

# **Failed Tax Reform**

## **Rethinking Tax Policy Priorities**

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**Universiteit  
Leiden**  
The Netherlands

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# Introduction

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Scientific Director Research Program Reforming Social Security

Member Tax Committee (Cie-Van Dijkhuizen)

## Topics

- Distribution tax-benefits social security and pensions
- Tax policy
- Reforming social and tax regulations
- Poverty EU and OECD / Lisbon Agenda / Europe 2020



# Environment

- ❑ Debate Tax Reform is going on for a while: Committee Van Weeghel (2010) and Committee Van Dijkhuizen (2012/2013)
- ❑ Major Tax Reform 2001 (preparation 1997)
- ❑ Mirrlees Review (2011) → current tax system (dis)incentives for labor participation (high marginal rates labor income)
- ❑ Tax Committee – Report (2012) and Final report (2013)
- ❑ Parliament called-upon: *Kamerbrief Keuzes voor een beter belastingstelsel* (2014)
- ❑ Political support for a major reform .....
- ❑ European Commission and OECD encourage to adjust Dutch tax system



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# Setting the scene

A good tax system raises the revenues needed to finance government spending in a manner that is simple, equitable and growth-friendly.

Agreement → Dutch tax system could be improved.  
Perennial calls for tax changes range from minor tune-ups to complete overhauls.

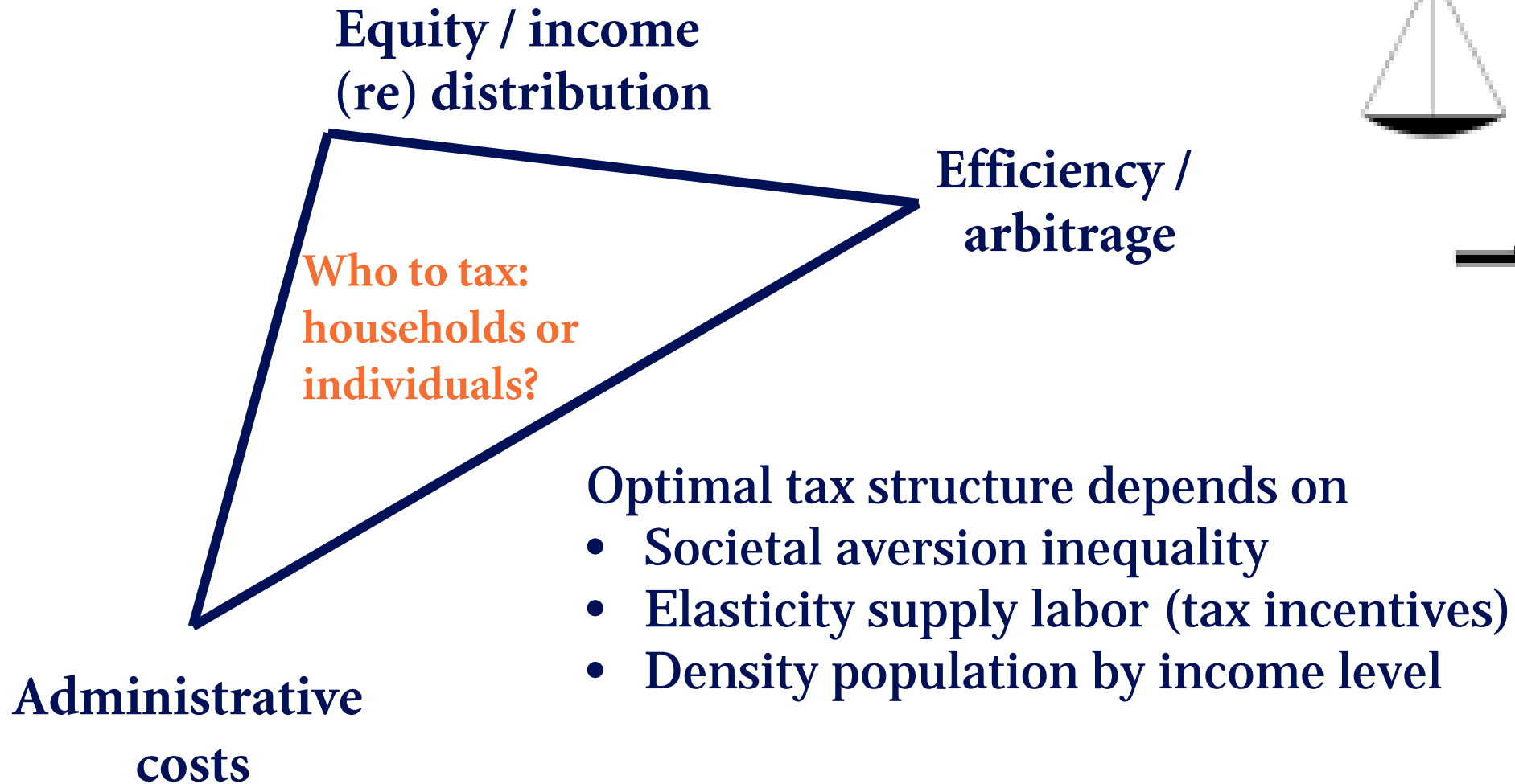
Within the political arena there is strong disagreement, however, about which issues are most important and how they should be addressed.

