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. This Inventory focuses on those 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. In the previous Inventories, there was still some doubt as to whether the following provisions must be considered as tax expenditures: the exemption of the cadastral income of the dwelling house and the standard deduction of the dwelling house. Those provisions are now classified as tax expenditures.

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 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 there is no revenue forgone any more resulting from tax expenditures.

9. The VAT, based on the principle that each intermediary adds some value, organises the taxation of the supply of goods and services on the national territory. The exemptions 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. The summary tables (3) first present, per tax, the provisions which must be considered as tax expenditures according to the above-mentioned definition and then the provisions which must not be considered as tax expenditures, still according to the same definition, and are therefore part of the benchmark tax system.

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 2012 for the personal income tax (4);
- the income year 2012 for the corporate income tax (4);
- the year 2013 for the withholding tax on movable property and for the withholding tax on earned income;
- the year 2013 for indirect taxes.

The Inventory also mentions estimates relating to the previous four periods in order to give the evolution over five years. The summary tables are available in xls format on the website of the FPS Finance (5).

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.

---

3 The integral version of these summary tables is available in bilingual display (Dutch and French) on the website of the Federal Public Service Finance:
http://financien.belgium.be/nl/Statistieken_en_analysen/cijfers/inventaris_van_de_federale_fiscale_uittalen/. These summary tables are also available in English but only for estimated tax expenditures.

4 Situation on 30 June 2014 for income year 2012.

5 http://finance.belgium.be/en/about_fps/structure_and_services/staff_departments/expertise_and_strategic_support/research_and_information_department/
The summary tables in this Inventory show a new distribution of tax expenditures. These expenditures are indeed grouped together by tax according to the following purposes: public authorities, social measures, family, employment, investments-entrepreneurship, real estate, savings and credit, environment, R&D, specific sector provisions, former measures and a section “varia”. Table 4 refers to this classification system.

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

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

The classification is as follows:

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

14. The 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 2,200 euro (2012 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 33,206 tax returns (SIRe 2012 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 23,308 tax returns (MISis 2013) 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 summary tables, all figures are expressed in millions of euros. “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 which is mentioned in the annexes and which will be published as an addendum, 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 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, Directive 2011/64/EU 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 2012. 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 2012 for the personal income tax and the corporate income tax, and to the year 2013 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.

TABLE 1
Revenue forgone resulting from tax expenditures

Millions of euro

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>Average annual growth rate since 2008</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>6,226.78</td>
<td>7,350.34</td>
<td>8,022.68</td>
<td>8,911.57</td>
<td>9,702.78</td>
<td>n.a.</td>
<td>11.7%</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>938.49</td>
<td>1,223.29</td>
<td>1,451.41</td>
<td>1,084.27</td>
<td>1,404.63</td>
<td>n.a.</td>
<td>10.6% (*)</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>1,380.55</td>
<td>1,899.73</td>
<td>2,564.55</td>
<td>2,756.16</td>
<td>2,877.86</td>
<td>2,966.67</td>
<td>16.5%</td>
</tr>
<tr>
<td>Withholding tax on movable property – final tax</td>
<td>619.87</td>
<td>532.81</td>
<td>511.70</td>
<td>553.22</td>
<td>717.29</td>
<td>736.52</td>
<td>3.5%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>1,852.69</td>
<td>1,814.04</td>
<td>2,148.70</td>
<td>2,080.25</td>
<td>2,147.67</td>
<td>2,295.82</td>
<td>4.4%</td>
</tr>
<tr>
<td>Value added tax</td>
<td>7,391.88</td>
<td>8,090.22</td>
<td>9,089.76</td>
<td>8,957.41</td>
<td>8,798.82</td>
<td>8,883.25</td>
<td>3.7%</td>
</tr>
<tr>
<td>TOTAL</td>
<td>18,410.25</td>
<td>20,910.42</td>
<td>23,788.81</td>
<td>24,342.88</td>
<td>25,649.05</td>
<td></td>
<td>8.6%</td>
</tr>
</tbody>
</table>

(*) In comparison to the previous Inventory, it must be mentioned that, for the series concerning the corporate income tax, the estimate of the tax expenditure relating to the non-liability of inter-municipal associations to corporate income tax, has been added.
The quantifiable revenue forgone relating to the provisions recognized as tax expenditures amounts globally to 25,649 million euro in 2012, i.e. 6.8% of GDP. The major part of this revenue forgone results from two taxes, i.e. the personal income tax and the VAT.

Over the period 2008-2012, quantifiable revenue forgone increased, all taxes included, by 8.6% 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 corporate income tax, with an average annual growth rate amounting to respectively 11.7% and 10.6% over the period 2008-2012.

