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Tax Policy Unit

Inventory of tax expenditures

2020

This inventory, also known as the “Inventory of tax expenditures”, is yearly annexed to the Ways and Means budget. The official publication is available in the Parliamentary documents, ref. [DOC 55 1577/006](#).

This note is not an official and complete translation of the document annexed to the Ways and Means Budget. The note documents the methodology and the main results. Those are accessible in a Xls format.

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1 Introduction

1. This inventory is an update of the list contained in the opinion of the High Council of Finance to the Minister of Finance containing a complete inventory of all exemptions, allowances and tax credits affecting State revenues. This opinion, issued on 25 July 1985 ⁽¹⁾, forms the basis of the inventory, which is adapted each year to take account of the tax provisions abolished or annexed since that date. The inventory also takes into account, as in the previous one, the provisions of article 2 of the law of 28 June 1989 amending the laws on national accounts.

In addition, the law of 22 May 2003 on the organisation of the budget and the accounts of the Federal State states that the inventory of tax expenditures must be annexed to the Federal Government's Way and Means Budget (Art. 47).

2 Definition of tax expenditures

2. Some of those provisions (*"exemptions, allowances and tax credits affecting State revenues"*) are considered as tax expenditures. The High Council of Finance defined the concept of tax expenditures as follows: *"A revenue shortfall due to tax concessions resulting from a derogation from the benchmark system of a given tax in favour of certain taxpayers or certain economic, social, cultural, etc., and which may be replaced by a direct subsidy"*.

3 Definition of the benchmark tax system

The concept of the benchmark system is thus the key concept in the definition of a tax expenditure. The definition of the benchmark is made tax by tax.

3. The personal income tax organises the taxation of any income, after deduction of the costs incurred to acquire or maintain that income. Global taxation holds: However, the benchmark considers separate taxation for non-recurring income, capital income and miscellaneous income. The benchmark system includes the definition of the tax unit and determines how ability to pay is determined according to the composition of that tax unit and the number of persons declaring income. The personal income tax ensures that the worldwide income of the national residents is taxed, taking into account the tax treaties and national legal provisions aimed at eliminating or reducing double taxation.
4. Corporate income tax consists in taxing company profits, irrespective of their use, but after elimination of double taxation on distributed and undistributed profits and after deduction of previous losses. The measures implementing the tax treaties and the measures laid down in national legislation which pursue the same objective are considered as part of the benchmark system. The allowance for corporate equity (*"Notional interest deduction"*) is also considered to be part of the benchmark system: its introduction implied a modification of the benchmark system and is not limited to a mere derogation from the previously existing system.

¹ See 1985 Annual Report of the High Council of Finance, Belgian State Statute of 18 April 1986 p.5.320.

5. In principle, the withholding tax on earned income is withheld by the employer and paid in full to the Treasury. It is calculated on the basis of rules that may vary according to the nature of the income. These rules form the benchmark system and the amount withheld is then fully credited on the PIT liability of the employee. Exemptions from payment of withholding tax on earned income that the employer may enjoy are tax expenditures. These exemptions have no impact on PIT liability of the employee, but they reduce the compensation of employees for the employer.
6. The withholding tax on movable property act as a final tax for natural persons and for persons subject to the tax on legal entities. For companies, however, it remains fully creditable on the final CIT liability tax. The tax base consists mostly in interests, dividends and royalties. Provisions that apply to the withholding tax (WT) serving as final tax are therefore considered to be tax expenditures, unless they intend to avoid or reduce double taxation at international level. On the other hand, a measure that reduces withholding tax or introduces exemptions is not regarded as a tax expenditure if the beneficiary of the income is a company subject to corporate income tax (CIT), given that there is no loss of income in terms of corporate income tax.
7. The benchmark system of excise duties consists of applying a rate for each type of product. The exceptions or reductions granted, for a given product, to certain consumers or according to use are to be considered as tax expenditure, but the rate differentiation by type of product is part of the benchmark system. The exemptions imposed by European directives are considered as part of the benchmark system. On the other hand, the exemptions introduced by Belgium as being allowed by the European directives are regarded as tax expenditure.
8. Registration duties are defined per taxable event. The diversity of entitlements according to the taxable event is an essential feature of the benchmark system, but the exceptions or reductions granted for a given entitlement are to be regarded as tax expenditure. The registration duty on new equity was reduced to 0% in 2006. Since then, this rate has represented the benchmark system and there are therefore no less receipts resulting from tax expenditure.
9. VAT organises the taxation of supplies of goods and services made on the territory of the country, according to the principle of the value added incorporated by each intermediary,. The exemptions imposed by the European Directive do not constitute tax expenditure but are logically part of the benchmark system. On the other hand, those authorized by the Directive and which Belgium has chosen to apply are considered as tax expenditures. European rules allow one or more reduced rates. The application of these is considered as a tax expenditure. Most of them have the basic characteristics: they have an incentive character and/or constitute derogations "in favour of certain taxpayers or certain economic, social and cultural activities" and direct subsidies can be substituted for them.
10. Apart from the fact that it derogates from the benchmark system, a tax expenditure is also characterised by the fact that it is aimed at changing the taxpayer's behaviour and that this objective could also be achieved by means of a direct budgetary subsidy.
11. The annexed detailed tables first present, on a tax-by-tax basis, the provisions which, in relation to the above definition, are to be considered as tax expenditures, before dealing with the provisions which, again according to the same definition, are not to be considered as such and therefore form part of the benchmark system.

12 The tax provisions referred to in the inventory are those in force during the most recent year for which numerical estimates are available. These years are :

- the year 2018 for personal income tax ⁽²⁾;
- the year 2018 for corporate income tax ⁽³⁾.
- the year 2019 for withholding tax on movable property and withholding tax on earned income;
- the year 2019 for indirect taxes.