In the real world (i.e. not the one inhabited by tax theorists), proposals for tax reform are constrained by politics.



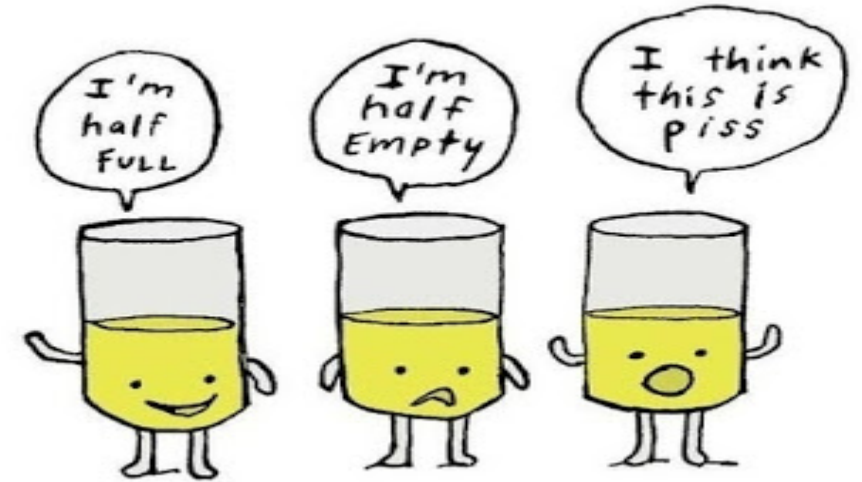
"It's a simple recipe. Add politics to economics, you get tax law."

# Trade-offs Tax Reform



# Misperceptions Tax Reform 2015 - Agenda

1. We did have a Tax Reform, didn't we?
2. Tax Law may or may not discriminate?
3. Lessons Optimal Taxation not well understood
  - a) Less distortions tax mix
  - b) Less distortions PIT and SSC
  - c) Less deductions and anomalies: shortening of the tax balance
  - d) Individuals versus households: Rethinking Allowances
4. Rising income inequality and top incomes: a big issue?
5. Wealth concentration: a big issue in international perspective?
6. An artifact: presumptive taxation of wealth (excluding housing)
7. Summing-up: What can be done?



# Ad 1 We did have a Tax Reform, didn't we?

- ❑ Coalition Agreement: 5 billion tax cut
- ❑ Chart of the origin and spending of the yield of the Tax Committee's proposals

<b>Yield</b>	2017	struc
Housing (own and rented)	2,9	12,1
Pensions	2,5	3,8
Self-employed	1,1	2,1
Streamlining	0,5	0,5
VAT	5,7	5,7
<b>Total</b>	<b>12,6</b>	<b>24,3*</b>



<b>Spending</b>	2017	struc
Lowering of wage tax and income tax	11,8	22,3
Housing	0,8	2,0
<b>Total</b>	<b>12,6</b>	<b>24,3</b>