**TABLE 2**

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

<table>
<thead>
<tr>
<th>Millions of euro</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
</tr>
</thead>
<tbody>
<tr>
<td>Personal income tax</td>
<td>17.7%</td>
<td>21.2%</td>
<td>22.5%</td>
<td>24.0%</td>
<td>24.9%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Corporate income tax</td>
<td>9.4%</td>
<td>14.1%</td>
<td>14.5%</td>
<td>10%</td>
<td>12.8%</td>
<td>n.a.</td>
</tr>
<tr>
<td>Withholding tax on earned income</td>
<td>3.5%</td>
<td>4.8%</td>
<td>6.3%</td>
<td>6.4%</td>
<td>6.5%</td>
<td>6.5%</td>
</tr>
<tr>
<td>Withholding tax on movable property - final tax</td>
<td>23.8%</td>
<td>23.2%</td>
<td>21.1%</td>
<td>20.6%</td>
<td>21.6%</td>
<td>17.4%</td>
</tr>
<tr>
<td>Excise duties</td>
<td>27.3%</td>
<td>26.1%</td>
<td>29.4%</td>
<td>28.7%</td>
<td>29.3%</td>
<td>30.4%</td>
</tr>
<tr>
<td>Value added tax</td>
<td>30.7%</td>
<td>34.3%</td>
<td>36.1%</td>
<td>34.5%</td>
<td>32.8%</td>
<td>32.5%</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>23.4%</strong></td>
<td><strong>27.5%</strong></td>
<td><strong>29.5%</strong></td>
<td><strong>29.0%</strong></td>
<td><strong>29.3%</strong></td>
<td></td>
</tr>
</tbody>
</table>

Table 2 shows revenue forgone in % of the revenue of the corresponding tax. As far as the personal income tax and the corporate income tax are concerned, it is the global revenue of the tax year. As far as the other taxes are concerned, it is the revenue on ESA95 basis. Accordingly the denominator can be consistent with the numerator. The rates are computed on the revenue “exclusive tax expenditures”: they show therefore the increase in the present revenue that would result mechanically, ceteris paribus, from abolishing all tax expenditures of which the impact could be quantified.

As regards personal income tax and value added tax, when the cost of tax expenditures is expressed in % of tax revenue, a clear increase in this cost has been observed in the period. On the contrary, this ratio was stable in the last years for excise duties and the withholding tax on earned income and it is decreasing for the withholding tax on movable property during the last year. The decline in 2013 (from 21.6% to 17.4%) in the ratio relating to the withholding tax on income from movable property can be explained by the strong increase in the revenue from the withholding tax on income from movable property resulting from the transition to the standard rate of 25%.

Table 3 summarises the classification according to the objective pursued. These data are indicative as it is very difficult to determine the final economic incidence of some tax expenditures. The classification by objective includes revenue forgone regarding the personal income tax, the corporate income tax, the withholding tax on movable property (final tax), the withholding tax on earned income, excise duties and the value added tax.
<table>
<thead>
<tr>
<th>Public authorities / NPIs</th>
<th>607.59</th>
<th>2.4%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Social measures</td>
<td>12,109.04</td>
<td>47.2%</td>
</tr>
<tr>
<td>Family</td>
<td>139.80</td>
<td>0.5%</td>
</tr>
<tr>
<td>Employment</td>
<td>3,292.68</td>
<td>12.8%</td>
</tr>
<tr>
<td>Investments-entrepreneurship</td>
<td>343.97</td>
<td>1.3%</td>
</tr>
<tr>
<td>Real estate</td>
<td>4,039.54</td>
<td>15.7%</td>
</tr>
<tr>
<td>Savings and credit</td>
<td>1,560.05</td>
<td>6.1%</td>
</tr>
<tr>
<td>Environment</td>
<td>683.83</td>
<td>2.7%</td>
</tr>
<tr>
<td>Research and development</td>
<td>1,196.95</td>
<td>4.7%</td>
</tr>
<tr>
<td>Specific sector provisions</td>
<td>1,635.34</td>
<td>6.4%</td>
</tr>
<tr>
<td>Varia</td>
<td>45.81</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Tax expenditures of which revenue forgone can be quantified meet essentially social and economic objectives. The sole social measures represent almost 47.2% of the cost of tax expenditures. Incentives relating to real estate and the employment sector also represent important items, with respectively almost 16% and 13% of the quantifiable tax expenditures. The major part of the cost of the other classified tax expenditures is essentially located in the items “Savings and credit”, “R&D” and “Specific sector provisions”.

