax-neutral regime by copying a few features from other tax systems, Belgium would certainly be in the running to be recognised as 'the' privileged location for setting up holding companies. Indeed, changing the current regime in the following areas could likely make it second to none:

i. Basic principle: a true 100% dividend exemption

A true 100% exemption for incoming dividends instead of only a 95% deduction would align us with the rest of Europe, where the exemption regime has become the general standard. All of our competitors attract holding companies by offering a true 100% exemption on inter-company dividends (not only Luxembourg, the Netherlands, Cyprus and Switzerland, but also Austria, Bulgaria, Denmark, Estonia, Finland, Hungary, Latvia, Lithuania, Malta, Norway, Poland, Romania, Slovakia, Spain and Sweden).

As a matter of fact, only Germany, France, Italy and Slovenia still have a 95% exemption and only Greece, Ireland and the UK still have a credit mechanism (though the UK is on the brink of also introducing an exemption regime).

Hence, it is clear that, to make its system more competitive, Belgium should also evolve to a 100% exemption if it wants to remain truly attractive as a holding company location.

From a fiscal point of view, this first requires that the current 95% deduction be transformed into a 100% deduction. This change:

- is unlikely to pose a high cost burden as the regime currently already **de facto** allows for a 100% deduction (as all expenses relating to an acquisition

of shares giving rise to dividends are fully deductible). Formalising this 100% will therefore have an important psychological effect, with no real major budgetary impact;

- would formally put us on a par with countries like the Netherlands, Luxembourg and Cyprus, where dividends are fully 100% exempt. It would therefore no longer be necessary to explain how it is possible to neutralise the impact of the fact that, ‘formally’, dividends are only 95% exempt.

Nonetheless, in order to be fully comparable to some of our competitors, the 100% deduction should also be transformed into a true 100% exemption, which would really put us on a par with (if not ahead of) other locations. This, unlike the switch from a 95% to a 100% deduction, would likely have a greater budgetary impact. However, Belgium’s government has already taken a first step in the good direction by stating it will adhere to the ECJ’s decision taken in the Cobelfret case (and allow excess DRD to be carried forward) de facto resulting in a 95% exemption.

Shifting to a 100% exemption would also not only make Belgium’s system EU-compliant, but would also result in its system truly becoming one of the best holding company regimes (if not the best). This would clearly attract more investment, which should reduce, if not neutralise, the budgetary impact of this change.

ii. Transparent and simple qualitative conditions

The current system is characterised by a complex set of anti-avoidance rules (qualitative conditions) that need detailed analysis to conclude on the eligibility of a dividend for the DRD. They definitely do nothing to aid clarity and are perceived by foreign investors as excessively complicated.

We would therefore plead for one – fairly simple – qualitative condition that dividends from treaty countries relating to an ‘active trade or business’ qualify for the DRD irrespective of whether the current formal qualitative conditions are met. This approach has the merit of avoiding unduly harsh evidential problems and puts tax-treaty partners on the same level as Belgium. The qualitative conditions would therefore de facto only be relevant for dividends from non-treaty countries or not sourced from an ‘active trade or business’.

Moreover, it would be in line with the position taken by Belgium’s treaty negotiators, laid down in article 22 of the draft Belgian model convention, under which dividends from a tax-treaty partner country still qualify for the DRD even if it cannot be proved that they satisfy the taxation condition, provided they result from an ‘active trade or business’ carried on in the treaty country.

3. Unconditional dividend withholding tax exemption for non-residents

Some countries that directly compete in attracting holding companies, like Cyprus, Ireland or the UK, no longer have any dividend withholding tax at all, while others are considering abolishing it (e.g. the Netherlands) or are gradually starting granting exemptions for qualifying shareholdings in their tax treaties (e.g. the US).

Belgium has also started doing so as our tax treaties with Hong Kong and the USA contain clauses exempting qualifying inter-company dividends from withholding tax. Moreover, Belgian domestic tax law provides a (conditional) withholding tax exemption for dividends paid to corporate shareholders resident in a country with which Belgium has a tax treaty containing an exchange of information clause.

Hence, it’s fair to say that the Belgian holding company regime:

- holds a certain charm for ‘intermediate’ holding companies (e.g. a European holding company for a company located in a treaty country like the USA);
- but still lacks attractiveness for setting up ‘top holding companies’. Other countries like the UK, Ireland and Cyprus are leagues ahead in this field as they offer a full withholding tax exemption for outgoing dividends.

Even though no general exemption is available, withholding tax can be avoided with careful planning in an international context. It would therefore be a better policy to abolish it altogether on dividends paid to non-residents.

This would place Belgium on a par with its other main competitors, increase our competitiveness and boost our image in the global business community. But there is more than competitiveness alone. Abolishing the withholding tax on outgoing dividends to non-residents would bring Belgian tax law into line with the fundamental EU freedoms as stated in the EC Treaty. At present, it is a matter of controversy whether the current legislation is indeed compatible.

As to its implementation, this could easily be achieved by extending the ‘X/N’ clearing system. Currently the system has a rather limited scope of application as only (certain) interest-bearing securities are admitted into it. By extending its scope to dividend bearing securities (and euro denominated bonds collectively guaranteed by the Eurozone governments - its creation being a suggestion made by Professor Moesen earlier in this edition), the benefits of the X/N system would receive a much more broad appeal. Indeed, the collection of taxes will be simplified and improved as the withholding tax (if any) is collected on global transactions by the clearing system and directly transferred to the Treasury. Moreover, it is an efficient and powerful system (with a reduced administrative burden component) to assess whether a withholding tax exemption is eventually available and to monitor its correct application.

Key message: close the competitive gap!

Belgium has definitely lost some of its competitive edge and this is regrettable given the legislative efforts to make our country attractive to foreign investors over the past few years. Making Belgium ‘the’ most attractive location for both regional headquarters and intermediary/top holding companies with outside shareholders should therefore form one of the most urgent priorities for Belgium’s government.

The measures suggested would certainly contribute to this objective. Additionally, they would send a clear message that attracting foreign investment remains a priority and give substance to the statement on the www.invest.belgium.be website that ‘Belgium greatly values the presence of corporate headquarters and tends to actively pursue and attract them’.

It would also remove taxpayers’ temptation to set up artificial (treaty-shopping) structures, often lacking economic substance, in an attempt to achieve exemptions at both recipient and source level in repatriating operational profits.

It would furthermore be an enormous boost for the Belgian stock exchange and thus for the Belgian economy. The link between the Belgian and New York

stock exchanges (via the merger between the NYSE and Euronext) would allow entities easy access to the worldwide capital markets. Here again, the advantage of already having a powerful X/N clearing system in place cannot be underestimated.

Finally, implementing these features is likely to be a necessity (to bring our regime into line with EU law) and should not as such entail major costs (since the negative effect of not having these features can currently be offset by careful planning).

All of this should clearly show ‘the’ way to improving our current corporate tax regime and making it even better not only for foreign but also for local investors and, hence, for the Belgian economy as a whole. In these challenging times, measures to spur the Belgian economy on into the future are not an option: they are an absolute necessity. It’s about sowing the seeds now from which we can reap later.

To quote Winston Churchill: ‘a pessimist sees the difficulty in every opportunity; an optimist sees the opportunity in every difficulty.’ We can only hope that Belgian government will adopt an optimistic attitude in this regard!

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