# Ad 1 Comparison Proposal vs. Coalition Agreement(s)

Tax Committee	Coalition Agreement
<b>Arbeidsparticipatie</b>	
Verlagen tarief tweede en derde schijf naar 37 procent, tarief eerste schijf. Op termijn verdere verlaging.	Op termijn mogelijk verlaging tarief tweede en derde schijf (gefinancierd uit opbrengst verplichte annuïtaire hypotheek). Algemene heffingskorting afbouwen met drie procent in 2017 over inkomen in tweede en derde schijf (vergelijkbaar met tariefverhoging).
Verlagen toptarief naar 49 procent. Op termijn verdere verlaging.	
Verhogen begin toptarief met 5.500 euro	Verhoging begin toptarief met 3.000 euro. Op termijn verdere verhoging (gefinancierd uit beperking aftrekpercentage hypotheekrente).
Verhogen arbeidskorting met 400 euro	Verhogen arbeidskorting met 900 euro
Minder steil afbouwen arbeidskorting, maar wel afbouwen tot nul.	Volledig afbouwen naar nul
Helder onderscheid activerende belastingheffing op individueel inkomen en inkomensondersteuning op huishoudinkomen	
Kinderopvangtoeslag activerender maken door deze te baseren op inkomen minstverdienende partner	
Verhoging algemene heffingskorting met 300 euro	Verhoging algemene heffingskorting met 200 euro
<b>Verschuiving indirecte belastingen</b>	
Verhoging BTW-tarieven met twee procentpunten	Verhogen diverse accijns, assurantiebelasting
<b>Woningmarkt</b>	
Aftrek hypotheekrente tegen 37 procent, tarief eerste schijf.	Maximum percentage aftrek hypotheekrente beperken met een half procentpunt per jaar tot 38 procent.
Aftrek in de vorm van een heffingskorting (einde doorwerking naar toeslagen + compensatie kinderopvangtoeslag)	De beperking in de vorm van een extra heffing (geen einde doorwerking naar toeslagen)
Hypotheekrente voor nieuwe en bestaande gevallen gemaximeerd volgens forfaitair-annuïtair schema.	Geen aanpassing (dus als bij begrotingsakkoord verplicht annuïtair voor nieuwe gevallen, geen verandering bestaande gevallen)
Afschaffen kapitaalverzekering eigen woning voor nieuwe gevallen.	Afschaffen kapitaalverzekering eigen woning voor nieuwe gevallen.
Afschaffen overdrachtbelasting	Geen aanpassing
Maximale huur naar 4,5 procent van de WOZ-waarde	Geen aanpassing



# Ad 1 Nomenclature and Framing: Tax reform, package or ordinary yearly budget plan (*Belastingplan 2016*)?

Tax reform announcement: noisy, hardly any substance?

Small package, but hopefully piecemeal engineering: 5 billion euro tax cut  $\neq$  reform

Open goal ... Framing of tax cuts! Since 2011: increase of taxes 19 billion  $\rightarrow$  elections coming up + lower taxes for growth

Sense of urgency for reform is still missing. Current: sloppy tax system. We can do much better: change tax mix, tax code and allowances  $\rightarrow$  welfare improving tax policy  $\rightarrow$  quarter of a million jobs!



