Ministerie van Financiën

Official report on the Approach to tax expenditures

Opportunities for lower tax rates, better tax expenditures and a more understandable and simpler system

30 June 2023

Contents

Executive Summary

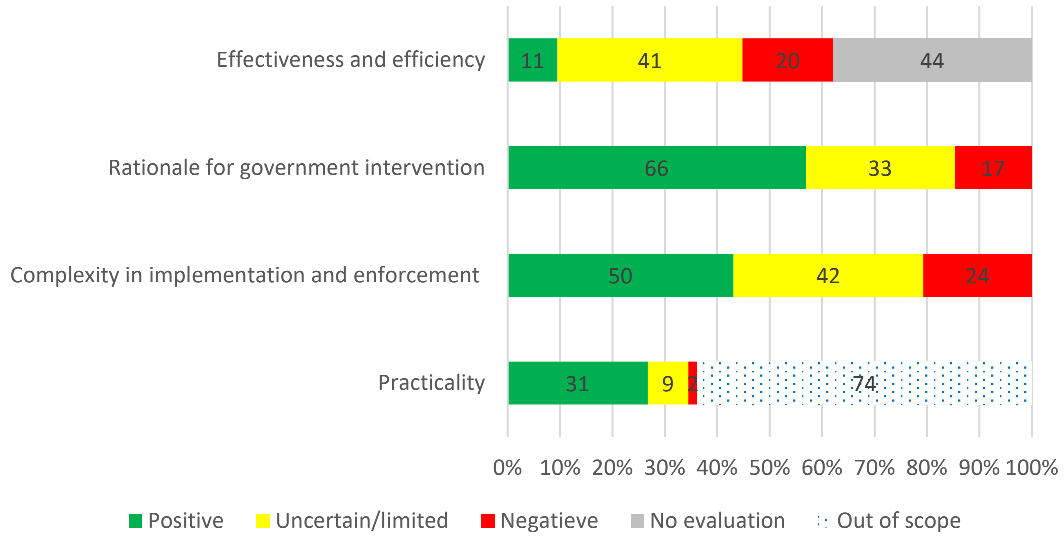
The tax system features a large number of tax expenditures. This report spotlights them. Tax expenditures are exceptions within the tax system - such as deductions, exemptions or tax credits - that affect the amount of tax paid. These expenditures do not come free. The cost of the 116 expenditures covered by this report is around €150 billion in 2023, or about 40 per cent of total tax and contribution revenues. The tax expenditures monitored in Annex 9 of the Budget Memorandum form the starting point of this report. This list has been supplemented with relevant expenditures based on previous research by the Netherlands Court of Audit[1] and discussions with stakeholders and experts.

Tax expenditures lead to higher tax rates, more complexity and higher implementation and enforcement costs. Tax expenditures also make the system vulnerable to improper use and are sometimes at odds with system goals, including the ability-to-pay principle. These findings are in line with previous studies and opinions arguing for a simpler system with fewer expenditures.[2] The results of the internet consultation[3], interviews with experts and stakeholders conducted as part of this report, and previous research on the viewpoints of members of the public also argue for a simpler system.[4] If the tax system is used instrumentally, then tax expenditures must be effective and efficient, whilst still serving the public interest.

Some of the 116 expenditures score poorly on one or more of the assessment criteria. In this report, 116 expenditures were assessed on four criteria: 1) effectiveness and efficiency, 2) rationale for government intervention, 3) complexity in implementation and enforcement and 4) practicality. The methodology and outcomes have been validated by SEO Economic Research. Figure 1 shows a summary of the ratings for each criterion. Of the 116 tax expenditures, evaluation reports are available for 73 expenditures. Of these 73 expenditures evaluated, 11 were assessed as effective and efficient, 41 as 'uncertain' and 21 as not effective and efficient. The rationale for government intervention was assessed for all expenditures, including those that were not evaluated. The report concludes that 17 expenditures have no or no longer a rationale for government intervention and for 33 expenditures is uncertain. Some of these are expenditures whose purpose has become outdated, for example because changed legislation has made the expenditure redundant. The Tax Administration and behavioural experts respectively assessed the implementation and enforcement complexity and practicality. Twenty-four expenditures were found too complex in terms of implementation and 11 were found to make significant demands on members of the public' ability to comply sometimes or regularly.

[1] Court of Audit (2017), Tax relief expenditures in the spotlight.
[2] Netherlands Court of Audit (2021), Substantially cut back the proliferation of tax expenditures; CPB (2023), An economic trade-off framework for tax instruments; Ministry of Finance (2020), Building blocks for a better tax system.
[3] Ministry of Finance (2023), Internet consultation on approach to tax expenditures.
[4] Ministry of Finance (2021), Research report on tax system approval; Ministry of Finance (2022), State of Implementation 2022: Reporting on improvement signals and bottlenecks at the Tax Administration.

Figure 1: Aggregate assessment of 116 tax expenditures by criterion[5]



The advice is to take a cautious approach to deploying new tax expenditures and to look critically at expenditures that score poorly on one or more criteria. The advice is to apply the Tax Expenditures Assessment Framework strictly to new tax expenditures and critically examine whether expenditures that score poorly on one or more criteria can be improved or should be abolished. Abolishing tax expenditures generates revenue that can be used to reduce overall tax rates. A reduction within the same domain is the obvious choice in this respect. Abolishing or adjusting expenditures requires IV capacity in the short term, but ultimately leads to a significant reduction in implementation, monitoring and enforcement capacity. This will make the tax system more transparent, understandable and less complex.

The advice is to update the objectives of existing expenditures and refine the summaries of evaluation outcomes. This report shows that the original purpose of some tax expenditures is now outdated. Also, for many expenditures, good impact measurement does not seem possible because the objectives are not formulated concretely enough or because insufficient data is available. And some of the expenditures have not (yet) been monitored in the Budget Memorandum. The advice is therefore to extend the monitoring in Annex 9 or 10 of the Budget Memorandum to more expenditures, test whether their targets are still up to date and consider at an early stage what data is needed for proper impact measurement. In addition, the report recommends expanding the monitoring to include more information on the evidence base of evaluations and subsequent recommendations. For future evaluations, the recommendation is to adopt a uniform definition of effectiveness and efficiency and also to consider the need for government intervention, implementation and practicality.

[5] *If one of the two criteria (effectiveness or efficiency) has a red score, the composite score becomes red. If both criteria score green, then composite score becomes green. If yellow is scored on both criteria, or green on one criterion and yellow on one, the composite score becomes yellow.*

1. Introduction

The set of taxes and contributions, their exceptions and their implementation constitute the tax system. That system has grown incrementally into what it is today. Fine-meshed rules and exceptions have often been chosen to provide tailor-made solutions for a specific target group. While this is understandable, it does make the tax system more complex for members of the public and businesses. Nor is the current tax system easy for the Tax Administration and other administrators. Furthermore, tax expenditures are not free. By 2023, the fiscal significance of all tax expenditures combined is around €150 billion, or about 40 per cent of the total tax and contribution revenues of the central government.

Tax expenditures can only be justified if they are effective and efficient and (still) serve the public interest. The budget rules include the principle that in case of negative evaluations of existing tax expenditures, they are in principle abolished, adjusted or - where relevant - converted into a subsidy.[6] Any deviation from this should be justified in the Council of Ministers and to the House of Representatives. For new expenditures and adjustments and evaluations of existing expenditures, the government uses the Assessment Framework for Tax Expenditures.[7] All expenditures are periodically evaluated in accordance with the Periodic Evaluation Review (RPE) Regulations.

As part of the 'Approach to tax expenditures'[8], this official report and the underlying annex 'explanatory notes on tax expenditure assessments'[9] 116 tax expenditures are assessed against the following four criteria: 1) effectiveness and efficiency, 2) rationale for government intervention, 3) complexity in implementation and enforcement and 4) practicality. The conclusions of previous evaluations have been followed for the assessment of the first criterion. For the rationale for government intervention, the first four questions from the now superseded Integral Assessment Framework (IAK) were considered. The methodology and outcomes for both criteria have been validated by SEO Economic Research. The evaluation of criteria 3 and 4 was based on an assessment by behavioural experts and the Tax Administration, in consultation with relevant policy staff. This is a systematic way of determining whether tax expenditures are socially and economically justifiable.

The analysis provides an overall picture reflecting, among other things, all previous evaluation outcomes. From a system and simplification perspective, it is additionally relevant to have a better understanding of the compound effect of these expenditures. Unlocking this information for political decision-making facilitates informed choices about simplification. Tax expenditures also play a role in structures for tax avoidance. This element is not explored further in this report, but is included in a parallel track on tax structures.[10]

Reading guide Chapter 2 outlines the impact of the set of tax expenditures on the tax system. Chapter 3 presents previous research and advice in this area and summarises the results of the internet consultation on tax expenditures and meetings with stakeholders on tax expenditures. Chapter 4 looks at the conclusions of the assessment of individual expenditures and discusses SEO's opinion on them. Chapter 5 presents the recommendations of this report. A summary table

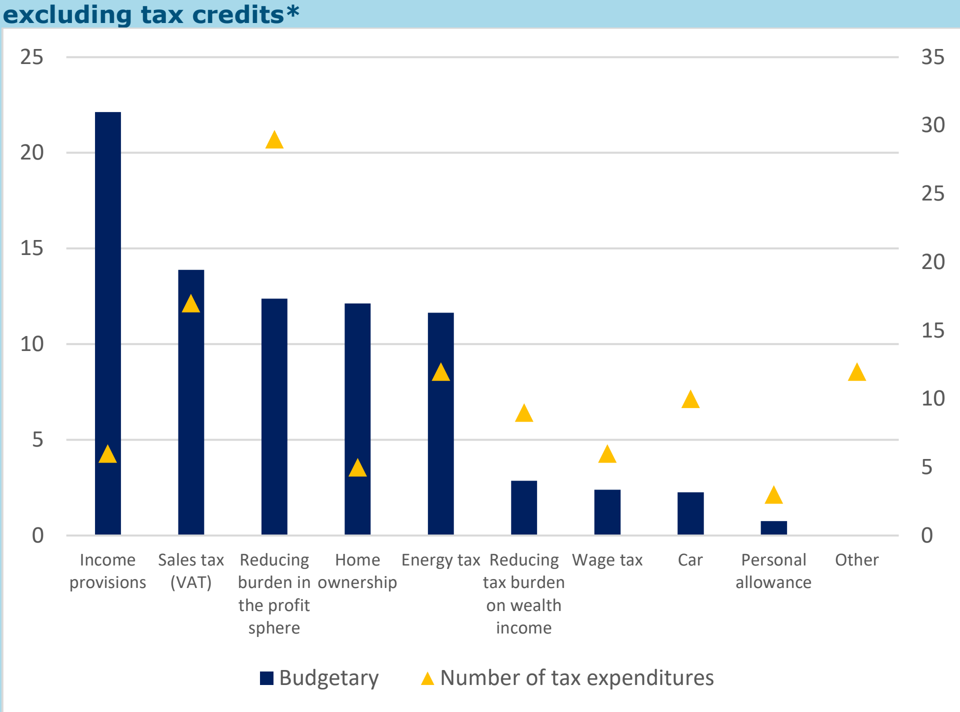
[6] Parliamentary Papers II 2021-22, no 1.*Annex 1: Budget rules 2022-2025 (1.2.2. controlling tax expenditures).*
[7] State Budget Rules (2023). Model 4.55 assessment framework for tax expenditures.
[8] Parliamentary Papers II 2022-23, 32140, no 140.
[9] *Included in Annex 1 to this report.*
[10] Parliamentary Papers II 2022-23, 32 140, no 154.

is included at the end of this report, showing the assessment for each expenditure on the four criteria examined.

Box 1: what are tax expenditures?