The inventory also mentions the estimates relating to the four previous periods in order to give a trend over five years. Those detailed tables are available in xls format on the website of the FPS Finance ⁽⁴⁾.

In the tables grouping the various taxes below, the totalisation and the comparisons between taxes are made on the basis of the same taxable period ⁽⁵⁾. The notion of “tax year” is purely legal.

In the summary tables of this inventory, the tax expenditures are grouped - per tax - according to their objective. These objectives are as follows: authority-government; social measures; family; employment; investment - entrepreneurship; housing; savings and credit; environment; R&D; sector-specific provisions and a varied heading. Table 3, 4 and 5 refers to this classification. However, the tables relating to excise duties retain at this stage their former presentation.

12b For optimal budget transparency, the cost of tax expenditure should be estimated up to the year to which the budget relates. This requires forecasts over a three-year horizon for personal and corporate taxes and a two-year horizon for withholding tax, withholding tax on earned income, VAT and excise duties. This work is in progress. The results are currently available for personal income tax and withholding tax and are shown in the corresponding detailed tables. The FPS Finance website contains the technical explanations of the forecasting methods.

13 The inventory also provides details on the classification by budget item of provisions which have the character of tax expenditures (see summary tables). The classification by budget item corresponds to that used for direct expenditure. However, this classification remains indicative. The classification is as follows:

Authority unit	1
Social Unit	2
- Social security	2.1
- Family	2.2
- Employment and work	2.3
- Entrepreneurship	2.4

² Named “tax year 2019”, in the Income tax code Situation as at 30 June 2018

³ Named “tax year 2019” in the income tax code Situation as at 30 June 2018

⁴ http://finances.belgium.be/fr/statistiques_et_analyses/chiffres/inventaire_depenses_fiscales_federales/

⁵ For corporate income tax, for accounting years that do not correspond to the year, the taxable period used is that of the year in which the accounting year begins.

- Health care	2.5
- Other	2.6
Economic Unit	3
- Savings and Credit	3.1
- Housing	3.2
- Business investment	3.3
- Research and development	3.4
- Agriculture	3.5
- Communications	3.6
- Energy and Environment	3.7/3.8
- Other	3.9
Communities and Regions	4

14 Quantification is carried out using the "revenue forgone" method. This method of calculation assesses the amount by which the revenue from a tax is reduced at the margin due to a particular tax provision. The calculation is therefore made by considering tax expenditures one by one.

It is an ex-post and static calculation. No account is therefore taken of the behavioural effects induced by the existence of the provision. Since the quantification is done on a provision-by-provision basis, certain "mechanical" induced effects are taken into account: so, the abolition of a deduction from taxable income for the PIT may modify the rate or amount of a tax reduction granted downstream.

15 The application of this method is as follows:

- Calculations concerning personal income taxation are carried out, depending on the case, by running the SIRE micro-simulation model from a representative sample of 33,674 returns (SIRE 2018) or on the basis of statistical data established at the end of the assessment period. As far as the SIRE model is concerned, the sample is drawn randomly, by Region, with, however, a difference in the drawing rate between Flanders and Wallonia on the one hand (1/200) and Brussels on the other hand (1/50), in order to ensure a better representativeness of the Brussels-Capital Region in the context of the sixth State Reform.
- The calculations concerning corporate taxation are carried out, depending on the case, by running the MISis micro-simulation model, which is now based, since MISis 2016, on the population (512,556 declarations, situation as at 30 June 2020), or by relying on the statistical data established at the end of the assessment period.
- The cost of exemptions from payment of withholding tax on earned income is derived directly from the statistical data relating to the forms submitted by employer's .
- The results indicated for other taxes and duties are obtained by direct application of the normal rates to the operations recorded which have not been subject to these rates.
- In the absence of appropriate and sufficient data available from the tax authorities, external data are used: this is notably the case for exempt income.

16 This inventory is an annex to the Budget of the federal government and is intended to inform Parliament of the cost of tax expenditures decided by the federal government. On the basis of this principle, it should not include provisions granted or maintained by the Regions within the framework of their tax competences. There are so no chapters in this Inventory relating to

inheritance tax, property tax or road tax. However, tax expenditures that have been devoluted to the Regions or introduced by them in application of the 6th State reform (2014) , are maintained in the PIT chapter of the Inventory in order to provide an overview for this tax for which both federal and regional tax expenditures are in force.

- 17 All figures are given in millions of euros in the above tables. A mention "n.a. "means that the amount could not be calculated due to the lack of sufficient statistical data available. Shaded areas indicate that the measure has either not yet entered into force or is no longer applicable.
- 18 The breakdown by Region of the estimates relating to provisions recognised as personal income tax expenditure is the subject of a separate chapter. These regional estimates are provided for the latest year available, i.e. for the year 2018. The breakdown by Region is made on the basis of the taxpayer's place of residence. Region is not a causal factor, but an element of categorization. The general table include all tax expenditures, federal and regional, but only the regional tax expenditures are examined in detail by Region.

4 Main results

4.1 Overall results

As mentioned in the introduction, the most recent estimates in this Inventory relates to the year 2018 for personal and corporate income taxes and to the year 2019 for the withholding tax on movable property, the withholding tax on earned income and indirect taxes. The estimates contained in this Inventory are aggregated, by type of tax, in Table 1.

Table 1
Revenue forgone from tax expenditures

	2014	2015	2016	2017	2018	2019	% average annual growth since 2014
Personal income tax	9.594	9.442	9.706	9.864	10.204	n.a.	1,6%
Of which, Federal tax expenditures	7.000	6.980	7.162	7.305	7.647	n.a.	2,2%
Of which, regional tax expenditures	2.593	2.461	2.544	2.560	2.557	n.a.	
Corporate income tax	1.063	887	1.503	1.446	2.013	n.a.	17,3%
Withholding tax on earned income	660	398	180	139	173	168	-23,9%
Withholding tax on movable property – final tax	3.095	3.188	2.977	2.867	3.175	3.408	1,9%
Excise duties	1.886	2.067	2.186	2.656	2.717	3.014	9,8%
VAT	9.223	9.523	9.832	9.923	10.340	10.683	3,0%
TOTAL	25.520	25.50	26.384	26.89	28.580		

(*) Note, for the corporate tax series, the absence of some numerical estimates for the year 2013.

