Introduction

1. This Inventory (1) is an update of the list included in the report of the High Council of Finance to the Ministry of Finance, presenting a full inventory of all tax exemptions, deductions and credits having an impact on federal revenue. This report, released on 25 July 1985 (2), is the basis of this Inventory that each year is updated taking into consideration abolished or added tax provisions, since that date. Moreover, this Inventory, as the previous ones, takes into account the provisions mentioned in Article 2 of the Law of 28 June 1989 modifying the laws on State Accounting.

Moreover, according to the Law of 22 May 2003 organising the Federal State Budget and Accounting, the Inventory of tax expenditures must be attached to the Federal Government's Revenue and Resources Budget (Art. 47).

2. Some of the “tax exemptions, deductions and credits having an impact on federal revenue” are considered as tax expenditures. The High Council of Finance defined the concept “tax expenditure” as follows:

“Lower revenue resulting from tax incentives introduced by a departure from the benchmark tax system related to a specific tax in favour of certain taxpayers or certain economic, social, cultural activities, etc., and that could be replaced by a direct subsidy.”

As a result, the concept “benchmark tax system” is the key factor in the definition of “tax expenditures”. This concept is defined by tax.

3. The personal income tax organises the taxation of income of any kind, after deduction of expenses incurred to generate and/or to retain this income. This is an aggregated taxation with an exception for the non-recurrent income, income from movable property and miscellaneous income. The benchmark tax system includes the definition of the “tax unit” and the provisions aiming at determining the tax capacity according to the composition of this tax unit and to the number of people reporting earnings. The personal income tax ensures the taxation of the residents’ world income, subject to the application of preventive double taxation agreements and to provisions of domestic law aiming at abolishing or reducing double taxation.

4. The corporate income tax consists of the taxation of profits, regardless of the way they are allocated, but after having eliminated double taxation of retained and distributed profits, and after deduction of prior losses. The measures related to the application of preventive international agreements on double taxation and domestic law having the same purpose are considered as being part of the benchmark tax system. The allowance for corporate equity is considered as belonging to the benchmark tax system: its introduction implies a change in the benchmark tax system and not a limited departure from the former benchmark system.

5. In principle, the withholding tax on earned income is withheld by the employer and fully paid to the tax administration. It is computed on the basis of rules varying according to the kind of income. Those rules constitute the benchmark tax system and the withheld amount is then entirely due to the personal income tax. The system of exemptions from the withholding tax on earned income of which an employer benefits, are considered as tax expenditures.

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1  Version available in bilingual display (French and Dutch) on the website of the Belgian House of Representatives: http://www.lachambre.be/FLWB/PDF/54/3293/54K3293004.pdf
6. The withholding tax on income from movable property is a final tax on natural persons and persons liable to the legal entities income tax. On the contrary, for companies, it still represents an advanced payment on the final tax. Exemptions, rate reductions, etc. relating to the withholding tax on income from movable property as final tax are thus considered as tax expenditures, except those aiming at abolishing or reducing double taxation at international level. On the contrary, a measure reducing the withholding tax on income from movable property or introducing exemptions is not considered as a tax expenditure as far as the beneficiary of the income is a company subject to the corporate income tax.

7. The benchmark tax system of excise duties consists of applying one rate by product type. The exceptions or reductions granted to certain consumers or depending on the use done, are considered as tax expenditures but applying various rates per product type is typical of the benchmark tax system. The exemptions laid down by the European Directives are considered as being part of the benchmark tax system, while the exemptions introduced by Belgium as a result of the opportunities provided by the European Directives, are considered as tax expenditures.

8. Registration duties are fixed according to the tax event. Applying various duties according to the tax event is part of the benchmark tax system but the exceptions or reductions granted for a given duty, are considered as tax expenditures. In 2006, the capital duty was reduced to 0%. This rate represents therefore the benchmark tax system and there are no revenue forgone anymore resulting from tax expenditures.

9. The VAT, based on the principle that each intermediary adds some value, organises the taxation of the supply of goods and services on the national territory. The exemptions imposed by the Directive are not considered as tax expenditures but they are logically part of the benchmark tax system. On the contrary, exemptions authorised by the Directive and applied by Belgium are considered as tax expenditures. The European rules authorise one or several reduced rates. The application of those rates is considered as tax expenditure. Most of them have the basic features of tax expenditures: they are incentives and/or they are exemptions “in favour of certain taxpayers or certain economic, social and cultural activities” and they can be replaced by direct subsidies.

