

The uncharted no-man's land of tax expenditures

An analysis of the size and distributional effects of tax expenditures on Belgian occupational pensions for employees

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Content

- Introduction
- Basic concepts and methods
- Relevance
- Research objectives

Introduction

- Public – private shift
- Financial sustainability of public pensions
 - Societal challenges: e.g. ageing population
 - Increasing costs
 - Need for budgetary restraint
- Importance of private pensions is growing
 - Solution of international organizations
- Reducing the importance of public pensions – increasing the importance of private pensions

Introduction

- Belgium
 - Public pension is unaffordable
 - Private pensions are growing alternatives
 - Boost in occupational pension build-up
 - Fiscally stimulating occupational pensions
 - Beneficial income tax and social contributions
- Remarkable?
 - Attention for the growing costs of Belgian public pensions
 - Costs of Belgian occupational pensions are overlooked
 - Cf. tax expenditures: public cost of beneficial tax treatment

Basic concepts and methods

Tax expenditures

- Central idea:
 - Tax exemptions, tax reliefs and other tax advantages are a form of government spending
 - Reductions in government revenue
 - Revenue foregone or loss in government income
 - Tax expenditures: government expenditure due to granting beneficial tax treatment with the aim of achieving an objective
 - Cf. stimulating occupational pension build-up

Basic concepts and methods

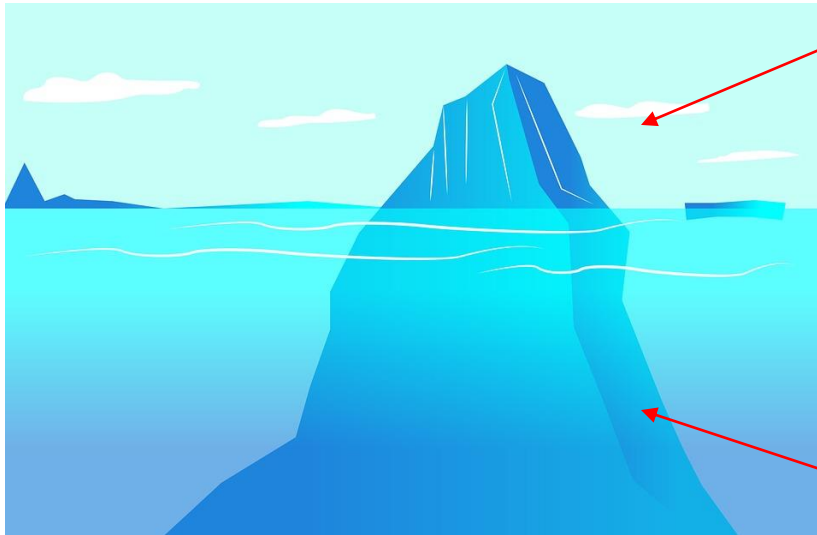
Central idea is far from new

- Richard Titmuss' (1955) 'fiscal welfare'
 - Social, fiscal and occupational welfare: the social division in welfare
 - Welfare = welfare redistribution
 - Tax incentives provided by the government to stimulate private welfare policies (cf. social objective)
 - Equally major elements of welfare - growing alternatives

Titmuss, 1958, p.42

Basic concepts and methods

- 'Iceberg phenomenon' with social welfare being the visible form whereas fiscal and occupational welfare remain hidden under the surface (Titmuss, 1968, p.192)



Extensively studied
Social welfare or direct
government spending on
welfare benefits

Occupational and fiscal
welfare or indirect
government spending
Not studied

Basic concepts and methods

Central idea is far from new

- Stanley Surrey's (1968) concept 'tax expenditures'

“[Tax expenditures are] government expenditures made through the tax system ... with the aim of achieving an objective” (Surrey, 1968, p. 323)

- Tax advantages with any purpose or objective, not specifically targeted at welfare
- More commonly used terminology

Basic concepts and methods

Founding fathers: plea for systematic attention on tax expenditures:

- Measuring the size of tax expenditures
- Distributional effects
 - Titmuss:
 - Poor to the rich
 - Performances (employment and income) rather than needs
 - Surrey:
 - Inequality: beneficial to those with higher incomes

Today: plea for more systematic attention on tax expenditures

Basic concepts and methods

- Lessons?
 - Studying social security benefits: include social and tax expenditures
 - Direct and indirect government spending are equally important and often serve similar (welfare) objectives
 - Cf. income at old age → public and occupational pensions
 - Need to systematically study (1) the size and (2) distributional effects of tax expenditures
- Studying tax expenditures → challenging
 - Tax benchmark for measuring

Basic concepts and methods

Tax benchmark

- Most important but controversial concept
- Standard tax system or tax norm
- Estimating tax expenditures:
 - Need for comparison with tax benchmark
 - ‘Beneficial tax treatment’ implies comparison
- Difficulty identifying the ‘normal tax system’
 - Technical and historical complexity of the tax system
 - Defined differently across countries
 - Choice

Basic concepts and methods

- How does the benchmark work?
 - Occupational pensions initiated by the employer or sector (modified EET)
 - Benchmark: earnings, saved and invested at a certain interest rate over a period of time equaling pension build-up (TTE)
 - hypothetical situation of a pay rise

Phases	Occupational pensions	Benchmark
Contributions	Modified E	T
Accrued Income	E	T
Outcome	T	E

Basic concepts and methods

- Occupational pension vs. benchmark

Phases	Occupational pensions	Benchmark: wage
Contributions	Limited social contributions	Social contributions
	/	Income tax
Accrued income	/	Withholding tax on accumulated income
Withdrawal	Taxed at a 10% rate	/

Basic concepts and methods

- Tax expenditures for occupational pension (EET):
 - $TE_{EET} = RFC + RFAI - RCW$
 - Revenue foregone contributions + Revenue foregone accrued income – Revenue collected from taxing the pension income

Phases	Occupational pensions	Benchmark: wage
Contributions	Limited social contributions	Social contributions
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Accrued income	/	Withholding tax on accumulated income
Withdrawal	Taxed at a 10% rate	/

Total loss in government income =
 Loss in income
 +
 Loss in income
 -
 Income collected

Relevance?

- Challenging but relevant
 - Growing importance of fiscal welfare
 - Belgian occupational pensions are expanding
 - Decreasing the public pension
 - Lack of studies in Belgium
 - Lack of reliable data
 - Organized by private pension organizations

Research objectives

- To systematically study (1) the size and (2) distributional effects of tax expenditures on occupational pensions
 - RQ1: What is the size of tax expenditures on Belgian occupational pensions?
 - RQ2: Who benefits (more) from tax expenditures on Belgian occupational pensions and why?
- Newly available administrative data
 - Collaboration of private pension funds

Thank you!