Table 1 shows that the growth rate is very different from one tax to another.

The growth in quantifiable revenue forgone is highest for corporate taxes, with an average annual growth rate of 17.3% over the period 2014-2018. After a decline of almost 17% between 2014 and 2015, tax expenditure increased by almost 70% between 2015 and 2016 before declining by 3.9% between 2016 and 2017.

The revenue forgone related to the withholding tax on earned income is stable over the 2014-2017 period. However, this average conceals a more contrasted trend, with a drop of 5.2% between 2015 and 2017 followed by a sharp increase of 9.3% between 2017 and 2018.

We can also note the sharp decrease of the revenue forgone for the withholding tax on movable property (income from capital) - final tax - which is in free fall, due to the fall in interest rates.

In personal income tax, revenue forgone is going up slightly for federal tax expenditure but going down slightly for regional tax expenditure. The Regions have in fact made fairly extensive use of the autonomy granted to them by the 6th State reform to reduce tax expenditure, particularly in terms of housing bonuses.

Table 2
Revenue forgone from tax expenditures as a % of tax yield

	2014	2015	2016	2017	2018	2019
Personal income tax	23,2%	22,7%	23,4%	22,9%	23,5%	n.a.
Of which federal tax expenditures	21,8%	21,6%	22,2%	21,5%	22,1%	n.a.
Of which regional tax expenditures	28,1%	26,4%	27,4%	28,2%	24,3%	n.a.
Corporate income tax	9,4%	6,6%	10,9%	9,4%	14,4%	n.a.
Withholding tax on earned income	14,3%	9,7%	4,5%	3,7%	4,7%	4,5%
Withholding tax – final tax	6,8%	7,0%	6,6%	6,1%	6,7%	7,2%
Excise duties	18,6%	19,5%	18,8%	21,9%	22,0%	24,5%
VAT	33,2%	34,1%	33,7%	32,8%	32,8%	33,2%
TOTAL	18,1%	17,8%	18,2%	17,8%	18,5%	

Table 2 expresses revenue forgone as a % of the corresponding tax yield. In the case of personal income tax, the overall tax revenue is split between federal and regional PIT. Total federal tax expenditures are then expressed as a % of the federal PIT yield, and total regional tax expenditures are expressed as a % of the regional PIT yield. For corporate income tax, it is the overall tax revenue for the year. For other taxes, the yield is the tax revenue of the current year on an ESA 2010 basis. This provides a denominator consistent with the numerator. These percentages are calculated on the yield “excluding tax expenditures” : they therefore express the increase in the current yield of a given tax which would result mechanically, all other things being equal, from the abolition of all tax expenditures whose impact could be quantified.

For personal income tax, there has been a rather stable ratio in recent years (values ranging from 22.5% to 23.5%) of the share of the cost of tax expenditure in the return on this tax.

This ratio is rising for the withholding tax on earned income in 2018, after two years of decline. This increase is mainly due to the increase in the exemption for shift or night work bonuses and the extension of this exemption to property works. The cost of the exemption from withholding tax for researchers employed by private firms has also increased, notably via the extension of this measure to workers with a bachelor's degree.

The ratio for the withholding tax on movable property (final tax) is declining, in that case over the whole period. The decline in the ratio for the withholding tax (from 14.3% to 3.7% in the space of four years) is due mainly to the sharp fall in recent years in the amount of the tax expenditure relating to the exemption from withholding tax on the first tranche of savings deposits, which is itself explained by the fall in interest rates.

The ratio of the cost of tax expenditure to the tax yield has risen sharply in the case of corporate income tax. This increase is mainly due to the doubling between 2015 and 2017 of the cost of the tax expenditure for the deduction for income from patent ("patent box") and the tax credit for research and development. The investment deduction is also on the rise and the introduction of the deduction for income from innovation also contributes to the increase in losses in corporate tax revenues.

Table 3 summarises the classification according to the objective pursued. These data are indicative, given the difficulty of determining the final economic impact of certain tax expenditures. The classification by objective includes revenue forgone from federal and regional personal income tax, , corporate income tax, withholding tax (final tax), withholding tax on business income, excise duties and value added tax.

Table 3
Classification of revenue forgone by objective - 2018

	Revenue forgone (in million euros)	Revenue forgone (in % of total)
Public authorities / NPIs	238,9	0,8%
Social measures	13.673,7	46,4%
Households	160,6	0,5%
Employment	3.910,7	13,3%
Investments – entrepreneurship	594,2	2,0%
Housing	4.394,5	14,9%
Saving and credit	1.163,3	4,0%
Environment	57,6	0,2%
Research and development	2.343,5	8,0%
Sector-specific provisions	2.805,5	9,5%
Various	106,5	0,4%

Tax expenditures for which the revenue forgone can be quantified primarily serve social and economic objectives. Measures of a social nature alone account for 46.4% of the cost of tax expenditure. Incentives relating to housing and the employment sphere also represent important items, accounting for 14.9% and 13.3% of quantifiable tax expenditure respectively. The bulk of the cost of the other tax expenditures identified is concentrated in savings and credit, R&D and sector-specific provisions.