# **Ad 2 Tax Law may or may not discriminate?**

## **Unexpected difference in tax ratios**

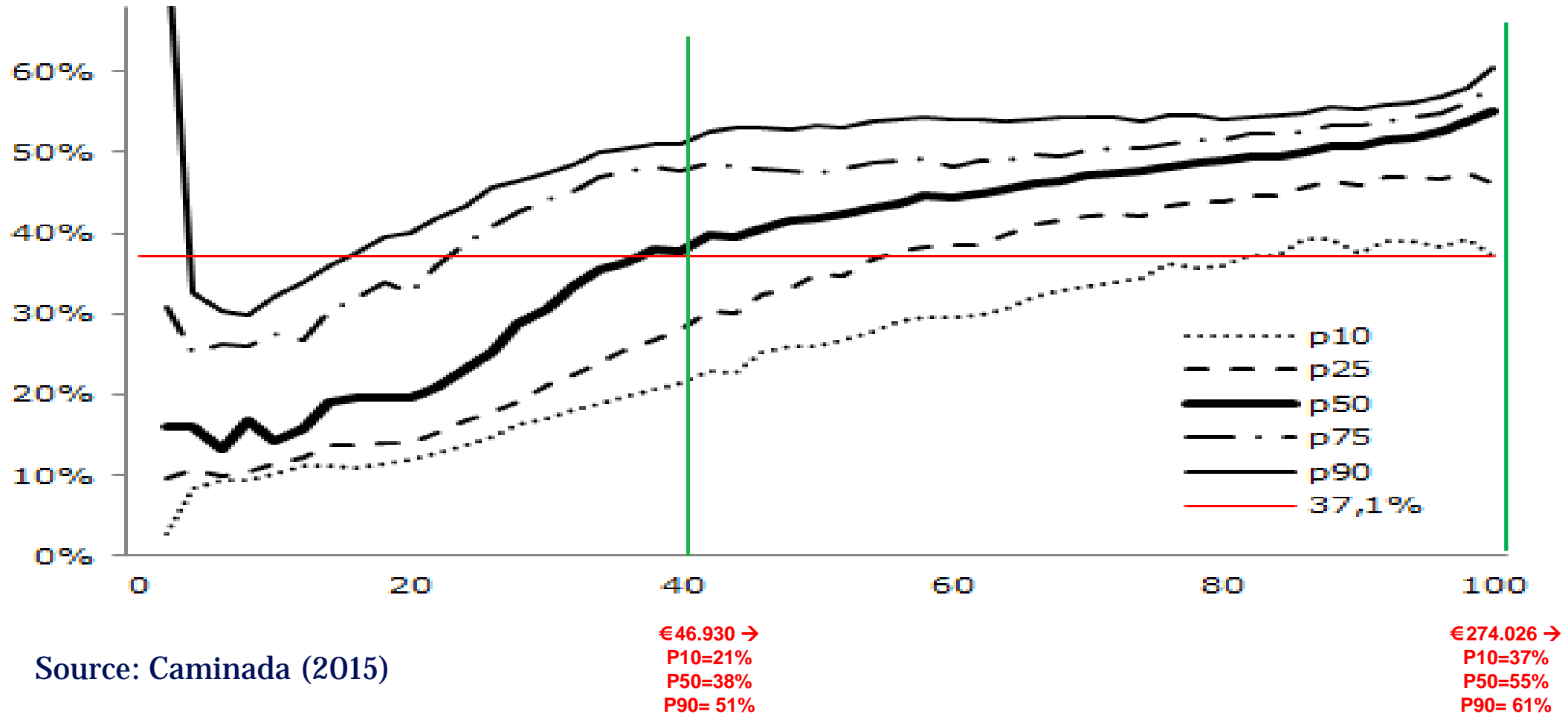
Differences in tax ratios hardly depend on income, but:

- Household composition (alone / cohabitants / kids)
- Division of income between partners
- Preference raising kids (kindergarten)
- Preference home ownership (mortgage interest)
- Labor market status
- Patterns of labor (sole earner, two earner couples, self-employed)
- Interest debts deductible; income from saving taxed



# Ad 2 Median tax ratios 2012

$$\text{Tax ratio} = \frac{\text{Gross income} - \text{Disposable income}}{\text{Gross income}}$$



Policy: To what extent will society take differences in income and other factors into account by determining tax ratios?

# Ad 3 Lessons Optimal Taxation not well understood

- a) Less distortions tax mix
- b) Less distortions PIT and SSC
- c) Less deductions and anomalies: shortening of the tax balance
- d) Individuals versus households: Rethinking Allowances

For an individual whose wage is  $w$ , its budget constraint is given by

$$\sum_j q_j x_j = \sum_j (x_j + t_j(x_j)) = wL - T(wL),$$

where  $q_i$  and  $x_i$  are the price and the purchase of the  $i$ -th commodity, respectively.

To maximise the utility function, the first order condition is:

$$U_j = \frac{(1 + t'_j)(-U_L)}{w(1 - T')} \quad (j = 1, 2, \dots, N).$$

The government maximises the social welfare function, and so

$$\int_0^\infty \left[ wL - \sum_j x_j - \bar{R} \right] dF = 0.$$

Then we use a density function  $f$  to express the Hamiltonian:

$$H = \left[ G(U) - \lambda \left\{ wL - \sum_j x_j - \bar{R} \right\} \right] f - \mu \theta U_L.$$

Taking its variation with regard to  $x_j$ , we use the condition for its maximum.

$$-\lambda \left[ \left( \frac{\partial x_1}{\partial x_j} \right)_U + 1 \right] - \frac{\mu \theta}{f} \left[ \frac{\partial^2 U}{\partial x_1 \partial L} \left( \frac{\partial x_1}{\partial x_j} \right)_U + \frac{\partial^2 U}{\partial x_j \partial L} \right] = 0.$$

Then the following relation holds:

$$\left( \frac{\partial x_1}{\partial x_j} \right)_U = -\frac{U_j}{U_1} = -\frac{1 + t'_j}{1 + t'_1}.$$

Substituting this relation into the above condition yields:

$$\lambda \left[ \frac{1 + t'_j}{1 + t'_1} - 1 \right] = \frac{\mu \theta U_j}{f} \left[ \frac{\partial^2 U}{\partial L \partial x_j} \cdot \frac{1}{U_j} - \frac{\partial^2 U}{\partial L \partial x_1} \cdot \frac{1}{U_1} \right] = \frac{\mu \theta U_j}{f} \frac{\partial}{\partial L} (\ln U_j - \ln U_1),$$

# Ad 3 Ideal World: Optimal (Commodity) Taxation

## Corlett-Hague Rule

In case of two commodities: efficient taxation requires taxing commodities complementary to leisure at relatively high rate.

