

**EXECUTIVE
BOARD
MEETING**

SM/21/161

Correction 1

September 8, 2021

To: Members of the Executive Board

From: The Secretary

Subject: **Belgium—Selected Issues**

Board Action: The attached corrections to SM/21/161 (9/1/21) have been provided by the staff:

Evident Ambiguity **Pages 37, 41, 42, 52, 54, 55, 58**

Factual Errors Not Affecting the Presentation of Staff's Analysis or Views **Page 27**

Questions: Mr. Horton, EUR (ext. 39850)
Mr. Vermeulen, EUR (ext. 30324)
Mr. Geis, EUR (ext. 39051)

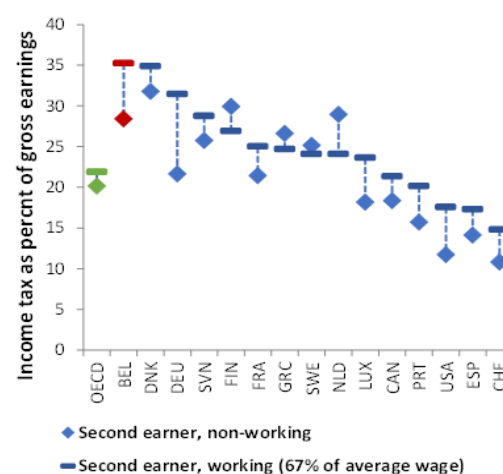
17. Further, there are likely significant welfare losses as the company-car scheme provides adverse mobility incentives.¹³ The fiscal treatment of employer-provided cars incentivizes acquisition and use of bigger, more valuable vehicles, with environmental spillovers. Recently, a political agreement was reached to implement tax measures to “green” the company-car fleet, with full tax incentives to be retained only for ~~zero~~lower-emission cars.¹⁴ However, the “greening” of the company-car fleet, while an important step and welcome from an environmental viewpoint, does not fully address the regime’s significant fiscal costs or the societal welfare losses (e.g., congestion).

C. Other Significant Issues Related to the PIT

18. The PIT features an elaborate system of allowances. There is a basic allowance (€9,050 in 2021) to which other allowances are added, all related to family situation. Different allowances apply depending on the number of children—one, two, three, four, or more are treated differently. There are also special allowances for other dependents, as well as handicapped spouses and single parents. Allowances are applied from the bottom up, with the lowest marginal bracket being depleted first. Even so, with narrow brackets in Belgium and with numerous and significant deductions, the allowances are more valuable to higher-income households, since the value of the tax break increases with the marginal tax rate. Conversion of allowances into tax credits at a fixed marginal tax rate would be progressivity-enhancing and fair, since the value would not depend on the taxpayer’s tax rate, and the €-value of the tax preference would be equalized.

19. The family taxation system, with a marital quotient (income-splitting system) creates disadvantages for secondary earners, typically females. Married persons/legal cohabitants are taxed separately on their individually-sourced income. Unlike joint taxation, in its pure form, the individual-based taxation is neutral with respect to the decision to marry since individuals do not face different tax schedules based on their marital status. Marriage bonuses are not created when the income of the secondary earner is significantly lower than that of the primary earner, nor do marriage penalties exist for two earners with similar earnings. While Belgians are taxed under the individual tax system, the marital quotient allows transfer of part of the taxable income from the primary earner with higher income to the secondary earner, when the income of the latter does not exceed 30 percent of the

Figure 8. Belgium: Tax Disincentives for Second Earners, Select OECD Countries, 2018



Note: Married family with 2 children is shown, with the primary earner income at 100 percent of the average wage.
Source: OECD (2020)

¹³ See, for example Laine and Steenberg (2017) or Laine and Steenberg (2016).

¹⁴ The deductibility of zero-emission company cars is expected to gradually decrease to 67.5 percent of the costs, starting 2031. Importantly, the cost-deductibility of company cars operating on fossil fuels will be fully phased out between 2025 and 2028.

capital—less than 10 percent—according to the Belgian Court of Auditors.⁵ Provisions for regularization have changed for the current round.

4. Apart from the loss of tax revenues, informality undermines social cohesion and growth. Low confidence in the fairness and effectiveness of the tax system contributes to a cycle and culture of non-compliance and unfair competition for businesses in the formal economy. Tax system complexity and high compliance costs for taxpayers and revenue authorities add to this.

5. A risk assessment of the shadow economy should be conducted. Understanding the drivers and consequences of informality is important for development of risk-mitigation strategies. The assessment should assess the type of risks (by tax types, sectors, geographical variation, taxpayer groups) and rank them to prioritize actions. Strategies should be linked to each identified risk with clearly-described action plans covering resources, targets, timelines, responsibilities, and reporting requirements.