Table 4
Classification of revenue forgone by objective
As a percentage of revenue, per tax, 2018

	PIT	CIT	WT earned income	WT movable property	Excise duties	VAT
Housing	22,27%					19,87%
Saving and credit	10,16%			100,00%		
Investments – entrepreneurship	0,70%	25,97%				
Sector-specific provisions	0,06%	5,10%	6,04%	0,00%	36,51%	13,01%
Environment	0,11%	2,33%				
Research and development	0,03%	60,47%	32,95%			
Employment	17,87%	0,41%	61,00%			
Family	1,57%					
Social	46,27%			0,00%	63,49%	65,89%
Authority – Public Authorities	0,96%	1,54%				1,03%
Various						
<i>Total</i>	100%	96%	100%	100%	100%	100%

Table 4 shows the distribution by objective within each tax. Social measures are largely predominant in the PIT, where they account for 46% of revenue losses. The other important items are housing and employment. In corporate tax, tax expenditure mainly supports R&D and investment. Exemptions from payment of withholding tax on earned income are aimed at employment and R&D. Social measures also dominate excise and VAT tax expenditure.

Table 5
Classification of revenue forgone by tax
As a percentage of revenue forgone by objective- 2018

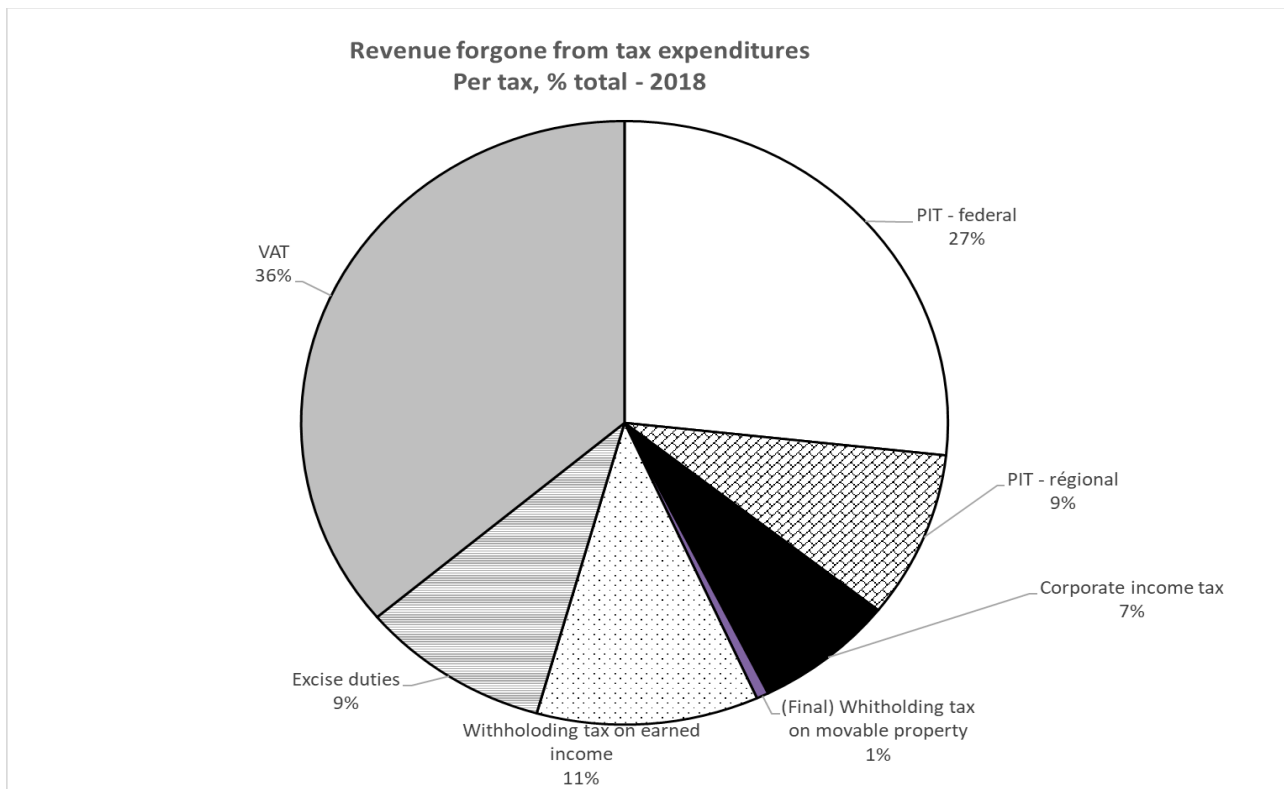
	PIT	CIT	WT earned income	WT movable property	Excise duties	VAT
Housing	51,7%	0,0%	0,0%	0,0%	0,0%	48,3%
Saving and credit	89,2%	0,0%	0,0%	10,8%	0,0%	0,0%
Investment - entrepreneurship	12,0%	88,0%	0,0%	0,0%	0,0%	0,0%
Sector-specific provisions	0,2%	3,7%	7,3%	0,0%	39,2%	49,5%
Environment	18,7%	81,3%	0,0%	0,0%	0,0%	0,0%
Research and development	0,1%	51,9%	47,9%	0,0%	0,0%	0,0%
Employment	46,6%	0,2%	53,2%	0,0%	0,0%	0,0%
Family	100,0%	0,0%	0,0%	0,0%	0,0%	0,0%
Social	34,5%	0,0%	0,0%	0,0%	14,0%	51,5%
Authority – Public Authorities	41,0%	13,0%	0,0%		0,0%	46,0%
Various		78,9%	0,0%	0,0%	0,0%	21,1%
Total	34,7%	6,8%	11,6%	0,4%	10,2%	36,3%

Table 5 provides, for a given objective, the distribution of the corresponding tax expenditures according to the taxes used. For housing, support is provided by the PIT and by VAT in fairly similar proportions. The tax expenditures favouring savings and credit are mainly provided through PIT and secondarily by the withholding tax on movable property. Support for investment is logically provided by income-based taxes, while support for R&D is provided to a fairly large extent, in addition to PIT, by the withholding tax on earned income. Social measures are granted via indirect taxes and the PIT in two proportions of around two-thirds and one-third.