## Reinterpretation Ramsey Rule

Policy implication → Rearrange tax mix towards bases with low elasticity's

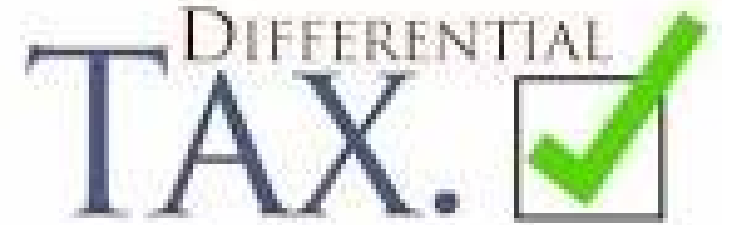
$$t_X \eta_X = t_Y \eta_Y$$

$$\frac{t_X}{t_Y} = \frac{\eta_Y}{\eta_X}$$

## Ad 3 Policy Implications – Apply differential taxation

Rearrange tax mix towards bases with low elasticity's

- capital → labor
- female → male
- youth → elderly (higher taxes on pensions)
- addicts should be taxed heavily
- tax non-luxury goods (food and housing)



Implications for tax policy. However:

- ❑ Trade-off efficiency – equity
- ❑ Empirical knowledge elasticities still lacking → hard to rely on

# Ad 3a Optimal tax mix in a second-best world

← low

→ high

Immovable property  
Death taxes

Indirect taxes (VAT)

Personal Income Taxes

Corporate Income  
Taxes

**Mirrlees Review, OECD, literature**

**Welfare enhancing tax policy**

Higher local wealth tax (OZB), lower / no deduction mortgage interest, uniform and higher rate VAT, higher death tax; lower PIT and SSC.

# Ad 3a Dutch Tax Mix 2016

	x billion	per caput
<b>A: Indirect taxes (#12)</b>	<b>78.4</b>	<b>4,614</b>
-VAT	46.7	
-Excises	11.3	
-Cars	4.1	
-Environmental levies	4.7	
-Other	11.6	
<b>B: Direct taxes (#6)</b>	<b>68.5</b>	<b>4,031</b>
-PIT *	48.5	
-CIT	16.1	
<b>C: SSC1 *</b>	<b>42.3</b>	<b>2,489</b>
<b>D: SSC2 (w.o. ZVW)</b>	<b>57.1</b>	<b>3,360</b>
<b>Total</b>	<b>247.8</b>	<b>14,583</b>
<b>o.w. taxes on labour income *</b>	<b>90.8</b>	<b>5,343</b>



# Ad 3a Tax mix in international perspective, 2012

## Total Taxes as % GDP

	Level	Ranking		Level	Ranking
Denmark	48.1	1	UK	35.4	16
Belgium	45.4	2	Cyprus	35.3	17
France	45.0	3	Czech Rep.	35.0	18
Sweden	44.2	4	Greece	33.7	19
Finland	44.1	5	Malta	33.6	20
Italy	44.0	6	Spain	32.5	21
Austria	43.1	7	Poland	32.5	22
<i>Norway</i>	<i>42.2</i>	<i>8</i>	Estonia	32.5	23
Luxembourg	39.3	9	Portugal	32.4	24
Hungary	39.2	10	Ireland	28.7	25
Germany	39.1	11	Slovakia	28.3	26
<b>Netherlands</b>	<b>39.0</b>	<b>12</b>	Romania	28.3	27
Slovenia	37.6	13	Latvia	27.9	28
<i>Iceland</i>	<i>36.8</i>	<i>14</i>	Bulgaria	27.9	29
Croatia	35.7	15	Lithuania	27.2	30

