Introduction

1. This inventory (1) is an update of the list included in the report of the High Council of Finance to the Minister of Finance, that made out a full inventory of all tax exemptions, deductions and credits having an impact on federal revenue. This report of 25 July 1985 (2) is the basis of this inventory being annually updated taking into consideration tax provisions which have been abolished or added as from this 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.

2. Some “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 relating 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 borne to generate and/or retain this income. This is an aggregated taxation, except for 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 persons reporting earnings. The personal income tax ensures the taxation of the residents' world income, subject to the application of double taxation agreements and of 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, after having eliminated double taxation of retained and distributed profits, and after deduction of carry-forward losses. Measures relating to the application of international double taxation agreements and provisions of domestic law with 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.

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 form the benchmark tax system and the amount withheld is then fully credited against the personal income tax. Exemptions of payment in favour of the employer are considered as tax expenditures.

6. The withholding tax on income from movable property is a final tax for natural persons and persons liable to the legal entities income tax. On the contrary, for companies, it still represents an advanced payment on 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 or introducing exemptions is not considered as a tax expenditure where the beneficiary of the income is a company liable to the corporate income tax.

7. The benchmark tax system relating to excise duties consists of applying one rate by product type. The exceptions or deductions granted to certain consumers or according to the use are

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considered as tax expenditures, but applying various rates according to the 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 deductions granted for a
given duty are considered as tax expenditures. In 2006, capital duty was reduced to 0%. This
rate represents therefore the benchmark tax system and the former exemptions from
proportional duties are no longer considered as 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 laid down by the
Directive are not considered as tax expenditures but 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 a 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 they constitute a departure from the benchmark tax system, tax
expenditures are also characterised by the fact that they aim at changing taxpayers’ behaviour
and that this objective could also be met by means of a direct budget subsidy.

11. There are inevitably cases in which doubt arises and cases in which various interpretations exist
about whether or not a given provision is considered as a tax expenditure. That is the reason
why the provisions taken into account are shared out in three columns in the summary tables in
xls format (3), according to the fact that, considering the above-mentioned definition:
- they must be considered as tax expenditures;
- they must not be considered as tax expenditures;
- doubt arises about whether or not they must be considered as tax expenditures.

12. The tax provisions mentioned in the report are those applicable to the year for which the most
recent estimates are available. The most recent estimates relate to:
- the income year 2009 for the personal income tax (4);
- the income year 2009 for the corporate income tax (4);
- the year 2010 for the withholding tax on movable property and for the withholding tax on
  earned income;
- the year 2010 for indirect taxes.

The report also mentions estimates relating to the previous four periods in order to give the
evolution over five years.

However, in the tables grouping together the various taxes, the totals are computed and the
comparisons between the various taxes are made on the basis of the same taxable period.

13. Moreover, the inventory gives also details about the purpose of the provisions considered as tax
expenditures. The classification by objective corresponds to the one used for budgetary
expenditures.

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3 These summary tables are available in bilingual display (Dutch and French) on the website of the Research and
Documentation Department of the Federal Public Service Finance:

4 Situation on 30 June 2011 for the year 2009.
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 3.7
  - Environment 3.8
  - Others 3.9
- Communities and Regions 4
- Miscellaneous 5

However, the cost distribution of tax expenditures according to the various entries in the classification must be considered as indicative. Any attempt to establish such a classification raises indeed the difficult issue of the economic impact of taxation and tax deductions.

14. The so-called “revenue forgone” method has been used for the quantification. This calculation method estimates the amount of the revenue loss resulting from an existing specific tax provision.

It is an ex post and static calculation. As a result, behavioural effects are not taken into consideration. Seeing that the quantification occurs provision by provision, certain “mechanical” side-effects are taken into account. For instance, abolishing 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. The result is that adding costs of tax expenditures for a specific tax only gives a flawed idea of the revenue gain resulting from their joint abolishment.

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 on the basis of a representative sample consisting of 36,483 tax returns (SIRE 2009 income) or on the basis of statistical data compiled during the tax assessment.