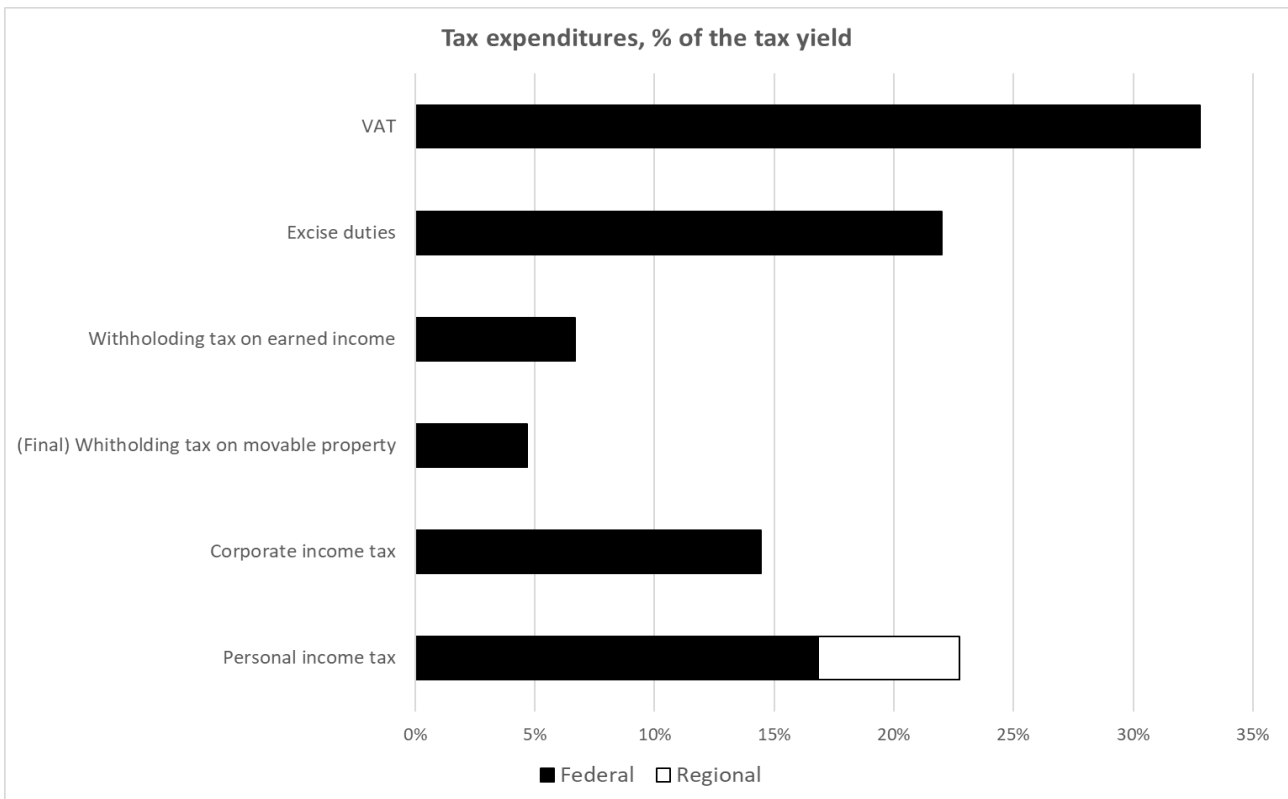
The distribution according to the objective of tax expenditures in PIT differ greatly depending on the level of government (federal versus regional) . Measures relating to public authorities, measures of a social nature, measures relating to the family, measures relating to investment-entrepreneurship and those with an R&D objective are 100% concentrated at the federal level. Measures relating to the sphere of employment account for the vast majority (87%) of federal tax expenditure, while those relating to housing are almost exclusively (98%) regional tax expenditure. Tax expenditures with an environmental scope are also overwhelmingly (69%) concentrated at the regional level, especially since the end of the energy savings tax credit regimes (which had remained federal). At the federal level, the green loan scheme, energy-

efficient homes and electric cars are the only ones that are still in force. Regional environment-related tax expenditure is also falling sharply with the Flemish Region's abolition of the tax reduction for roof insulation.

Graph 1



Graph 2



4.2 Results tax by tax

4.2.1 Personal income tax

With respect to the Federal Inventory of tax expenditures, the provisions discussed below are essentially the tax expenditures that remain federal.

Tax credits for replacement incomes continue to be the largest tax expenditure item, amounting to almost 4.7 billion euros for 2018 revenues. Most of these tax credits relate to pensions.

Next come the tax credits granted for long-term savings and housing (3.30 billion euro for 2018 revenues). This amount includes tax credits for life insurance premiums, mortgage loan capital repayments, the tax credit for own and single-family homes (federal housing bonus and variants of the regional housing bonus), pension savings payments, payments for the purchase of shares in the employer company and personal contributions to group insurance plans. Some of these headings include regional and federal components. Splitting the provisions of the overall amount into federal and regional components gives the following amounts: EUR 995 million for the federal component and EUR 2.3 billion for the regional component.

These two packages account for almost 80% of the quantifiable revenue losses.

Other important items include the following:

- the exemption for the reimbursement by the employer of commuting expenses between home and the workplace (431 million euros);
- the tax credit for low-wage workers or employment bonuses (298 million euros);
- the exemption of non-recurring performance-related benefits scheme or salary bonus (284 million);
- the tax credit for overtime (269 million);
- the tax credit for childcare expenses (160 million);
- the tax credit for low earned income (159 million);
- the tax credit for charitable donations (91 million).

As for the tax credit for energy-saving investments, a previously very substantial tax expenditure item, it now only includes the regionalized tax reduction for roof insulation and the remaining federal green loan provision.