One of the causes of complexity in the tax system are tax expenditures. These are expenditures that reduce the tax payable by narrowing the tax base. Examples include deductions, refunds, tax credits and exemptions. These are therefore exceptions for specific target groups. By definition, this creates more complexity: it requires 'separate treatment' that may or may not be accompanied by demarcation problems. Tax expenditures often serve a specific (social) purpose such as income policy, promoting entrepreneurship or encouraging sustainability. Examples include the deduction of donations in income and corporate tax, the low VAT rate for labour-intensive services such as hairdressing (9% instead of 21% VAT), the environmental investment allowance (MIA) and the SME profit exemption. There are also expenditures like a motor vehicle tax (MRB) exemption for vans or a reduced energy tax rate for greenhouse horticulture. Figure 1.1 provides an overview of the number of expenditures and the budgetary attachment by thematic classification, as used in annexes 9 and 10 of the Budget Memorandum. The tax credits have been left out of the figure because the six tax credits account for almost half (45 per cent) of the fiscal interest, which would distort the picture.[11]

Figure 1.1: Number (right) and budget (left in billions of euros) by theme excluding tax credits*



**The category other consists of the topics of insurance tax and excise duty.*

[11] *There are six tax credits, in order of budgetary size (in billions of euros): employment tax credit (31.8), general tax credit (25.8), elderly tax credit (4.8), income-dependent combination tax credit (1.9), single elderly tax credit (0.6) and young disabled person tax credit (0.2).*

2. Tax expenditures from a system perspective

A tax expenditure is generally weighed and evaluated separately in terms of policy. It is mandatory to complete the Tax Expenditures Assessment Framework for the introduction of new tax expenditures and evaluations of existing tax expenditures. The evaluation of using the assessment framework, the desirability of a tax expenditure is based on seven questions. These include the need for government intervention (clear problem definition) and the trade-off against other instruments.

As tax expenditures are usually not budget capped and lead to additional complexity of the tax system, it is in principle preferable to design a specific expenditure as a subsidy on the expenditure side of the budget.[12] In some cases, however, there are good reasons to depart from this. After all, tax expenditures also allow larger groups of taxpayers to be reached efficiently or can be important for the (tax) establishment climate. One example is the elderly tax credit, which automatically reaches the target group by being pre-filled in the annual tax return. In addition, a subsidy expenditure is not always desirable or possible. Another example is the start-up exemption in transfer tax, where design as a subsidy would lead to additional administrative burdens and implementation costs and possibly liquidity problems. The box below explores the trade-offs when shaping an expenditure on the revenue side or as a grant. It should be noted that these advantages and disadvantages do not apply to all expenditures. It is therefore wise to carefully identify and weigh the pros and cons for each measure in each case.[13]

From a system perspective, there is good cause to assess the effects of all 116 expenditures included in this report in context also at the aggregate level. This section discusses five effects that tax expenditures have on the tax system as a whole.

Box 2: instrument choice considerations tax expenditure or subsidy

Budgetary control

Fiscal expenditures, with few exceptions, are not budgeted, making costs less manageable than direct grants, which are mostly capped. If more use is made of a tax expenditure than expected, this difference may not be covered. Such additional strong growth of a tax expenditure is also not part of the integral decision-making process. There are some examples of budgeted tax expenditures, such as the EIA, MIA, Vamil[14] or the remittance reduction for research and development work (WBSO).

Opinions of members of the public and businesses

Given that tax expenditures are usually uncapped, they provide more certainty of use than direct subsidies, where 'the pot' may run out during the year. In some cases it is replenished (whether or not by shifting budgets between years), but often ‘run out’ really means ‘run out’ and distribution is based on order of application or drawing lots.

[12] Budget rules 2022-2025. 1.2.2. controlling tax expenditures.

[13] *The* Policy Compass *can be used for this purpose in addition to the Fiscal Regulations Assessment Framework.*

[14] *Respectively, the energy investment allowance (EIA), environmental investment allowance (MIA) and random depreciation of environmental investments (Vamil).*

At the same time, subsidies offer more certainty about the final amount, where with tax expenditures it depends on an often unknown marginal rate and/or the amount of income or profit (e.g. whether or not an entrepreneur makes a profit and whether it falls under the high or low corporate income tax (Vpb) rate). In addition, the Tax Administration is allowed to take three years to impose an assessment and can make at least five years of post-tax collections.

Calculation of aggregate income
Tax expenditures - unlike subsidies - can impact on taxable aggregate income, and hence income-dependent expenditures such as allowances. The magnitude of this effect and further knock-on effects are difficult for users to estimate.

Implementation, monitoring and enforcement
Introducing new or amending existing tax expenditures should be designed within the Tax Administration's already complex (IT) system. This creates additional implementation costs and risks. At the same time, the design of a grant also has technical implementation issues.

A tax expenditure can in some cases reach a more sizeable group of taxpayers more efficiently than a grant, for example.
Due to the complexity of the tax system, the side effects of a tax expenditure (e.g. the possibility of constructions) are often difficult to identify in advance.

Specificity
With a tax expenditure, you only reach members of the public and businesses that pay taxes. With a subsidy, the government reaches every citizen or company that meets certain conditions, and the conditions can be adjusted, provided the group in question can be sufficiently demarcated.

Tax expenditures are often only settled in the tax return afterwards (a year later). From a liquidity perspective, a grant may be preferable, provided it is provided prior to the expenditure. Start-ups, for example, have little liquidity and often make little profit and thus benefit less from profit tax expenditures.

Flexibility
The elaboration of subsidies is often laid down in lower-level legislation, making them easier to amend than tax expenditures, where the elaboration is often enshrined in a law.

This makes tax expenditures generally more secure, but at the same time less able to respond to changing circumstances (e.g. additional requirements).

Feasibility/transparency
Some tax expenditures, such as tax credits, can be applied automatically during the annual return and do not require any additional actions for people filing tax returns. Grants should always be applied for.

Because the benefit of a tax expenditure often depends on a taxpayer's marginal rate, a tax expenditure is often less transparent for members of the public and businesses.

Subsidies may be easier to find for taxpayers with less tax knowledge. However, for internationally operating companies, tax expenditures can be clearer than subsidies in international tax burden comparisons.

2.1 TAX EXPENDITURES INDIRECTLY INCREASE TAX BURDEN FOR OTHERS

Tax expenditures reduce tax and contribution revenues and are therefore not free. By 2023, the fiscal loss from all tax expenditures combined is around €150 billion, or about 40 per cent of the state's tax and contribution revenues. Thus, without these tax expenditures, the government would receive more tax revenue, which could reduce overall tax rates or increase spending.

This loss of tax revenue is socially justifiable only if tax expenditures are (demonstrably) effective (efficient) at acceptable costs (practical). Indeed, the effects of tax expenditures on the tax burden of the group that does not (or can only) make limited use of these expenditures are considerable. As an exercise, in income tax, the abolition of the home ownership expenditure alone could reduce the basic rate by more than 1.5 percentage points. The (high) corporation tax rate could be cut by almost 2 percentage points if the reduced corporation tax rate is abolished and the general VAT rate could fall from 21 to around 18 per cent if the reduced rates are abolished.

2.2 TAX REGULATIONS MAKE THE TAX SYSTEM COMPLEX AND DIFFICULT TO UNDERSTAND

For taxpaying members of the public and entrepreneurs, the tax return can be a complex task, not least due to all the tax regulations. While the pre-completed return makes life simpler for members of the public, this only applies to expenditures where the Tax Administration has the relevant data. Also, taxpayers are required to file their returns on time, which can be a challenge for people dealing with stressful circumstances such as divorce. For more specific expenditures, the taxpayer needs to study the rules carefully and keep and collect data. Every year when filing a tax return and at certain times such as buying a house, for example, a taxpayer will have to (re)learn the rules. For example, what costs are eligible for the deduction of specific healthcare costs? This constantly makes heavy demands on both the level of knowledge and ability to comply of taxpayers. On top of that, many tax changes can occur precisely in life situations where a member of the public's ability to comply is already under pressure, such as having children, divorce, death or - for the entrepreneur - business closure. Research shows that members of the public find some expenditures easier to apply than others, but generally struggle to apply the expenditures in their returns.[15] Not surprisingly, a third of members of the public do not complete their annual returns themselves, and 60 per cent of this group - including many self-employed people - get help from a tax advisor.[16] Many expenditures also require records to be kept during the year, leading to additional administrative burdens for both members of the public and businesses.

The question is also whether expenditures are always understood by the target group. Indeed, the misuse and non-use of certain expenditures is high. For example, for the specific care costs deduction, incorrect use is estimated at 39% of the amount of care costs reported[17] and it appears

[15] *Ministry of Finance (2021).* Tax system support research report.
[16] *Blue (2020).* Tax Survey among the Dutch (2020).
[17] Dialogic (2022). Conditions for the deduction of specific healthcare expenses

that around 30% of people who could use the gift deduction do not do so.[18] In addition, the question is whether taxpayers can properly assess the financial consequences of using a tax expenditure. Partly because of the income-dependent phasing out of tax credits, the marginal tax burden - the tax burden on the last euro earned - is not always easy to fathom. Whether the financial impact of an expenditure is understood also touches on the effectiveness of expenditures. Making the system simpler, through fewer or more understandable rules, will make it easier for members of the public and businesses to apply rules independently. If members of the public and businesses are more familiar with and apply the rules, they are also more likely to adjust their behaviour accordingly, which means the intended effect can also be achieved.

2.3 TAX EXPENDITURES MAKE TAX SYSTEM MORE DIFFICULT TO IMPLEMENT

Tax expenditures are an exception to the regular tax system and thus exert pressure on the implementation of our taxation. Indeed, every exception adds complexity and results in an additional implementation burden for the Tax Administration and other administrators.[19] Tax expenditures often require the specific knowledge of Tax Administration staff, which they need to keep up to date and which makes them difficult to deploy elsewhere (for other expenditures, for example). Given the Tax Administration's limited capacity, this means that, on balance, an increase in tax expenditures leads to fewer supervisory activities. Complex expenditures also tend to require complicated IT applications with high maintenance requirements, making the Tax Administration's overall IT provision even more complex and vulnerable. Since 2015, the Tax and Customs Administration (and also Allowances) have been conducting implementation tests on measures in bills proposing new (or amended) tax regulations. These tests should result in the Tax Administration indicating that if a tax measure is considered (too) complex or impracticable, it will not be introduced.

How complex an expenditure is for implementation depends on its nature and specific design. For instance, reduced rates and exemptions lead to many discussions with taxpayers on definitions and demarcation issues. In VAT, for example, there is much litigation over the definitions of accommodation and medicines. The time spent by tax employees on this cannot be spent on other things. Complexity may also arise because an expenditure deals with the confluence of different tax types or multiple tax expenditures. For example, the tax carry-over facilities (discontinuation profit, box2 and the Business Succession Expenditure (BOR)[20]) can relate to income tax, corporation tax and gift and inheritance tax. In addition, a large number of income tax deductions often require manual verification of whether the taxpayer is entitled to them, which is also error-sensitive. Counter-information is not available for some expenditures, which makes control by the Tax Administration difficult. Finally, some expenditures are very laborious for the Tax Administration, such as the energy tax refund expenditure, where each request has to be assessed separately.

Reducing and simplifying tax expenditures will result in significant simplification and capacity gains for implementation over time. However, in the short term after abolition, implementation pressures may increase as there is often a transition period using transitional arrangements (see also section 3.1).

[18] Dialogic (2016). Review of gift deduction.
[19] Ministry of Finance (2020). Tax system simplification, Building blocks for a better tax system.
[20] *The business succession expenditure in the Inheritance Act*

2.4 TAX EXPENDITURES MAKE THE TAX SYSTEM VULNERABLE TO IMPROPER USE AND TAX COMPETITION

Tax expenditures can be used in unintended ways, enabling tax avoidance structures[21] or encouraging unintended behaviour. The list of notable tax avoidance structures published with by the inter-trade organisation IBO on wealth mentions several structures involving tax expenditures, including the gift deduction in income tax, the 30% rule and the BOR.[22] The Spring Memorandum proposed steps to counter unwanted use in the BOR.[23] An example of unintended behaviour is the incentive offered by the low corporation tax rate to artificially break up private limited companies to achieve a lower tax burden.[24] Improper use leads to less support for the tax system among other taxpayers.[25] Indeed, justice and fairness are important principles for taxpayers and affect tax ethics. Tax avoidance structures (although legitimate) undermine confidence in the system and thus make it vulnerable.

Tax expenditures reduce the (specific) tax burden in the Netherlands, which can contribute, intentionally or unintentionally, to tax competition within and outside the EU. One example is the 30% rule introduced by the Netherlands in the past to create an attractive business climate for knowledge workers. Later, other countries also introduced similar expenditures, bringing the risk of tax competition and higher costs per additional knowledge worker. Alignment within the EU and beyond can help mitigate this.

