TAX EXPENDITURES COUNTRY REPORT

The Netherlands

Rocus van Opstal

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List of abbreviations

CPB	Netherlands Bureau for Economic Policy Analysis
CIT	Corporate Income Tax
EITC	Earned Income Tax Credit
EU	European Union
EUR/€	Euro
EV	Electric Vehicle
GDP	Gross Domestic Product
GTC	General Tax Credit
MoF	Ministry of Finance
OECD	Organisation for Economic Co-operation and Development
PIT	Personal Income Tax
RBV	Government Budget Regulations
RPE	Periodic Evaluations Regulations
SME	Small and Medium Size Enterprises
TE	Tax Expenditure
USD/$	United States Dollar
VAT	Value Added Tax

Executive summary

Tax expenditures (TEs) in the Netherlands represent a significant portion of government spending, amounting to 15% of GDP in 2022. These provisions include deviations from the standard tax base, rates, and special credits across various taxes, such as Personal Income Tax (PIT), Corporate Income Tax (CIT), Value Added Tax (VAT), and others.

Transparency: The country's TE report is published every year in the Budget Memorandum. It contains extensive data on more than 100 TE provisions, with information on revenue forgone, results from evaluations and policy measures.

Complex landscape: The definition of TEs and their classification remain ambiguous, leading to challenges in assessment and reform.

Evaluation challenges: The Netherlands have an evaluation framework where on average every 5 years a TE provision is evaluated. This framework is published every year in the Budget Memorandum. Some evaluations of TE provisions suffer from data limitations, vague objectives, and a lack of conclusive findings, hindering effective policymaking.

Fiscal sustainability: With TE provisions playing a significant role in government spending, reform efforts are crucial for achieving greater fiscal sustainability and economic development.

Policy recommendations: Caution is required when introducing new TEs or revising existing ones. Evaluations should prioritise quality over quantity. Additional recommendations emphasize the need to clarify objectives, improve monitoring and evaluation processes, and address implementation complexity.

"With TE provisions playing a significant role in government spending, reform efforts are crucial for achieving greater fiscal sustainability and economic development.

The Netherlands at a glance (2022)

Population

17.8

(in million)

GDP

€ 958.5

$ 1’009.4
(in billion)

GDP/capita

€ 54.2

$ 57.0
(in thousands)

36.8%

(of GDP)
Total taxes and contributions

36.7%

(of GDP)
Central government spending

51%

(of GDP)
Public debt

TAX STRUCTURE

Total revenue comprises taxes and mandatory contributions to social security and health care. The most important direct taxes are the wage tax/PIT and the CIT. Indirect taxes comprise VAT, excise duties, vehicle taxes and energy taxes. Social security contributions are levied on wage income, and mandatory health care contributions are paid by all households.

Net revenue from taxes, 2022

Tax type	**Billion €**	**Billion $**	**% Total**
Direct taxes	170.2	179.2	48.3%
Indirect taxes	104.6	110.1	29.7%
Social security contributions	29.3	30.9	8.3%
Health care contributions	47.8	50.3	13.6%
Other	0.4	0.4	0.1%
Total taxes and contributions	**352.3**	**371.0**	**100.0%**

Tax expenditures key figures (2022)

Annual
reporting since
1998

119
Reported provisions

€ 144.1
$ 151.3
Total revenue forgone (in billion)

15.0%
Total TEs as % of GDP

40.9%
Total TEs as % total revenue

41.0%
Total TEs as % public spending

Source: Redonda et al. (2024), Ministerie van Financiën (2023c) and CPB (2023)

The Netherlands publishes a TE report in two annexes of the Budget Memorandum; in 2023 these are Annexes 9 and 10. Annex 9 contains the main tables and analysis. Annex 10 gives more detailed information on each TE provision. Data on the use of several TE provisions only becomes available after some years. CIT is an example since it can take up to three or four years until a tax return is finalized. For these TE provisions, revenue forgone for 2022 is still an estimate in the TE report published in 2023, taking into account all available information at that moment on finalized and provisional tax returns.

The total revenue forgone from TE provisions is estimated to be 144 billion euros in 2022, equivalent to 15% of GDP. This figure is significantly higher than in other countries, but is mainly due to the size of the general tax credit (GTC), the earned income tax credit (EITC) and the treatment of pension savings. That is why the Ministry of Finance (Ministerie van Financiën) also reports the figures leaving out these three TE provisions. In that case, the fiscal cost of TEs in the Netherlands amounts to 8% of GDP, significantly closer to the global average which lies slightly below 4% of GDP (von Haldenwang et al., 2023).

Key governance and institutional features

Rules for introducing new TE provisions, and monitoring and evaluating existing provisions stem from the Government Accounting Law and the subsequent Government Budget Regulations (RBV) as well as the Periodic Evaluations Regulations (RPE).

New provisions

New provisions, or changes to existing provisions, must be included in the tax law. Most times the government sends a proposal to change the tax law to parliament. This proposal is then first discussed in the Standing Committee for Finance and subsequently debated in parliament. Parliament can also propose amendments to the government proposal, which in case of a majority vote are included in the tax law.

The RPE requires that, when using TE provisions as a policy instrument, the expected take up, the expected effects and the budgetary consequences must be stated when a proposal is submitted to change the law. Also, according to the RPE, an assessment framework must be specified.