# Ad 3a Ranking Netherlands: Tax Mix EU-28, 2012

Structure of revenues	% GDP			Ranking
	2000	2012	change	2012
Indirect taxes	12.5	11.9	-0.6	22
VAT	6.9	7.0	0.1	<b>24</b>
Excise duties and consumption taxes	2.6	2.2	-0.4	26
Other taxes on products	2.0	1.5	-0.5	8
Other taxes on production	1.,	1.2	0.2	14
Direct taxes	12.0	11.2	-0.8	13
Personal Income	6.0	7.7	1.7	13
Corporate Income	4.3	2.1	-2.2	20
Other	1.6	1.4	-0.2	6
Social contributions	15.4	16.0	0.6	2
Employers	4.5	5.4	0.9	19
Empoyees	7.9	7.0	-0.9	<b>2</b>
Self- and non-employed	3.1	3.6	0.5	1
<b>Total</b>	<b>39.9</b>	<b>39.1</b>	<b>-0.9</b>	<b>11</b>

# Ad 3a Ranking Netherlands: Tax Mix EU-28, 2012

## *Structure by economic function*

Consumption	<b>20</b>
Labour	<b>8</b>
Employed	6
Paid by employers	19
Paid by employees	<b>2</b>
Non-employed	7
Capital	<b>19</b>
Capital and business income	20
Income of corporations	20
Income of households	<b>28</b>
Income of self-employed (incl. SSC)	7
Stocks of capital wealth	12
<b>Total</b>	<b>11</b>

## *Structure by level of government*

Central government	16
Local government	<b>22</b>
Social security funds	<b>4</b>
EU Institutions	2
<b>Total</b>	<b>11</b>