2.5 TAX EXPENDITURES ARE SOMETIMES AT ODDS WITH SYSTEMIC GOALS

Tax expenditures are exceptions to the regular tax system. As a result, the aims of these expenditures are sometimes at odds with the original purpose of the tax type in question. This is best seen with taxes that the government uses as a steering tool to achieve certain behavioural changes. For instance, excise duties and (other) environmental taxes make certain choices more expensive. These are often the more polluting or unhealthy choices. Exceptions to such taxes - although sometimes individually well-founded - limit the intended behavioural effect. These include expenditures such as the degressive rates for large consumers in energy tax and the various reduced motor vehicle tax (MRB) rates.

From a systemic perspective, it is also notable that tax expenditures can work against the general principle of taxation according to ability to pay. Several expenditures end up disproportionately affecting higher-income or high-wealth individuals as a result.[26] This goes against the general principle that the strongest shoulders should bear the heaviest burden. Examples include the facilities in gift and inheritance tax (such as the one-off children's exemption of over EUR 27,000), pension exemptions, the tax carry-over facilities, and the energy tax equalisation expenditure. These expenditures are degressive: they provide a lower tax burden for higher (profit) incomes.

[21] *This involves structuring, transforming or shifting transactions, income, profits and assets in such a way that as little tax as possible is paid. This usage is at odds with what the legislation intended when introduced.*
[22] Notable tax structures. Annex 10 to the IBO assets.
[23] Parliamentary Papers II 2022-2023, 36350, no 1.
[24] Parliamentary Papers II 2022-2023, 36 202 no. 7.
[25] *Blue (2020).* Tax Survey among the Dutch (2020).
[26] *See, among others, the* IBO Wealth Distribution (2022).

3. Output of previous studies, opinions and stakeholder input

This chapter discusses several recent studies and recommendations regarding tax expenditures and how they relate to the tax system. The results are discussed in section 3.1. In addition, an internet consultation was launched as part of the Approach to Tax Expenditures were organised with experts, interest groups and businesses, among others. The results are discussed in section 3.2.

3.1 PREVIOUS ADVICE AND RESEARCH

Opinions

There is an obvious and urgent need to simplify the tax system. Several opinions here point to the role of tax expenditures that make the system complex. For instance, the simplification report of the 'Building blocks for a better tax system' process advocates reducing the instrumentalism of the tax system[27] and a recent CPB publication recommends restraint in the use of tax instruments (including tax expenditures).[28] Based on 20 years of research, the Netherlands Court of Audit (AR) concludes in 2021 that there is no sound rationale for most tax expenditures. In that context, the AR recommends that tax expenditures should only be applied when they are inextricably linked to the tax system and that "the proliferation of tax expenditures should be cut back considerably".[29]

A number of committee reports have made recommendations for abolishing or transforming specific expenditures. The reports of the Van Weeghel Study Committee[30], the Van Dijkhuizen Committee[31] and the Sustainable Growth Study Group[32] point in the same direction: reducing personal deductions (including the gift deduction, mortgage interest relief and the deduction of specific health care costs), phasing out entrepreneurial deductions (with an emphasis on the self-employed deduction) and harmonising the VAT base insofar as this is possible on a European level. The Study Group on Sustainable Growth and the Building Blocks report also advocate abolishing the benefits for large consumers in the energy tax and the special expenditures in the MRB and the motor vehicle tax (BPM). International reports and academic studies tend to focus on those expenditures that lead to macroeconomic distortions (abolishing the mortgage interest relief and phasing out the self-employed deduction) and a more efficient tax mix (harmonising VAT and abolishing expenditures such as the innovation box).[33]

To limit the number of new expenditures, the Van Weeghel committee has already recommended a 'no, unless' policy on tax expenditures in 2010. The AR concludes that the current Tax Expenditures Review Framework could be applied more strictly, including the requirement for a

---

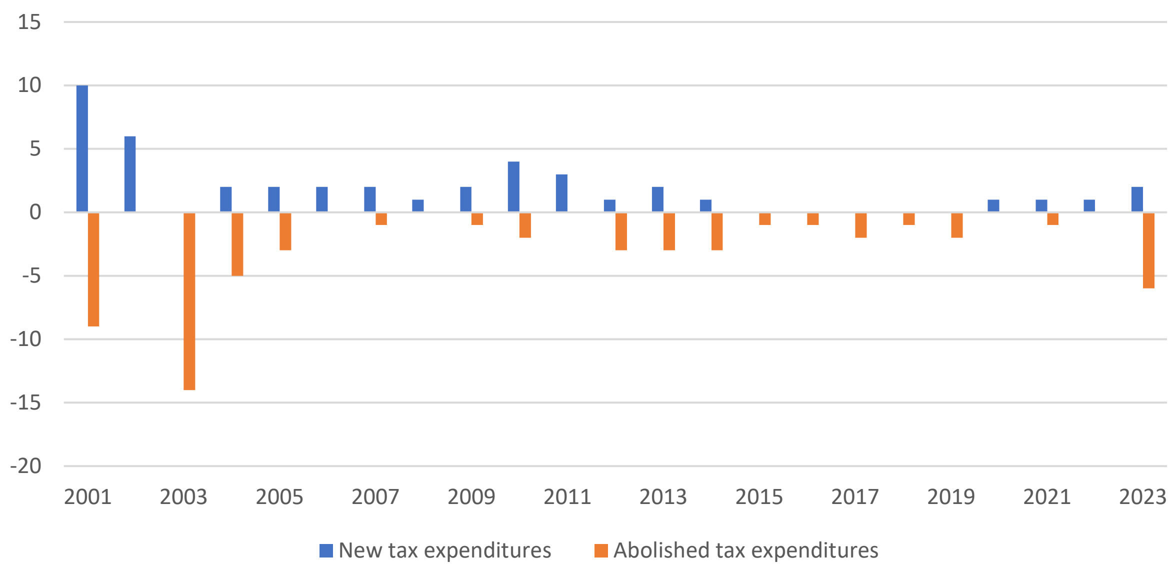
27 Ministry of Finance (2020). Tax system simplification, Building blocks for a better tax system
28 CPB (2023). An Economic trade-off framework for tax instruments.
29 ARK (2021). Cut back proliferation of tax expenditures sharply.
30 Van Weeghel Committee (2010). Continuity and renewal: a vision for the tax system.
31 Van Dijkhuizen Committee (2012). Towards a more activating tax system. *For a list of more than 20 expenditures, see p. 128.*
32 Sustainable Growth Study Group (2016). Opting for sustainable growth. *See, among others, the policy direction 'A beckoning perspective for a less distorting tax mix' on p. 96.*
33 *See, among others,* OECD (2023), Economic Survey of the Netherlands*,* IMF (2023), Article IV consultation*;;* European Commission (2023), Council Recommendation on the National Reform Programme of the Netherlands*;* Cnossen and Jacobs (2019). Design for a better tax system.

sunset clause. CPB recently presented its own economic trade-off framework for tax instruments.[34] To improve fiscal control and an overall consideration of the budget system, successive reports by the Study Group on Fiscal Space recommend budgeting or transferring tax expenditures to the expenditure side of the budget as much as possible.[35]

Follow-up:
Some of the advice has been acted upon by successive cabinets. For instance, monitoring has been extended, the Assessment Framework for Tax Expenditures has been amended and some expenditures have recently been abolished or converted into subsidies. Examples include the monument deduction (Tax Plan - BP - 2019), the phasing out of the Hillen Act (BP 2019), the education deduction (BP 2020), the averaging expenditure (BP 2023), the IACK (BP 2023) and the fiscal old-age reserve (FOR) for new cases (BP 2023). In addition, the self-employment deduction has been phased out over the years and various measures have been taken to make the mortgage interest relief more rigid. At the same time, there are examples of substantial newly introduced expenditures, such as the start-up exemption in transfer tax (BP 2021).

The Tax Expenditures Survey sent to the House of Representatives on Budget Day 2022 concludes that about as many expenditures have been added as abolished since 2003 (see figure 3.1).[36] So, with the exception of the reforms in 2001 and 2003, simplification has been limited since the beginning of this century. In addition, there has been little follow-up to the 27 evaluation reports with negative conclusions on effectiveness and efficiency sent to the House of Representatives during the same period.[37]

Figure 3.1: number of new and abolished tax expenditures since 2001



[34] CPB (2023). An Economic trade-off framework for tax instruments
[35] SBR (2016). From balance control to stabilisationSBR (2021). Setting course: choosing in times of fiscal tightness.
[36] *While this gives a good indication, the picture is probably not complete as the definition of tax expenditures has changed a number of times this century. Furthermore, this analysis does not look at adjustments to expenditures, although these are also policy relevant. Consider the 30% rule, whose application period was shortened following the last review in 2017. The year of abolition or introduction is based on the year of legislation, not taking into account transitional rights. This means that the abolition of the Hillen Act is included in 2019, while the expenditure is not phased out completely until 2048.*
[37] Ministry of Finance (2022). Investigation of tax expenditures.

The bottleneck that affects reforming a tax expenditure is that it has redistributive effects and that tax expenditures often have a relatively small group of users with a relatively high importance for that group.[38] This may mean that if there are reasons for adjustment from a public interest perspective, resistance may be strong from the relevant group of users, while the wider group of non-users with a relatively small benefit from abolition will (understandably) not make themselves heard. A recent example is the reduced rate for small breweries. Although the abolition proposal was included in the 2022 Tax Plan, it was withdrawn after an amendment by the House of Representatives.[39] This often makes abolishing tax expenditures difficult in practice.

In addition, experience shows that simplification proposals can degenerate into measures that (ultimately) lead to little or no simplification of implementation or even increase complexity. An example of a simplification proposal that ultimately did not lead to actual simplification is the introduction of the working expenses expenditure (WKR).[40] According to Tax Administration staff and intermediaries, the WKR was essentially a good idea, but the many adjustments and nuances have made it more complex again. In addition, abolishing or adjusting tax expenditures is often accompanied by overspending because taxpayers have entered into obligations for a long period of time. Long phase-out paths or periods of transitional law may limit simplification gains. A recent example of this is the phasing out of the Hillen Act by 3 percentage points per year, leaving the expenditure in place until 2048.

For new expenditures, there is often a political desire to support certain groups through taxation, where a targeted approach is often not possible. A good example is the recent compensation for increased energy prices, through cuts in VAT and energy taxes, among others.[41] This desire for compensation is understandable, but in practice regularly leads to costly untargeted expenditures if the population cannot be properly delineated.

3.2 STAKEHOLDER INPUT: MEETINGS AND INTERNET CONSULTATION

As part of the 'Approach to tax expenditures', three sessions were held with experts, interest groups and businesses.[42] Discussions included the need to reduce or improve tax expenditures, the criteria by which tax expenditures are weighted and which expenditures should be reviewed. An internet consultation was also held to allow concerned members of the public, businesses and organisations to submit their views.[43] Box 3 gives a brief account of the sessions with stakeholders.

[38] CPB (2016). The political economy of tax reform.
[39] *The original 1992 objective was an equal excise tax burden for small and large breweries This rationale has been dropped as the rebate expenditure currently leads instead to a lower effective excise tax burden for small breweries.*
[40] Panteia (2018). Review operation of the Working Cost Expenditure compared to the old expenditure.
[41] *In 2022, in 2023 the (non-fiscal) price cap is in place.*
[42] Parliamentary Papers II 2022-23, 32140, no 140.
[43] Internet consultation Approach to tax expenditures.

Box 3: stakeholder meetings

Overall picture from sessions with stakeholders
Experts argue for simplicity because of economic arguments (welfare), policy ineffectiveness, unintended degressive effects, efficiency and the need to reduce complexity for implementation by the Tax Administration and taxpayers.
Entrepreneurs argue for simplicity. Sometimes with a slight preferences for certain entrepreneurial expenditures. Fairness, honesty, comprehensibility is key. Also good implementation, while tailoring for taxpayers should remain incidental.

Larger firms are more likely to have tax expertise and more of a specific interest in certain expenditures. Simplicity is then less important because larger companies generally have administrative obligations in place. International aspects (level playing field) and certainty/continuity of taxation weigh more heavily for larger companies.

