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RISK & BENEFITS

Financing property

with your supplementary pension

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Financing property with your supplementary pension: how the pension is taxed when it is paid out

Can you use your supplementary pension to finance property? Yes: as an advance, as a form of security, or to repay an interest-only mortgage. We explain how the pension is taxed when it is paid out: for sole and owner-occupied homes, the capital used is converted into notional interest income and taxed progressively over 10 or 13 years. For other property projects, the one-off charge of taxes and other levies still applies. Read the full article for details of the conditions and percentages and practical considerations.

Financing property with your supplementary pension

An employee or self-employed person who wishes to buy, renovate or build a house or apartment can draw on the reserves already built up in their supplementary pension plan to finance the project. The supplementary pension can be used as an advance, as security on a loan or to pay off the capital of an interest-only mortgage as a lump sum.

- If it is used as an advance, part of the pension reserve is lent by the pension institution (insurer or pension fund) to the employee or self-employed person. If the advance is not repaid at the time of retirement, the pension institution will deduct it from the supplementary pension capital to be paid out.

- The supplementary pension may also be used as collateral or a security to guarantee the repayment of a bank loan. The bank therefore becomes the beneficiary of the capital on retirement and/or on the person’s death. If any money is still owed to the bank at the time of retirement or death, the bank will first draw on this capital for the outstanding amount.

- If the supplementary pension is used to repay the capital of an interest-only mortgage, an agreement is made with the bank that the borrowed amount will be repaid from the supplementary pension. The employee or self-employed person will then only have to pay the bank the interest on the borrowed amount during the term of the mortgage and not make any capital repayments.

Conditions for using the supplementary pension for property financing

The supplementary pension can only be used for an advance or as security if it meets all of these conditions:

- The pension can only be used to acquire, construct, improve, repair or renovate property;
- The property must be located within the European Economic Area;
- The property must generate taxable income (meaning that an advance or collateral from the supplementary pension plan cannot be used merely to acquire bare ownership of the property).

In order to actually use the supplementary pension for an advance or as security, the possibility of doing so must be explicitly stated in the plan rules. You should therefore always check whether your pension plan allows this.

As long as the property for which an advance was taken is still owned by the employee or self-employed person, the advance does not need to be repaid. The pension institution will offset it when the supplementary pension is paid out. If the employee or self-employed person no longer owns the property, the advance must be repaid.

Conversion of capital into notional interest income

Using the supplementary pension for property financing has consequences for the tax treatment of the pension capital at the time of payout. This applies specifically to supplementary pensions used in connection with the employee’s or self-employed person’s **sole home in which he or she actually lives**.

We will now look at how the supplementary pension capital is taxed when it has not been used for property financing. The tax treatment of the supplementary pension capital when it has been used for this purpose will then be discussed.

Taxation of the supplementary pension if it has not been used for property financing for the sole and owner-occupied home

If the supplementary pension is paid out as a lump sum, a one-off tax is charged. In principle, the pension institution will deduct the following taxes and other levies from the gross amount of the capital that is paid out:

- A RIZIV-INAMI contribution of 3.55% of the total gross capital (including any profit share)

- A solidarity contribution of between 0% and 2% on the total gross capital to be paid out (including any profit share), depending on the amount of that capital. (The solidarity contribution will undergo changes under the federal coalition agreement. You can read more about these changes here: Vanbreda | A closer look at Pillar 2 pensions: what is in...)

- Withholding tax on the total gross capital to be paid out (excluding any profit share) after deduction of the RIZIV-INAMI contribution and the solidarity contribution. The rate of this tax is usually 16.5% or 10%[1], depending on the employee's or self-employed person's age when the supplementary pension is paid out, whether she or he has a complete career record, and whether he or she has actually been working in the years prior to the payment of the pension.

The supplementary pension will be subject to the same treatment in terms of taxes and other levies if it has been used to finance a property other than the sole and owner-occupied residence.

Taxation of the supplementary pension if it has been used for property financing for the sole and owner-occupied home

If, when the supplementary pension is paid out,

- an advance was taken on the supplementary pension which has not been repaid;
- the supplementary pension is still being used as security for a loan, or;
- the supplementary pension has not yet been used to pay off an interest-only mortgage,

then the portion of the supplementary pension used for property financing will be taxed over a period of time rather than just once.

[1] The pension institution will also deduct the municipal surcharges together with the withholding tax. In practice, therefore, withholding tax of 16.66% or 10.09% will be deducted.

The amount of the supplementary pension used for property financing for the sole and owner-occupied home will be converted into notional interest income after the supplementary pension is paid out. This will be added to other income subject to personal income tax for 10 or 13 years and taxed along with it. As such, it is subject to the progressive personal income tax rates. In other words, this notional income is not a 'real' interest payment from the pension institution, but merely an amount that the employee or self-employed person has to declare in their personal income tax return over a certain period.

The notional interest that must be declared in the return as other income is between 1% and 5% of the supplementary pension amount used to finance the property for the sole and owner-occupied home, capped at EUR 100,480 (the upper limit for tax year 2026)[2]. An overview is provided below of the notional interest percentage and the period over which it must be declared in the personal income tax return:

Age on payout of supplementary pension capital	Notional interest (% of capital used for property financing))	Number of years of declaration as personal income tax
60 - 61	3,5%	13 years
61 - 62	4%	13 years
63 - 64	4,5%	13 years
65 or older	5%	10 years

The portion of the supplementary pension capital not used for property financing or in excess of EUR 100,480 (for tax year 2026) is subject to the same treatment in terms of tax and other levies as supplementary pension capital that was not used for property financing (see above).

[2] If the employee or self-employed person has actually worked up to the statutory retirement age or until the age at which the conditions for a full career are met (45 years), the notional interest is only calculated on 80% of the supplementary pension used for property financing, capped at EUR 100,480 (tax year 2026).

Property financing measures in the coalition agreement?

Up to now, there have been no restrictions on the use of the supplementary pension for property financing, whether it is the sole and owner-occupied residence or not. Employees or self-employed persons have been able to use their supplementary pension (subject to the conditions stated above) to finance either their sole and owner-occupied residence or a second residence within the EEA.

However, in its coalition agreement of 31 January 2025, the government indicated its intention to impose some restrictions on this. For example, the agreement stated that the self-employed will no longer be allowed to use their individual pension commitment capital to finance investments in property other than their sole and owner-occupied residence. They will therefore no longer be able to use this capital to finance a second residence within the EEA. This measure has not yet been transposed into law.

Would you like more information?

Do you have any questions about supplementary pensions and property financing? If so, contact your regular Employee Benefits Account Manager.

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