The assessment framework for TE provisions provides an ex-ante appraisal of the policy tool and consists of answering seven questions:

(1) Is there a clear problem statement? What does the problem consist of and how does it relate to the policy area of the department concerned? Why is the government the appropriate party to solve this problem?

(2) Is the policy goal clearly and unambiguously formulated? The so-called SMART criteria are considered here: Specific, Measurable, Achievable, Relevant and Time-bound.

(3) Can it be demonstrated why a financial intervention is necessary? Can it be shown why non-financial alternatives are inferior, e.g. sanctions or a public information campaign?

(4) Why is a subsidy preferable over a levy? Is it made clear why it is better to subsidize the desirable behaviour rather than taxing the undesirable behaviour?

(5) Can it be demonstrated why a tax subsidy is preferred over a direct subsidy? Does the trade-off between tax and non-tax expenditures address, at a minimum, the following criteria:

- Target group outreach
- Feasibility, verifiability, and enforceability
- Cost-effectiveness
- Simplicity
- Fit into tax structure
- Fiscal manageability

(6) Is the evaluation of the measure adequately ensured? What effects will be evaluated, what are key elements of a future evaluation?

(7) Is a sunset clause in place? If that is the case, the provision expires automatically unless a political decision is taken to let it continue. Such a decision should preferably depend on the outcome of an evaluation, which must be available in time.

These seven questions must, in principle, all be answered positively in order to introduce the TE provision under consideration. The completed assessment framework must be sent to parliament with the bill that introduces the new TE provision or changes an existing one. As in most cases changes to the Tax Law are proposed, the Ministry of Finance sends the assessment framework to parliament, in coordination with the line ministry involved.

The estimate of the fiscal cost of a new TE or the modification of an existing provision is made by the Tax Policy Division of the Ministry of Finance. The independent CPB Netherlands Bureau for Economic Policy Analysis[1] checks whether the estimate is unbiased and establishes the degree of uncertainty. The findings of the CPB are sent to parliament together with the bill.

Monitoring

The RBV requires that TE provisions are reported in the budget of the responsible ministry. The budget figures are listed in the "TE provisions" annex to the Budget Memorandum. These figures are prepared by the Tax Policy Division of the Ministry of Finance. Data come from the Tax Authority and from other sources such as Statistics Netherlands.

[1] CPB Netherlands Bureau for Economic Policy Analysis is an independent research institute that provides policy relevant economic analyses and projections. The economic projections are used by all ministries. The independent position is laid down in the official Protocol for the Policy Assessment Agencies (Aanwijzingen voor de Planbureaus). The protocol states that Cabinet Ministers will not issue instructions regarding the research methods to be used by the policy assessment agencies, nor will they do so regarding the content of the reports published by these agencies. The name CPB (Central Planning Bureau) stems from the foundation of the bureau in 1945.

Tax expenditure report

The TE report is included in the annual budget memorandum for the next fiscal year[2]. This memorandum is sent to parliament on the third Tuesday in September. The 2023 TE report is about 50 pages long and includes the following:

- Overview of the fiscal costs (revenue forgone) of all TE provisions with revenue forgone above 5 million euros (corresponding to 119 provisions in the 2023 report) for the past four years, as well as projections of the fiscal cost for the current year and the next one.[3]
- Overview of new policies related to TE provisions.
- Overview of key (endogenous) developments of TE provisions. The endogenous development shows how the fiscal cost of a TE provision develops without the influence of policy measures. Examples from the past include strong increases in provisions that stimulate Electric Vehicles (EVs), due to much faster technological developments than expected and a strong decrease of mortgage interest deductions due to declining interest rates (and an increase after interest rates rose again).
- Summaries of recently performed evaluations and information on evaluations planned for the coming four years.
- Detailed information on all TE provisions:
    - Description of the provision.
    - Policy objective.
    - Responsible line ministry.
    - Past and planned evaluations.
    - Rating on effectiveness (positive – uncertain – negative).
    - Rating on efficiency (positive – uncertain – negative).
    - Policy response to latest evaluation.

3/104

The Netherlands ranks as the third most transparent country out of 104 assessed countries in the Global Tax Expenditures Transparency Index (GTETI).

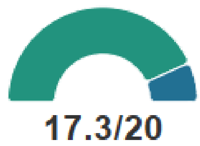
[2] The latest report is in Ministerie van Financiën (2023c), Annex 9 and 10. The most recent estimates of revenue forgone (excluding projections) are for the fiscal year of 2022, and those figures are used in the remainder of the report.
[3] In the open-data section of the MoF, historical data from 2004 on are published, see Ministerie van Financiën (2023d).

73.4/100

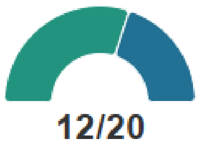
The overall GTETI score

Tax expenditures transparency

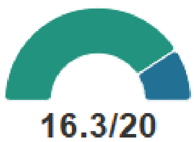
The quality and scope of TE reporting in the Netherlands is reflected in the Global Tax Expenditures Transparency Index **(GTETI)**, where it ranks **3 out of 104** assessed countries.



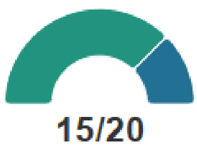
Dimension 1 – **Public Availability**
This dimension captures the extent to which TE reports are made available to the public. It considers the regularity of reporting, the timeliness of data, the online accessibility, and the reader-friendliness of the document.