- Calculations relating to the corporate income tax are based, according to the case, on the micro-simulation model MISis on the basis of a representative sample consisting of about 23,300 tax returns (MISis 2010) or on the basis of 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 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 report is an annex to the Federal Government’s Ways and Means Budget and aims at informing the parliament of the cost of tax expenditures decided by the federal authority. As a result, it does not include “deductions, exemptions and reductions” granted or retained by the Regions in the framework of their tax competences.

17. In the above-mentioned tables in xls format, all figures are expressed in millions of euros. “p.m.” means that the amount is lower than 20,000 euro. “n.b./n.d.” means that the amount could not be computed because no statistical data were available. Shaded areas show that the measure either is not yet in force, or is no longer applicable.

18. The description of the tax provisions mentioned in the annexes, published as a supplement, relates to the last year in question.

However, some specific features must be mentioned.

For the personal income tax and for the common amounts mentioned in the chapter relating to the corporate income tax, the amounts are directly indexed.

As far as exemptions of payment of the withholding tax on earned income are concerned, exemptions from withholding tax on earned income relating to remunerations paid or allocated to students or young workers do not appear in the inventory. Those exemptions are indeed not considered strictly speaking as a revenue forgone because the above-mentioned remunerations are lower than the taxable minimum amount.

As far as the withholding tax on movable property is concerned, a distinction between summary tables and legislative annexes must be highlighted. Summary tables only mention the provisions for which the withholding tax on movable property is a final tax, while the annexes examine all revenue forgone regarding the withholding tax on movable property.

As regards the chapter relating to excise duties, and in particular harmonised excise duties or excise goods, the provisions laid down by the European Directives are deemed to be part of the benchmark tax system and are henceforth no longer described in the inventory, unlike the previous editions. The 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, Directives 92/79/EEC, 92/80/EEC and 95/59/EC for manufactured tobacco and Directive 2008/118/EC for the movements of excise goods.

Moreover, as far as the movements of excise goods are concerned, the legislative annex includes the legislation in force as from 1 April 2010. The law of 22 December 2009 concerning the general arrangements for excise duty implements into Belgian law the provisions of Directive 2008/118/EC. It is referred to the previous report for the detailed provisions in force until 31 March 2010.

For non-harmonised excise duties or excise products, i.e. non-alcoholic beverages and coffee, the legislative annex contains the legislation in force as from 1 July 2010, in compliance with the law of 21 December 2009 concerning the excise duty system for non-alcoholic beverages and coffee. It is also referred to the previous report for the detailed provisions in force until 30 June 2010.

As far as the value added tax is concerned, the same principle applies. The provisions laid down in the European Directive 2006/112/EC are henceforth no longer described in the inventory: they are part of the European benchmark and cannot be changed by Belgium.

19. The detailed analysis by Region of estimates relating to the provisions considered as tax expenditures for the personal income tax, is dealt with in a separate chapter. Those regional estimates are communicated for the last year available, i.e. income year 2009. The breakdown by Region is based on the taxpayer’s residence. The Region is no causal factor, but a categorisation factor.
Comment on the Results

1. Global Results

As mentioned in the introduction, the most recent estimates in this inventory relate to income year 2009 for the personal income tax and the corporate income tax, and to the year 2010 for the data concerning 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 and in Table 2 for tax deductions, exemptions and reductions which are considered as being part of the benchmark tax system and, consequently, are not considered as tax expenditures.

Table 1
Revenue forgone resulting from tax expenditures

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>Average annual growth rate since 2005</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>4,677.82</td>
<td>5,098.48</td>
<td>5,316.88</td>
<td>5,844.56</td>
<td>6,395.19</td>
<td>n.a.</td>
<td>8.1%</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>2,474.12</td>
<td>1,992.19</td>
<td>1,357.80</td>
<td>640.30</td>
<td>942.27</td>
<td>n.a.</td>
<td>-21.4%</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>198,07</td>
<td>495,88</td>
<td>948,48</td>
<td>1,380.55</td>
<td>1,899.73</td>
<td>2,548.81</td>
<td>66.7%</td>
</tr>
<tr>
<td>Withholding tax on movable property – final tax</td>
<td>500,66</td>
<td>522,30</td>
<td>501,18</td>
<td>619,96</td>
<td>548,13</td>
<td>515,74</td>
<td>0.6%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>2,222.30</td>
<td>2,162.29</td>
<td>1,599.97</td>
<td>1,837.64</td>
<td>1,788.79</td>
<td>2,105.05</td>
<td>-1.1%</td>
</tr>
<tr>
<td>Value added tax</td>
<td>6,262.57</td>
<td>6,475.48</td>
<td>7,235.41</td>
<td>7,339.49</td>
<td>7,836.57</td>
<td>8,745.44</td>
<td>6.9%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>16,335.54</td>
<td>16,746.62</td>
<td>16,959.73</td>
<td>17,662.50</td>
<td>19,410.68</td>
<td></td>
<td>4.4%</td>
</tr>
</tbody>
</table>