10. Besides the fact that tax expenditures constitute a departure from the benchmark tax system, they are also characterised by the fact that they aim at modifying taxpayers’ behaviour and that this objective could also be met by a direct budgetary subsidy.

11. The summary tables first present, by tax, the provisions which must be considered as tax expenditures according to the above-mentioned definition and then the provisions which, according to the same definition, must not be considered as tax expenditures being therefore part of the benchmark tax system.

12. The tax provisions mentioned in the Inventory are those applicable to the current year or to the tax year for which the most recent estimates are available. The most recent estimates relate to:

- the tax year 2017 for the personal income tax;
- the tax year 2017 for the corporate income tax. The estimates relating to tax year 2014 have also been added to this Inventory; those estimates come from statistical data and not from the MISis model;
- the year 2017 for the withholding tax on income from movable property and for the withholding tax on earned income;
- the year 2017 for the indirect taxes.

The Inventory also mentions the estimates related to the previous four periods in order to give the evolution over five years. The summary tables are available in xls format on the website of the FPS Finance.

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3 The integral version of these summary tables is available in bilingual display (Dutch and French) on the website of the Federal Public Service Finance: http://financien.belgium.be/nl/Statistieken_en_analysen/cijfers/inventaris_van_de_federale_fiscale_uitgaven/.

4 Situation on 30 June 2018 for the tax year 2017.

5 Situation on 30 June 2018 for the tax year 2017.

In the tables grouping together the various taxes as mentioned hereafter, the totals and the comparisons between taxes are computed on the basis of the same taxable period.

The summary tables of this Inventory show a new pattern of tax expenditures. Those are indeed grouped together by tax according to the following purposes: public authorities, social measures, family, employment, investments-entrepreneurship, real estate, savings and credit, environment, R&D, specific sector provisions and a section “varia”. Table 3 refers to this classification system.

However, as far as excise duties are concerned, the former appearance of the summary tables has been maintained because we think it is more appropriate.

13. The Inventory also gives details about the classification by budget item of the provisions considered as tax expenditures (cf. summary tables). The classification by budget item corresponds to the one used for direct expenditures. This classification remains merely indicative.

The classification is as follows:

- Sovereign functions 1
- Social expenditures 2
  - Welfare 2.1
  - Family 2.2
  - Employment and labour 2.3
  - Middle class 2.4
  - Health 2.5
  - Others 2.6
- Economic expenditures 3
  - Savings and credit 3.1
  - Real estate 3.2
  - Business investment 3.3
  - Research and development 3.4
  - Agriculture 3.5
  - Communication 3.6
  - Energy and environment 3.7 / 3.8
  - Others 3.9
- Communities and Regions 4

14. The quantification is realised following the so-called “revenue forgone” method. This calculation method estimates the amount of the marginal revenue loss resulting from an existing specific tax provision. The computation has been made considering the tax expenditures one by one.

It is an ex-post and static calculation. As a result, behavioural effects resulting from the existence of the provision are not taken into consideration. Seeing that the quantification occurs provision by provision, certain “mechanical” side-effects are taken into account. As a consequence, to abolish a deduction from the taxable income subject to personal income tax can change the rate or the amount of a tax credit granted at the next stage.
15. This method applies as follows:

- Calculations relating to the personal income tax are based, according to the case, on the micro-simulation model SIRe from a representative sample consisting of 43,175 tax returns (SIRe 2016 income) or on statistical data compiled during the tax assessment. Concerning the SIRe model, the selection of the sample is randomly chosen, by Region, with a difference in the rate of sampling between Flanders and Wallonia on one side (1/200) and Brussels on the other side (1/50); this in order to ensure a better representation of the Brussels-Capital region in the context of the Sixth State reform.

- Calculations relating to the corporate income tax are based, according to the case, on the micro-simulation model MISis which is now based, since MISis 2016, on the population (499,039 tax returns, situation in July 2018) or on statistical data compiled during the tax assessment.

- The cost relating to exemptions of payment of the withholding tax on earned income directly derives from statistical data concerning the withholding tax returns.

- The results for the other taxes derive from the direct application of standard rates to registered operations which are not subject to those rates.

- In the absence of relevant and sufficient data available from tax administrations, external data are used: it is notably the case for exempted income.

16. This Inventory is an annex to the Federal Government’s Revenue and Resources Budget and aims at informing the Parliament of the cost of tax expenditures decided by the federal authority. Considering this principle, it should not include “deductions, exemptions and reductions” granted or retained by the Regions in the framework of their tax competences. That is why this Inventory does not include chapters relating to estate duties, the withholding tax on real estate or the circulation tax. However, regionalised tax expenditures still appear in the chapter as regards PIT in this Inventory in order to have a complete overview for this tax which comprises both federal and regional tax expenditures.