General considerations: stability, reliability, predictability, simplicity, comprehensibility, fairness, solidarity, look at total system, entrepreneurial perspective, financial perspective (backstop).

Notions on weighting/criteria; international, coherence, having been part of broader whole/package when introduced, note the conflicting goals, equity.

Considerations regarding tax expenditure or subsidy
Advantage of subsidy expenditure: also applicable in loss situations, can be adjusted faster, simpler tax system
Disadvantages of subsidy expenditure: less immediate clarity and certainty on allocation, implementation burden to companies, regulation more complex.

The internet consultation received 137 responses. The responses are very diverse and touch the full breadth of the system. The responses came from (advocacy) organisations (32), individuals (70), tax and financial service providers (20) and entrepreneurs (15). See annex 2 for the full report.

The consultation reveals that the importance of a simpler tax system is widely shared. This also applies (to a slightly lesser extent) to the importance of simpler implementation by the Tax Administration. The difference is mainly explained by the fact that respondents often consider simple execution important but not the main goal. Fairness or achievement of the objective, for example, is seen as more important than reducing complexity in the Tax Administration, or it is seen as important that implementation is/remains simpler precisely for taxpayers (entrepreneurs and members of the public) and then just a bit more complicated for the Tax Administration.

Table 3.1: Share of respondents who attach importance to simplicity of the system and its implementation

SHARE AGREE WITH IMPORTANCE	Importance of simpler system	Importance of simpler tax administration implementation
PRIVATE INDIVIDUALS	96%.	84%.
TAX AND FINANCIAL SERVICE PROVIDERS	90%.	95%.
BUSINESSES	87%.	87%.
ORGANISATIONS	75%	50%.

The ways in which respondents believe a simpler system can be achieved differ, and the weighting and assessment of tax expenditures also shows a diverse picture. Nevertheless, there are some perspectives put forward by several (groups of) respondents. These are explained below according to inputs on the approach, on the methodology and the spending of resources. Although these perspectives are more widely expressed, this does not mean that they are supported by all, and may be at odds with other inputs.

Perspectives on a simpler system with the 'Approach to Tax Expenditures'

When asked about perceptions of simplification and which expenditures should be retained or could be adapted, responses can be broadly categorised in the following three directions.

I. Support for major simplification guided by: fairness, justice, work must pay, reduce marginal pressure, reduce poverty trap, abolish tax credits and allowances and replace with generous tax-free base and more tranches or just a flat tax and/or basic income (many individual responses, FNV, VCP, Basic Income Association);
II. When simplifying, pay attention to specific industry interests due to survival and competitiveness of the sector (reduced rates in VAT, excise duty, Vpb, BOR, gift deduction, exemptions in VAT or energy tax). They include civil society organisations, sports (KNVB, NOC NSF), cultural sector and also certain industries (breweries, construction, hairdressers, LTO);
III. Prefer different approach that takes an integrated view and/or first clarifies political goals and principles. Pay more attention and provide space for the coherence of expenditures and the entire tax system (including SRA, NOB, VNO-NCW/MKB-NL, InRetail).

Perspectives on methodology and weighting criteria

When asked if there are any missing criteria in assessing the expenditures, a number of additions are made (see IV, V and VI). Broader advice is also given on methodology (see VII).

IV. Social or qualitative effects should also be taken into account when weighing fiscal expenditures. These include, for example, the 'social return on investment', broad welfare, health and well-being and the effect on the cohesion of society (KNVB, NOC NSF, In Retail, Cultural and Creative Sector, Brancheorganisatie Filantropie, Vereniging Ieder(in)). They may be effects that cannot be expressed in numbers and money alone;
V. In weighing expenditures, consideration should also be given to 'acceptability' of expenditures, (opposite) impact on ability-to-pay principle, impact on marginal pressure, fairness, equality, solidarity and justice (including private individuals or IPE/FNV/CNV/VCP);

VI. When weighing tax expenditures, take into account the effect on earning capacity, (international) competitive position, economic consequences and coherence of expenditures (including Vereniging Nederlandse Bouwkeramiek, VNO-NCW/MKB-NL, InRetail, Brouwers, ONL, NOB).

VII. With regard to methodology, it is advised to review the definition and demarcation of tax expenditures, ensure the quality and independence of evaluations, learn from 'successful' expenditures, take into account in weighting the effect of stacking of expenditures and impact on regulatory burden (IPE and ATR).

Perspective on spending of funds and key issues requiring fiscal arrangements (based on all responses)

The responses from individuals and organisations are fairly similar when answering the questions of how funds should be spent (after any abolition of expenditures) and on which topics fiscal expenditures will continue to be needed.

VIII. Individual respondents felt that freed-up financial resources should preferably be spent on lower charges for all (38%), on the same target group affected by abolition of the expenditure (13%), on the group most in need of financial support by lowering the first income tax bracket rate and/or a generous tax-free base, or on introducing a basic income (17%). Reducing public debt and a more integral consideration at a later date are also regularly mentioned (14%).

IX. Organisations believe that freed-up financial resources should be used for the same target group, for lower generic charges, for lower income support. A fair number of organisations indicate that it is too early to answer this question at this time.

X. Individual respondents consider tax expenditures most important for income support (22%), sustainability/climate/environment (20%), entrepreneurial facilities/family business/BOR (around 19%), the housing market (12%), innovation (12%), competitiveness NL/business/sector (11%) and VAT (7%).

XI. Organisations most frequently mentioned: international competitiveness, income position, entrepreneurship, sustainability/climate, housing market, innovation, VAT, community involvement/volunteers.

4. Outcomes in outline

In Annex 1, all tax expenditures have been assessed using the following four criteria: 1) effectiveness and efficiency, 2) rationale for government intervention, 3) complexity for implementation and enforcement and 4) practicality for the taxpayer. This chapter outlines the results that follow from the assessment of the individual expenditures. Sections 4.1 to 4.4 discuss the aggregate ratings for each criterion after which we zoom in on the individual expenditures that score poorly. Section 4.5 then looks at the expenditures that do not score convincingly on multiple criteria. Box 4 provides more detail on the assessment criteria and methodology. The full description along with the measure-level assessment is included in the annex.

For the purpose of objectivity and quality, the assessments were submitted to research firm SEO for validation. SEO looked at both the methodological approach and the individual assessments. This led to adjustments in methodology, assessments and scores in several areas. Section 4.6 provides a response to SEO's assessment[44], also addressing the broader recommendations that follow from this report. The budgetary amounts in this chapter are based on the 2023 estimate from Annex 9 of the latest Budget Memorandum.[45]

Box 4: assessment criteria and methodology

Delineation of expenditures and assessment criteria

The starting point for this report is the tax expenditures monitored in Annex 9 of the Budget Memorandum. This list has been supplemented with relevant expenditures based on previous research[46] and discussions with stakeholders and experts.

Assessments of effectiveness and efficiency are ranked convincingly positive, uncertain or negative (unless not evaluated) based on previous evaluations. This includes the caveat that rating based on evaluation reports is not a hard science, and using a three-point scale can sometimes lose relevant information. Nevertheless, the scores give a good indication of the degree of effectiveness and efficiency. The need for government intervention considers at least whether there is market or government failure, whether the expenditure primarily touches on redistribution of wealth and whether the expenditure was introduced for implementation reasons. This is also in line with the guidelines used in the former Integral Assessment Framework (IAK) for new policies.[47] It may be that there was a good rationale when a tax expenditure was introduced, but that it is not or less relevant today (policy objective is no longer 'current'). The policy targets under review are based on Annex 10 of the Budget Memorandum. Complexity and enforceability have been assessed by the Tax Administration. This assessment looked at the impact of (abolition of) tax expenditures on IV, on mass processes, on communication and service delivery, on supervision and on

[44] SEO's assessment memorandum is included in Annex 3 to this report.

[45] Parliamentary Papers II 2022-23, 36 200 nr. 1. The estimates in Annex 9 cannot be simply added together since they are abstracted from possible behavioural or interaction effects that occur with policy changes. In addition, these estimates are limited to the fiscal impact on the revenue side of the budget. This does not include the effect on the expenditure side for specific expenditures. For expenditures not included in Annex 9, an attempt has been made to align as much as possible with budgetary estimates from other sources, such as the Court of Audit report 'tax relief expenditures in the spotlight'. No budgetary estimate is included in the report for expenditures where this information is missing.

[46] Among others, Court of Audit (2017). Tax relief expenditures in the spotlight.

[47] The IAK has since been replaced by the Policy Compass.

objections and appeals. The practicality of expenditures was assessed in cooperation with behavioural experts in a similar way to how this is done for new tax measures, namely through a set of questions that estimate the expected impact on the practicality of taxpayers (the practicality scan). This includes consideration of the explicability and transparency of expenditures.

Delineation methodology

There are other aspects that are relevant to the assessment but have not been included in this report. For example, the internet consultation mentioned the impact on broad welfare. However, such effects cannot be systematically compared across expenditures because they are difficult to operationalise and quantify.

Nor does the consideration of whether a tax expenditure is the best instrument constitute a separate criterion in this report. The background is that an answer to this question is not easy to operationalise generically and generally requires in-depth research focused on a specific expenditure. After all, each expenditure has different characteristics and a different target group. If an expenditure is inefficient due to high implementation burdens, for example, or if subsidies or public spending already exist in a particular area, this may warrant further investigation into a design outside the tax system.

For the administrative burden of tax expenditures, an objective estimate based on evaluations is not available for enough expenditures. For this reason, administrative burdens do not constitute a separate criterion. However, administrative burdens - if examined - are counted when assessing the effectiveness of expenditures.

4.1 EFFECTIVENESS AND EFFICIENCY: MANY EXPENDITURES ARE NOT DEMONSTRABLY EFFECTIVE

Figure 4.1 shows that 11 expenditures were convincingly positively evaluated. This means they would most likely also pass the scrutiny framework for tax expenditures. It is notable that these are mainly expenditures that encourage innovation and sustainability, such as the MIA and Vamil - currently under review -, the WBSO and 30% expenditure. Moreover, there may be room for improvement in these expenditures as well. For instance, the review of the 30% expenditure contained several recommendations to make it more effective. Another 6 expenditures are effective but not efficient. This includes a number of VAT expenditures, such as the reduced VAT rate for ornamental horticulture, which do achieve their purpose (stimulating a specific sector), but do so in an untargeted costly way, and are therefore ineffective.