n.a. = not available
As far as tax expenditures are concerned, revenue forgone, that could be quantified, amount globally to 19,410.68 million euro in 2009, i.e. 5.7% of GDP. The major part of those revenue forgone results from three taxes: the personal income tax, excise duties and the VAT. Revenue forgone regarding the withholding tax on earned income are also growing.

Over the period 2005-2009, the quantifiable revenue forgone increased, all taxes included, by 4.4% a year on average. However, the pace of growth is very different according to the tax concerned.

With the exception of the specific case of the withholding tax on earned income, of which the particularly high growth results from the progressive implementation, since 2005, of the system of exemptions of payment, the highest growth of quantifiable revenue forgone is to be found in the personal income tax and the value added tax, with an average annual growth rate amounting to respectively 8.1% and 6.9% over the periods 2005-2009 and 2005-2010.

Table 2

Revenue forgone resulting from tax deductions, exemptions and reductions which are not considered as tax expenditures

<table>
<thead>
<tr>
<th></th>
<th>Millions of euro</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>2005</td>
</tr>
<tr>
<td>Personal income tax</td>
<td>17,906.24</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>17,578.22</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>0,00</td>
</tr>
<tr>
<td>Withholding tax on movable property – final tax</td>
<td>0,00</td>
</tr>
<tr>
<td>Excise duties</td>
<td>0,00</td>
</tr>
<tr>
<td>Value added tax</td>
<td>0,00</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>35,484.45</td>
</tr>
</tbody>
</table>

n.a. = not available

(*) See hereafter the comments about the minus sign appearing for the corporate income tax and about the low global result for the year 2008.
Table 2 shows the cost, in terms of revenue forgone, of the provisions which are not considered as tax expenditures and are part of the benchmark tax system.

As far as the personal income tax is concerned, those provisions include notably the deduction of professional expenses, the marital quotient, the basic zero-rate band and the additional exemptions thereof granted according to the number of dependent children or to other specific family situations.

For the corporate income tax, those provisions concern the abolishment of double taxation (participation exemption and capital gains on shares), the allowance for corporate equity and the deduction of previous losses.

The results for the year 2008 were strongly influenced by the impact of the economic and financial crisis. A negative figure was indeed recorded for that year for the corporate income tax. This is due to the fact that the net result of the exemption of capital gains on shares and of the non-deductibility of capital losses, is recorded as “revenue forgone”. In a standard period, there is a net increase of the value of the shares and the corresponding exemption from corporate income tax generates a revenue forgone. The sharp fall in market prices in 2008 had the opposite effect. The global quantifiable revenue forgone amounts consequently to 4,273 million euro or 1.2% of GDP for the year 2008.

The quantifiable revenue forgone amounts globally to 38,026.35 million euro or 11.2% of GDP for the year 2009. Concerning taxes for which data are available, i.e. the personal income tax and the corporate income tax, tax deductions, exemptions and reductions being part of the benchmark tax system are globally much higher than tax expenditures.

