**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. The summary tables in xls format (³) specify whether, considering the above-mentioned definition, the provisions taken into account:

- must be considered as tax expenditures;
- must not be considered as tax expenditures;
- raise doubt about whether or not they must be considered as tax expenditures.

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

- the income year 2010 for the personal income tax (⁴);
- the income year 2010 for the corporate income tax (⁴);
- the year 2011 for the withholding tax on movable property and for the withholding tax on earned income;
- the year 2011 for indirect taxes.

The Inventory 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 mentioned hereafter on page 5 and following, 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.

³ The integral version of these summary tables is available in bilingual display (Dutch and French) on the website of the Research and Documentation Department of the Federal Public Service Finance: [http://www.docufin.fgov.be/intersalgen/thema/publicaties/Inventaris%20fiscale%20uitgaven.htm](http://www.docufin.fgov.be/intersalgen/thema/publicaties/Inventaris%20fiscale%20uitgaven.htm). These summary tables are also available in English but only for estimated tax expenditures.

⁴ Situation on 30 June 2012 for the year 2010.
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

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 marginal revenue loss resulting from an existing specific tax provision. The computation has been made therefore by tax expenditure.

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. 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. Another example of “mechanical” effect is the one resulting from an upper limit common to two tax credits. This is the case for life insurance premiums and capital repayments of mortgage loans not entitling to the deduction for sole own dwelling. An upper limit of 2,080 euro (2010 income) applies to all these expenditures entitling to a tax credit. The abolishment of one of both tax expenditures implies therefore that the share of the other tax expenditure exceeding previously the common upper limit, falls totally or partially under this upper limit. The result is that adding costs of tax expenditures for a specified 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 34,132 tax returns (SiRe 2010 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 22,700 tax returns (MISis 2011) 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 Inventory 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 xls-tables in bilingual display (Dutch and French), all figures are expressed in millions of euros. “p.m.” means that the amount is lower than 20,000 euro. “n.b./n.d.” (n.a.: not available) 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 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 not described in the Inventory. 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.

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 2010. The breakdown by Region is based on the taxpayer’s residence. The Region is no causal factor, but a categorisation factor.
Comments on the Results

1. Global Results

As mentioned in the introduction, the most recent estimates in this Inventory relate to income year 2010 for the personal income tax and the corporate income tax, and to the year 2011 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>Millions of euro</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Average annual growth rate since 2006</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>5,098.48</td>
<td>5,322.32</td>
<td>5,887.64</td>
<td>6,987.13</td>
<td>7,693.78</td>
<td>n.a.</td>
<td>10.8%</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>1,992.19</td>
<td>1,357.80</td>
<td>640.30</td>
<td>942.27</td>
<td>1,169.09</td>
<td>n.a.</td>
<td>-12.5%</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>495.88</td>
<td>948.48</td>
<td>1,380.55</td>
<td>1,899.73</td>
<td>2,564.55</td>
<td>2,717.71</td>
<td>40.5%</td>
</tr>
<tr>
<td>Withholding tax on movable property – final tax</td>
<td>522.30</td>
<td>501.18</td>
<td>619.96</td>
<td>548.13</td>
<td>515.74</td>
<td>542.95</td>
<td>0.8%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>2,249.33</td>
<td>1,632.75</td>
<td>1,852.68</td>
<td>1,814.04</td>
<td>2,148.70</td>
<td>2,080.25</td>
<td>-1.6%</td>
</tr>
<tr>
<td>Value added tax</td>
<td>6,416.84</td>
<td>7,145.17</td>
<td>7,279.72</td>
<td>7,971.43</td>
<td>8,899.26</td>
<td>9,038.63</td>
<td>7.1%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>16,775.02</td>
<td>16,907.71</td>
<td>17,660.85</td>
<td>20,162.72</td>
<td>22,991.12</td>
<td></td>
<td>8.2%</td>
</tr>
</tbody>
</table>

n.a. = not available
As far as tax expenditures are concerned, revenue forgone, that could be quantified, amount globally to 22,991.12 million euro in 2010, i.e. 6.5% of GDP. The major part of those revenue forgone results from two taxes, i.e. the personal income tax and the VAT.

Over the period 2006-2010, the quantifiable revenue forgone increased, all taxes included, by 8.2% 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 10.8% and 7.1% over the periods 2006-2010 and 2006-2011.