6. Tax gaps should be estimated, using the IMF Fiscal Affairs Department (FAD) Revenue Administration Gap Analysis (RA-GAP) program. RA-GAP currently includes gap analysis methodologies for VAT, corporate income tax, and excises; a methodology for personal income tax gap analysis will be issued shortly.⁶ In addition to providing estimates of the size of tax gaps, the RA-GAP program has additional benefits, especially providing insights into drivers and behaviors behind tax gaps. From these, mitigation strategies may be devised, implemented, monitored, and reviewed.

B. Current Responses to Address the Tax Gap

7. A number of initiatives to fight against tax fraud are underway in Belgium. Two important initiatives are: (i) an action plan approved by the Council of Ministers in 2021 to implement a coordinated anti-fraud policy; and, (ii) a program to reduce the VAT GAP to the level of neighboring countries, with introduction of real-time monitoring of invoices and receipts.

8. The authorities see scope for ambitious yields from anti-fraud actions and enhanced compliance, up to €1 billion or 0.2 percent of GDP by 2024. A multi-agency anti-fraud action plan has been developed that seeks to enhance compliance, including through improved coordination and cooperation across agencies (tax, social security, employment, law enforcement). The plan is built around four clusters—collaboration, coordination, data exchange and compliance—and includes 29 action areas. The plan will be made more concrete going forward, including close monitoring of yields. Annual anti-fraud action plans will be developed each year to underpin yields targeted through 2024. Next year's action plan will focus on international issues.

9. The government's September 2020 coalition agreement includes the objective of reducing the VAT gap to the level of neighboring countries. This effort is at an early stage, and will be made more concrete in the coming months. It is being coordinated by the cabinet of the Minister of Finance. Seven working groups within ~~Federal Public Service (FPS)-SPF Finance~~ have been established for this effort covering: (i) e-invoicing and e-reporting; (ii) training of VAT staff; (iii) VAT credits; (iv) Benelux VAT-

⁵ Belgian Court of Auditors, February 2021, Permanent Fiscal regularizations.

⁶ These are covered by IMF Technical Notes available on IMF.ORG.

21. Early plans to develop a TPC in Belgium should be advanced. An important first step was enactment on January 1, 2020 of a new “Enforced Collection Code,” a welcome harmonization of enforced-collection rules for most federal taxes.¹¹ In addition to recovery aspects, other aspects of tax law appear likely to undergo such harmonization in the coming years. This is welcome, and implementation should proceed, recognizing that harmonizing and bundling just one aspect of tax legislation into a new, separate legislation may lead to greater fragmentation and ambiguity. This would be avoided by including the new Enforced Collection Code in a new TPC once enacted.

Access to Financial Information

22. Belgium has recently taken important steps towards greater transparency of information. The common reporting standard for automatic exchange of tax information has been introduced, along with an ultimate-beneficial ownership registry established as part of the European Anti-Money Laundering-Directive, in line with OECD worldwide exchange of information principles. The registry is publicly accessible. Financial institutions are required to share information on their clients and their respective accounts once a year. This information is centralized in a database of the National Bank of Belgium (NBB).

23. Notwithstanding this progress, access to bank information remains constrained. The NBB is entrusted by law with maintaining a central point of contact (CPC) to which registrants must communicate a list of clients, identify bank accounts owned or co-owned, and list the types of contracts these clients have concluded with the registrants.¹² [FPS Finance](#) [SPF Finance](#) may contact the CPC for matters subject to taxation, only where there are indications of tax fraud, or where taxes must be recovered. This means that tax officials may not request information from financial institutions for tax purposes as a matter of routine. After the “Panama Papers” leaks, a special commission was established by the federal parliament to investigate how to tackle large-scale tax avoidance and tax fraud more efficiently. Inquiries performed by the commission made clear that bank secrecy hampers the fight against tax fraud. One recommendation was to use the centralized NBB database as a dynamic platform with accessible, real-time information.

24. The use of third-party financial data is one of the most effective tools for tax administrations to identify non-compliance. The tax code should include provisions to encourage voluntary compliance and to grant compliance and enforcement tools to the tax administration. One of the most important is a provision that requires banks and other financial institutions, contractors, and employers to regularly submit information to the tax administration for matching and compliance programs.

25. In many countries, there is systematic, periodic, and fully-automated “bulk” data provision of bank balance information to the tax authorities. This enables tax administrations to match third-party financial data of taxpayers to its master files to facilitate compliance inquiries for omissions and discrepancies (e.g. FICOBA program in France).