21 expenditures have been evaluated as ineffective and of 41 expenditures, effectiveness cannot be properly determined. The expenditures have budgets of €30 billion and €17 billion respectively. One reason why effectiveness and efficiency often cannot be properly determined ('uncertain') is that objectives are often not clear and measurable. This makes demonstrating effectiveness difficult because it is not clear when a measure is (sufficiently) effective. This obviously also applies to efficiency, as it is not clear beforehand what cost-benefit ratio is considered reasonable. Limited availability of data also plays an important role here. This is the case, for example, of many entrepreneurial expenditures that have been reviewed, such as the self-employment

deduction and the small-scale investment deduction (KIA). Lack of data or variation in the data makes it difficult to make firm statements (many of these entrepreneurial expenditures are currently under evaluation).[48] The same applies to tax exemptions that do not have to be declared, such as the room rental exemption, and to expenditures where quantitative information is lacking, such as the co-work deduction. In these cases, quantitative research is not possible, nor is it often possible to estimate the budgetary cost of an expenditure. Since 1 November 2021, new legislative proposals and reviews of existing regulations should indicate how they are being examined and the data needed for this purpose.[49] Finally, a substantial proportion of expenditures have not yet been evaluated.[50] Reviews will be launched for many of these expenditures in the coming years[51]

Figure 4.1: evaluation outcomes tax expenditures [52]

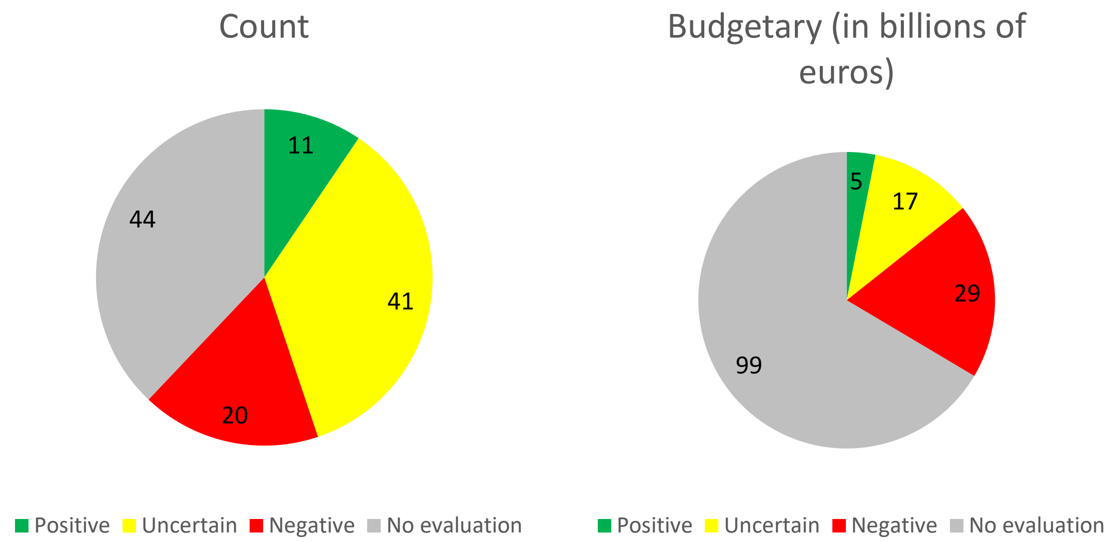


Table 4.1 zooms in on the 21 expenditures that have been negatively evaluated for efficiency, totalling a budget of €30 billion. For 7 of these expenditures, effectiveness was also negatively evaluated. The negative evaluation results can be broadly categorised into three reasons: 1) lack of targeting combined with high budgetary costs, 2) high misuse or enforcement costs, and 3) the obsolescence of the policy objective.

For the various reduced VAT rates - together accounting for a budget of €13.4 billion - evaluations suggest that they are not effective because more targeted instruments are conceivable.[53] For instance, an important overall objective is to support the less well-off, but because everyone, including higher income groups, benefits from the reduced rate, the budgetary loss to reach a specific group is very large. Moreover, in general, differentiated VAT rates lead to discussions on demarcation and legal procedures, resulting in a high implementation burden, which also lessens

[48] These include the self-employed deduction, SME profit exemption, starter's deduction (in case of incapacity for work), cooperation deduction, cessation deduction, random depreciation of starters and the provision expenditure.
[49] To strengthen the evaluation system, from this date it will be mandatory to complete a 'Policy Choices Explained 'framework for all legislative proposals with significant budgetary implications. Part of this framework is the evaluation paragraph that should indicate how and when the proposal will be evaluated and the dates for this.
[50] The fact that the fiscal share of these expenditures is so large is mainly because this includes tax credits and pension expenditures, which are the largest expenditures in fiscal terms.
[51] An overview of the evaluation schedule is given in Annex 9 of the Budget Memorandum.
[52] The fact that the fiscal share of non-assessed expenditures is so large is mainly because this includes tax credits and pension expenditures, which are the largest expenditures in fiscal terms. In addition, the list of tax expenditures in the Budget Memorandum has been repeatedly expanded in recent years.
[53] Dialogic (2023). Review of the reduced VAT rate.

efficiency. Lack of data, proper control groups and unclearly formulated goals often make it difficult to determine effectiveness.

The owner-occupied home expenditure (€6.7 billion), deductions due to no or low owner-occupied home debt (Wet Hillen - €0.6 billion), the tax rebate per connection in the energy tax (€6.4 billion), the energy-saving expenditure (€0.2 billion) and the business succession expenditure (€0.5 billion) were also evaluated as untargeted expenditures with high budgetary costs disproportionate to their purpose. For example, it is debatable whether the home ownership expenditure[54] has led to increased home ownership, while the expenditure does have (macroeconomic) side effects such as higher house prices, higher mortgage debt, a distortion of housing decisions and lower labour mobility.[55] The Hillen Act was evaluated as inefficient in 2019 and has since been phased out by 3 percentage points per year.[56] The objective of the per-connection tax rebate was to equalise the burden of small users to compensate for the introduction of the capacity tariff in 2009. Meanwhile, the original purpose has receded into the background and tax relief has grown in size in recent years. This makes the expenditure effective, but also ineffective due to its lack of targeting; all households (and certain companies) receive this benefit, both those who need it and all others.[57] The possibility of improving the targeting of the expenditure, e.g. by focusing on the residential function, is currently being explored. In the past, the net-metering expenditure was intended to incentivise solar power generation that did not materialise or was limited (external positive effects). Equating the feed-in tariff and the off-take tariff (including tax), leads to lower VAT and energy tax revenues. However, the current payback period of solar panels has become very attractive, making government intervention less necessary (to the same extent).[58] This is the reason why this expenditure will be phased out in the future. The business succession expenditure was evaluated as ineffective because the data showed that in many cases it is not necessary in preventing the imposition of gift and inheritance tax on business succession from hampering the continuity of a business (the purpose of the expenditure).[59]

Erroneous use and high administrative burdens are mainly at play for the deduction of specific healthcare costs and gift deductions (both in personal income tax and corporate income tax).[60] For example, for the deduction of specific healthcare costs, the incorrect use is estimated at 39% of the amount of healthcare costs declared. In addition, for more than a quarter of people, healthcare costs do not result from a chronic illness or disability, and for a quarter only partly. Due to unfamiliarity with the expenditure, there is also significant non-use of the expenditure by taxpayers who are entitled to it. In addition, both the gift deduction and the deduction for specific healthcare costs have a lot of administrative burdens for both members of the public and tax authorities and are difficult to enforce due to a lack of counter-information. For VAT, the current demarcations lead to implementation problems.
In addition, there are still expenditures whose policy objective is outdated and are thus, according to the evaluations, by definition ineffective. These include the agricultural exemption and the low excise duty rate for small breweries. The agricultural exemption was introduced with the aim of ensuring equal tax treatment of the farmer-owner and lessor. The most recent review from 2010 concluded that the agricultural exemption had precisely the opposite effect after the introduction of the Income Tax Act 2001, as agricultural land leaseholders started paying tax in Box 3 (flat rate) on inflation gains, while inflation gains were actually untaxed for farmer-owners due to this expenditure.[61] A review of the agricultural exemption is currently underway. For the low excise

[54] *The owner-occupied home expenditure consists of: the mortgage interest relief, the deduction of financing costs for owner-occupied homes, the deduction of periodic payments of ground rent, superficies and encumbrances, and the owner-occupied home lump sum.*
[55] SEO (2019). Review of effectiveness and efficiency of owner-occupied housing expenditure.
[56] *The deduction due to no or low owner-occupied housing debt will be phased out by 3 percentage points per year until 2048.*
[57] CE Delft (2021). Energy tax review.
[58] TNO (2022). Update effect of phasing out the netting expenditure on payback period of solar panel investments.
[59] CPB (2022). Review of tax expenditures aimed at business transfer.
[60] Dialogic (2022). Review of deduction of specific care costs; Dialogic (2016). Evaluation of gift deduction.
[61] IBO Agro, fisheries, and food chains (2014).

duty rate for small breweries, it was explained earlier in this report that it now leads to a lower effective excise duty burden for smaller breweries, whereas the aim was an equal excise duty burden with large breweries.

Finally, there are expenditures whose purpose is inconsistent with other government goals. For instance, the exemption for energy-intensive processes and the input exemption for energy generation in energy taxation arose from the perspective of international competitiveness (other countries have similar expenditures) and avoiding double taxation, respectively. However, these exemptions are ineffective from an energy transition perspective, as also indicated in the review.[62] Motor vehicle tax (MRB) quarter rates aim to compensate vehicles due to limited use of the road. Its objective is at odds with the basis of the MRB, as the MRB is a tax on property. Furthermore, it is an assumption that these vehicles make limited use of the road; this is not a requirement to benefit from the expenditure, nor is it monitored. On top of this, more than half of motorhomes are suspended at least once for part of the year, resulting in a de facto lower MRB than the applicable quarter rate.[63] There are also expenditures that are inefficient because they are virtually not used, as in the case of the random depreciation of marine vessels.[64]

[62] CE Delft (2021). Energy tax review.
[63] SEO (2022). Review of special expenditures MRB and BPM.
[64] Deloitte (2022). Review of fiscal measures in Dutch maritime policy.

Table 4.1: negatively evaluated tax expenditures for efficiency and/or effectiveness

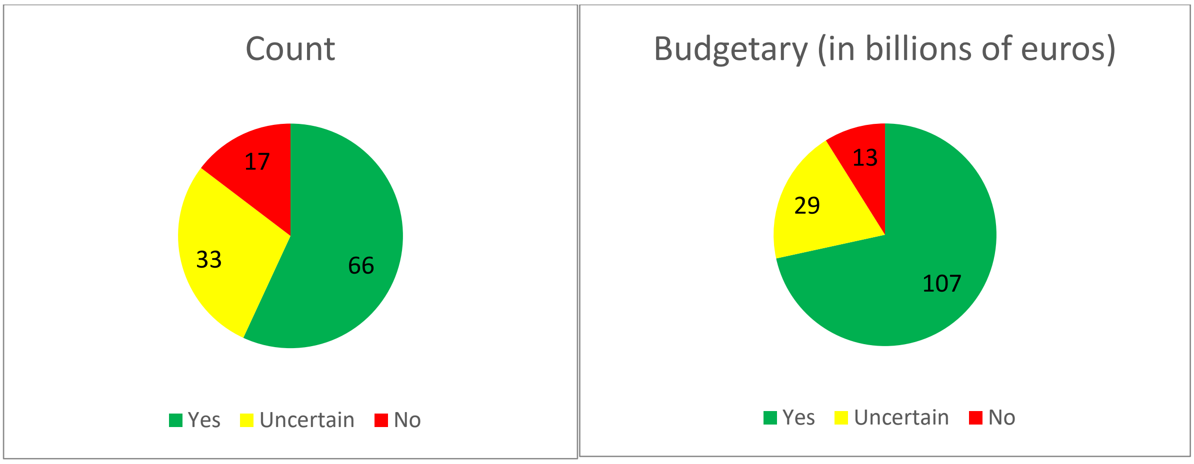
Theme	Tax expenditures	Efficiency	Effectiveness	Rationale for government	Implementation	Feasibility	Budgetary importance	Latest evaluation
Sales tax (VAT)	Reduced rate food and water						7914	2023
	Reduced rate medicines and medical devices						1725	
	Reduced rate for labour-intensive services						971	
	Reduced passenger fare						575	
	Reduced tariff Ornamental Horticulture						290	
	Reduced rate Accommodation services						915	
Reducing burden in the profit sphere	Random depreciation of sea-going vessels						-	2022
	Agricultural exemption in the profit sphere						788	2014
	Gift and inheritance tax Business succession facility						525	2022
	Corporate income tax return						10	2017
Energy tax	Netting expenditure						230	2017
	Exemptions for energy-intensive processes						129	2021
	Tax reduction per connection						6408	2021
	Input exemption for electricity generation						798	2021
Personal allowance	Gift deduction for income tax						440	2017
	Deduction of specific medical expenses						261	2022
Home ownership	Home ownership expenditure						6686	2019
	Deduction due to no or low owner-occupied housing debt						589	2019
Motor vehicle tax	MRB Quarterly rates						240	2022
Insurance premium tax	Aircraft exemption						2	2008
Excise duty	Reduced rate for small breweries						2	2008

4.2 SUBSTANTIATION FOR GOVERNMENT INTERVENTION: ALMOST HALF OF EXPENDITURES LACK GOOD JUSTIFICATION AND SOME HAVE AN OUTDATED PURPOSE

When conducting evaluations, the purpose of an expenditure is generally not in question: the effectiveness and efficiency given the purpose of an expenditure is considered. What may fall into the background in the process is whether the original policy goal is still in line with current events and to what extent government intervention is (still) really necessary. While a tax expenditure may be effective (the goal is achieved), it does not assess whether the goal is still current. However, sometimes a goal is overtaken by the passage of time or it is not always any longer clear what the (economic) rationale for government intervention was.