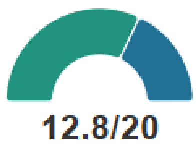
Dimension 2 – **Institutional Framework**
This dimension evaluates how well the institutional framework promotes transparency and accountability in TE policymaking. It assesses the legal basis for TE reporting, the requirement to submit reports to parliament, the assignment of the responsibility to report to a specific public authority, and the consideration of TEs in the country's budget cycle and medium-term strategy.



Dimension 3 – **Methodology and Scope**
This dimension analyses the extent to which TE reports cover all TEs available at the national level, the level of specification of the reference benchmark system against which TEs are assessed, and the method(s) used to calculate revenue forgone.



Dimension 4 – **Descriptive TE Data**
This dimension assesses the information available in the report to identify and explain the nature of different TEs. It evaluates the extent to which the report specifies the policy objective(s) of TEs. Also, it analyses the availability of TE data regarding the type of TE (tax credit, deduction etc.), beneficiaries, time frames, and the legal basis under which TEs are granted.



Dimension 5 – **TE Assessments**
This dimension analyses the extent to which revenue forgone estimates are provided in the report, including levels of (dis)aggregation and the time span of revenue forgone estimates (previous years and forecasts). Further, it assesses the availability of information on TE evaluations, considering both the existence of ex-ante and ex-post evaluation frameworks, and the scope of publicly available evaluations.

Source: Redonda et al. (2023)

Evaluation framework

Ex-ante: in the case of a substantial legislative proposal with a budgetary impact above 20 million euro, the RBV prescribes an evaluation paragraph in the bill. This paragraph must include what the purpose of the measure is, what the target variables are, what the expected effects are, and how it is ensured that the measure can be evaluated over a certain number of years. This could include, for example, data collection before the measure takes effect so that a baseline measurement is available.

Ex-post: the RPE requires a periodic evaluation (four to seven years) of all provisions listed in the "TE provisions" annex to the Budget Memorandum. Article 2 of the RPE describes the requirements of the evaluation:

a. The evaluation makes clear what policies are being examined and what the objectives of those policies are.
b. The evaluation aims to answer the question to what extent the policy is effective and/or efficient.
c. The conclusions of the study are supported by underlying findings.
d. The research method used in the study is valid and reliable, the report provides insight into the evaluation method used and the (im)possibilities of determining the effectiveness and/or efficiency of the policy in question.
e. At least one non-governmental, independent expert shall be involved to provide an opinion on the validity and reliability of the findings of the study conducted. The term independent expert refers to someone who has substantive expertise but does not have responsibility for the policy being scrutinized.

The research report should include a newly completed Assessment Framework, even if that was done in the past when the TE was introduced. After all, with the passage of time, the answers may turn out differently.

Oversight: The Court of Audit

The statutory task of the Court of Audit (Algemene Rekenkamer) is to audit the revenues and expenditures of the central government. It checks whether the Dutch central government spends public funds economically, efficiently and effectively, and reports once a year to parliament on Accountability Day (the third Wednesday in May).

The audits for the years 2020 and 2021 found areas for improvement regarding the use of TEs. The Court of Audit concluded that TE provisions are used too often and too easily. It found that the assessment framework was insufficiently applied and its monitoring inadequate. Moreover, the obligation to evaluate was not always met. Partly as a result of this critique from the Court of Audit, the current (outgoing) Cabinet has tightened the rules for TEs in the Budget Rules.

Budget Rules

The government, a coalition of several political parties, reaches agreement on budgetary policy when it takes office. This agreement is written down in the Budget Rules, which must be followed during the cabinet period. The rules are designed to ensure that fiscal policy is implemented responsibly during the entire term of office (four years).

The Budget Rules of the current administration include a clear policy reaction to ineffective or inefficient TE provisions. The basic principle is that in case of a negative evaluation, a TE must be abolished, cut back or converted into a direct subsidy. Converting a TE into a subsidy increases the financial incentive for the line ministry since direct subsidies fall under the expenditure cap. Hence, any overrun needs to be compensated by restricting the subsidy or by cutting back other expenses of the line ministry. In contrast, TE overruns are part of the automatic stabilisation on the revenue side of the budget, so overruns don't have to be compensated by the line ministry.

If there is political will to maintain a negatively evaluated TE, the minister who is responsible for that particular provision must explain the rationale behind the decision in the Council of Ministers.

Whereas this mechanism is likely to have an impact at taming the use of TEs, there is still an important level of discretion regarding how the cabinet and, subsequently, parliament deal with negatively evaluated TEs (van Opstal, 2023).

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Benchmark

TE provisions are defined as deviations from the benchmark tax system. This includes deviations from the standard tax base, deviations from the standard tax rate, or changes in the tax period benefitting the taxpayer. Nevertheless, the definition of what should be attributed to the benchmark tax system and what should be marked as a TE provision is not always unambiguous.

Personal income tax (PIT)

Most PIT related TE provisions are deviations from the standard tax base. The progressive tax rate schedule is seen as the baseline, since one of the objectives of the PIT is to reduce income inequality after taxes. TEs granted through the PIT system relate mainly to three categories – the *General Tax Credit (GTC)*, *deductions for certain special expenditures*, and *contributions for income insurance schemes*.

