



# Report on the Inventory of Federal Tax Expenditures of 2021

06 March, 2024

This inventory, also known as the “Federal Inventory of Tax Expenditures”, is yearly annexed to the Budget. The official publication is available with the [Chamber of Representatives](#) in French and Dutch. This is not an official and complete translation of the original document. The note briefly documents the methodology and the main results. The data is available [here](#) in xls format.

## Table of Contents

1	Introduction.....	2
1.1	Definition of tax expenditures .....	2
1.1.1	The benchmark system .....	2
1.1.2	Revenue forgone method .....	3
1.1.3	Regionalisation .....	3
1.1.4	Classification.....	4
2	Main results .....	5
2.1	Tax expenditure by objective.....	7
2.2	Tax expenditure by level.....	8
2.3	Types of tax expenditure .....	10
2.4	Tax expenditure in terms of GDP and tax revenue .....	11
3	Methodological notes .....	12
3.1	Removals.....	12
3.2	Revisions .....	12
3.3	Forecasts .....	13

# 1 INTRODUCTION

This inventory is an update of the list contained in the advice of the High Council of Finance (HCF) to the Minister of Finance containing a complete inventory of all exemptions, allowances and tax credits affecting State revenues. This advice, issued on 25 July 1985<sup>1</sup>, 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 of 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).

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:

- 2021 for personal income tax
- 2021 for corporate income tax
- 2021 and 2022 for withholding tax on movable property and withholding tax on earned income
- 2021 for indirect taxes

In the tables grouping the various taxes below, aggregation and comparisons between taxes are made on the basis of the same taxable period. The notion of "tax year" is purely legal.

## 1.1 DEFINITION OF TAX EXPENDITURES

The HCF 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*".

Each element of this definition is further clarified below.

### 1.1.1 THE BENCHMARK SYSTEM

The **personal income tax (PIT)** organizes 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. PIT 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.

**Corporate income tax (CIT)** 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.

In principle, the **withholding tax on earned income (EIWT)** 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.

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

The **withholding tax on movable property (WT)** 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 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 CIT, given that there is no loss of income in terms of CIT.

The benchmark system of **excise duties (ACC)** 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.

**Value added tax (VAT)** organizes 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.

### 1.1.2 REVENUE FORGONE METHOD

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.

The application of this method is as follows:

Concerning **PIT**, calculations are carried out, depending on the case, by running the SIRE micro-simulation model from a representative sample 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 representation of the Brussels-Capital Region in the context of the sixth State Reform.

Concerning **CIT**, calculations are carried out, depending on the case, by running the MISis micro-simulation model, or by relying on the statistical data established at the end of the assessment period.

The cost of exemptions from **EITW** is derived directly from the statistical data relating to the forms submitted by employer’s.

The results indicated for other **VAT** and **ACC** 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.

### 1.1.3 REGIONALISATION

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 no chapters in this Inventory relating to inheritance tax, property tax, registration rights or road tax. However, tax expenditures that have been devolved 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. For more detail on regional tax expenditures<sup>2</sup>.

### 1.1.4 CLASSIFICATION

Apart from the fact that it derogates from the benchmark system, a tax expenditure is also characterized 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. In the summary tables of this inventory, the tax expenditures are grouped - per tax - according to their general objective. These objectives are as follows: authority-government (GOV); social measures (SOC); employment (EMP); investment - entrepreneurship (INV); housing (IMMO); savings and credit (CAP); environment (ENV); Research & Development (RD); sector-specific provisions (SEC) and a various grouping (VARIA).

The classification is as follows:

*Table 1 Classification of tax expenditure items*

	Number of measures	Revenue forgone (mil. €)
CAP	22	1,219.35
EMP	48	4,299.85
ENV	24	78.17
GOV	7	514.49
IMMO	31	4,911.73
INV	10	1,081.65
RD	13	2,217.41
SEC	39	3,211.25
SOC	13	11,876.38
VARIA	32	1,761.70
Total	239	31,171.98

The inventory also provides details on the classification by type of tax expenditure. Derogations from the tax system can happen in several ways. Income can be exempt (EXEMPT) or be tax at a reduced rate (REDUC). Certain expenses are eligible to be deducted (DEDUCT) from taxable income, while others lead to directly reducing tax liability. In the latter case, a tax reduction can be refundable tax credit (RTC) which can lead to a negative tax position, or non-refundable tax credit (NTC) which means the tax benefit is limited by the tax liability.

<sup>2</sup> For Wallonia and Flanders

## 2 MAIN RESULTS

The sections below present the distribution of tax expenditures across tax base, objective, government, and type, in terms of their number and revenue forgone. Revenue forgone is expressed in millions of euros.