¹¹ Code of the amicable and enforced recovery of tax and non-tax claims, entered in force on January 1, 2020.

¹² Website ‘National Bank of Belgium’, central point of contact.

26. FPS Finance ~~SPF-Finance~~ has open access only to banking information on behalf of other jurisdictions and not on behalf of the Belgian government, and it cannot make domestic use of information exchanged with other jurisdictions. This leads to an unusual situation in which the Belgian tax authority has more information on Belgian taxpayers with accounts abroad than on domestic account-holders. Reforms are needed in this area.

E. Implementing a High-Wealth Individual Compliance Program

27. Compliance risks of high-wealth individuals (HWI) are a concern in many countries. The need to focus on the HWI sector has been highlighted by the IMF and the OECD.¹³ Failure to address compliance risks for this small but highly-visible group of taxpayers can lead to erosion of trust in the fairness of tax administration, which will tend to reduce compliance of the broader taxpayer population. HWIs present substantial compliance risks, stemming from the complexity of their financial affairs and use of tax-planning strategies. Understanding the international aspects of HWI affairs is an integral part of addressing HWI compliance risks.

28. Many revenue administrations have developed specialized programs to monitor HWIs and encourage compliance.¹⁴ Examples are set out in Box 2.

Box 2. Examples of High-Wealth Individual Compliance Programs

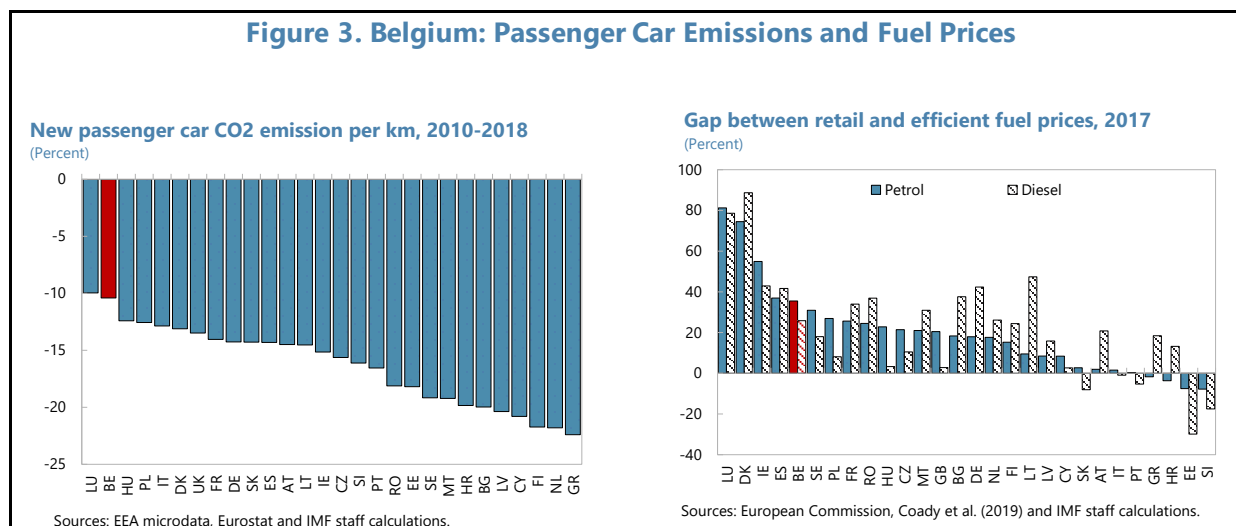
- A dedicated HWI unit, often within a large taxpayers' office, with highly-skilled officers undertaking risk analysis, audit, and debt collection.
- Expanded information reporting covering entities and assets owned by HWIs, and mandatory disclosure of certain types of transactions.
- Measures to encourage voluntary compliance, such as pre-filing agreements, a rulings regime, and carefully-designed voluntary-disclosure schemes for past non-compliance.
- Comprehensive checks—risk reviews, audits, and prosecutions for the most egregious offenders—applied according to perceived risk level.
- Withholding taxes—e.g., on rental payments in India—have helped reach HWIs.
- Tightening laws, e.g., to prevent tax-free private use of company assets, use of companies and trusts to hold income at lower tax rates, and diversion of income to preferential beneficiaries.

Source: *Current Challenges in Revenue Administration: Improving Tax Compliance*, IMF, April 2015.

¹³ Implementing a High-Wealth Individual Compliance Program, IMF, 2017; IMF, Fiscal Monitor 2021, A Fair Shot; Engaging with High Net Worth Individuals on Tax Compliance, OECD, 2009.