The **GTC** amounts to 3,070 euros for an annual income up to 22,660 euros (2023). For incomes between 22,661 and 73,031 euros (falling within tax brackets two and three), the credit is gradually phased out. This reduction happens at a rate of 6.1% of the amount exceeding 22,660 euros until the credit reaches zero for incomes over 73,031 euros. For example, with an income of 45,000 euros, the tax credit would be reduced by 1,362 euros, resulting in a credit of 1,708 euros (3,070 euros – 6.1% of [45,000 euros - 22,660 euros]). This scheme used to be part of the baseline tax system, particularly because the phase-out rate increases the effective tax rate in brackets two and three by 6.1%. Hence, the GTC has not been classified as a TE provision until the Court of Audit included the credit in the table of TE provisions in 2017 (Algemene Rekenkamer, 2017). The reason put forward by the Court of Audit was that the GTC is one of the instruments used to influence disposable income and income distribution and has a negative first-order effect on tax revenues.[4]

Deductions for certain special expenditures like those for educational expenses or health care costs can be subtracted from taxable income.

For **income insurance** schemes, like retirement savings and disability insurance, the contributions made are deductible from PIT, and the benefits received in later years are taxable. Usually, the fiscal costs of the deductions outweigh the revenues from taxing the benefits because the contributions are on average deducted at a higher tax rate than the benefit is taxed. Moreover, pension savings are exempt from taxation on income from wealth.

Corporate income tax (CIT)

Profits up to 200,000 euros are taxed at a reduced CIT rate: 19.0% (in 2023) compared to the standard CIT rate of 25.8% that applies to profits above 200,000 euro. Until 2020, this tax schedule was seen as the baseline schedule, just as the PIT schedule mentioned before. Yet, as from 2021, the 19.0% reduced rate is seen as a TE provision. The reason is that changes to both the reduced rate as well as the limit of the first bracket have been regularly used in recent years as instruments to support small and medium-sized enterprises (SMEs) in one year, and to raise money in another year. Table 1 shows CIT rates since 2018.

[4] One could argue that this also holds for the standard tax rates of the different income brackets, which are seen as the baseline. Nevertheless, the Ministry of Finance followed the Court of Audit and included the GTC in the list of TE provisions from 2017 onwards.

Table 1. CIT tax rate schedule

	2018	2019	2020	2021	2022	2023
Profit limit first bracket (EUR)	200,000	200,000	200,000	245,000	395,000	200,000
Lower rate	20.0%	19.0%	16.5%	15.0%	15.0%	19.0%
Base rate	25.0%	25.0%	25.0%	25.0%	25.8%	25.8%

Source: Ministerie van Financiën (2020) and Ministerie van Financiën (2023b)

Value added tax (VAT)

The standard VAT rate is 21.0%. A reduced rate of 9% applies to a subset of goods and services, such as food items. These reduced rates are classified as TE provisions since they deviate from the standard rate. Moreover, some goods and services, such as medical services, are exempt from VAT. This is often mandatory because of European regulations or international treaties and such provisions are therefore not included in the TE report.

Car purchase tax (BPM)

Consumers buying a new car pay a purchase tax. Until 2009, the tax base was the list price. In 2010, the tax base changed to CO2-emission of the car, to promote more environmentally friendly cars. The tax schedule in 2023 consists of a fixed rate of 400 euros plus a highly progressive rate: 2 euros per gr/km in the first bracket up to 82 gr/km, rising to 488 euros per gr/km in the highest bracket which starts at 165 gr/km.

Electric vehicles (EVs) are exempt from the fixed rate, which is classified as a TE and hence included in the TE report. Yet, since EVs do not emit CO2, they are not taxed at all when purchased. The modification of the definition of the tax base made in 2010 triggered a reduction of tax revenue but is not classified as a TE.[5] The Court of Audit was very critical in a report that measured total subsidies on EVs (Algemene Rekenkamer, 2020). They concluded that TE provisions for EVs were a relatively expensive instrument to reduce CO2 emissions.

Energy taxes

The schedules for both tax on electricity as well as tax on gas are highly regressive: the rate is highest in the first two brackets for electricity and the first bracket for natural gas, which covers all households. The rate falls with higher energy consumption, being lowest for the largest firms, see Table 2. This is seen as a subsidy for firms, as there is no ground for a regressive approach to these taxes. It also goes against goals related to sustainability and environmental protection since it encourages higher energy consumption. In the TE report published in 2023 it was decided that the first bracket was the benchmark, and the higher brackets were in fact TE provisions and the fiscal costs were reported.

[5] The fact that the switch to CO2 would lead to a decline in tax revenues in the future due to technological improvements was well known, and part of the policy discussion, see Floor and van't Riet (2016).

Table 2. Tax schedule electricity and natural gas consumption, 2023

Electricity (kWh)	Euro/kWh	Gas (m3)	Euro (m3)
0 - 10,000	0.03679	0 - 170,000	0.36322
10,000 - 50,000	0.04361	170,000 - 1 mln	0.06632
50,000 - 10 mln	0.01189	1 mln - 10 mln	0.02417
More than 10 mln	0.00057	more than 10 mln	0.01298

Source: Ministerie van Financiën (2023b)

As a consequence, the reduction of the tax rate for electricity in the first bracket in 2022[6], to partly compensate households for the high energy prices, led to a significant reduction in the fiscal costs presented for the higher brackets. Because the base rate in the first bracket was reduced, the difference with the rates in the higher brackets became smaller and thereby fiscal costs reported decreased. Even though the higher tax rates themselves did not change.