17. In the summary tables, all figures are expressed in millions of euros. The mention “n.a.” (not available) means that the amount could not be computed because no sufficient statistical data were available. Shaded areas show that the measure either is not yet in force, or is no longer applicable.

18. The detailed analysis by Region of the estimates related to the provisions considered as tax expenditures for the personal income tax, is the subject of a separate chapter. Those regional estimates are communicated for the last available year, i.e. income year 2016. The breakdown per Region is based on the taxpayer’s residence. The Region is not a causal factor, but a categorisation element. Both tax expenditures which are still managed at federal level and regionalised tax expenditures are mentioned in the global table, but only the regionalised tax expenditures are detailed per Region.
Comments on the Results

1. Global Results

As mentioned in the introduction, the most recent estimates in this Inventory relate to income year 2017 (i.e. 2016 as taxable period) for the personal income tax and the corporate income tax. They relate to the year 2017 for the withholding tax on movable property, the withholding tax on earned income and indirect taxes. The estimates mentioned in this Inventory are grouped by tax in Table 1 for tax expenditures.

TABLE 1
Revenue forgone resulting from tax expenditures

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>9,747.13</td>
<td>9,881.82</td>
<td>9,677.55</td>
<td>9,405.77</td>
<td>9,576.61</td>
<td>n.a.</td>
<td>-0.4%</td>
</tr>
<tr>
<td>Tax expenditure still managed at federal level</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regionalised tax expenditure</td>
<td>2,593.37</td>
<td>2,461.12</td>
<td>2,454.37</td>
<td>n.a.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>1,404.63</td>
<td>n.a.</td>
<td>1,609.13</td>
<td>1,643.31</td>
<td>2,148.89</td>
<td>n.a.</td>
<td>11.2%</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>2,877.86</td>
<td>2,969.65</td>
<td>3,094.89</td>
<td>3,187.26</td>
<td>2,977.15</td>
<td>2,867.03</td>
<td>-0.1%</td>
</tr>
<tr>
<td>Withholding tax on movable property – final tax</td>
<td>727.80</td>
<td>749.34</td>
<td>659.77</td>
<td>398.93</td>
<td>180.27</td>
<td>133.91</td>
<td>-28.7%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>2,095.15</td>
<td>2,283.40</td>
<td>1,950.66</td>
<td>2,133.63</td>
<td>2,256.01</td>
<td>2,531.61</td>
<td>3.9%</td>
</tr>
<tr>
<td>Value added tax</td>
<td>8,561.42</td>
<td>8,708.09</td>
<td>9,228.24</td>
<td>9,540.74</td>
<td>9,557.42</td>
<td>9,758.91</td>
<td>2.7%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>25,413.99</td>
<td>26,220.24</td>
<td>26,309.64</td>
<td>26,696.35</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) It must be mentioned that, for the series concerning the corporate income tax, some estimates for the year 2013 are missing.
Table 1 shows that the pace of growth is very different according to the tax concerned.

The highest growth of quantifiable revenue forgone is to be found in the corporate income tax, with an average annual growth rate of 11.2% over the period 2012-2016. The specific case of the withholding tax on movable property – final tax – that has dropped drastically, must also be mentioned.

TABLE 2
Revenue forgone resulting from tax expenditures, in % of tax revenue

<table>
<thead>
<tr>
<th>Millions of euro</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
<th>2015</th>
<th>2016</th>
<th>2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>25%</td>
<td>24.2%</td>
<td>23.1%</td>
<td>22.3%</td>
<td>22.7%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Federal PIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Regional PIT</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>12.8%</td>
<td>n.a</td>
<td>13.4%</td>
<td>11.7%</td>
<td>16.4%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>6.6%</td>
<td>6.7%</td>
<td>6.8%</td>
<td>7%</td>
<td>6.6%</td>
<td>6.1%</td>
</tr>
<tr>
<td>Withholding tax on movable property - final tax</td>
<td>21.6%</td>
<td>17.4%</td>
<td>14.3%</td>
<td>9.7%</td>
<td>4.5%</td>
<td>3.6%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>27.9%</td>
<td>29.5%</td>
<td>24.4%</td>
<td>25.5%</td>
<td>25.3%</td>
<td>27.9%</td>
</tr>
<tr>
<td>Value added tax</td>
<td>31.9%</td>
<td>32%</td>
<td>33.5%</td>
<td>34.6%</td>
<td>33.3%</td>
<td>32.8%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>29%</td>
<td>27.9%</td>
<td>27.3%</td>
<td>27.5%</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 shows revenue forgone in % of the revenue of the corresponding tax. As far as the personal income tax is concerned, the total federal tax expenditures are expressed as a percentage of federal PIT revenue and the total regional tax expenditures are expressed as a percentage of regional PIT revenue. As regards corporate income tax, it is the global revenue of the tax year. As far as the other taxes are concerned, it is the revenue on ESA 2010 basis. Accordingly, the denominator can be consistent with the numerator. The rates are computed on the revenue “exclusive tax expenditures”: they show therefore the increase in the present revenue that would result mechanically, ceteris paribus, from abolishing all tax expenditures of which the impact could be quantified.