### TABLE 2

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

<table>
<thead>
<tr>
<th>Millions of euro</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>Average annual growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>18,998.74</td>
<td>18,790.06</td>
<td>19,561.57</td>
<td>22,048.20</td>
<td>22,299.42</td>
<td>n.a.</td>
<td>4.1%</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>21,946.32</td>
<td>22,871.79</td>
<td>-15,098.25</td>
<td>16,252.21</td>
<td>15,593.53</td>
<td>n.a.</td>
<td></td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-</td>
</tr>
<tr>
<td>Withholding tax on movable property – final tax</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-</td>
</tr>
<tr>
<td>Excise duties</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>76.70</td>
<td>72.61</td>
<td>72.81</td>
<td>-</td>
</tr>
<tr>
<td>Value added tax</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>0.00</td>
<td>-</td>
</tr>
<tr>
<td>TOTAL</td>
<td>40,945.06</td>
<td>41,661.85</td>
<td>4,463.32 (*)</td>
<td>38,377.11</td>
<td>37,965.56</td>
<td></td>
<td></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 4,463 million euro or 1.3% of GDP for the year 2008.

The quantifiable revenue forgone amounts globally to 37,965.56 million euro or 10.7% of GDP for the year 2010. Concerning taxes for which data are available, i.e. the personal income tax and the corporate income tax, tax deductions, exemptions and credits 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>Millions of euro</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>15.8%</td>
<td>15.7%</td>
<td>16.5%</td>
<td>19.6%</td>
<td>21.3%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>18.9%</td>
<td>12.0%</td>
<td>6.4%</td>
<td>10.7%</td>
<td>11.5%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>1.5%</td>
<td>2.7%</td>
<td>3.7%</td>
<td>5.1%</td>
<td>6.8%</td>
<td>6.9%</td>
</tr>
<tr>
<td>Withholding tax on movable property</td>
<td>23.1%</td>
<td>21.1%</td>
<td>23.0%</td>
<td>22.7%</td>
<td>21.7%</td>
<td>18.9%</td>
</tr>
<tr>
<td>- final tax</td>
<td>37.1%</td>
<td>25.9%</td>
<td>30.0%</td>
<td>30.1%</td>
<td>31.6%</td>
<td>32.2%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>28.5%</td>
<td>30.1%</td>
<td>30.3%</td>
<td>33.9%</td>
<td>35.5%</td>
<td>34.5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td>22.8%</td>
<td>21.8%</td>
<td>22.5%</td>
<td>26.4%</td>
<td>28.6%</td>
<td></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.

As regards the personal income tax, the withholding tax on earned income and the value added tax, a clear increase in the cost of tax expenditures has been observed when this cost is expressed in % of tax revenue. On the contrary, this ratio was stable in the last years for excise duties and it is decreasing for the withholding tax on movable property. As far as the corporate income tax is concerned, this ratio seems to rise again since the dip of 2008.

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
2010

<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>Sovereign functions</td>
<td>361.01</td>
<td>2.0%</td>
</tr>
<tr>
<td>Social expenditures</td>
<td>7,269.82</td>
<td>40.8%</td>
</tr>
<tr>
<td>Welfare</td>
<td>3,022.07</td>
<td>16.9%</td>
</tr>
<tr>
<td>Family</td>
<td>137.54</td>
<td>0.8%</td>
</tr>
<tr>
<td>Employment and labour</td>
<td>2,068.06</td>
<td>11.6%</td>
</tr>
<tr>
<td>Middle class</td>
<td>219.22</td>
<td>1.2%</td>
</tr>
<tr>
<td>Health</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Others</td>
<td>1,822.93</td>
<td>10.2%</td>
</tr>
<tr>
<td>Economic expenditures</td>
<td>10,100.93</td>
<td>56.6%</td>
</tr>
<tr>
<td>Savings and credit</td>
<td>2,319.10</td>
<td>13.0%</td>
</tr>
<tr>
<td>Real estate</td>
<td>2,957.73</td>
<td>16.6%</td>
</tr>
<tr>
<td>Business investment</td>
<td>472.60</td>
<td>2.6%</td>
</tr>
<tr>
<td>Research and development</td>
<td>1,100.77</td>
<td>6.2%</td>
</tr>
<tr>
<td>Agriculture</td>
<td>3.72</td>
<td>0.0%</td>
</tr>
<tr>
<td>Communication</td>
<td>0.00</td>
<td>0.0%</td>
</tr>
<tr>
<td>Energy and environment</td>
<td>958.23</td>
<td>5.4%</td>
</tr>
<tr>
<td>Others</td>
<td>2,288.80</td>
<td>12.8%</td>
</tr>
<tr>
<td>Communities and Regions</td>
<td>103.39</td>
<td>0.6%</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 5.1 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 2010

GRAPH 2
Tax expenditures and provisions being part of the benchmark tax system
Year 2010
2. The Results by Tax

2.1 Personal Income Tax

Tax credits for replacement income constitute the most important entry regarding tax expenditures: 3,004 million euro for 2010 income.

