



## Forecasting tax expenditures:

Withholding tax

31 January 2024

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# 1 INTRODUCTION

This paper presents the forecasts for Federal tax expenditures related to the withholding tax on capital income. Tax expenditures are subsidies distributed by way of deviating from the tax regime. The revenue forgone is known two years (t-2) after the date of actual expenditure. To bridge this gap we forecast three years (t+1) of the revenue forgone related to exemptions of the withholding tax. These are interest income on saving deposits, and dividend income and pension savings (see table below). The data for the independent variables is collected from the short-term forecasts of the [Federal Planning Bureau](#).

*Revenue forgone in mil. €*

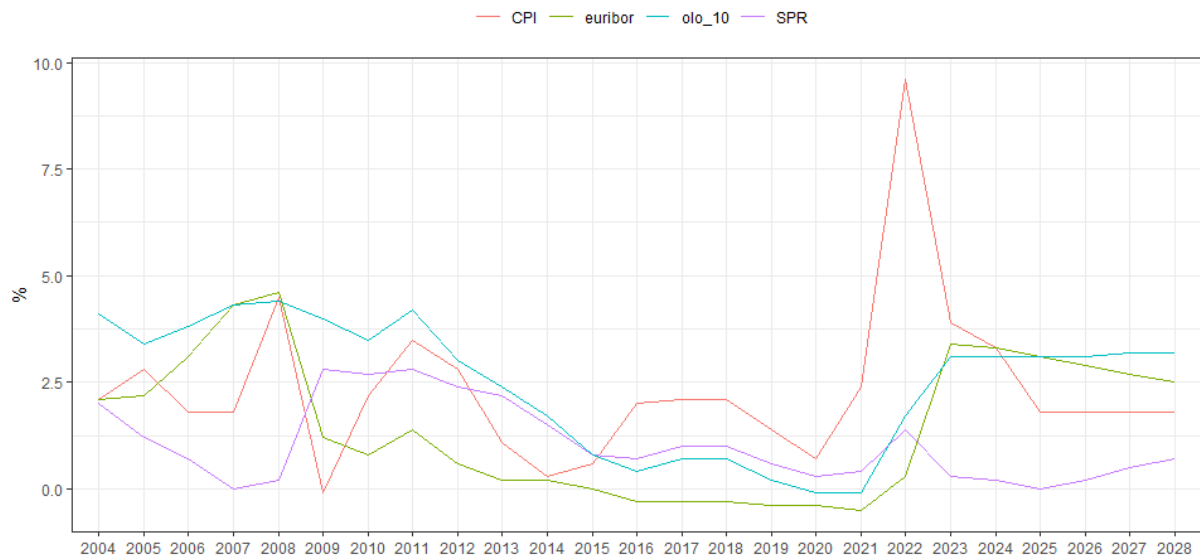
<b>Year</b>	<b>Saving deposits</b>	<b>Dividends</b>	<b>Pension saving</b>	<b>Total</b>	<b>% Δ</b>
2012	643,47	<na>	34,33	677,80	33,98
2013	632,52	<na>	41,38	673,90	-0,58
2014	496,26	<na>	39,41	535,67	-20,51
2015	295,45	<na>	39,17	334,62	-37,53
2016	144,58	<na>	35,71	180,29	-46,12
2017	104,72	<na>	34,36	139,08	-22,86
2018	99,05	41,90	31,99	172,94	24,35
2019	95,92	57,19	30,17	183,28	5,98
2020	92,76	54,40	27,52	174,68	-4,69
2021	92,98	67,99	24,73	185,70	6,31
2022	91,53	<na>	25,18	181,37	-2,33

## 2 FORECASTS

### 2.1 SAVING ACCOUNTS

The estimated revenue forgone of the exemption on the first tranche of capital income from saving accounts is based on saving deposits, interest rates, and the deviation from the benchmark withholding tax rate. This model attempts to predict the annual growth rate in saving deposits. The spread between the short and long term interest rates (SPR), gross disposable household income (RDI), the proportion of saving (SQ), the consumer price index (CPI), the withholding rate (rate) are used as independent variables. The unemployment rate (UR) was dropped from the final model.