Regarding the personal income tax, a rather stable ratio (percentages between 22% and 23%) of the part of the cost of tax expenditures in the revenue from this tax has been observed in recent years. On the contrary, this ratio has declined in the last two years considered for the withholding tax on earned income and it is also decreasing for the withholding tax on movable property (final tax), in this case over the whole period. The decline (from 14.3% to 3.6% within a three-year period) in the ratio relating to the withholding tax on income from movable property can notably be explained by the strong decrease in recent years in the amount of the tax expenditure relating to the exemption of withholding tax on the first bracket of savings deposits (decrease in implicit interest rates). The tax expenditure concerning the exemption of withholding tax on dividends of some inter-municipal associations is now mentioned pro memorie (pm) because revenue forgone in question now only concerns inter-municipal associations which, as a principal occupation, operate a hospital or an institution assisting war victims, disabled persons, the elderly. On the contrary, the ratio of the part of the cost of tax expenditures in the tax revenue is sharply increasing as far as corporate income tax is concerned.

Table 3 summarises the classification according to the objective pursued. These data are indicative as it is very difficult to determine the final economic incidence of some tax expenditures. The classification by objective includes revenue forgone regarding the personal income tax, regarding as well federal PIT as regional PIT, the corporate income tax, the withholding tax on movable property (final tax), the withholding tax on earned income, excise duties and the value added tax.
TABLE 3
Revenue forgone, classification by objective
2016

<table>
<thead>
<tr>
<th></th>
<th>Revenue forgone (in millions of euro)</th>
<th>Revenue forgone (in % of the total)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Public authorities / NPIs</td>
<td>174.01</td>
<td>0.7%</td>
</tr>
<tr>
<td>Social measures</td>
<td>12,651.43</td>
<td>47.4%</td>
</tr>
<tr>
<td>Family</td>
<td>156.21</td>
<td>0.6%</td>
</tr>
<tr>
<td>Employment</td>
<td>3,601.21</td>
<td>13.5%</td>
</tr>
<tr>
<td>Investments – Entrepreneurship</td>
<td>592.04</td>
<td>2.2%</td>
</tr>
<tr>
<td>Real estate</td>
<td>4,243.23</td>
<td>15.9%</td>
</tr>
<tr>
<td>Savings and credit</td>
<td>1,124.84</td>
<td>4.2%</td>
</tr>
<tr>
<td>Environment</td>
<td>66.01</td>
<td>0.2%</td>
</tr>
<tr>
<td>Research and development</td>
<td>2,222.08</td>
<td>8.3%</td>
</tr>
<tr>
<td>Specific sector provisions</td>
<td>1,719.13</td>
<td>6.4%</td>
</tr>
<tr>
<td>Varia</td>
<td>146.17</td>
<td>0.5%</td>
</tr>
</tbody>
</table>

Tax expenditures, in the strict sense, of which revenue forgone can be quantified meet essentially social and economic objectives. The sole social measures represent just over 47% of the cost of tax expenditures. Incentives relating to real estate and the employment sector also represent important items, with respectively almost 16% and 13.5% of the quantifiable tax expenditures. The major part of the cost of the other classified tax expenditures is essentially located in the items “Savings and credit”, “R&D” and “Specific sector provisions”.