GRAPH 1
Revenue forgone resulting from tax expenditures
Year 2012

GRAPH 2
Tax expenditures in % of tax revenue
Year 2012
2. The Results by Tax

2.1 Personal Income Tax

Tax credits for replacement income constitute the most important entry regarding tax expenditures: 4,314 million euro for 2012 income. Most of those tax credits relate to pensions.

They are followed by tax credits granted for long-term savings and real estate investments (2,938 million euro for 2012 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 categories of tax credits alone account for almost 75% of quantifiable revenue forgone. Other important entries are the tax credit for energy-saving investments (670 million euro), the reimbursement by the employer of commuting expenses (351 million euro), the tax credit for performances paid with service vouchers or LEA-vouchers (258 million euro), the tax credit for overtime pay (193 million euro), the tax credit for expenses for child care (140 million euro), the refundable tax credit on low income from professional activities (125 million euro) and the tax credit for gifts (58 million euro).

The tax expenditure relating to the tax credit for energy-saving investments decreased strongly (from 1,150 to 670 million euro between 2011 and 2012) considering that only the tax credit for roof insulation and the provisions of the transitional system for expenses incurred in 2012 under an agreement signed before 28 November 2011, still apply as from tax year 2013.

The average annual growth of tax expenditures of which revenue forgone are quantifiable amounted to 11.7% over the period 2008-2012 while the contribution thereof in the revenue of the corresponding tax increased from 17.7% to 24.9%.

2.2 Corporate Income Tax

The highest tax expenditures include the refundable tax credit for research and development (352 million euro for 2012 income) and the deduction for patent income (193 million euro in 2012). The non-liability of inter-municipal associations to corporate income tax represents revenue forgone amounting to almost 440 million euro in 2012. The estimated revenue forgone has been added for the first time in this Inventory and the methodological appendix details the calculation method of the estimate. The investment deduction is also an important item with 85 million euro in 2012.

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 almost 1 billion euro in 2013. The successive rises in the exemption rate (and subsidiarily the extension of the scope to autonomous public undertakings) explain the high amount of this tax expenditure.

The structural reduction generates revenue forgone amounting to almost 987 million euro in 2013. 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 which was observed at that time.

The above-mentioned tax expenditures are followed by the various exemptions of payment granted for scientific research (696 million euro in 2013). The extension of the categories of researchers or diplomas concerned, the successive increases and then the harmonisation to 75% in 2009 and then to 80% on 1 July 2013 of the rate of the exemption of payment, explain the regular increases in this significant tax expenditure. The increase relates principally to researchers employed by private companies and having a master or equivalent: the increase in this item is around 14%.
The exemption of payment of the withholding tax on earned income regarding overtime pay increases from 87 million euro in 2009 to 130 million euro in 2013 – i.e. an average annual growth of almost 10.5% – 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 (630 million euro in 2013), the waiver of withholding tax on movable property in the context of pension savings schemes (35 million euro in 2013) 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”(6) (almost 72 million euro in 2013, see however the methodological note on page 12 concerning the underestimate of the amount).

2.5 Excise Duties

The highest tax expenditure relates to the granting of a reduced rate for heating oil (high-sulphur gas oil used as heating fuel). The loss amounts to 1,497 million euro in 2013 and accounts alone for almost 65% of the quantifiable revenue forgone. It is followed by the reduced rate for low-sulphur gas oil used as heating fuel (279 million euro in 2013) and the reduced rates for gas oil and kerosene used for industrial and commercial applications (208 million euro in 2013). Moreover, the tax expenditure relating to the partial refund of the special excise duties on professional diesel amounts to 192 million euro in 2013.

2.6 Value Added Tax

As mentioned above, all cases where reduced rates apply are considered as tax expenditures. Items for which the cost is separately determined include the 6% reduced rate to the housing sector (1,505 million euro for 2013) and the 12% rate for the Horeca sector. This last item amounts to 321 million euro in 2013.

The global cost of those reduced rates amounts to 8.6 billion euro, i.e. 97% of quantifiable VAT tax expenditures. This cost includes the one regarding the 0% rate estimated at 198 million euro. Irrespective of the impact of the reduced rates applicable to the construction sector and to the Horeca sector, there remains a balance of slightly more than 6 billion euro, principally relating to the so-called “basic necessities”.

The contribution of VAT tax expenditures in the revenue of the corresponding tax decreased slightly in the last two years from 34.3% in 2009 to 32.5% in 2013. This decline is notably due to the abolishment of the VAT exemption for notaries and bailiffs and to a fall in the tax expenditure relating to the 6% rate applicable to construction works.