Table 3. Energy tax provisions, revenue forgone (billion euro)

	2019	2020	2021	2022	2023
Regressive tax schedule electricity	6.8	6.3	6.5	2.7	6.6
Regressive tax schedule gas	2.3	2.8	3.0	2.3	2.4

Source: Ministerie van Financiën (2023c)

Property transfer tax

The property transfer tax is a tax levied on the purchase of real estate property. The rate for commercial buildings and for private investors in houses is 10.4% in 2023. For citizens buying a house they will be living in, the rate is only 2%. As the high rate is seen as the baseline, the low rate for households is a TE provision. The estimated fiscal costs of this provision rose sharply when the high rate for firms and private investors was raised from 6% in 2020 to 8% in 2021 and to 10.4% in 2023.

[6] With this reduction, the tax rate in the first bracket became lower than the tax rate in the second bracket in just this year.

Revenue forgone

The revenue forgone method estimates the loss in revenue incurred by the government because of a TE provision. This involves comparing the amount of revenues actually collected with the amount of revenues that would be collected in the absence of the provision (under the benchmark tax system), and without considering taxpayers' behavioural responses.

In Table 4 the revenue forgone of TE provisions is presented by type of tax. Total revenue forgone stemming from all TE provisions amounted to 144 billion euros in 2022. PIT-related TEs account for 86 billion euro. The bulk is due to five large and specific provisions: the GTC, the Earned Income Tax Credit (EITC) for workers earning up to 110,000 euro, which benefits more than 90% of workers; and three provisions on pension savings that benefit 75% of all workers.

Excluding these five TE provisions, total revenue forgone amounted to 68 billion euro, accounting for 7.9% of GDP, more in line with the OECD average (4.75% in 2021, the latest year with data for 30 or more countries in the GTED).

Table 4. Revenue forgone of TEs by tax type, 2022

Type of Tax	No. of Provisions	Billion €	Billion $	% GDP	% Total revenue	% Total expenditures
Wage and Personal Income Tax	36	86.5	90.8	9.0%	24.6%	24.6%
Corporate Income Tax	24	16.1	16.9	1.7%	4.6%	4.6%
Wealth Tax	9	2.8	2.9	0.3%	0.8%	0.8%
VAT and Consumption Tax	10	14.3	15.0	1.5%	4.0%	4.1%
Car Taxes	15	3.0	3.1	0.3%	0.8%	0.8%
Energy Taxes	13	12.2	12.8	1.3%	3.5%	3.5%
Insurance Tax	7	4.3	4.5	0.5%	1.2%	1.2%
Property Transaction tax	5	5.0	5.2	0.5%	1.4%	1.4%
Total	**119**	**144.1**	**151.3**	**15.0%**	**40.9%**	**41.0%**
Total excl. GTC/EITC/pensions	**114**	**75.8**	**79.6**	**7.9%**	**21.5%**	**21.5%**

Source: Ministerie van Financiën (2023c)

The largest TE provisions, as listed in Table 5, account for 73% of total revenue forgone. Some of these provisions are already discussed above. The other ones are discussed below.

> *"Total revenue forgone stemming from all TE provisions amounted to 144 billion euros in 2022. PIT-related TEs account for 86 billion euros.*

Table 5. Revenue forgone of the largest TE provisions, 2022

TE provision	Billion €	Billion $	% Total revenue forgone
Earned Income Tax Credit (EITC)	25.6	26.9	17.8%
General Tax Credit (GTC)	23.8	25.0	16.5%
Pensions[7]	18.9	19.8	13.1%
VAT food	8.3	8.7	5.7%
Deduction mortgage interest payments	6.7	7.0	4.6%
Tax credit electricity connection	5.8	6.0	4.0%
CIT reduced rate	4.9	5.1	3.4%
Tax credit for the elderly	4.5	4.7	3.1%
Property transfer tax reduced rates	4.3	4.6	3.0%
Regressive electricity tax rates	2.7	2.9	1.9%
Total	**105.4**	**110.7**	**73.2%**

Source: Ministerie van Financiën (2023c)

The **Earned Income Tax Credit (EITC)** is a tax credit for workers, both employees and self-employed. The fiscal cost of this tax credit amounts to 26.1 billion euros in 2022, 2.7% of GDP. The EITC was long seen as a good instrument to stimulate labour supply and thereby economic development. In 2001 the EITC amounted to a maximum of 920 euros for taxpayers in all income groups. In 2023 the maximum EITC is more than 5,000 euro, phasing out for incomes higher than 38,000 euros at a rate of 6.5%. In a recent evaluation (Centerdata, 2024) the EITC was found to be only partly efficient and effective in stimulating labour supply. The PIT-structure, with several tax credits phasing in and out, and also income dependent income support, is seen as way too complicated for most people. Only 1 in 3 workers have knowledge of their effective marginal tax rate. This limits the effectiveness of the EITC.

The provisions for self-occupied houses comprise mostly the **deduction of mortgage interest payments**.[8] In reaction to evaluations and numerous (also international) reports that showed that the provision is not efficient[9], there have been policy changes reducing the fiscal cost of the deduction. The fiscal cost is also driven by endogenous developments like the rising share of the population occupying their own home. Also, fluctuations in the interest rate play a role.

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[7] This includes the exemption of pension premiums from income tax, the taxation of pension benefits, and the exemption of pension savings from taxation on income from wealth provisions.
[8] In case the mortgage is redeemed, and no interest payments are deducted, an "owner tax" is due. The revenue forgone in the table is netted for this owner tax.
[9] Both effectiveness and efficiency are used as indicators in evaluations. Effectiveness of a policy is the extent to which the policy objective is achieved thanks to the deployment of the policy instruments under consideration. Efficiency measures the relationship between the effects of the policy and the costs of the policy.