It is important to note that the aggregation of revenue forgone should be interpreted with caution. First of all, not all tax expenditures are quantified due to a lack of data. Secondly, the revenue forgone method is a first order calculation applied to each individual tax expenditure. In this case, the revenue forgone of a tax expenditure represents the pure mechanic effect of the tax system if this measure did not exist. The simultaneous removal of different tax expenditures cover the same tax base would likely give a different result. Lastly, different tax expenditures are likely to interact with each other. However, the current methods do not include any behavioural effects. For the above reasons, this report's results should not be viewed as definitive but only as a starting point for further investigation.

The table below lists the share of measures that are quantified by tax base.

*Table 2 Percentage share of quantified tax expenditures*

	ACC	CIT	EIWT	NRT	PIT	VAT	WT
2005	45	65	90	0	54	62	75
2006	45	68	92	0	53	62	75
2007	45	71	93	0	55	62	50
2008	46	66	83	0	55	62	75
2009	46	68	83	0	53	62	75
2010	49	66	83	0	56	64	75
2011	51	65	83	0	57	64	75
2012	51	67	83	0	59	60	75
2013	51	33	83	0	60	60	75
2014	51	65	95	0	68	60	75
2015	53	67	96	0	68	60	75
2016	53	69	96	0	66	60	50
2017	53	71	96	0	67	58	50
2018	53	71	96	0	69	58	60
2019	53	70	96	0	70	58	60
2020	51	70	100	0	71	58	60
2021	33	68	100	0	71	58	60

The classification is further presented for each tax base in terms of the number of measures and revenue forgone.

Figure 1 Tax expenditure by objective

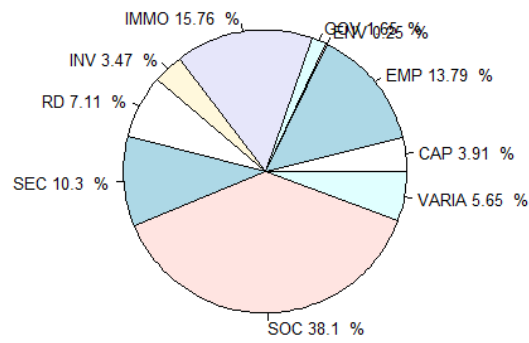
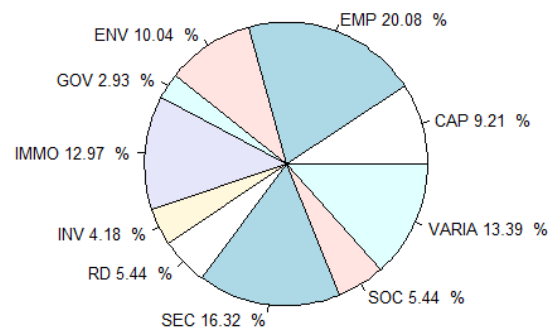


Figure 2 Number of measures by objective



## 2.1 TAX EXPENDITURE BY OBJECTIVE

Table 3 Number of measures by objective

CAT	ACC	CIT	EIWT	PIT	VAT	WT
CAP		1		19		2
EMP		3	17	28		
ENV	12	4		8		
GOV		2		3	1	1
IMMO				28	3	
INV		4		5	1	
RD		4	7	2		
SEC	31	3		2	3	
SOC	3			7	3	
VARIA	8	6	7	6	3	2

Table 4 Tax expenditure by objective (mil. €)

CAT	ACC	CIT	EIWT	PIT	VAT	WT
CAP		0.00		1,101.64		117.71
EMP		17.38	2,428.35	1,868.58		
ENV	55.82	11.52		10.83		
GOV		183.73		126.22	204.54	0.00
IMMO				2,197.31	2,714.42	
INV		978.09		103.56	0.00	
RD		883.28	1,331.10	3.03		
SEC	1,546.92	24.72		4.02	1,635.59	
SOC	0.00			5,290.42	6,585.96	
VARIA	1,431.84	100.23	129.42	11.17	21.05	67.99

Table 5 Tax expenditure by objective (%)

CAT	ACC	CIT	EIWT	PIT	VAT	WT
CAP		0.00		10.28		63.39
EMP		0.79	62.44	17.44		
ENV	1.84	0.52		0.10		
GOV		8.36		1.18	1.83	0.00
IMMO				20.50	24.32	
INV		44.48		0.97	0.00	
RD		40.17	34.23	0.03		
SEC	50.98	1.12		0.04	14.65	
SOC	0.00			49.37	59.01	
VARIA	47.18	4.56	3.33	0.10	0.19	36.61

## 2.2 TAX EXPENDITURE BY LEVEL

Table 6 Number of measures by level

CAT	FED	BRU	VLA	WAL
CAP	19	1	1	1
EMP	42	2	2	2
ENV	23			1
GOV	7			
IMMO	8	8	7	8
INV	10			
RD	13			
SEC	39			
SOC	13			
VARIA	32			

