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### **The redistributive character of taxes and social security contributions**

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The allocation of incomes resulting from the remuneration of labour and capital in the production process is influenced by factors for which individuals are not personally responsible, such as their talents or their social background. Moreover, certain social factors such as illness, old age or unemployment, prevent a substantial proportion of the population from participating in the labour market and thus securing an income. There is a social consensus endorsing partial compensation for the impact of these factors on the distribution of income and pursuit of the objective of what could be called a fairer distribution of income. The government can adjust the allocation of income in various ways, e.g. by means of taxes and social security contributions. This article aims to explain the redistributive character of taxes and social security contributions in Belgium, and to demonstrate the mechanisms behind that redistribution.

Compared to the other EU-15 countries, Belgium has less primary income inequality. Moreover, there is a relatively high degree of redistribution in Belgium, so that – after taxes, social benefits and social security contributions – the disparities are among the smallest in Europe. As in other countries, this income redistribution is effected primarily via social benefits. However, redistribution via taxation on income also plays a very important role in Belgium.

The most strongly redistributive tax in Belgium is personal income tax, which is highly progressive. That is due principally to the structure of the tax scales and the amount of the tax allowance, and to the reduction in taxes on replacement incomes. The influence of social security contributions on the redistribution of income is relatively slight, although it is greater than in the majority of the EU-15 countries.

VAT, which accounts for the bulk of indirect taxes, is slightly progressive in relation to expenditure, owing to the rate structure whereby the reduced rate and the zero rate apply to goods and services which are consumed to a proportionally greater extent by low-income households. Conversely, in relation to disposable income, VAT is degressive. That is because the savings ratio increases with each income decile. Excise duties are degressive, in relation to both household spending and household income.

This study also illustrates the fact that tax measures are seldom neutral in their effect on income redistribution. However, this effect is clearly dependent on the practical aspects of this type of measures. The personal income tax reform approved in 2001 and the introduction of the work bonus increased the progressive effect of the compulsory levies on earned income and reduced the average rate of the levy. While the impact of increases in excise duties on fuel is more mixed in terms of redistribution, the recent increases in excise duty on tobacco have accentuated the degressive character of excise duties.