**Table 3**

**Revenue forgone resulting from tax expenditures, in % of tax revenue**

<table>
<thead>
<tr>
<th></th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>15.1</td>
<td>15.8</td>
<td>15.7</td>
<td>16.4</td>
<td>18.0</td>
<td>n.a.</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>24.9</td>
<td>18.9</td>
<td>12.0</td>
<td>6.4</td>
<td>10.7</td>
<td>n.a.</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>0.6</td>
<td>1.5</td>
<td>2.7</td>
<td>3.7</td>
<td>5.1</td>
<td>6.7</td>
</tr>
<tr>
<td>Withholding tax on movable property - final tax</td>
<td>21.5</td>
<td>23.1</td>
<td>21.1</td>
<td>23.0</td>
<td>22.7</td>
<td>24.1</td>
</tr>
<tr>
<td>Excise duties</td>
<td>36.1</td>
<td>35.6</td>
<td>25.4</td>
<td>29.8</td>
<td>29.6</td>
<td>30.9</td>
</tr>
<tr>
<td>Value added tax</td>
<td>29.4</td>
<td>28.7</td>
<td>30.4</td>
<td>30.6</td>
<td>33.4</td>
<td>34.9</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>23.1</td>
<td>22.7</td>
<td>21.9</td>
<td>22.5</td>
<td>25.4</td>
<td>25.4</td>
</tr>
</tbody>
</table>

n.a. = not available

Table 3 shows revenue forgone in % of the revenue of the corresponding tax. 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.

Table 4 summarises the classification by objective. As mentioned above, 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, 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. Revenue forgone relating to registration duties are excluded inasmuch as their status as tax expenditures has been changed as a result of the decrease to 0% of capital duty in 2006.
### Table 4

*Revenue forgone, classification by objective: 2009*

<table>
<thead>
<tr>
<th>Objective</th>
<th>Revenue forgone</th>
<th>Idem, in % of the total</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Sovereign functions</td>
<td>323.92</td>
<td>2.1%</td>
</tr>
<tr>
<td>2. Social expenditures</td>
<td>6,350.51</td>
<td>40.6%</td>
</tr>
<tr>
<td>2.1. Welfare</td>
<td>2,797.43</td>
<td>17.9%</td>
</tr>
<tr>
<td>2.2. Family</td>
<td>128.32</td>
<td>0.8%</td>
</tr>
<tr>
<td>2.3. Employment and labour</td>
<td>1,438.98</td>
<td>9.2%</td>
</tr>
<tr>
<td>2.4. Middle class</td>
<td>210.52</td>
<td>1.3%</td>
</tr>
<tr>
<td>2.5. Health</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>2.6. Others</td>
<td>1,775.26</td>
<td>11.4%</td>
</tr>
<tr>
<td>3. Economic expenditures</td>
<td>8,363.82</td>
<td>56.8%</td>
</tr>
<tr>
<td>3.1. Savings and credit</td>
<td>2,358.37</td>
<td>15.1%</td>
</tr>
<tr>
<td>3.2. Real estate</td>
<td>2,621.12</td>
<td>16.8%</td>
</tr>
<tr>
<td>3.3. Business investment</td>
<td>412.19</td>
<td>2.6%</td>
</tr>
<tr>
<td>3.4. Research and development</td>
<td>909.15</td>
<td>5.8%</td>
</tr>
<tr>
<td>3.5. Agriculture</td>
<td>2.50</td>
<td>0.0%</td>
</tr>
<tr>
<td>3.6. Communication</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>3.7. Energy</td>
<td>591.94</td>
<td>3.8%</td>
</tr>
<tr>
<td>3.8. Environment</td>
<td>680.91</td>
<td>4.4%</td>
</tr>
<tr>
<td>3.9. Others</td>
<td>1,292.80</td>
<td>8.3%</td>
</tr>
<tr>
<td>4. Communities and Regions</td>
<td>81.88</td>
<td>0.5%</td>
</tr>
<tr>
<td>5. Miscellaneous</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
</tbody>
</table>

Tax expenditures of which the revenue forgone can be quantified meet essentially social and economic objectives. The most important social objectives concern welfare and the entry “Employment and labour” (revenue forgone amounting to 4.2 billion euro for both entries). As far as economic objectives are concerned, the entries “Savings and credit” and “Real estate” represent the major part of the cost of classified tax expenditures.
Graph 1

Revenue forgone resulting from tax expenditures
Year 2009

Graph 2

Tax expenditures
and provisions being part of the benchmark tax system
Year 2009
2. The Results by Tax

2.1 Personal Income Tax

Tax credits for replacement income constitute the most important entry regarding tax expenditures: 2,782 million euro for 2009 income.

They are followed by tax credits granted for long-term savings and real estate investments (2,529 million euro for 2009 income). This amount includes tax credits for life insurance premiums, capital repayments of mortgage loans, the deduction for sole own dwelling, 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.