Tax expenditure for which revenue forgone can be quantified has seen an average annual increase of +1.4% since 2014. As indicated above, average annual growth is positive for federal tax expenditure (+2.0%) but negative for regional tax expenditure. Since 2014, the regions have taken numerous measures to limit tax expenditure, particularly in terms of housing bonuses and service vouchers.

■ 4.2.2 Corporate income tax

Among the main tax expenditures are the tax credit for research and development (268 million for 2018 income) but above all the deduction for income from patent which in 201 is the main tax expenditure (782 million in 2017 - a transitional regime is in fact maintained until June 30, 2021). The investment deduction also represents an important item, with 301 million euros in 2017. The non-assessment of corporate income tax for certain intermunicipal companies represents a revenue forgone of nearly 31 million in 2017 ⁶

■ 4.2.3 Withholding tax on earned income

The exemption from payment of the withholding tax on shift work or night work is by far the largest tax expenditure in absolute terms, totaling approximately EUR 1.3 billion in 2019. Since 1 January 2018, this exemption from payment is also applicable to the construction sector.

There have been significant changes in the rates of the structural reduction for remuneration paid or granted from 1 April 2016, in particular following the conversion of the exemption from payment of 1% of gross wages into a reduction in the basic rate of employers' social security contributions in the private sector. The amount of revenue forgone remaining under this heading relates to the specific provisions for

⁶ Calculation methods are detailed in the methodological appendix.

the non-profit sector. As a result of these changes, the structural reduction only generates a revenue forgone of almost 161 million euro in 2019, compared with 905 million euro in 2015.

For employers who are either considered as small companies on the basis of the Company Code or are natural persons who meet the criteria of article 15 of the Company Code *mutatis mutandis*, there remains an exemption from payment of withholding tax on earned income at a rate of 0.12% of gross wages.

Another important item relates to the various exemptions from payment granted in the field of research and development (almost 1.1 billion euros in 2019). Legislative changes (extension of the categories of researchers concerned and/or of the diplomas concerned, successive increases, alignment of the rate of the payment exemption of the various sub-schemes at 75%, then at 80%) explain the regular increases in this important tax expenditure. The major item in absolute terms is that of researchers employed by the private sector (the growth of this item exceeds 10% over the 2014-2019 period).

The exemption from payment of the withholding tax on earned income for overtime (as a general rule), which is constantly increasing, rises from 87 million euros in 2009 to 177 million euros in 2019, due to a combination of several factors: increase in the exemption percentages, successive increases in the number of overtime hours taken into consideration and extension to autonomous public enterprises. Increases are planned for overtime worked in the hospitality sector and in the construction sector.

Exemptions from withholding tax on earned income relating to remuneration paid or allocated to students or young workers do not appear in the Inventory. In fact, these exemptions do not constitute a revenue forgone in the strict sense of the term, as the above-mentioned remunerations are below the minimum taxable amount.

▪ 4.2.4 Withholding tax on movable property

The corresponding table only included the revenue forgone that relates to the withholding tax acting as a final tax.

The tax expenditures for which revenue forgone can be quantified are the exemption from withholding tax on the first tranche of 625 euros (not-indexed amount) of savings deposits (almost 96 million euros in 2019) and the waiver of withholding tax on pension savings (30 million euros in 2019). As part of the savings activation measures, the first tranche of savings deposits was halved in 2018, and a new exemption on dividends was introduced.

The exemption on the part of the dividends allocated to the public authorities or by an intermunicipal association, cooperation structure or project association to another intermunicipal association, cooperation structure or project association now represents an amount of less than one million (and therefore for the record) since it now only concerns certain intermunicipal associations.

▪ 4.2.5 Excise Duties

The most important tax expenditure is a reduced rate for low sulphur diesel used as fuel and low-sulphur diesel used as fuel for industrial and commercial purposes (total of EUR 1.19 billion in 2019). This is

followed by the tax expenditure on high sulphur diesel (fuel and industrial and commercial uses), which was 690 million euros in 2019. Note the substitution effect in favour of low sulphur gas oil used as fuel, particularly since the prices of these two types of gas oil have moved very close together.

In addition, *the partial reimbursement of the special excise duty on commercial diesel* constitutes a tax expenditure of 773 million euros in 2019. This tax expenditure has been rising sharply since 2015, mainly because of the increase in the rate of reimbursement resulting from the rise in excise duty on this fuel.

As regards more specifically *harmonised excise duties or products* subject to excise duty, the provisions imposed by the European Directives are supposed to be part of the general reference system and are not described in the Inventory. These are the following European Directives: Directive 2003/96/EC for energy products and electricity, Directives 92/83/EC and 92/84/EC for alcohol and alcoholic beverages, Directive 2011/64/EU for manufactured tobacco, and finally Directive 2008/118/EC for movements of products subject to excise duty.

■ 4.2.6 Value Added Tax

As indicated above, any reduced rate is considered as a tax expenditure. Items whose cost is identified separately include the reduced rate of 6% for the housing sector (EUR 1.97 billion for the year 2019) and the reduced rate of 12% for the hospitality sector. The latter item amounts to 419 million euros in 2018.

The overall cost of the reduced rates is 10.5 billion euros, i.e. 98.2% of quantifiable VAT tax expenditure. This cost includes the cost of the 0% rate, estimated at 167 million euros. After deducting the impact of the reduced rates applicable to housing and to the hospitality sector (hotels and restaurants), the remaining is of just over 8 billion euros, which mainly concerns so-called " necessities".

The share of VAT tax expenditure in the corresponding tax yield has fallen slightly in recent years, from 35.4% in 2010 to 33.1% in 2019. This decrease is notably linked to the abolition of the VAT exemption for notaries and bailiffs (in 2012) and for lawyers (in 2014).

The provisions imposed by European Directive 2006/112/EC are no longer described in the Inventory: they are part of the European reference system, in relation to which Belgium has no possibility of modification.