They are followed by tax credits granted for long-term savings and real estate investments (2,687 million euro for 2010 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 74% 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 some of those expenses (759 million euro), the reimbursement by the employer of commuting expenses (319 million euro), the tax credit for performances paid with service vouchers and the possible conversion thereof into a refundable tax credit (200 million euro), the tax credit for overtime pay (173 million euro), the deduction of expenses for child care (138 million euro), the refundable tax credit on low income from professional activities (119 million euro), the system of non-recurrent advantages linked to results (118 million euro) and the deduction of gifts (65 million euro).

The average annual growth of tax expenditures of which revenue forgone are quantifiable amounted to 10.8% over the period 2006-2010 and the contribution thereof in the revenue of the corresponding tax increased from 15.8% to 21.3%.

2.2 Corporate Income Tax

The coordination centres regime being phased out, the highest tax expenditure amounts concern now the refundable tax credit for research and development (309 million euro for 2010 income) and the deduction for patent income (219 million euro in 2010). The fixed foreign tax credit and the investment deduction are also important entries, with respectively 146 and 75 million in 2010.

2.3 Withholding Tax on Earned Income

The exemption of payment of the withholding tax on earned income for team work or night shifts and the structural reduction are by far the highest tax expenditures.

As far as team work or night shifts are concerned, the exemption of payment generates revenue forgone amounting to 979 million euro in 2011. The continuous increase in this tax expenditure results from the successive rises in the exemption rate (and subsidiarily from the extension of the scope to autonomous public undertakings).

The structural reduction generates revenue forgone amounting to almost 935 millions euro in 2011, i.e. twice the revenue forgone generated two years earlier (470 million euro). The increase to 1% on 1 January 2010 of the structural reduction (initially 0.25%) explains the sharp rise in the cost of this tax expenditure in the last years.

The above-mentioned tax expenditures are followed by the various exemptions of payment granted for scientific research (560 million euro in 2011). The extension of the categories of researchers or diplomas concerned, the successive increases and then the harmonisation to 75% in 2009 of the rate of the exemption of payment, explain the regular increases in this significant tax expenditure.

The exemption of payment of the withholding tax on earned income regarding overtime pay increases from 74 million euro in 2007 to 123 million euro in 2011 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.
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 (476 million euro in 2011), the waiver of withholding tax on movable property in the context of pension savings schemes (26 million euro in 2011) 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”\(^5\) (almost 41 million euro in 2011, see however the methodological note on page 13 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 1,502 million euro in 2011 and accounts alone for almost 72% of the quantifiable revenue forgone. It is followed by the reduced rates for gas oil and kerosene used for industrial and commercial applications (197 million euro in 2011) and the reduced rate for low-sulphur gas oil used as heating fuel (186 million euro in 2011). Moreover, the tax expenditure relating to the refund of professional diesel amounts to 81 million euro in 2011.

2.6 Registration Duties

The decrease to 0% in the proportional duty linked to the introduction of the allowance for corporate equity is the only quantifiable revenue forgone: it amounts to 50 million euro in 2010. 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 considered as tax expenditures. Entries for which the cost is separately determined include the 6%-reduced rate to the housing sector (1,845 million euro for 2011) and the exemptions in favour of notaries, lawyers and bailiffs. This last entry amounts to 217 million euro in 2011.

The global cost of those reduced rates amounts to 8.7 billion euro, i.e. 97% of quantifiable VAT tax expenditures.

The contribution of VAT tax expenditures in the revenue of the corresponding tax increased in the last years from 30.3% in 2008 to 34.5% in 2011. This growth is linked to the evolution of the taxable base 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 on the basis of the database of the micro-simulation model SIRe which is extended, if need be, to households not put on the tax roll. For the year 2010, the revenue forgone amounts consequently to 1,930 million euro, i.e. 33.5% of the allowances paid over the same period.

The estimated revenue forgone has been corrected for the years before 2009 in order to take into account a consistent estimation method for age supplements.

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 considering the total annual insurance expenses for a permanent disability of the Occupational Diseases Fund. A marginal rate was then applied to this total in order to estimate the tax expenditure 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

In comparison to the last Inventory, the amounts for the year 2010 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, a cooperation structure or an “association de projet” to another inter-municipal association, cooperation structure or “association de projet” (withholding tax on movable property, section 1.1.)

The amount of 41 million euro for the year 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 bioethanol 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 estimated on the basis of recorded revenue and distribution keys because all data relating to the volumes were not available.

For the other years mentioned in the Inventory, i.e. 2007, 2010 and 2011, computations have been directly based on available data relating 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%- and 12%-VAT returns concerning the construction sector and related sectors identified by means of the NACE classification.

The NACE codes used are the following:
- for estimates relating to the years 2002 to 2007: 20-26-28-45-70 (NACE classification 2002);

*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%- 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).