The **tax credit per electricity connection** was a convenient policy instrument in the energy crisis of 2022. It was increased from 460 euros per household in 2021 to 680 euros in 2022, increasing fiscal costs by 1.75 billion euros.

All people above 67 years old are eligible for the **tax credit for the elderly**.[10] This amounted to 1,835 euros in 2023 and is phased out at a rate of 15% for incomes above 50.000 euros (similar to the GTC and the EITC). In the Netherlands, the tax credit for the elderly is used to a large extent to tackle income distribution issues. However, as the elderly do not pay much in taxes, they cannot always cash the (full) credit, especially low-income earners.

Life insurance is exempt from the 21% **insurance tax**, which amounted to 2.7 billion euros in revenue forgone in 2022. The objective of the exemption is to avoid disincentives for saving and complexities for the tax authority. The provision was added to the TE report in 2023 and has never been evaluated. An evaluation is planned for 2028.

The **Innovation Box** granted through the CIT offers a reduced tax rate of 9% (in 2023) for profits earned from innovative activities for which an R&D statement is issued. Although the TE is not one of the ten largest provisions, it was estimated to result in 2.4 billion euros in revenue forgone in 2022. The fiscal cost of the provision has increased over time. In a recent evaluation (SEO & Dialogic, 2023) the provision was found to be mostly effective and partly efficient in improving the international competitiveness of Dutch firms. The results of the study showed that the Innovation Box was only partly effective and not efficient in stimulating innovation.

A similarly large provision is the **profit exemption for SMEs** in the PIT whose goal is "to stimulate entrepreneurship". A broad policy objective such as this is hard to operationalize in an evaluation. Nonetheless, it is likely that the provision will be evaluated, with the Budget Memorandum stating that in that year "some TE provisions for entrepreneurs will be evaluated, the focus will be determined later on".

Consistent long time series on TE provisions are hard to come by. This holds probably for most countries, and The Netherlands is no exception. Reporting has improved over the past years. More TE provisions are added to the TE Report, more data has become available and methods to calculate revenue forgone have improved. The problem is that all these improvements are difficult to apply to older years, mostly because not all the needed data were gathered at that time.

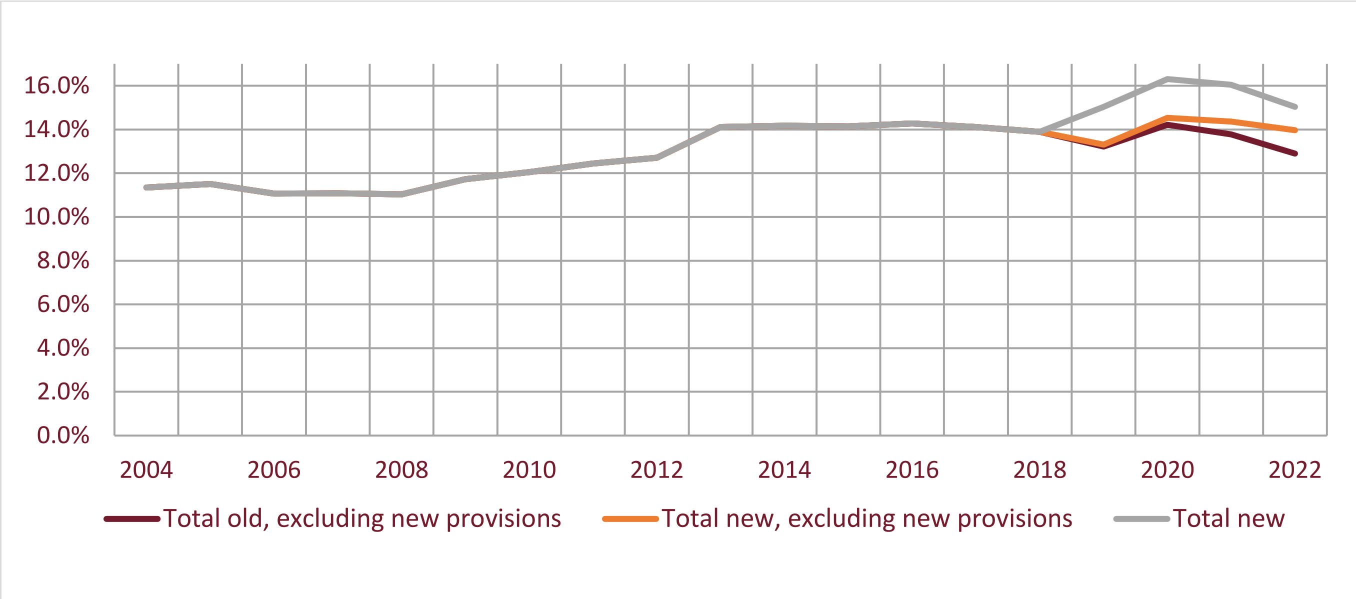
In the TE Report from 2023, many improvements have been incorporated for the years 2019-2024. For some TE provisions, better methods of measurement or more/better data were used.[11] Most importantly, 15 TE provisions that had not been reported before were added, amounting to additional revenue forgone of 14 billion euros (1.7% of GDP) in 2019. In the Energy tax, the effects of the regressive tax structure for both electricity and natural gas were added as TE provisions (see the discussion on the benchmark above). These amount to 9 billion euros revenue forgone in 2019. Also, existing exemptions in the Insurance tax were added to the report (4 billion euros). For these newly reported TE provisions, no data before 2019 are available.