Both entries alone account for 83% of quantifiable revenue forgone. Other important entries are the tax credit for energy-saving investments and the conversion thereof into a refundable tax credit for insulation work (592 million euro), the reimbursement by the employer of commuting expenses (302 million euro), the tax credit for performed services paid with service vouchers and the possible conversion thereof into a refundable tax credit (150 million euro), the tax credit for overtime pay (142 million euro), the deduction of expenses for child care (128 million euro), the refundable tax credit on low income from professional activities (114 million euro), the system of non-recurrent advantages linked to results (63 million euro) and the deduction of gifts (51 million euro).

The average annual growth of tax expenditures of which revenue forgone are quantifiable amounted to 8.1% over the period 2005-2009 and the contribution thereof in the revenue of the corresponding tax increased from 15.1% to 18%.

2.2 Corporate Income Tax

The coordination centres regime being phased out, the related revenue forgone amounts only to 66 million euro for 2009. The highest tax expenditure amounts concern now the refundable tax credit for research and development, of which the amount increased fivefold over four years (226 million euro for 2009 income) and the deduction for patent income (183 million euro in 2009). The spread taxation for capital gains, the fixed foreign tax credit and the investment deduction are also important entries, with respectively 164, 109 euro and 91 million in 2009.

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 expenditures (916 million euro in 2010), followed by the structural reduction which has been sharply growing since its introduction in 2007. This reduction generates indeed a revenue forgone amounting to about 890 million euro in 2010, in comparison to 470 million euro in 2009. The above-mentioned tax expenditures are followed by the various exemptions of payment granted for scientific research (519 million euro in 2010) and the exemption regarding overtime pay (114 million euro in 2010).

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 (amount not indexed) of income from savings deposits (455 million euro in 2010), the waiver of withholding tax on movable property in the context of pension savings schemes (24 million euro in 2010) and 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” (5) (36 million euro in 2010, see however the methodological note below concerning the underestimate of the amount).

2.5 Excise Duties

The highest tax expenditures relate to the granting of a reduced rate for heating oil (high-sulphur gas oil used as heating fuel). The loss amounts to 1,650 million euro in 2010 and accounts alone for almost 78% of the quantifiable revenue forgone. It is followed by the reduced rate for low-sulphur gas oil used as heating fuel (181 million euro in 2010) and reduced rates for gas oil and kerosene used for industrial and commercial applications (143 million euro in 2010).

2.6 Registration Duties

The decrease to 0% of the proportional duty linked to the introduction of the allowance for corporate equity is the only quantifiable revenue forgone: It amounts to 103 million euro in 2009. However, it is not considered as a tax expenditure because the reference rate amounts henceforth to 0%.

2.7 Value Added Tax

As mentioned above, all cases where reduced rates apply are now considered as tax expenditures. Entries for which the cost is separately determined include the 6%-reduced rate to the housing sector (1,891 million euro for 2010) and the exemptions in favour of notaries, lawyers and bailiffs. This last entry amounts to 205 million euro in 2010. The increase in the amount of the entry “Real estate” is attributable to the measures in the recovery plan (notably the application of the 6%-rate to a 50,000 euro bracket). Those measures are temporary.

The global cost of those reduced rates amounts to 8.5 billion euro, i.e. 97% of quantifiable VAT tax expenditures.

The contribution of VAT tax expenditures in the revenue of the corresponding tax increases in the last years from 30.6% in 2008 to 33.4% in 2009 and to 34.9% in 2010. This growth is linked to the sharp increase in tax expenditures regarding the 6%-rate in the housing sector and to the introduction of the 12%-rate in horeca-outlets in 2010.

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5 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* (personal income tax, section 15.1.)

The revenue forgone resulting from the tax exemption for family allowances is computed for the year 2009 according to the hypothesis that it grows in proportion to the total family allowances in the same year. For the year 2009, the revenue forgone amounts consequently to 1,747 million euro, i.e. 30.8% of the allowances paid over the same period.

*Exemptions for war pensions and allowances, and allowances granted to disabled ex-servicemen in peacetime* (personal income tax, sections 15.2. and 15.9.)