The distribution of PIT tax expenditures between tax expenditures still managed at federal level and tax expenditures regionalised as a result of the transfer of tax competences under the Special Finance Law, varies significantly according to the objective. Tax expenditures in the categories “Public authorities / NPIs”, “Social measures”, “Family”, “Investments - Entrepreneurship” and “Research and development” are totally concentrated at federal level. Measures relating to employment consist very largely (86%) of federal tax expenditures, while measures concerning real estate are almost exclusively (97%) regionalised tax expenditures. Tax expenditures with environmental scope are also very largely concentrated at regional level (82%), especially since the end of the systems as regards the carry-forward of energy-saving expenses and the refundable tax credit for energy-saving expenses (those systems remained managed at federal level). Only the systems as regards green loans, low-energy houses and electric vehicles remain now at federal level.
GRAPH 1
Revenue forgone resulting from tax expenditures
Year 2016

GRAPH 2
Tax expenditures in % of tax revenue
Year 2016

Value added tax 36%
Excise duties 8%
Withholding tax on earned income 11%
Withholding tax on movable property - final tax 1%
Corporate income tax 8%
PIT / regionalised tax expenditures 9%
PIT / federal tax expenditures 27%

In % of the tax revenue
2. The Results by Tax

2.1 Personal Income Tax

Because this document is the Inventory of federal tax expenditures, the provisions discussed hereafter essentially concern tax expenditures still managed at federal level.

Tax credits for replacement income still constitute the most important entry regarding tax expenditures: around 4.5 billion euro for 2016 income. Most of those tax credits relate to pensions.

They are followed by tax credits granted for long-term savings and real estate investments (3.13 billion euro for 2016 income).

This amount includes tax credits for life insurance premiums, capital repayments of mortgage loans, the tax credit for sole own dwelling (federal housing bonus and regional housing bonus), payments made in the context of a pension savings scheme, payments for purchasing employer’s shares and personal contributions paid in the context of group insurance scheme. Some of those sections include regional and federal arms. By splitting the provisions regarding the global amount into a federal arm and a regional arm, the following amounts are obtained: 934 million euro for the federal level and 2.2 billion euro for the regional level.

Both categories of tax credits alone account for almost 80% of quantifiable revenue forgone.

Other important items are:
- the reimbursement by the employer of commuting expenses (374 million euro);
- the refundable tax credit for low-income worker or job bonus (279 million euro, i.e. double the amount in comparison to 2015, as a consequence of the increase in the percentage and in the basic amount);
- the tax credit for overtime pay (236 million euro);
- the system of non-recurrent advantages linked to results or wage bonus (234 million euro);
- the tax credit for expenses for child care (156 million euro);
- the refundable tax credit on low income from professional activities (149 million euro);
- the tax credit for gifts (80 million euro);
- the federal arm of the tax credit for energy-saving expenses (only green loans remain managed at federal level; this item amounts to 6.4 million euro).

The tax expenditure relating to the tax credit for energy-saving investments decreased strongly (from 669 million euro in 2012 to 296 million euro in 2013 and to 47 million euro in 2016) within a few years: since tax year 2013, only the tax credit for roof insulation and the provisions of the transitional system for expenses incurred in 2012 under an agreement signed before 28 November 2011 had been applied. However, those transitional measures no longer apply to 2016 income. As a result, this tax expenditure now only includes a regionalised tax credit (i.e. the tax credit for roof insulation) and the measure regarding green loans which is still managed at federal level.

The average annual decrease in tax expenditures of which revenue forgone are quantifiable amounted to 0.4% over the period 2012-2016. The part of tax expenditures still managed at federal level in the corresponding federal PIT revenue amounts to 21.7%, while the part of regionalised tax expenditures in the regional PIT revenue amounts to 26.2%.
2.2 Corporate Income Tax

Among the major tax expenditures, there are the refundable tax credit for research and development (713 million euro for 2016 income) and the deduction for patent income (634 million euro in 2016 – a transitional system is maintained until 30 June 2021). The investment deduction is also an important item, with 315 million euro in 2016, and detailed data are now also available for “green” investments. The non-liability of some inter-municipal associations to corporate income tax represents revenue forgone amounting to almost 17 million euro in 2016. The appendix shows in detail the methodology applied for the estimations.

It should be noted that the tax shelter system for audiovisual work has been extended to dramatic works for framework agreements signed as from 1 February 2017. New is also the deduction for innovation income; this new system has been applied as from 1 July 2016 and replaces the deduction for patent income.

2.3 Withholding Tax on Earned Income

The exemption of payment of the withholding tax on earned income for team work or night shifts is by far the highest tax expenditure in absolute amount, with a total amount of about 1.4 billion euro in 2017.

Major changes have been made in the rates of the structural reduction for remunerations paid or allocated as from 1 April 2016, notably as a consequence of the conversion of the structural reduction in charges by 1%, for the profit sector, into an additional reduction in the basic rate of the employers’ contributions. For employers who are either considered as small companies, as defined in the Corporation Code, or natural persons meeting mutatis mutandis the criteria set out in article 15 of the Corporation Code, the rate amounts now to 0.12%.