In Figure 1, revenue forgone for the total of TE provisions is shown as % of GDP, over the period 2004-2022. For the period 2004-2018 only the "old" data are available. That is, the data without this year's improvements. These data are taken from the TE Report published in 2022. For 2019-2022 the "old" data and the "new" data (from the

[10] The starting age is linked to the state pension (AOW) age, which is currently 67 years. This starting age rises over time as life expectancy increases.
[11] see Ministerie van Financiën (2023c), table 9.4.1.

TE Report published in 2023) can be compared. If you exclude the “new” TE provisions,[12] in 2019-2020 the lines follow a similar pattern. That was to be expected, as for these years the new available data was limited.

Figure 1. Tax expenditures reported, revenue forgone, 2004-2022



Source: Ministerie van Financiën (2023c), CPB (2023), and Ministerie van Financiën (2023d)

Comparing the two new data lines (excluding and including the newly reported provisions) shows the above-mentioned effect of the newly reported provisions on fiscal costs. Over time, reported revenue forgone has risen from 11.3% of GDP in 2002 to 15.0% in 2022. A large part of this 3.7%-point rise is due to the new TE provisions being reported in 2019 (1.7%-point). This said, in 2013/2014 the report was extended to include 28 additional TE provisions, amounting to 7 billion euros in 2014 (1.0% of GDP). Hence, of the observed 3.7-point increase over time, 2.7%-point can be explained by the addition of new TE provisions to the report. The other 1% rise is due to the increase in the use of TEs, but also due to improvements in data and methods.

“Over time, reported revenue forgone has risen from 11.3% of GDP in 2002 to 15.0% in 2022. A large part of this 3.7%-point rise is due to the new TE provisions being reported in 2019.

[12] The term “new” is used to refer to TE provisions that already existed but were not reported before. There are also new provisions added to the Tax Law, but they have a relatively small effect on the total fiscal costs.

Evaluation

The RBV requires that existing TE provisions are evaluated periodically (every four to seven years)[13]. Evaluations are usually conducted by Dutch, independent research agencies, selected through an official procurement process.[14] Evaluations are awarded based on the quality of the research proposal, the quality of the research staff and the price, among other criteria. A supervisory committee monitors the relevance and quality of the research. This committee is composed of a chairman (most times a senior civil servant working in another policy field), civil servants working in the policy field related to the provision being evaluated and an independent expert.

In 2020, a report on 31 evaluations of TE provisions, conducted between 2010 and 2018, was published (van Tol & Runherd, 2020). The study discussed the information provided in the evaluations and the conclusions drawn as well as policy responses to those conclusions.

The report found that, although most evaluations attempted to establish the effectiveness and efficiency of the TE provision, often only tentative conclusions could be drawn, partly due to lack of data. Also, the original choice for a TE provision as the best instrument to achieve the desired objective, was rarely ever investigated in the evaluations. Moreover, recommendations in research reports were often lacking or formulated rather vaguely. In the period studied, only a few TE provisions were fundamentally changed in response to evaluation results.

The report recommended that evaluation programming should prioritise quality over quantity. Due to the wide variety of TE provisions, it argued against a uniform periodicity for evaluating all TEs. To ensure that evaluations add more value, more attention should be paid to instrument choice (see point 3-5 of the assessment frameworks for new TE provisions mentioned above). Also, data collection should start earlier whenever possible, to better identify the effects of the provisions. Evaluations with clear conclusions would provide better guidance to policymaking, according to the report.

A recent report (Ministerie van Financiën, 2023a) reviews the evaluations of 116 TE provision, and assesses if:

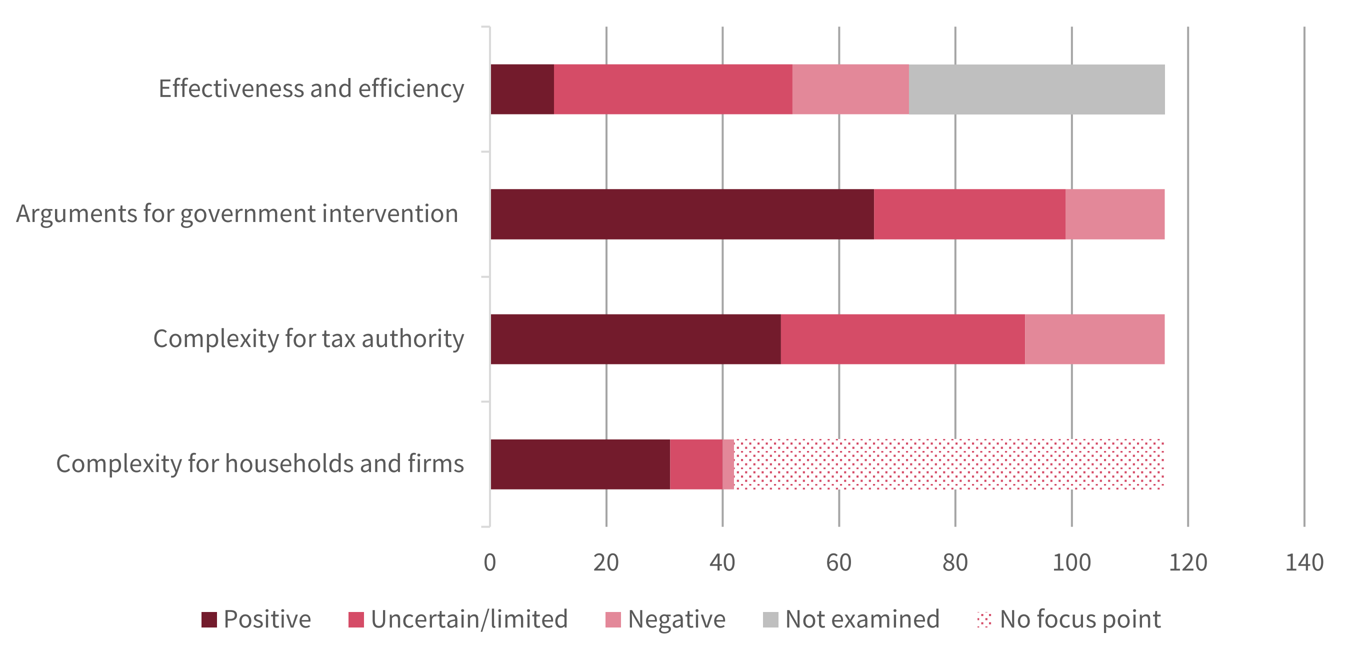
1) they are effective and efficient,
2) the government intervention is justified,
3) they are enforceable by the tax authority,
4) and easily understood by citizens and businesses.