A global estimate was previously made simultaneously for pensions and allowances granted to victims of both world wars and for allowances granted to disabled ex-servicemen in peacetime.

The data communicated by the War Pensions Service made it possible to make a distinction 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, section 15.10.)

The method applied previously consisted in applying a marginal rate to the total annual insurance expenses for a permanent disability of the Occupational Diseases Fund, in order to estimate tax expenditures relating to this exemption.

The estimate has been corrected so that only annual allowances for a permanent disability level lower than or equal to 20% are taken into account.

*The exemption for employee equity participation and employee participation in enterprise profits* (personal income tax, section 15.16.) 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 therefore 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 Withholding Tax on Earned Income

The amounts for 2008 and 2009 relating to exemptions of payment of the withholding tax on earned income 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 increases in the exemption of payment of the withholding tax on earned income for the non-profit sector.

3.3 Withholding Tax on Movable Property

*Exemption from withholding tax on movable property on the part of dividends allocated or paid to public authorities or by an inter-municipal association to another one* (withholding tax on movable property, section 1.1.)
The amounts of 25.11 and 36.36 million euro for respectively 2009 and 2010 must be considered as underestimated, seeing that there is a lack of information in the database used (Belfirst) regarding return on capital and inter-municipal associations’ profits to be distributed.

*Exemption from withholding tax on movable property on the first bracket of savings deposits* (withholding tax on movable property, section 2.6.).

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 consisted in calculating interest on the basis of the quarterly variation of the outstanding amounts and of the series of interest rates (loyalty bonus included) published by the National Bank in its "Statistical Bulletin". A withholding tax on movable property of 15% was then levied on the interest.

As this series is no longer published, the series relating to the implicit interest rates on regulated savings deposits is used, calculated as quarterly averages (source: NBB).

### 3.4 Excise Duties

*Estimate of tax expenditures for energy products and electricity* (Excise duties, section A).

A new 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, 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 FAME content.

The same principle applies to *diesel* products which are also considered as specific products regardless of their sulphur or FAME content.

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

As far as 2008 and 2009 are concerned, the figures are estimates because all data relating to the volumes are not available. As a result, these volumes have been estimated on the basis of recorded revenue and distribution keys. For the other years mentioned in the inventory, i.e. 2006, 2007 and 2010, computations have been directly based on available data having regard to the volumes.
3.5 Registration Duties

Decrease to 0% of the proportional duty (Registration duties, mortgage duties and court fees, section A.1.).

The estimated tax expenditures are underestimated because they are only based on the accounts of non-financial corporations.

Specific exemptions from proportional duty (Registration duties, mortgage duties and court fees, section A.2.).

Most of the exemptions mentioned in section A.2. have been lapsed since the decrease to 0% of the proportional duty (i.e. since 1 January 2006). However, the legal provisions still exist in the Code of Registration Duties.

As a result, the table summarizing estimates does not mention any amount for 2007 and the following years concerning those specific exemptions. For 2006, the amounts are retained inasmuch as they could represent operation balances relating to 2005.

3.6 Value Added Tax

0%-rate for newspapers and weeklies (Value added tax, section A.1.).

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

Construction sector and horeca outlets

It should be noted that the estimates, on the basis of VAT returns, of tax expenditures relating to the construction sector and horeca outlets 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. Moreover, credit notes have not been taken into account.

6%-rate and 12%-rate in the construction sector (Value added tax, sections A.2. and A.3.)

The previous series has been revised for the years 2002 to 2010 on the basis of 6%-VAT returns and 12%-VAT returns concerning the construction sector and related sectors identified by means of the NACE classification.

The NACE codes used for estimates relating to the years 2002 to 2007 on the one hand, and concerning the years 2008 to 2010 on the other hand, are respectively the following: 20-26-28-45-70 (NACE classification 2002) and 16-23-25-41-42-43-68 (NACE classification 2008).

6%-rate and 12%-rate in horeca outlets (Value added tax, sections A.2. and A.3.)

These tax expenditures have been estimated on the basis of 6%-VAT returns and 12%-VAT returns concerning horeca outlets identified by means of the NACE classification. The NACE codes are respectively the following: 55 according to the NACE classification 2002 and 55 and 56 according to the current NACE classification (NACE 2008).