Figure 4.2 shows that of the 116 expenditures examined, 66 have a positive score on the criterion of justification for government intervention. These are often expenditures that aim to stimulate certain activities with positive externalities, such as promoting sustainable investments, encouraging electric driving or driving innovation. At the same time, this means that the need for government intervention in 50 expenditures is not evident, or is in conflict with other goals. This is the first question in the consideration of whether to make policy (IAK/policy compass), meaning that if these expenditures were newly introduced, they would not pass this test (and the Fiscal Framework Test).

Figure 4.2: assessment underpinning government intervention



17 expenditures were found to have no rationale for government intervention. Seven of these expenditures overlap with the negatively assessed expenditures presented in Table 4.2. These include the owner-occupied home expenditure, deduction no or small owner-occupied home debt (Hillen Act), the agricultural exemption, reduced VAT on ornamental horticulture and accommodation, MRB quarter rates and the reduced excise duty rate for small breweries. Table 4.2 therefore focuses on the 10 expenditures with a negative score for the criterion underpinning government intervention whose efficiency and effectiveness has not yet been examined (5) or has been found to be debatable (4). Together, these expenditures have a budget of €3.8 billion.

The assessments in Annex 1 show that some of the expenditures have an obsolete purpose. Thus, there are regularly cases where expenditures become redundant due to certain legislative changes, but still remain in place. The negatively assessed agricultural exemption was mentioned in the previous section. Other examples include the cooperative deduction and the reduced VAT rate on agricultural goods and the VAT exemption for composers, writers and journalists. The co-employment deduction was introduced in 1985 because at the time there was a ban on an employment contract between spouses. Despite the fact that this ban had already been lifted in 1997, the co-employment deduction remained in place, while the evaluation shows that the co-employment deduction is unlikely to have any impact on encouraging entrepreneurship.[65] The reduced VAT rate for agricultural goods has become obsolete since the expiry of the VAT agriculture expenditure in 2018. Indeed, since then, farmers have been entitled to pre-deduction of VAT, which means that sales tax on purchases is no longer a financial disadvantage.[66] The exemption for composers, writers and journalists dates back to the days when the recipients of these services had no right of deduction, which has long since ceased to be the case.

Sometimes it is not a single change in law that makes a regulation obsolete, but a gradual change in society or policy. For instance, the exemption for civil service anniversaries is less in keeping with the current times when employees are encouraged to continue to learn and be agile. For older workers, this expenditure may also distort labour allocation because they enjoy a tax advantage where they have worked for a long time versus potential other employers. Another example is the discontinuation deduction, the purpose of which was to prevent disputes between the tax authorities and a taxpayer in the event of discontinuing a company (efficiency aspect). With the reduction of the deduction from €20,000 to the current €3,630 on transition to the Income Tax 2001 Act, the expenditure no longer seems to achieve this.[67] These examples show that it is important for evaluations to test not only whether an expenditure is doing what it was designed to do, but also whether the purpose is still current.

In other cases, there seem to be few valid reasons why certain groups or activities should be encouraged (and therefore not others), as with the one-off increased exemption for children in gift tax, or the Box 3 exemptions for arts and sciences and for net pensions and net annuities. The standard tax does not hinder these activities compared to similar taxpayers, while the exceptions do lead to a budgetary loss, increased complexity and wealth inequality. Nor is there (tax) neutrality: similar groups are treated differently. In fact, some of these expenditures have serious negative side effects that go against other government policy goals. The negative side effects of the owner-occupied housing expenditure were discussed in the previous section. The low corporation tax rate and the reduced MRB rate for entrepreneurs' vans also have such serious negative side effects. For instance, the lower corporation tax rate on the taxable amount up to and including €200,000 affects the overall balance between (ordinary) employees, entrepreneurs for income tax purposes and director-major shareholders with their PLCs, and provides a tax incentive to break up corporation tax-liable entities or corporate tax units.[68] The reduced MRB rate for entrepreneurs' vans has a negative impact on the climate and leads to a difference in motor vehicle tax for a van for entrepreneurs and private individuals of almost 100 euros a month.[69]

[65] *SEO (2017).* Review of tax entrepreneur expenditures.
[66] *Dialogic (2023).* Review of the reduced VAT rate.
[67] See sheet 114 in Fiche bundle building blocks for a better tax system.
[68] Parliamentary Papers II 2022-23, 36 202 nr. 7.
[69] SEO (2022). Review of special expenditures MRB and BPM.

Table 4.2: tax expenditures without a clear rationale for government intervention by Theme

Theme	Tax expenditure	Rationale for government	Effectiveness	Efficiency	Implementation	Feasibility	Budgetary importance	Latest evaluation
Reducing burden in the profit sphere	Co-working partner's relief						7	2017
	Business discontinuation relief						17	2014
	Low corporation tax rate						2285	-
Income provisions	Net pension and net annuity						10	2020
	Gift and inheritance tax One-off exemption for children						39	-
Sales tax (VAT)	Reduced tariff on agricultural goods						175	2023
	Exemption for composers, writers and journalists						-	-
Reducing tax burden on wealth income	Exemption for works of art and science box 3						6	-
Income tax	Exemption for allowance for 25- or 40-year service						136	-
Motor vehicle tax	MRB Reduced rate van entrepreneurs						1112	2022

4.3 COMPLEXITY OF IMPLEMENTATION AND ENFORCEMENT

Section 2.3 described how the total of tax expenditures contributes to the complexity of the tax system. The 116 expenditures were also assessed separately for the extent to which they contribute to complexity for implementation and enforcement. The Tax Administration used three scores here: 1) highly complex for implementation and enforcement, 2) complex and 3) moderately complex. Figure 4.3 shows that 42 expenditures were rated as complex and 24 expenditures as very complex. This means that both Tax Administration staff and taxpayers need sufficient expertise to understand this tax regime in order to apply it correctly. As a result, these expenditures also have a higher risk of error by tax authorities and taxpayers.

Figure 4.3: assessment complexity of implementation and enforcement

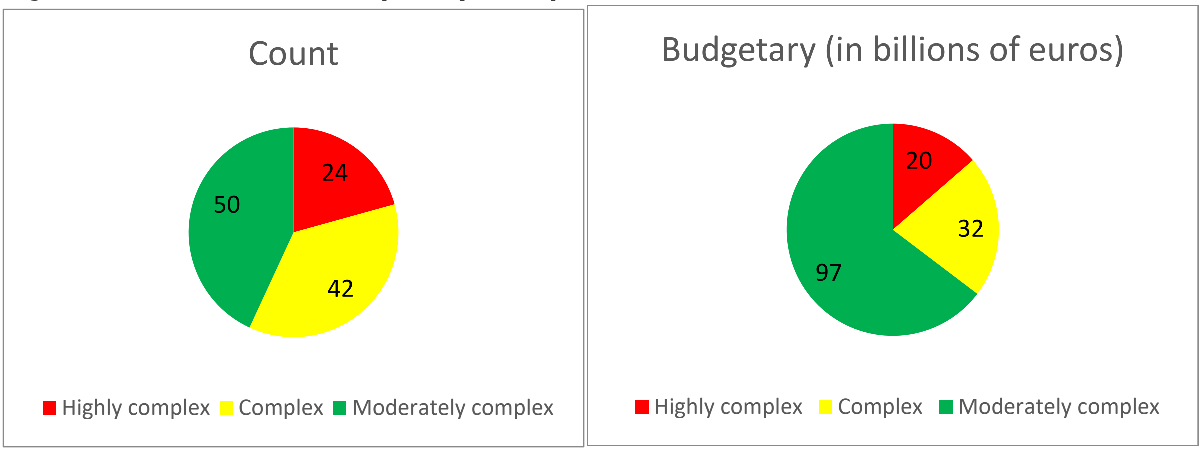


Table 4.3 lists the 24 most complex tax expenditures for implementation and enforcement. The reason why these expenditures are so complex is explained below by theme.

For the various carry-over facilities (discontinuation profit, box 2 and the BOR), the complexity mainly consists of the (possible) confluence of different taxes such as income tax, corporate income tax and gift and inheritance tax. In addition, taxpayers often have significant financial interests in meeting certain conditions, which requires the Tax Administration to determine on a per-transfer basis whether the conditions are actually met. Specifically for the BOR and the carry-over facility in box 2, this involves discussions on whether there is a business in the tax sense and to what extent there are investment assets. Such discussions mostly concern the exploitation of real estate.

In practice, the liquidation and discontinuation loss expenditure is regularly used in a less desirable way.[70] In addition, the application of the reinvestment reserve (HIR) is subject to taxpayers regularly pushing the limits of its reservation possibilities. These expenditures therefore have a significant risk of unwanted use, which means that the Tax Administration checks each liquidation loss separately and, as regards the application of the HIR, the Tax Administration has many discussions with taxpayers about the extent to which presented future expenses and investments are realistic. This makes these expenditures very laborious to implement and enforce.
The agricultural exemption is very laborious to implement due to demarcation problems (i.e. what is actually covered in the specific situation), adjustments in other regulations (e.g. zoning

[70] Based on *case-law of the CJEU, Member States are under certain circumstances obliged to facilitate relief for foreign permanent losses if domestic permanent losses are also deductible*.

changes) and because implementation often requires appraisals or valuations. The 1928 Estates Act (NSW 1928) is complex to implement as it has many conditions that are sometimes difficult for taxpayers to apply in practice. This relates, for example, to the assessment of any tax implications when adapting or changing the estate or its use, as in the case of recreation, and whether this fulfils the conditions of the expenditure under the NSW 1928. This can also lead to a confluence of different taxes such as income tax, corporate tax and gift and inheritance tax. A specific team has been formed at the Tax Administration to implement and enforce this tax expenditure.

In the case of personal deductions, the deduction of specific care costs, the gift deduction and the deduction for maintenance obligations and taxed alimony received, result in significant implementation and enforcement burdens. The deduction of specific healthcare costs is sensitive to tax avoidance structures.[71] For example, it is not always clear whether the costs are related to illness or disability, and the expertise is lacking at the Tax Administration to assessing whether to allocate these specific costs. Also, many errors are made in returns. The gift deduction also has a high risk of tax avoidance structures, which is exacerbated by the lack of counter-information available.[72] The same applies to the deduction of maintenance obligations and taxed alimony received[73] which can lead to many discussions with the tax authorities on both the deduction side and the receipt side and where no linkage to the ex-partners' returns is possible.

A major part of the complexity of energy taxation is caused by the degressive energy tax rate structure.[74] The existence of a degressive rate structure makes it necessary for the energy tax to contain a variety of special arrangements (such as the complex provisions, clustering requests and the block heating tariff) to prevent unintended use of the lower rates. The refund expenditure in energy tax for specific institutions is also very laborious due to the large numbers of refund requests, which have to be assessed individually. Many errors are also found in the refund requests, leading to additional work.

For VAT, any deviation from the main rule leads to additional complexity and discussions with taxpayers on demarcation issues.[75] For reduced rates, this plays out most strongly for the reduced rate for accommodation and for medicines and medical devices. For accommodation rental, the issue is that there is a tax difference between long-term and short-term rental, but that this difference is not as clear as it might be in policy and practice. As an example, the Tax Administration provides temporary housing for migrant workers, students and refugees. The interpretation of the terms medicines and medical appliances is the subject of much litigation. Renewal of medicines and medical appliance products also tend to lead to demarcation issues. The exemption for employers', employees', political, religious, philosophical and charitable organisations also leads to many discussions on exactly which organisations are covered.

The owner-occupied housing expenditure consists of several expenditures, some of the required information of which can be pre-filled, while others are very complex. In particular, the mortgage interest relief and financing cost deduction are complex to implement. For the mortgage interest relief, this is partly because it involves a large number of taxpayers, and partly because the successive rules and conditions make the expenditure very complex in some cases: transitional

[71] *Dialogic (2022). Conditions for the deduction of specific healthcare expenses See also* fiche*24 of the tax system simplification report*.
[72] Dialogic (2016). Evaulation of gift deduction. *See also* fiches 29,30 and 31 of the Tax System Simplification report.
[73] *See fiche 13 of the Tax System Simplification report, which includes a simplification proposal for spousal maintenance in the form of enjoyment of a property.*
[74] CE Delft (2021). Energy tax review.
[75] *Dialogic (2023).* Review of the reduced VAT rate.

law, the additional loan expenditure (from 2004), the annuity expenditure (from 2013), the 30-year period, the tax repayment requirement, the relationship with debts in box 3 and the partner distribution. The deduction of financing costs is complex in implementation because no counter-information is available for it.