The various exemptions of payment granted for scientific research (911 million euro in 2017) must also be taken into consideration. Legal changes (extension of the categories of researchers or diplomas concerned, successive increases and then the harmonisation to 75% and then to 80% of the rate of the exemption of payment) explain the regular increases in this significant tax expenditure. The major item, as an absolute amount, concerns researchers employed by private companies (the increase in this item over the period 2012-2017 is close to 8%).

This is followed by the structural reduction which generates revenue forgone amounting to almost 151 million euro in 2017, compared with 905 million euro in 2015, as a result of the conversion of the structural reduction in charges by 1%, for the profit sector, into an additional reduction in the basic rate of the employers’ contributions, as mentioned above. The structural reduction at 0.12% was introduced on 1 April 2016. Since this date, if the measure relating to the Social Maribel does not apply to SMEs, the percentage of the exemption of payment of withholding tax SMEs can benefit amounts to 0.12% instead of 1.12%; this explains the sharp decrease from 36 to 4 million euro, as an absolute amount, observed between 2016 and 2017, in the increased structural reduction in favour of SMEs as defined in the Corporation Code.

The exemption of payment of the withholding tax on earned income regarding overtime pay (general principle) increases from 87 million euro in 2009 to 154 million euro in 2017 because of the combination of several factors: increase in the percentages of the exemption, successive rises in the number of hours overworked taken into consideration and extension to autonomous public undertakings. Increased amounts apply to hours overworked in the Horeca sector and the building sector.

Exemptions of payment of withholding tax on earned income relating to wages paid or allocated to students or to young workers are not described in this Inventory. Indeed, those exemptions are no revenue forgone stricto sensu because the above-mentioned wages are lower than the minimum taxable amount.
2.4 **Withholding Tax on Movable Property**

The summary table only shows revenue forgone for which the withholding tax on movable property is a **final tax**. Tax expenditures of which revenue forgone are quantifiable concern the exemption from withholding tax on the first 1,250 euro bracket (basic amount not indexed) of income from savings deposits (105 million euro in 2017) and the waiver of withholding tax on movable property in the context of pension savings schemes (29 million euro in 2017).

The exemption on the part of dividends allocated to public authorities or by an inter-municipal association, a cooperation structure or an "association de projet"(7) to another inter-municipal association, cooperation structure or "association de projet" has been amounting now to less than 1 million (and thus pro memorie) since it now only applies to some inter-municipal associations.

2.5 **Excise Duties**

The highest tax expenditure relates to the granting of a reduced rate for low-sulphur gas oil used as heating fuel and for low-sulphur gas oil used as motor fuel for industrial and commercial applications (1.2 billion euro in 2017). It is followed by the tax expenditure relating to high-sulphur gas oil (used as heating fuel and for industrial and commercial applications), which corresponds to revenue forgone amounting to 827 million euro in 2017. It must be noted that there is a substitution effect in favour of low-sulphur gas oil used as heating fuel, notably considering that the prices of both categories of gas oil have moved closer together.

Moreover, the tax expenditure relating to the partial refund of the special excise duties on professional diesel amounts to 356 million euro in 2017. This tax expenditure sharply increased in both years under review (2016 and 2017). This is notably due to the increase in the refund rate resulting from the rise in excise duties on this motor fuel.

Regarding more specifically harmonised excise duties or excise goods, the provisions imposed by the European directives are supposed to be part of the benchmark tax system and are not described in this Inventory. Those European directives are the following: 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 Directive 2008/118/EC for the movements of excise goods.

2.6 **Value Added Tax**

As mentioned above, all cases where reduced rates apply are considered as tax expenditures. Items for which the cost is separately determined include the 6% reduced rate to the housing sector (1,9 billion euro for 2017) and the 12% rate for the Horeca sector. This last item amounts to 375 million euro in 2017.

The global cost of those reduced rates amounts to 9.6 billion euro, i.e. 98.4% of quantifiable VAT tax expenditures. This cost includes the one regarding the 0% rate estimated at 178 million euro. Irrespective of the impact of the reduced rates applicable to the construction sector and to the Horeca sector, there remains a balance of slightly more than 6.5 billion euro, principally relating to the so-called “basic necessities”.