5 Projections 2019-2021

In order to have a complete Inventory tax expenditures should be accounted for up until the year of the budget under consideration, here 2021. In this stage results are available for tax expenditures related to personal income taxation and the withholding tax on movable property.

In case of personal income taxation:

Overall, tax expenditures should continue to rise until 2020 in absolute terms and as expressed in percentage of total tax revenues, before falling by 2021. The differentiated evolutions between federal and regional levels have been mentioned above. For the regions, following an increase in 2019, tax expenditures have decreased over the last two years of the projection period. As far as the federal tax expenditures are concerned, the ratio between revenue forgone and total tax revenue is expected to increase until 2020. However, the results, expressed as a percentage of total tax revenue, are affected by the denominator effect: the Covid-19 crisis pushes it down in 2020 and 2021.

With regard to withholding tax, there would be a stabilisation in 2020 and an increase in 2021 expressed in absolute amounts.

Table 6
Projections tax expenditures - PIT

Year	2018	2019	2020	2021
Tax expenditures PIT	10.204	10.500	11.073	11.101
Of which federal	7.647	7.599	8.319	8.437
Of which regional	2.557	2.603	2.448	2.349
Idem, as % total revenue PIT				
Tax expenditures PIT	23,5%	24,1%	25,6%	24,4%
Of which federal	22,6%	22,2%	24,7%	23,9%
Of which regional	27,0%	27,4%	25,7%	22,9%

Table 7
Projections tax expenditures – withholding tax movable property

	2019	2020	2021
Tax expenditures, millions €	167,58	168,71	181,60
as % revenue PIT	4,5%	5,1%	5,1%

6 Methodological notes ⁷

6.1 Personal income tax

Exemption of family benefits (PIT, benchmark)

The revenue forgone from the tax exemption for family benefits is estimated by the micro-simulation model SIRE in which family benefits are imputed. For the year 2018, this results in a loss of revenue of 2,172 million euro, i.e. 34.4% of the allowances paid over the same period (private and public sectors).

Exemption of war pensions and pensions for peacetime invalids (PIT, benchmark)

The data provided by the War Pensions Service make it possible to distinguish the tax expenditure related to the exemption of pensions and annuities granted to peacetime invalids from that related to the exemption of pensions and annuities granted to the victims of the two wars.

Pensions and annuities, granted in case of permanent disability, but not constituting compensation for a permanent loss of professional income. (PIT, benchmark)

The estimate only takes into account the annual compensation related to a degree of permanent incapacity less than or equal to 20%.

Exemption of workers' participation in the capital and profits of their company

The exemption of workers' participation in the capital and profits of their company (PIT, tax expenditure 'Employment') does not result in a loss, but in a gain in revenue. Under the reference system, there would be taxation under personal income tax and deductibility under corporate income tax. Consequently, the tax expenditure is equivalent to the yield from PIT taxation less the deductibility of corporate income tax and the proceeds of the final withholding tax.

The system of worker participation has been replaced by the system of profit-sharing bonuses. The new system may already apply for the 2018 tax year for companies that keep their accounts on a basis other than calendar years.

Innovation premiums

The calculation of the tax expenditure relating to the tax exemption of *innovation premiums* has been re-estimated in this Inventory to take into account the fact that these premiums are not subject to social security contributions.

Additional allowance for professional expenses, mayors e.a

The tax expenditure relating to *the additional allowance for professional expenses for mayors, aldermen and presidents of PSWCs* arises from the difference between the increased deduction and the deduction for

⁷ Some methodological notes relate to provisions that are not considered as tax expenditures, but part of the benchmark. The detailed tables do not list the provisions that are part of the benchmark. These are available in the French/Dutch version.

employees, which is multiplied by the average marginal rate for employees calculated by the SiRe model. As a result of the increase in the standard deduction for professional expenses included in the so-called “tax shift”, the standard deduction has become more generous than the special deduction for aldermen, which explains the decrease in the revenue forgone for this tax expenditure.

6.2 Corporate income tax

Allowance for Corporate Equity (CIT, benchmark)

The estimate of the revenue loss relating to the allowance for corporate equity (“notional interest deduction”) is split into two parts to take into account the 2012 legislative change, i.e. the end of the carry-forward possibility in the event of no or insufficient profits, except for companies that still had a carry-forward deduction at 31 December 2011.

The deduction “for the year” is so separated from the deduction from the stock of carried forward deductions.

Research and development tax credit

Thanks to new data available from 2013 revenues, the calculation of the research and development tax credit has been revised for the last five years of publication. These new data make it possible to separate the non-refundable portion in the year itself from the refundable portion. The calculation is based on the assumption that the latter component is allocated last and therefore, it is not necessarily fully allocated, since it depends on the tax still due.

CIT exemption for certain intermunicipal companies to corporate income tax (CIT, tax expenditure 'Public authorities or NPI')

The estimate of this revenue forgone is based on several assumptions. On the one hand, the intermunicipal companies are assumed not to comply with the conditions of Article 15 of the Company Code on SMEs and are therefore not entitled to the related CIT rates and other benefits. On the other hand, it is assumed that these intermunicipal companies do not have any tax-eligible stocks of carry-forward losses, participation exemption, allowance for corporate equity or investment allowance. The data used for this estimate come from the Bel-First database.

For the calculation of corporate income tax, certain operating assumptions were also made:

- As far as the disallowed expenses are concerned, companies with equivalent pre-tax results have equivalent disallowed expenses - excluding taxes. The calculation of the proportions of disallowed expenses (excluding non-deductible taxes and assimilated items such as regional fees) in the pre-tax result was carried out in the MISis micro-simulation model. These proportions were multiplied by the pre-tax result of the corresponding intermunicipal companies.
- As regards the participation exemption, the calculation of the proportions of qualifying amounts in the income from financial fixed assets was carried out in the MISis micro-simulation model. These proportions were multiplied by the income from the financial fixed assets of the corresponding intermunicipal companies.