Figure 1 Interest rates, spread and inflation



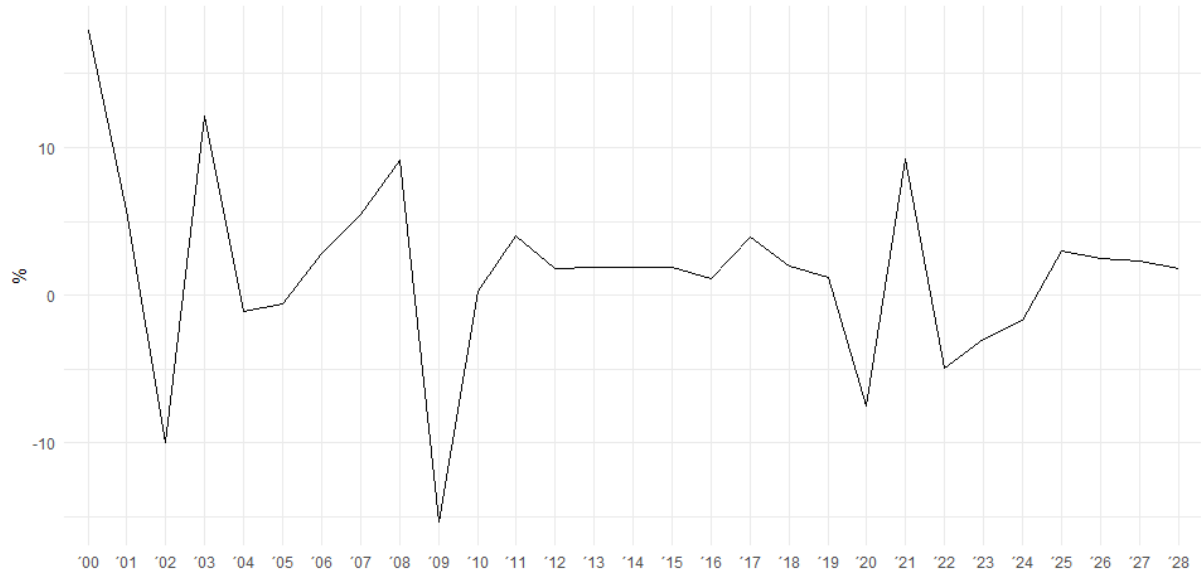
	Dependent variable:	
	SA	
	(1)	(2)
RDI	-3.894*** (1.142)	-3.975*** (1.003)
SPR	-3.611** (1.454)	-3.525** (1.319)
SQ	2.806** (1.141)	2.700*** (0.921)
UR	0.303 (1.814)	
rate	0.422 (0.377)	0.377 (0.255)
CPI	-1.263 (0.813)	-1.358** (0.561)
Constant	-40.192 (35.750)	-35.110* (18.245)
Observations	23	23
R <sup>2</sup>	0.613	0.612
Adjusted R <sup>2</sup>	0.468	0.498
Residual Std. Error	4.808 (df = 16)	4.668 (df = 17)
F Statistic	4.226*** (df = 6; 16)	5.373*** (df = 5; 17)

Note: \* n<0.1; \*\* n<0.05; \*\*\* n<0.01

## 2.2 DIVIDENDS

The revenue forgone for the partial exemption of the withholding tax on certain dividend income is assumed to correlate with the **annual growth rate in distributed profits**.

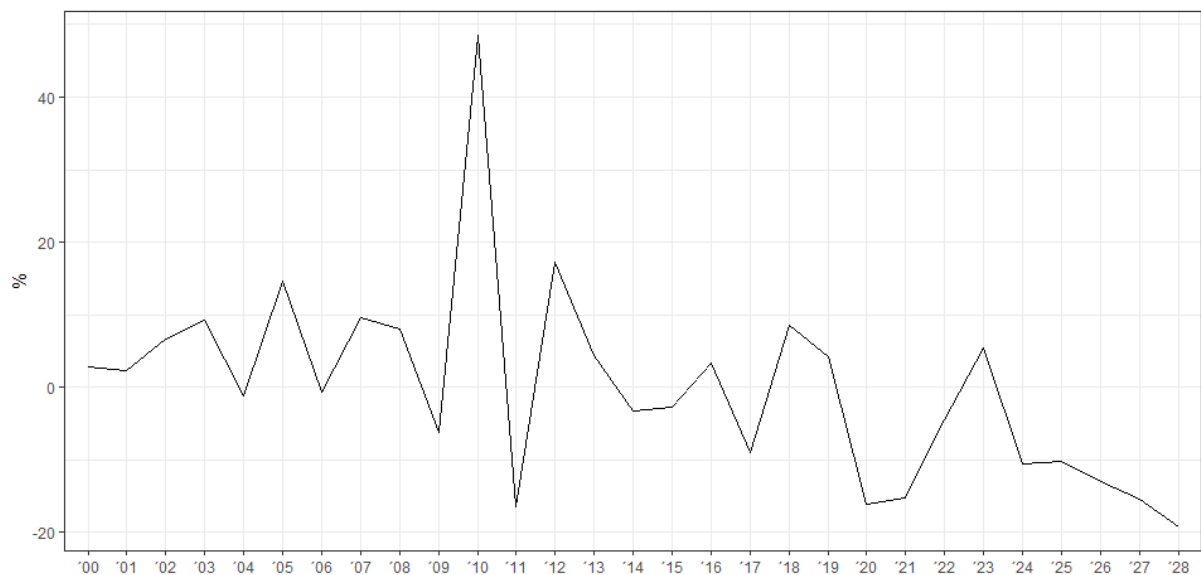
Figure 2 Annual growth rate of distributed profits



## 2.3 PENSION SAVING

The revenue forgone for the reduced taxation of private pension income is assumed to correlate with the **annual growth rate of contributions to private pension accounts**.

Figure 3 Annual growth rate of private pension accounts



### 3 RESULTS

The table below presents the forecasted tax expenditures. The final results are also published in the [Federal Inventory of Tax Expenditures](#).

*Forecasted revenue forgone in mil. €*

<b>Year</b>	<b>Saving deposits</b>	<b>Dividends</b>	<b>Pension saving</b>	<b>Total</b>	<b>% Δ</b>
2020	92,76	54,40	27,52	174,68	-4,69
2021	92,98	67,99	24,73	185,70	6,31
2022	91,53	64,66	25,18	181,37	-2,33
2023	80,05	62,72	26,56	169,33	-6,64
2024	79,66	61,65	23,73	165,04	-2,53
2025	78,60	63,50	21,29	163,39	-1,00

## 4 REFERENCES

Hlavac M (2022). *stargazer: Well-Formatted Regression and Summary Statistics Tables*. Social Policy Institute, Bratislava, Slovakia. R package version 5.2.3, <https://CRAN.R-project.org/package=stargazer>.