3. Methodological Notes

3.1 Personal Income Tax

Exemption for family allowances
(personal income tax, benchmark tax system)

---

6 Cooperation structure with legal status created for a renewable period of six years by at least two municipalities in order to manage joint projects.
Revenue forgone resulting from the tax exemption for family allowances is computed on the basis of the database of the micro-simulation model SIRe. For the year 2012, revenue forgone amounts consequently to 2,071 million euro, i.e. 33.2% 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, benchmark tax system)

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

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

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

**The exemption for employee equity participation and employee participation in enterprise profits** (personal income tax, tax expenditures ‘Employment’) does not result in a loss but in a revenue gain. According to the benchmark tax system, the participation would be taxed in the personal income tax and deductible in the corporate income tax. Tax expenditures are 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 Corporate Income Tax

**Allowance for corporate equity**

(CIT, benchmark tax system)

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

A distinction is now made between the deduction of the year itself and the deduction resulting from withdrawals from the stock of deductions of previous years.

**Non-liability to corporate income tax of inter-municipal associations**

(CIT, tax expenditures ‘Public authorities or NPIs’)

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

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

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

An assessment of this tax expenditure is available as from 2011 income. Concerning the previous years, the data have been supplemented by applying an implicit tax rate for inter-municipal associations (calculated on the basis of the results for 2011 and 2012) to the pre-tax result of inter-municipal associations.

### 3.3 Withholding Tax on Earned Income

In comparison to the last published Inventory, the amounts relating to exemptions of payment of the withholding tax on earned income for the year 2012 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.

### 3.4 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”**

The amounts mentioned for this tax exemption are very likely underestimated, seeing that there is a lack of information in the database used (Belfirst – Bureau Van Dijk) regarding return on capital and inter-municipal associations’ profits to be distributed.

The estimate relating to the year 2012 was re-estimated on the basis of the last available Belfirst data.

**Waiver of collection of the withholding tax on income from movable property in the framework of pension savings scheme** (withholding tax on income from movable property, section 2.4.)

The 15% rate used to calculate the amount of the tax expenditure was increased to 21% for the year 2012 as a result of the change in tax rate which occurred during the movable income reform. The 21% rate used for calculating the amount of the tax expenditure for the year 2012, was then increased to 25% as a result of the harmonization to 25% of the rate of the withholding tax on income from movable property for income paid or allocated as from 1 January 2013.

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

In order to estimate the exemption of payment of the withholding tax on movable property on the first bracket of the income from savings deposits, the method used consists in calculating interest on the basis of the quarterly variation of the outstanding amounts and of the series of implicit interest rates on regulated savings deposits as quarterly averages (source: NBB). A withholding tax on movable property of 15% until 2011, 21% in 2012 and 25% in 2013 is then levied on the interest.

Considering that the series concerning the implicit interest rates has been recently revised from a methodological point of view, the tax expenditure relating to previous years has been re-estimated.
However, the tax expenditure is somewhat underestimated for the years 2012 and 2013. As from 1 January 2012, the exemption applied to the first bracket of interest from savings deposits has been extended to savings deposits made with banks established in the European Economic Area. The estimate made for the last two years does not include those savings deposits because of lack of available data.

3.5 **Excise Duties**

*Estimate of tax expenditures for energy products and electricity*

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 products, unblended low-sulphur diesel, unblended high-sulphur diesel, diesel blended with FAME, heavy fuel, kerosene used as motor fuel and LPG-methane.

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

The same principle applies to *diesel* products which are also considered as specific products.

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 the year 2009 is concerned, the figures are estimated on the basis of recorded revenue and distribution keys because all data relating to the volumes are not available.

For the other years mentioned in the Inventory, i.e. 2010 to 2013, computations have been directly based on available data relating to the volumes.

3.6 **Value Added Tax**

*0% rate for newspapers and weeklies*

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

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

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

Construction sector and Horeca sector

It should be noted that the estimates, on the basis of VAT returns, of tax expenditures relating to the construction sector and the Horeca sector start from the hypothesis of a limited part of double counting. Double counting only applies inasmuch as goods and services are not provided to the end consumer but to other intermediaries liable to VAT. Gross sales of as well the first as the second supplier are indeed mentioned in the tax return file. Moreover, credit notes have not been taken into account.

6% rate and 12% rate in the construction sector

As a reminder, in a previous edition of the Inventory, the previous series was 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: 16-23-25-41-42-43-68 (NACE classification 2008).

6% rate and 12% rate in the Horeca sector

(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 the Horeca sector identified by means of the NACE classification. The NACE codes are the following: 55 and 56 according to the current NACE classification (NACE 2008).

Exemption for building lands

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

As from 1 January 2011, only building lands not adjoining a building remain VAT exempted.