¹⁴ The following countries reported having a HWI unit to the ISORA database in 2019: Australia, Cameroon, Chile, Cook Islands, Ghana, Hungary, India, Ireland, Jamaica, Kenya, Kiribati, Mexico, Netherlands, New Zealand, Norway, Portugal, Republic of North Macedonia, South Africa, Spain, Uganda, and United Kingdom. The U.S. and France have HWI compliance-improvement programs in place.

had an estimated worth of about 1 percent of GDP in 2019, in large part constituting support for passenger vehicles and commercial road haulage.¹⁰



7. The efficiency of Belgium’s building stock is low with high reliance on carbon-emitting fuels for space heating an important aggravating element. In line with other EU countries, structures falling short of advanced energy-performance standards are among the most common in Belgium, with residences falling into the bottom “D” and “E” or below categories accounting for a share of 76 percent in Wallonia and 65 percent in Flanders.¹¹ Space heating, which represents around three-quarters of energy consumption of Belgian households, is predominately based on solid fuels, such as coal, or on oil or gas, thereby exacerbating the environmental costs of an inefficient building stock. Residential GHG emissions are only modestly taxed in comparison to other EU economies. Specifically, extensive tax coverage is largely offset by the low price charged for each ton of CO₂ released, while subsidies for fuel use, frequently motivated by social aspects, amounted to roughly 1 percent of GDP in 2019.¹²

¹⁰ See [FPS Finance SPF Finances](#) (2021).

¹¹ Various EU Member States classify their building stock according to energy-performance certificates, ranking structures from A (most efficient) to G (least), as part of their efforts to implement the EU’s Energy Performance of Buildings Directive and Energy Efficiency Directive.

¹² See [FPS Finance SPF Finances](#) (2021).

C. Converging Towards Belgium's Climate Targets

9. Belgium makes no use of explicit carbon taxation, and fossil-fuel consumption is encouraged by rather moderate taxation and widespread subsidies.¹⁴ Different from some EU countries, such as Denmark or Finland, Belgium has not devised a national carbon-pricing scheme that goes beyond the reach of the ETS. At the same time, excises on road-vehicle fuels are above the median in EU economies, but duties on other major sources of emissions, like fossil fuels used in industry or the building sector are comparatively modest or even non-existent. Furthermore, support for fossil fuels, primarily taking the form of tax expenditures connected with, e.g., fuel cards or excise duty exemptions for intermediate fuel use and kerosene, is among the highest in the EU, with benefits mainly accruing to petroleum products and housing.¹⁵ As a result, a phase-out of subsidies and a consideration of explicit carbon taxation, either by expanding the ETS or by adopting a national scheme, may go some way to lower the climate impact of Belgium's remaining high-emitting sectors.

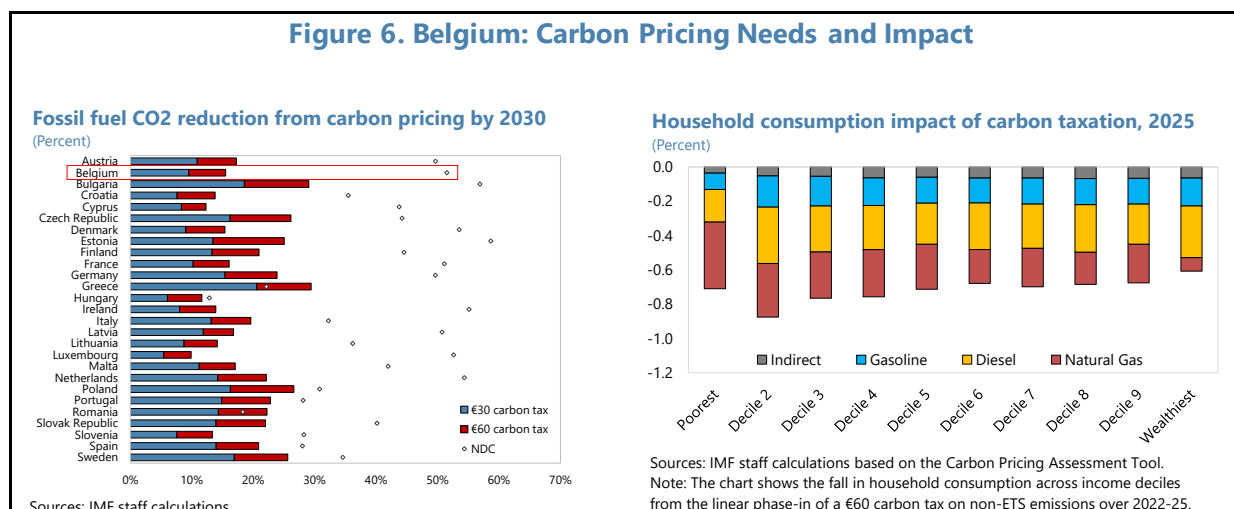
10. Reaching EU climate goals for 2030 implies steep rises in carbon taxation, calling for a multi-pronged approach, including to cushion negative economic and social effects. To achieve the EU's revised nationally-determined contribution (NDC) of cutting GHG emissions by 55 percent below 1990 levels by 2030 with the help of a carbon tax on fossil fuels, Belgium would need to charge a rate going substantially above €60 per ton of CO₂, the midpoint estimate of carbon costs in 2020 and the low-end estimate for 2030. However, even such a conservative levy is likely to already imply significant economic losses. Simulating a linear phase-in of a carbon price of €60 per ton of CO over 2022–25 indicates notable declines in household-consumption spending with the relative impact skewed towards poorer segments of the population, due to the larger share of inelastic energy demand, e.g. for heating or transport, in their expenditure baskets.¹⁶ Consequently, carbon taxation will potentially need to be accompanied by other policies to achieve the desired reductions in GHG emissions. In addition, measures will have to be taken to avoid the burden of climate mitigation falling disproportionately onto more vulnerable groups.