Table 7 Tax expenditure by level (mil. €)

CAT	FED	BRU	VLA	WAL
CAP	1,161.82	3.57	37.32	16.64
EMP	4,130.85	13.81	131.70	23.50
ENV	72.17			6.00
GOV	514.49			
IMMO	2,736.69	77.32	1,328.59	769.12
INV	1,081.65			
RD	2,217.41			
SEC	3,211.25			
SOC	11,876.38			
VARIA	1,761.70			

Table 8 Tax expenditure by level (%)

CAT	FED	BRU	VLA	WAL
CAP	4.04	3.77	2.49	2.04
EMP	14.36	14.58	8.79	2.88
ENV	0.25			0.74
GOV	1.79			
IMMO	9.51	81.64	88.71	94.34
INV	3.76			
RD	7.71			
SEC	11.16			
SOC	41.29			
VARIA	6.12			

## 2.3 TYPES OF TAX EXPENDITURE

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Table 9 Number of measures by type

MO	ACC	CIT	EIWT	PIT	VAT	WT
DEDUC		8		11		
DEF		1				
EXEMPT	37	11		27	5	3
NTC			31	61		
REDUC	11	5		8	9	2
RTC		2		1		
NA	6					

Table 10 Tax expenditure by type (mil. €)

MO	ACC	CIT	EIWT	PIT	VAT	WT
DEDUC		1,265.29		602.53		
DEF		284.10				
EXEMPT	795.69	321.35		149.35	294.77	117.71
NTC			3,888.87	8,976.63		
REDUC	61.54	83.13		305.56	10,866.79	67.99
RTC		245.08		682.70		
NA	2,177.35					

Table 11 Tax expenditure by type (%)

MO	ACC	CIT	EIWT	PIT	VAT	WT
DEDUC		57.54		5.63		
DEF		12.92				
EXEMPT	26.22	14.61		1.26	2.64	63.39
NTC			100.00	83.88		
REDUC	2.03	3.78		2.86	97.36	36.61
RTC		11.15		6.38		
NA	71.75					

## 2.4 TAX EXPENDITURE IN TERMS OF GDP AND TAX REVENUE

Table 12 Tax expenditure in % of tax revenue

% of tax base	2020	2021	%Δ
PIT	23.13	21.99	-0.01
PIT FED	22.70	21.69	-0.01
PIT REG	24.64	23.02	-0.02
CIT	13.22	12.27	-0.01
WT	5.70	4.98	-0.01
EIWT	7.43	7.65	0.00
ACC	29.46	23.31	-0.06
VAT	33.96	32.09	-0.02
TOTAL	19.39	18.42	-0.01

Table 13 Tax expenditure in % of GDP

% of GDP	2020	2021	%Δ
PIT	2.247	2.056	-0.002
PIT FED	1.720	1.577	-0.001
PIT REG	0.527	0.479	-0.000
CIT	0.439	0.433	-0.000
WT	0.038	0.035	-0.000
EIWT	0.781	0.766	-0.000
ACC	0.734	0.569	-0.002
VAT	2.193	2.197	0.000
TOTAL	6.432	6.055	-0.004

## 3 METHODOLOGICAL NOTES

### 3.1 REMOVALS

The following tax expenditure items are no longer applicable.

	TAX
Employee equity participation or employee participation in the profits and enterprise results	PIT
Exemption for additional staff SMEs Profits and proceeds by additional staff member SME	CIT
Expenses for making dwellings secure against burglary and fire	PIT
Innovative companies	CIT
Internship Bonus	CIT
Profit for additional personnel (expansion of technological potential) export integral quality management	CIT
Unblended gasoline	ACC
Temporary increase in June – August (covid)	EIWT

### 3.2 REVISIONS

The following items have been revised.

	2019	2020	2021
Employee equity participation or employee participation in the profits and enterprise results	1	1	
Temporary increase from June – August (covid)		1	1

### 3.3 FORECASTS

For 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. Currently, results are only available for PIT and WT. A more detailed presentation of the results and forecasting methods are available [here](#).

The table below presents the estimated trajectory of total tax expenditure related to personal income tax and withholding tax. Without considering future policy changes, federal tax expenditure is expected to increase while regional expenditure decreases.

	Fed. PIT	Reg. PIT	WT	% Fed. TE	% Reg. TE	% WT
2021	8,309.21	2,407.57	185.70	4.70	-0.89	6.31
2022	8,530.51	2,133.18	181.37	2.66	-11.40	-2.33
2023	8,746.69	2,038.91	169.33	2.53	-4.42	-6.64
2024	8,946.76	1,944.61	165.04	2.29	-4.62	-2.53