In motor vehicle taxation, the MRB quarter rates and the reduced rate on vans are particularly complex for implementation. For MRB quarter rates, different quarter rates result in a lot of manual work and enforcement is laborious because a wide variety of conditions have to be checked on a case-by-case basis. There are various expenditures with different conditions, for example the quarter rate for horse transport and the quarter rate for motorhomes. For the reduced rate for vans, there is a discrepancy between the term 'van' in European regulations and the Road Traffic Act, on the one hand, and the definitions in tax laws and regulations on the other. This is not only unclear for stakeholders, but also entails extra work for both the Tax Administration and Netherlands Vehicle Authority (RDW). In addition, the tax setup requirements for a van are very complex and regularly lead to discussions and proceedings on their interpretation and logic and on the measurement methodology.

The insurance tax exemptions for transport insurance and export credit insurance are very complex and laborious to implement for the tax authorities. For both insurances, each situation should be assessed individually, with transport insurance also taking into account mixed insurance policies with taxed/untaxed elements.

The option requirement for partial foreign tax liability is complex for implementation because the tax return form does not explicitly indicate whether or not the taxpayer uses this option expenditure. This means that the Tax Administration has no available data to verify the foreign assets and wealth income declared or not declared by the taxpayer. This complicates monitoring and also enforcement.

Table 4.3: tax expenditures scoring worst on practicality and enforcement

Theme	Tax expenditure	Implementation	Effectiveness	Efficiency	Rationale for government	Feasibility	Budgetary importance	Latest evaluation
Reducing burden in the profit sphere	Transfer of discontinuation profit						320	2022
	Carry-over expenditures for gains from a						124	2022
	Liquidation and discontinuation loss						770	-
	Agricultural exemption in the profit sphere						788	2014
	Gift and inheritance tax Business succession						525	2022
	Reinvestment reserve						10-100	-
Personal allowance	Gift deduction for income tax						440	2017
	Deduction of specific medical expenses						261	2022
	Maintenance obligations deduction and taxed alimony received						60	-
Energy tax	Refund church buildings and non-profit						20	2021
	Degressive electricity tariff structure						1526	-
	Degressive gass tariff structure						2216	-
Sales tax (VAT)	Reduced rate medicines and medical devices						1725	2023
	Reduced rate Accommodation services						915	2023
	Exemption trade unions, employers' organisations, political parties, churches						179	-
Home ownership	Home ownership expenditure						6686	2019
	Transfer tax exemption housing starters						453	-
Motor verhicle tax	MRB Reduced rate van entrepreneurs						1112	2022
	MRB Quarterly rates						240	2022
Insurance premium tax	Transport insurance exemption						50	2020
	Export credit insurance exemption						20	2020
Income tax	Right of option for partial foreign tax liability						-	-
Tax credits	Income-related combination tax credit						1868	-
Reducing tax burden on wealth income	Tax facilities Estates Act						46	2014

4.4 FEASIBILITY

The concept of practicality was introduced in 2017 in the WRR report 'knowing is not yet doing'.[76] Central to this is the notion that people, even well-informed, intelligent and highly educated people, are not always sufficiently able to take the necessary actions because too great a demand is made on their abilities. In this context, 'practicality' relates to aspects like self-control and perseverance. Like cognitive abilities, this ability is not equally distributed among people. A person's degree of practicality is related to both predisposition and environmental factors: in particular, poverty, money worries and stressful life events such as divorce, moving house and illness can significantly limit people's practicality temporarily or long-term. As a result, even seemingly simple actions, such as sending a letter on time, can become a major stumbling block.

Some parts of the tax system may make relatively big demands on taxpayers' practicality. Since 2021, a 'practicality scan' has been conducted when designing fiscal measures. This includes consideration of the number and type of actions required of the target group and the extent to which these may coincide with circumstances that may constrain the ability to do. Here, behavioural experts considered the size and nature of the target group (including in terms of financial stress, concurrence with life events and access to professional help or counselling) and the number and type of actions required.

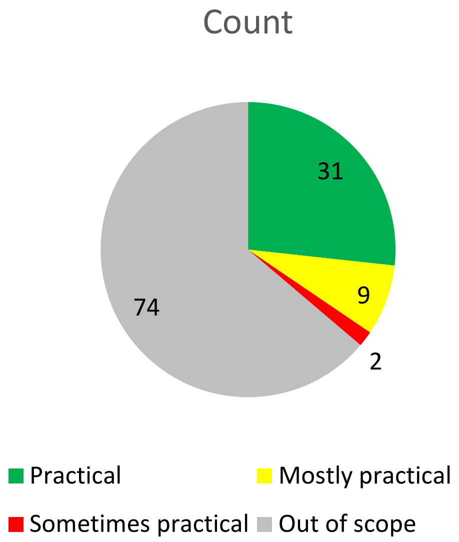
For not all 116 tax expenditures, practicality is an equally relevant criterion, e.g. because the expenditure primarily appeals to the practicality of tax professionals. Thus, entrepreneurs, as well as companies, will often work with an administration or tax consultancy or, in the case of large companies, have in-house tax expertise. That said, there may be great complexity for the taxpayer, in some cases that will be the very reason for the use of professional expertise. In such cases, practicality is not a concern, as these professionals are basically well placed to take the necessary actions. Even for expenditures dealing with indirect taxes - such as VAT or energy tax - practicality is a less relevant criterion. Under these expenditures, no actions are generally required of the taxpayer or ultimate consumer whose practical ability is called upon. At the same time, it cannot be ruled out that the above arrangements may be less practical or practical only to a limited extent for some people and in some situations, but they are expected to be mostly feasible. Of the expenditures where practical ability does represent a concern, the majority are rated as feasible. These include expenditures that are automatically applied in the tax return and thus, by definition, do not call on people's practical ability. Here too, in some cases these expenditures can still be a major drain on practicality. For instance, the tax credits were assessed as feasible because they are automatically processed for most taxpayers when they file their returns. At the same time, tax credits can still cause surprises in some cases. For example, if someone has several employers and earns enough, they may end up having to pay extra after filing their income tax return because the wage tax to be withheld did not adequately take into account the income-dependent reduction of tax credits due to the second and subsequent jobs.

Three expenditures are estimated to regularly make significant demands on taxpayers' practical ability. For eight expenditures, it is estimated that they sometimes make significant demands on practical ability. It is relevant here that certain expenditures may be practical in isolation, but may turn out to be a lot less feasible in conjunction with other expenditures. This is the case, for example, when, due to a divorce and a resulting house sale and relocation, a person simultaneously faces a number of tax regulations that require an accumulation of necessary

[76] WRR (2017). *Knowing is not yet doing: a realistic perspective on self-reliance* (No. 97).

actions. Furthermore, the (political) desire to provide customisation in these kinds of situations can often be at odds with the principle of keeping regulations simple and feasible.

Figure 4.4: assessment of the practicality of tax expenditures



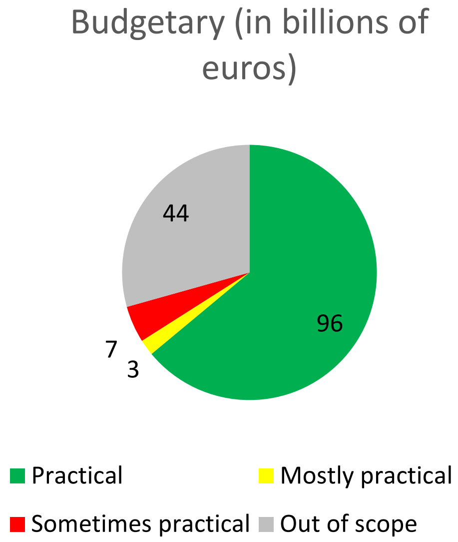


Table 4.4 summarises the 11 expenditures where it is estimated that they sometimes or regularly make significant demands on some taxpayers' practical ability. These include the owner-occupied home expenditure and the deduction for no or low owner-occupied home debt. There are several reasons for this. For instance, the expenditure requires various actions from people, such as tracking and looking up finance charges and mortgage statements. In addition, deduction-limiting rules such as the tax repayment requirement, the 30-year period and the additional loan rules, can become very complex in certain situations, for instance when partners with different life histories take out a new mortgage together. Finally, the expenditure covers people who, in some cases, face stressful circumstances that may constrain the ability to do things, such as a move and/or divorce.

The following three personal deductions are also judged to regularly make significant demands on the practical ability of some taxpayers: the gift deduction, the deduction for specific care costs and the maintenance allowance. These judgements reflect, among other things, the number and type of actions required of the target group - such as having to find out whether certain healthcare costs are deductible. For the specific care costs deduction and for the maintenance obligations deduction, practicality is an additional concern because the target group faces circumstances (illness, divorce) that may limit practicality.
In the case of the entrepreneurial start-up deduction and the incapacity-for-work start-up deduction, the assessment is that these expenditures sometimes make significant demands on practical ability. Keeping a record of hours (in connection with the hours criterion) requires some effort for start-ups that do not yet have experience/routine with this. It is expected that after the first or second year, the reliance on practical ability is no longer significant. Annuity tax relief can also significantly drain taxpayers' practical ability in some cases if they do not have access to professional tax advice. This applies, for example, to a proportion of low-income self-employed workers and workers with incomplete pension accrual, for whom the complexity of the expenditure may be a barrier. The start-up deduction will be reviewed in 2023.

For travel deductions, the OV chip card has made it easy to obtain a record of trips. At the same time, the expenditure requires people to make their own selection of commutes, which - even for digitally proficient people - requires effort. It is estimated that the reduced MRB rates for vans for (i) entrepreneurs and (ii) disabled people sometimes make significant demands on practical ability. This is linked to the equipment requirements for vans: when taxpayers make modifications to their vans, they must keep an eye on whether this still meets these requirements and, in certain cases, correspond about this with the Tax and Customs Administration or RDW, sending a statement, conversion drawing and conversion note.

Table 4.4: tax expenditures that sometimes or regularly make significant demands on practical ability

Theme	Tax expenditures	Feasibility	Effectiveness	Efficiency	Rationale for government	Implementation	Budgetary importance	Latest evaluation
Personal allowance	Gift deduction for income tax						440	2017
	Deduction of specific medical expenses						261	2022
	Maintenance obligations deduction and taxed alimony received						60	-
Home ownership	Home ownership tax expenditure						6686	2019
	Deduction due to no or low owner-occupied housing debt						589	2019
Income provisions	Annuity tax facilities						695	-
	Commuting allowance public transport						6	-
Reducing burden in the profit sphere	Start-up deduction						107	2017
	Relief for new businesses in case of occupational disability						1	2017
Motor vehicle tax	MRB Reduced rate van entrepreneurs						1112	2022
	MRB Reduced rate van for disabled persons						18	2022

4.5 UNCERTAIN WHETHER EFFECTIVE AND/OR EFFICIENT

The previous paragraphs show that many of the tax expenditures score inadequately on one of the criteria. The analysis shows that, in addition, there is a group of expenditures that do not score inadequately on one of these criteria, but score 'uncertain' on multiple criteria. Overall, 39 expenditures score uncertainly on efficiency and 34 on the rationale for government intervention. Table 4.5 presents the 14 expenditures that score uncertainly on both criteria. It is important to also look critically at expenditures with uncertain outcomes, given that they cost almost €5 billion, add complexity to the system and require enforcement and IV capacity.