The report concludes "Out of 116 provisions, an evaluation report is available for 73 provisions. Of these 73 provisions evaluated, 11 were evaluated as effective and efficient, 41 as 'uncertain,' and 20 as neither effective nor efficient. The rationale for government intervention was assessed for all provisions, including those that were not evaluated. The report concludes that 17 provisions have no or no longer a rationale for government intervention and that the rationale for 33 provisions is uncertain. Sometimes these are provisions with an outdated purpose, for example because changed legislation has made the provision obsolete. The tax authority and behavioural experts from the Ministry of Finance respectively assessed the implementation and enforcement complexity and the feasibility. 24 provisions were assessed as being (too) complex in terms of

[13] If a scheme has already been evaluated and no policy changes or new information about the scheme is available, the evaluation can be deferred by up to 4-7 years.
[14] Most times the budget for the research is below the threshold for European tendering.

implementation and 11 provisions were assessed as sometimes or regularly making significant demands on citizens' ability to act in the proper way" (see Figure 2).

Figure 2. Summary assessments for 116 TE provisions



Source: Ministerie van Financiën (2023d)

"The report found that, although most evaluations attempted to establish the effectiveness and efficiency of the TE provision, often only tentative conclusions could be drawn, partly due to lack of data.

Political economy and reform

There have been several policy recommendations in recent years on eliminating or adjusting TE provisions that have been negatively evaluated. The Court of Audit (Algemene Rekenkamer, 2021) concluded: "Parliament and cabinet would be wise to substantially cut back the proliferation of TE provisions. This is the conclusion reached by the Court in its accountability audit 2020. Looking back at 20 years of research into both individual TE provisions and their application in general, the Court finds that the objectives are vague, the substantiation frequently flawed, the results unclear and evaluations rare."

In the report on the evaluations of 116 TE provisions from the Ministry of Finance, the following policy advice is:

> **Be cautious in deploying new TE provisions**. TE provisions lead to higher statutory tax rates, more complexity and higher implementation and enforcement costs. For new provisions, the assessment framework should be strictly applied. If the rationale for a TE provision involves attempts to address government failures or aims to improve the country's the international competitive position, the recommendation is to first assess whether either of these aspects can be addressed at the source, for example, through international cooperation.
>
> **Look critically at existing provisions that score poorly on one or more criteria.** Some of the provisions score poorly on one or more of the evaluation criteria, and existing recommendations from evaluations have often not been followed.
>
> **Update the objective of TE provisions in the budget memorandum and formulate it as specific and measurable as possible.** The original objectives of a number of TE provisions are outdated. In addition, for many provisions it appears that no good impact measurement is possible because the objectives are not formulated concretely enough or because insufficient data are available.
>
> **Improve overview of evaluation outcomes and consider the evidence base.** Some TE provisions are not (yet) monitored or evaluated, and it is difficult to compare evaluation outcomes of different provisions. It is therefore recommended that the overview in the Budget Memorandum be expanded to include more information on the evidence base of evaluations and subsequent recommendations.
>
> **When evaluating policies, look explicitly at the need for government intervention, implementation and complexity.** Evaluations often focus on the effectiveness and efficiency of policy. The study shows that a number of provisions have no or no longer any justification and, in addition, there are provisions that are difficult to implement or require too much knowledge and effort of taxpayers.

As reported in the paragraph on the Budget rules above, the current (outgoing) cabinet has drafted rules to adjust negatively evaluated TE provisions. With the fall of the cabinet, and elections in November 2023, the future of the approach to TEs will become clearer when the new government, which will take office in the beginning of July 2024, sends their detailed policy proposals to parliament in September 2024.

Practice shows that larger adjustments are often easier to implement at the beginning of a new government, rather than at a later stage. The fiscal space of the government also plays a role. If the state of public finances is bad and expenditure cuts are necessary, it is more likely that ineffective TE provisions will be abolished. After all, the proceeds may then reduce the need for expenditure cuts in other areas.

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