The programme law of 19 December 2014 profoundly reformed the fiscal status of intermunicipal associations, cooperation structures and project associations. Thus, the legislator abolished the rule of their

automatic non-liability to corporate income tax for accounting years ending at the earliest on 1 July 2015. However, the automatic exclusion from corporate income tax continues to apply to intermunicipal associations, cooperation structures, project associations, autonomous municipal corporations and associations which, within the framework of their corporate purpose, primarily operate a hospital or an institution that assists war victims, the disabled, the elderly, minors of protected age or the destitute. It is now this category of intermunicipal associations that is the subject of the calculation of the tax expenditure relating to non-liability to corporate income tax.

6.3 Withholding tax on earned income

Compared with the last published Inventory, the amounts of withholding tax on earned income exemptions for the year 2017 have been corrected to take into account delays in the payment of withholding tax on earned income.

The estimate of the tax expenditure relating to the structural reduction does not include the "Social Maribel" (specific scheme for the non-profit sector), insofar as the payment to the Maribel social funds neutralises the successive increases recorded in the exemption from withholding tax on earned income for the non-profit sector.

6.4 Withholding tax on movable property

Waiver of withholding tax under the pension savings scheme

The rate used to calculate the amount of the tax expenditure, initially 15%, has been adapted over time, to take account of the changes in the rate that occurred in 2012 (to 21%), then to 25% in 2013 and 27% in 2016 in order to take account of the change in the standard rate of withholding tax on income from movable property. As the standard rate of 30% is applicable as from 1 January 2017, it is used in the present Inventory for the last two estimated years.

Exemption from withholding tax on the first tranche of savings deposits

The revenue forgone from the exemption from withholding tax on the first tranche of income from savings deposits is estimated on the basis of the outstanding amount and the series of implicit interest rates on regulated savings deposits, both quarterly⁸. A rate of the withholding tax is then applied to the amount of interest, the rate of which varies according to the years considered (15% up to 2011, 21% in 2012, 25% from 2013 to 2015 inclusive, 27% in 2016 and 30% in 2017 and 2018).

As the series of implicit interest rates has been the subject of a recent methodological revision, the tax expenditure of previous years has been re-estimated.

However, the tax expenditure is somewhat underestimated for 2012 and beyond. The exemption of the first tranche of savings deposits has been extended to savings deposits with banks in the European Economic Area, with effect from 1 January 2012. The estimate made does not include these savings deposits, due to a lack of available information.

The calculation of the impact of the exemption of the first tranche of savings deposits does not take into account the maximum amount. Indeed, given the very low level of interest rates close to the legal

⁸ Source: NBB.

minimum of 0.11%, this ceiling is considered to be non-binding. The same is true after the reduction of this ceiling by half.

6.5 *Excise Duty*

Estimated Tax Expenditures Related to Energy Products and Electricity

As regards the calculation of tax expenditure on energy products and electricity, the evaluation method consists in setting a reference rate per type of product; the tax expenditure is then evaluated by multiplying the volumes consumed by the difference between the reference rate and the reduced rate.

The reference rate used is a full rate including excise duty, special excise duty, monitoring charge and energy levy.

The method used defines a reference rate per type of energy product. The types of product selected are: the various petrol products, unmixed low-sulphur road gas oil, unmixed high-sulphur road gas oil, road gas oil supplemented with FAME, heavy fuel oil, lamp oil used as fuel and LPG-methane.

There is no tax expenditure calculation for gasoline, as each type of gasoline product is considered to be a specific product, regardless of their octane rating, lead and/or sulphur content or bioethanol content. The same is true for road diesel products, which are also specific products.

The calculation of tax expenditures, on the other hand, is made for the different uses or categories of users of the same product (use as a fuel for industrial or commercial purposes or use as a fuel), whether it is gas oil, lamp oil, heavy fuel oil or LPG-methane.

Calculations were made directly using available volume data.

Estimated Tax Expenditure Related to Reduced Rates for Small Independent Brewers

A revision to the estimation methodology has resulted in changes to this tax expenditure in this Inventory. The tax expenditure for the years 2014 to 2017 has also been recalculated to present a consistent historical series, taking into account this revision.

6.6 *Value Added Tax*

Zero rate for Newspapers and weeklies

The tax expenditure series for the 0% tax rate for newspapers and weeklies reflects a revenue loss compared to the 21% rate.

Classification under the zero rate for the purchase of cars for the disabled

These goods are normally subject to the reduced rate of 6% and were therefore previously classified under this heading. However, under certain conditions, the VAT charged on the acquisition or importation of motor cars for invalids is refunded to these persons (Article 77 §2 of the VAT Code), which is in fact equivalent to an estimated loss of revenue compared to the 0% rate.

Construction and hospitality sector

The estimates of tax expenditure relating to the construction sector and the hospitality sector are made on the basis of VAT returns under the assumption of a minimal amount of double counting. Double counting occurs only to the extent that goods and services are not supplied to the final consumer but to other

intermediaries subject to VAT. The gross sales of both the first and the second supplier are included in the return file.

Estimates are based on turnover at 6% and 12% of the VAT returns for the corresponding codes of the NACE 2008 classification. A correction has been made to take into account credit notes.

Building land exemption

The amount of the tax expenditure reflects the *gross cost* of the revenue forgone resulting from the VAT exemption on building land. Indeed, although there is a VAT exemption registration duties apply. However, the corresponding revenue in registration duties does not reduce the amount of the tax expenditure mentioned in the Inventory, as the principle of the Tax Expenditure Inventory is to estimate the revenue forgone within a given tax.

Since 1 January 2011, building land adjoining a building whose sale is subject to VAT is no longer exempt from VAT.