It is noteworthy that most of these expenditures look at reducing the burden in the profit sphere with the aim of encouraging entrepreneurship. These include the self-employed deduction, starter's deduction (in case of disability), random depreciation of starters and the SME profit exemption. The rationale behind these incentive expenditures is that small entrepreneurs may grow into larger companies, thereby contributing to innovativeness, employment and economic growth. Empirical evaluations show that this carry-over effect is very limited, making the expenditures costly and untargeted.[77] At the same time, tax incentives for entrepreneurship lead to a more unequal relationship between employment and entrepreneurship, which may also encourage self-employed people to take potentially excessive risks.[78] [79] Many of the entrepreneurial expenditures will be reviewed in 2023. A similar unfocused approach is evident from the review of the carry-over expenditures (discontinuation gains and substantial interest income in Box 2). Taxation as a result of a business succession could jeopardise the continuity of businesses. Based on the idea that an acute payment of tax on transferring a business can be a bottleneck for business transfer in certain cases, tax expenditures have been designed for business transfer. However, the review shows that very few cases involve liquidity problems on transfer.[80]

In addition, table 4.5 includes some expenditures that encourage specific sectors or activities, for which the rationale is debatable. These include, for example, the energy tax refund for church buildings and non-profits, the reduced energy tax rate for greenhouse horticulture, the MRB exemption for taxis and public transport, the transfer tax exemption for cultivated land and the room rental exemption in income tax. Such tax breaks not only create distortions between sectors and economic activities, but also sometimes lead to inconsistencies with other policy goals; for example, the aforementioned exemptions in the energy tax are at odds with energy transition objectives. A specific category within this are expenditures that incentivise specific sectors with the aim of preventing distortions in international competition. This concerns, for example, excise duty exemptions on fuel for inland vessels (Community waters). The question is what not having these expenditures really does for Dutch competitiveness. At the same time, these expenditures do distort transport decisions and leave the negative externalities of fuel use unpriced.[81]

Table 4.5: tax expenditures scoring 'uncertain' on both efficiency and rationale for government intervention

Theme	Tax expenditure	Efficiency	Effectiveness	Rationale for government	Implementation	Feasibility	Budgetary importance	Latest evaluation
Reducing burden in the profit sphere	Self-employed deduction						1254	2017
	Start-up deduction						107	2017
	Relief for new businesses in case of occupational disability						1	2017
	Random depreciation start-ups						8	2017

[77] *SEO (2017). Review of tax entrepreneur expenditures.*
[78] *See, for example: WRR (2020), The better work. The new social mission, or Committee on Regulation of Work (2020), What kind of country do we want to work in?*
[79] *Furthermore, the SME profit exemption - when set at the right level - actually contributes to the overall balance between entrepreneurs for income tax purposes and director-major shareholders with their PLCs.*
[80] CPB (2022). Review of tax expenditures aimed at business transfer.
[81] Ministry of Finance (2008). Excise tax expenditure evaluation report.

Theme	Tax expenditure	Efficiency	Effectiveness	Rationale for government	Implementation	Feasibility	Budgetary importance	Latest evaluation
	Transfer of discontinuation profit						320	2022
	Carry-over expenditures for gains from a substantial interest (box 2)						124	2022
	SME profit exemption						2230	2017
	Small projects investment credit						522	2017
	Transfer tax Exemption of cultivated land						258	2014
	Gift and inheritance tax Facilities PBOs						237	2017
Energy tax	Reduced rate greenhouse horticulture						142	2021
	Refund church buildings and non-profit						20	2021
Motor vehicle tax	MRB Exemption taxis and public transport						50	2022
Excise duty	Exemption of Community waters						1284	2008

4.6 SEO ASSESSMENT

For the purpose of objectivity and quality, the assessments were submitted to research firm SEO for validation. SEO looked at both the methodological approach and the individual assessments. This led to adjustments in methodology, assessments and scores in several places. SEO concludes the following about the ratings:

"*The judgements of the finance ministry have generally been found to be plausible, mutually consistent and well-founded, insofar as the latter is possible. After all, good evaluation studies are not available for all tax expenditures*."

The full assessment report is included in Annex 3. In it, SEO makes four recommendations that can be summarised as follows:

1. Keep the description of targets in Annex 10 of the Budget Memorandum up to date and make the targets more concrete. This allows a better assessment of effectiveness, efficiency and the rationale for government intervention.
2. Indicate the economic and financial importance of each expenditure. This information is important to assess whether the (transaction) costs of government intervention and possible government failure can be justified.
3. When assessing effectiveness and efficiency, use a five-point scale instead of a three-point scale. This allows for more nuance in judgement, which can also include the evidence base of the study.
4. If the rationale for government intervention is government failure or an uneven international playing field, look first at whether this government failure can be solved at the source, for instance through international cooperation.

5. Recommendations

Based on the analysis of the 116 expenditures and SEO's response to them, this report makes five recommendations:

1. **Be cautious about using tax expenditures.** In line with previous reports, this report shows that tax expenditures lead to higher statutory tax rates, more complexity and higher implementation and enforcement costs. The report therefore recommends strict application of the Fiscal Assessment Framework for new expenditures and consideration of ex-ante research. If the rationale for a tax expenditure involves government failures or international competitiveness, the recommendation is to first look at whether these government failures can be addressed at source, for example through international cooperation.
2. **Critically examine expenditures that score poorly on one or more criteria.** This report shows that some of the expenditures scored poorly on one or more of the assessment criteria and that existing recommendations from evaluations were often not followed. The overviews in this report help weigh up whether or not to continue tax expenditures, modify them or deploy more data collection to achieve better impact measurement.
3. **Update the objective of tax expenditures in the Budget Memorandum and formulate it as specifically and measurably as possible**. This report shows that the original purpose of some tax expenditures is now outdated. In addition, for many expenditures, good impact measurement does not appear to be possible because the objectives are not formulated concretely enough or because insufficient data is available. The advice is therefore to regularly review whether the targets as listed in Annex 10 of the Budget Memorandum are still current, concrete and measurable. It is also recommended that timely consideration be given to what data is needed for proper impact measurement in the future. The mandatory evaluation paragraph for new regulations under Article 3.1 of the Government Accounts Act (CW3.1) can help in this regard and has already been better applied in recent years.
4. **Improve the overview of evaluation outcomes and pay more attention to the evidence base.** This report shows that some of the tax expenditures are not (yet) monitored or evaluated and that it is difficult to compare evaluation outcomes of different expenditures. Therefore, it is recommended that the overview in the Budget Memorandum be expanded to include more information on the evidence base of evaluations and subsequent recommendations. The advice is also to standardise the assessment of efficiency, effectiveness and evidential value in evaluations and reiterate the recommendation from the evaluation audit of tax expenditures to improve the quality - including evidential value - of evaluations.[82] Both points contribute to better comparability of evaluation outcomes and a more unified overall picture of them.
5. **When assessing policies, look explicitly at the need for government intervention, implementation and practicality.** Reviews often focus on the effectiveness and efficiency of policies. This report shows that there is no or no longer any justification for a number of tax expenditures and, in addition, there are expenditures that are difficult to implement or depend too much on the practical ability of taxpayers. It is therefore recommended that both evaluations and policy-making (the formulation of policy theory) explicitly address these issues. It is preferable to use the fiscal review framework and the policy compass as early as possible in the process - ideally prior to decision-making.

[82] Ministry of Finance (2020). Report on evaluation audit tax expenditures.

Annex 1: Summary table

Tax expenditures	Budgetary importance	Effectiveness	Efficiency	Complexity of implementation	Feasibility	Rationale government intervention
Gift deduction for income tax	440					
Deduction of specific medical expenses	261					
Maintenance obligations deduction and taxed alimony	60					
Pension tax relief	21227					
Annuity tax facilities	695					
Net pension and net annuity	10					
Disability insurance tax credits	152					
Commuting allowance public transport	6					
Gift and inheritance tax One-off exemption for children	39					
Home ownership expenditure	6686					
Deduction due to no or low owner-occupied housing debt	589					
Transfer tax Reduced rate housing non-starters	4353					
Transfer tax exemption housing starters	453					
Transfer tax Exemption buyback VoV (conditional sale) homes	54					
Room letting exemption	15					
Exemption rights to certain capital distributions	1081					
Exemption rights to capital payment on decease box 3	43					
Green investment box 3 exemption	19					
Green investment box 3 tax credit	40					
Box 3 tax-free wealth	1615					
Tax facilities Estates Act	46					
Exemption for works of art and science box 3	6					
Box 3 forest and natural land exemption	7					
Self-employed deduction	1254					
Start-up deduction	107					
Relief for new businesses in case of occupational disability	1					
Co-working partner's relief	7					
Business discontinuation relief	17					
Research and development deduction	4					
Random depreciation start-ups	8					
Transfer of discontinuation profit	320					
Carry-over expenditures for gains from a substantial interest (box 2)	124					
SME profit exemption	2230					
Business use exemption	20					
Low corporation tax rate	2285					
Innovations box	2258					
Liquidation and discontinuation loss expenditure	770					
Small projects investment credit	522					

Tax expenditures	Budgetary importance	Effectiveness	Efficiency	Complexity of implementation	Feasibility	Rationale government intervention
Energy-saving investment credit	249					
Environmental investment credit	194					
VAMIL	25					
Tonnage expenditure profits from maritime shipping	127					
Random depreciation of sea-going vessels	3					
Agricultural exemption in the profit sphere	788					
Exemption for income from forestry activities	5					
Forest and nature management fee exemption	14					
Transfer tax Exemption of cultivated land	258					
Transfer tax Family business transfer exemption	29					
Gift and inheritance tax Business succession facility	525					
Gift and inheritance tax Facilities PBOs	237					
Corporate income tax return	10					
Reinvestment reserve	10-100					
Work-related expenses expenditure	-					
Remittance reduction for research and development WBSO	1370					
30% rule	788					
Right of option for partial foreign tax liability	-					
Remittance reduction shipping	105					
Exemption for allowance for 25- or 40-year service	136					
Transfer tax Urban restructuring exemption	2					
Transfer tax Farmland Management Agency exemption						
Transfer tax Exemption for rural development	1					
Transfer tax Natural land exemption	4					
General tax credit	25777					
Employed person's tax credit	31760					
Income-related combination tax credit	1868					
Young disabled person's tax credit	198					
Single elderly persons tax credit	611					
Elderly person's tax credit	4825					
Energy Tax Reduced rate greenhouse horticulture	142					
Energy Tax Refund church buildings and non-profit	20					
Energy Tax Netting expenditure	230					
Energy Tax Exemptions for energy-intensive processes	129					
Energy Tax rebate per connection	6408					
Energy Tax District heating expenditure	58					
Energy Tax Reduced rate public charging stations	23					
Energy Tax Input energy tax exemption for electricity generation	798					
Energy Tax Input exemption coal tax for power generation	96					
Energy Tax Input coal tax exemption for dual consumption	28					
Energy Tax Degressive electricity tariff structure	1526					

Tax expenditures	Budgetary importance	Effectiveness	Efficiency	Complexity of implementation	Feasibility	Rationale government intervention
Energy Tax Degressive gas tariff structure	2216					
VAT Reduced rate food and water	7914					
VAT Reduced rate medicines and medical appliances	1725					
VAT Reduced rate cultural goods and services	993					
VAT Reduced rate labour-intensive services	971					
VAT Low passenger transport	575					
VAT Low Ornamental horticulture	290					
VAT Low Accommodation	915					
VAT Reduced rate agricultural goods	175					
VAT Zero rate solar panels	31					
VAT small business expenditure	301					
VAT Zero rate international passenger transport	-					
VAT exemption sports clubs	45					
VAT exemption item	38					
VAT Exemption trade unions, employers' organisations, political parties, churches	179					
VAT exemption fundraising	50					
VAT exemption for composers, writers and journalists	-					
VAT Exemption funeral services	-					
BPM Zero emission vehicles	40					
Lower MRB rate (nil/discount) zero emission vehicles	260					
Income tax/payroll tax credit for additional taxable benefit for zero-emission cars	338					
MRB Exemption taxis and public transport	50					
BPM Refund and MRB Exemption vehicles public interest	45					
MRB Reduced rate van entrepreneurs	1112					
MRB Reduced rate van for disabled persons	18					
MRB Exemption motor vehicles over 40 years old	99					
MRB Quarterly rates	240					
MRB Half-rate plug-in hybrid cars	56					
Waste Tax Exemption Broad Weather Insurance	6					
Waste Tax marine exemption	15					
Waste Tax exemption aircraft	2					
Waste Tax exemption transport insurance	50					
Waste Tax export credit insurance exemption	20					
Excise duties Exemption of alcohol and motor fuel diplomats	-					
Excise duty Exemption Community waters	1284					
Excise duty Exemption of aircraft	2123					
Excise duty reduced rate small breweries	2					