The contribution of VAT tax expenditures in the revenue of the corresponding tax slightly decreased in the last years from 35.9% in 2010 to 32.8% in 2017. This decline is notably due to the abolishment 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 this Inventory: they are part of the European benchmark system which cannot be modified in any way by Belgium.

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7 Cooperation structure with legal status created for a renewable period of six years by at least two municipalities in order to manage joint projects.
3. Methodological Notes

3.1 Personal Income Tax

Exemption for family allowances
(PIT, benchmark tax system)

Revenue forgone resulting from the tax exemption for family allowances is computed on the basis of the database of the micro-simulation model SIRE. For the year 2016, revenue forgone amounts consequently to 2,025 million euro, i.e. 31.8% of the allowances paid over the same period (private and public sectors).

Exemptions for war pensions and allowances, and allowances granted to disabled ex-servicemen in peacetime (personal income tax, benchmark tax system)

The data communicated by the War Pensions Service make it possible to distinguish between tax expenditures for the exemption for allowances granted to disabled ex-servicemen in peacetime, and tax expenditures for the exemption for pensions and allowances granted to victims of both world wars.

Pensions and allowances granted in case of permanent disability, but which do not compensate a permanent loss in earned income (personal income tax, benchmark tax system)

The estimate only takes into account annual allowances for a permanent disability level lower than or equal to 20%.

The exemption for employee equity participation and employee participation in enterprise profits (personal income tax, tax expenditures ‘Employment’) does not result in a loss but in a revenue gain. According to the benchmark tax system, the participation would be taxed in the personal income tax and deductible in the corporate income tax. Tax expenditures are equal to the revenue of taxation in the personal income tax after deduction of the deductible amount in the corporate income tax on the one hand, and of the revenue of the tax in full discharge on the other hand.

3.2 Corporate Income Tax

Allowance for corporate equity
(CIT, benchmark tax system)

The estimate of revenue forgone relating to the allowance for corporate equity has been divided into two components in order to take into account the legislative change made during tax year 2013, i.e. the abolishment of the possible carry-over because of lack or insufficiency of profits, except for companies still having a remaining deduction to be carried over on 31 December 2011.

As far as estimates are concerned, the distinction has been made between the deduction of the year itself and the deduction resulting from withdrawals from the stock of deductions of previous years.

Automatic non-liability to corporate income tax of some inter-municipal associations
(CIT, tax expenditures ‘Public authorities or NPIs’)

The estimate of revenue forgone is based on several starting assumptions. On the one way, inter-municipal associations are assumed not to meet the conditions mentioned in Article 15 of the Corporation Code with respect to SMEs and, as a result, they are not entitled to the related advantages. On the other way, it is assumed that those inter-municipal associations have no stocks of previous losses, participation exemption, allowance for corporate equity or investment deduction, which are
acceptable to the tax administration. The data used for this estimate have been provided by the BeFirst database.

Concerning the calculation of the corporate income tax, some working assumptions have also been made:

- As far as disallowed expenses (DE) are concerned, companies having equivalent pre-tax results have equivalent DE exclusive taxes and charges. The calculation of the parts of DE exclusive non-deductible regional taxes, charges and payments and exclusive non-deductible taxes in the pre-tax result has been made in the sample of the MISis microsimulation model. These parts have been multiplied by the pre-tax result of the corresponding inter-municipal associations.

- As far as participation exemption is concerned, the calculation of the parts of participation exemption-exempted income from movable assets in the revenue from financial fixed assets has been made in the MISis sample. These parts have been multiplied by the revenue from the financial fixed assets of inter-municipal associations.

The programme law of 19 December 2014 substantially reformed the fiscal status of inter-municipal associations, cooperation structures and “associations de projet”. The legislator notably abolished the rule according to which they are automatically not liable to CIT, for financial years closed at the earliest as from 1 July 2015. However, the automatic exclusion from CIT remains applicable to inter-municipal associations, cooperation structures, “associations de projet”, autonomous municipal companies and associations, which, under their social purpose and as a principal occupation, operate a hospital or an institution assisting war victims, disabled persons, the elderly, protected minors or the destitute. The calculation of the tax expenditure relating to the non-liability to CIT is now based on this category of inter-municipal associations.

3.3 Withholding Tax on Earned Income

In comparison to the last published Inventory, the amounts relating to exemptions of payment of the withholding tax on earned income for the year 2016 have been corrected so that delayed payments of the withholding tax on earned income can be taken into account.

Tax expenditures concerning the structural reduction are estimated exclusive "Social Maribel", inasmuch as the payment to the Social Maribel Funds neutralizes the successive recorded increases in the exemption of payment of the withholding tax on earned income for the non-profit sector.