¹⁴ Explicit carbon taxes link tax bills to the amount of carbon emitted, thereby discouraging the use of dirtier fuel sources for obtaining a specific amount of energy. Excise duties are usually levied at a rate that does not differentiate according to the carbon intensity of the energy source.

¹⁵ [FPS Finance SPF Finances](#) (2021) values Belgium's fossil fuel subsidies at 2.8 percent of GDP in 2019, a substantially higher level than an estimate based on OECD figures (0.6 percent of GDP). Still, the chart shows OECD data to ensure comparability with other EU countries.

¹⁶ The simulation abstracts from the distribution of carbon tax proceeds back to households, for instance in the form of cash transfers or lower labor taxation, and from using them for other purposes, such as public spending or investment. For details about the simulation approach, see IMF (2019). Burggraeve et al. (2020) obtain quantitatively similar results by employing a medium-sized neo-Keynesian model to simulate the economic impact of a carbon price of €50 per ton of CO₂ that rises by 4 percent per year.

Figure 6. Belgium: Carbon Pricing Needs and Impact



D. Conclusions and Policy Recommendations

11. Despite notable GHG emission reductions in recent decades, stronger efforts will be needed to prevent the most damaging climate change effects and meet ambitious EU targets. Belgium will likely miss its climate goals under existing EU frameworks. Even-more-aspiring targets under forthcoming EU Green Deal legislation will only heighten the challenge. Under current mitigation policies, GHG emissions are on track to increase by 2030, largely driven by a rise in ETS emissions, also as a result of nuclear power phase-out in 2025, and an only gradual decline of non-ETS emissions. Thus, the government rightly sees the EU Green Deal as an opportunity to refocus and redouble efforts. This will involve revision and strengthening of policies laid out in CONCER-NCC (2019a), which was found lacking by the European Commission¹⁷ across multiple dimensions, in order to firmly put Belgium's GHG emissions onto the desired downward trajectory.

12. Policies to encourage a shift away from fossil fuel consumption in transport, building and industry will require a combination of carbon pricing, taxation, and regulation. In comparison to other EU economies, most fossil fuel use in Belgium appears rather lightly taxed and benefits from non-negligible subsidization. Therefore, the recent compilation of an inventory of fossil-fuel subsidies by the authorities is welcome and should be followed-up by the adoption of measures for their gradual phase-out by the end of 2021 as planned.¹⁸ Likewise, taxation reform incentivizing procurement of emissions-neutral company cars is a promising start, as their sizable share of the vehicle fleet and generally-shorter replacement cycle offer scope for rapid progress.

13. Still, more, and accelerated, efforts are needed, calling for a policy mix to discourage carbon-emitting activities. With the federal government principally in favor of pricing GHG emissions in an effective and predictable manner, widening emissions trading to sectors not currently included in the ETS, as also proposed by the EU, should be contemplated, potentially by developing a national scheme, as recently done by Germany. Besides, devising and communicating a

¹⁷ See EC (2020b).

¹⁸ See [FPS Finance SPF Finances](#) (2021).

Community's greenhouse gas emission reduction commitments up to 2020", Official Journal of the European Union, 5 June 2009.

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