3.4 Withholding Tax on Movable Property

Waiver of collection of the withholding tax on income from movable property in the framework of pension savings scheme

The rate used to calculate the amount of the tax expenditure, initially at 15%, has been adjusted over time: it was firstly increased to 21% to take into consideration the change in the tax rate occurred during the property income reform in 2012, and then to 25% in 2013 and to 27% in 2016 to take into consideration the evolution of the standard rate of the withholding tax on movable property. Considering that the standard rate of 30% has been applied as from 1 January 2017, it has been taken into consideration in this Inventory for the last estimated year.

Exemption from withholding tax on movable property on the first bracket of savings deposits

In order to estimate the exemption of payment of the withholding tax on movable property on the first bracket of the income from savings deposits, the method used consists in calculating interest on the basis of the quarterly variation of the outstanding amounts and of the series of implicit interest rates on regulated savings deposits as quarterly averages (source: NBB). A withholding tax on movable property of 15% until 2011, 21% in 2012, 25% from 2013 to 2015 included, 27% in 2016 and 30% in 2017 is then levied on the interest.
Considering that the series concerning the implicit interest rates has been recently revised from a methodological point of view, the tax expenditure relating to previous years has been re-estimated.

However, the tax expenditure is somewhat underestimated for the years 2012 and the following ones. As from 1 January 2012, the exemption applied to the first bracket of interest from savings deposits has been extended to savings deposits made with banks established in the European Economic Area. The estimate does not include those savings deposits because of lack of available data.

### 3.5 Excise Duties

*Estimate of tax expenditures for energy products and electricity*

Another estimate method has been applied as from 2004. As regards the calculation of tax expenditures for energy products and electricity, the assessment method consists in determining a reference rate for each type of product; tax expenditures are then assessed 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 the excise duty, the special excise duty, the monitoring charge and the levy on energy.

Previously, the estimated major revenue forgone regarded the reduced rate for diesel, the total taxation with respect to excise duties and related rights for petrol being used as benchmark. However, it was not considered as a tax expenditure.

The new method determines a reference rate for each type of energy product. The types of products taken into consideration are the following: petrol products, unblended low-sulphur diesel, unblended high-sulphur diesel, diesel blended with FAME, heavy fuel, kerosene used as motor fuel and LPG-methane.

Tax expenditures are not computed for petrol, as all petrol products are considered as specific products regardless of their octane number, their lead and/or sulphur or bioethanol content.

The same principle applies to automotive gas oil products which are also considered as specific products.

However, tax expenditures are computed for the different applications or user categories of a same product (use as motor fuel for industrial or commercial applications or use as heating fuel); this applies to as well gas oil as kerosene, heavy fuel or LPG-methane.

The computations have been directly based on available data relating to the volumes.
3.6 Value Added Tax

0% rate for newspapers and weeklies

The series relating to tax expenditures for the 0% rate applicable to newspapers and weeklies takes into account a revenue forgone in relation to the 21% rate and no longer to the reduced rate of 6%, since the benchmark tax system has been changed and consists henceforth in considering all reduced rates as tax expenditures.

Classification under the 0% rate for the purchase of motor cars for invalids

Those goods are normally taxed at the 6% reduced rate and were therefore previously classified under this category. However, provided certain conditions are met, the VAT charged on the purchase or importation of motor cars for invalids is refunded to those persons (Art. 77, §2, of the VAT Code). In practice, this results in revenue forgone estimated in relation to the 0% rate.

Construction sector and Horeca sector

The estimates, on the basis of VAT returns, of tax expenditures relating to the construction sector and the Horeca sector start from the hypothesis of a limited part of double counting. Double counting only applies inasmuch as goods and services are not provided to the end consumer but to other intermediaries liable to VAT. Gross sales of as well the first as the second supplier are indeed mentioned in the tax return file.

The estimates are based on the revenue figures at 6% and 12% of VAT returns for the corresponding codes of the NACE classification 2008. A correction has been made for taking into account the credit notes.

Exemption for building lands

The amount of the tax expenditure reflects the gross cost of the revenue forgone resulting from the VAT exemption for building lands. Although a VAT exemption applies, building lands are indeed subject to registration duties. However, the amount of the revenue from registration duties does not decrease the amount of the tax expenditure mentioned in the Inventory, because the Inventory of tax expenditures is aimed at estimating the revenue forgone within a given tax.

As from 1 January 2011, building lands adjoining a building the sale of which is subject to VAT, are no more VAT-exempted.