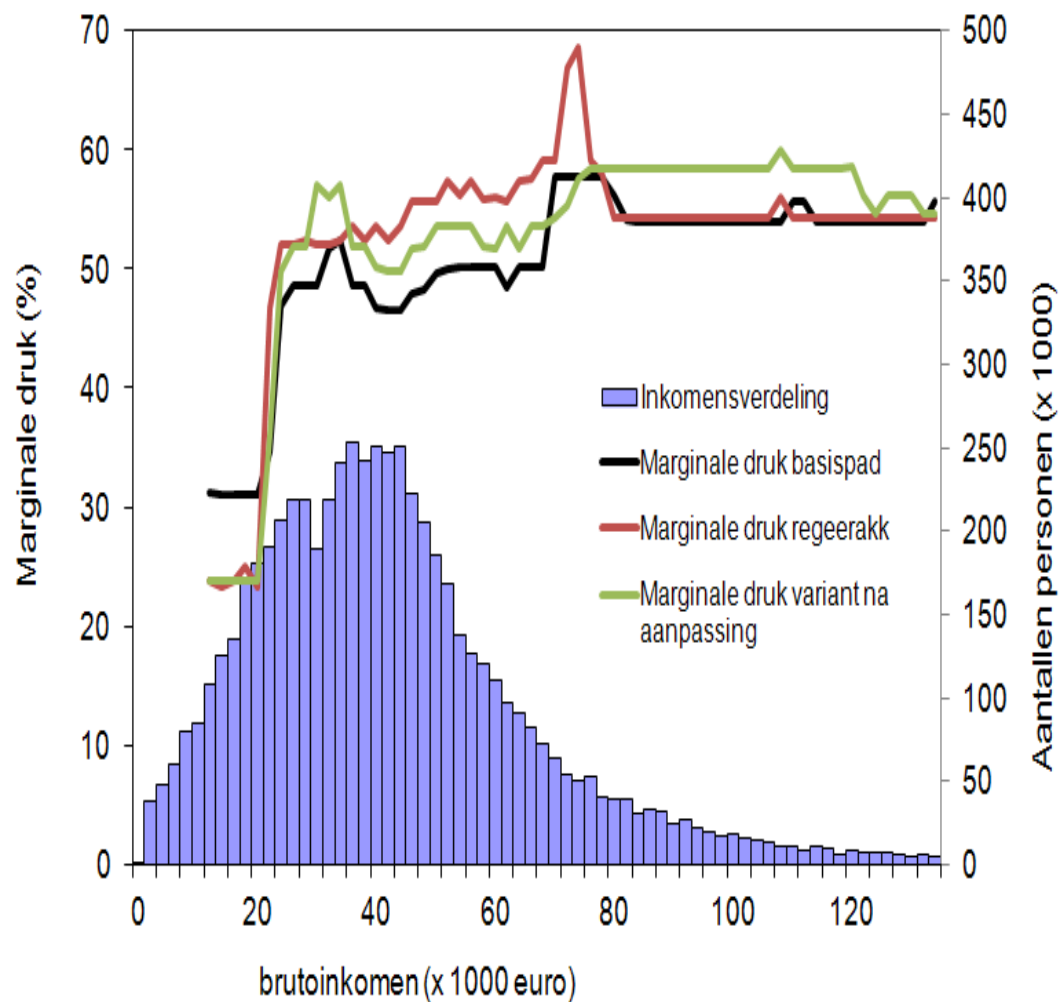
## *Environmental taxes*

Environmental taxes	<b>3</b>
Energy	12
of which transport fuel taxes	22
Transport (excl. fuel)	<b>3</b>
Pollution/resources	<b>2</b>

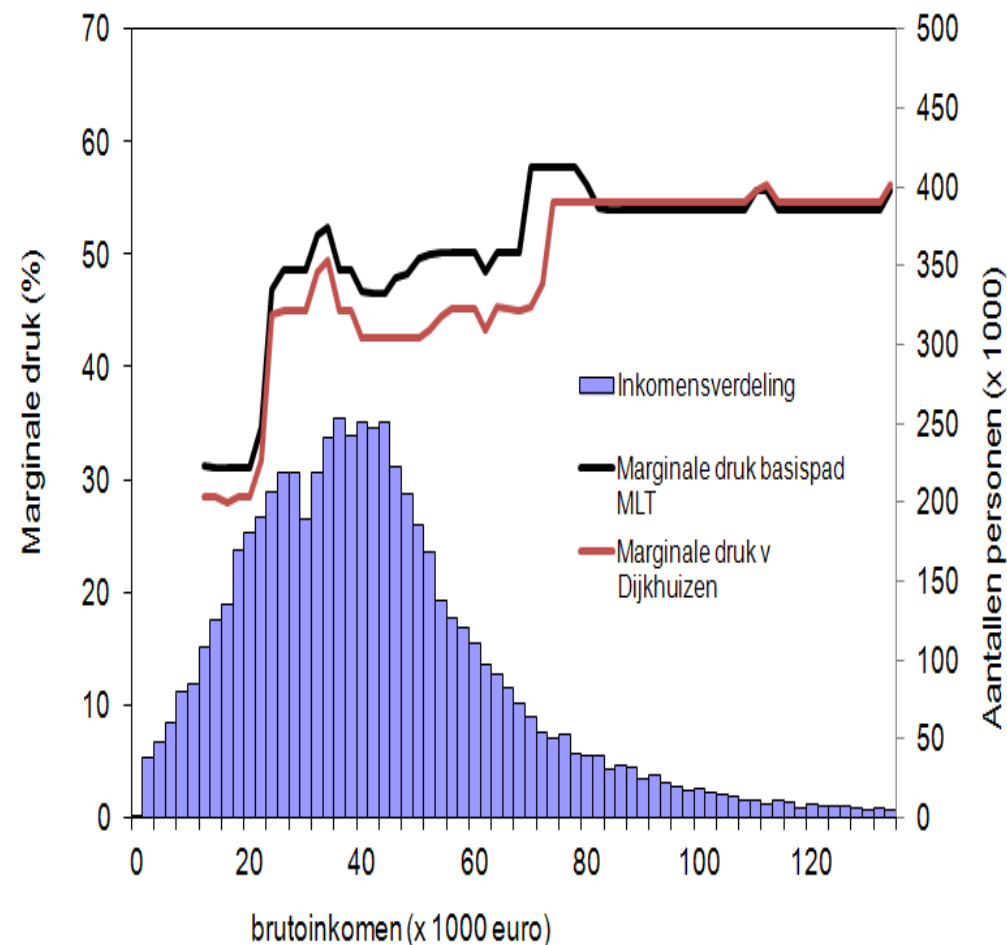
## *Property taxes*

14

# Ad 3b MTR: CPB (*Basispad*), CA (above), CA Adjusted (above) and Tax Committee (below), 2012



**Coalition Agreement: Job destruction**



**Tax Committee: +142,000 fte : 2 (budget: 0)**  
**Coalition +35,000 fte (budget: 5,000,000,000)**

# Ad 3c Cleaning: too much anomalies, 2016

	x billion	Per caput
<b>A: Tax expenditures (82)</b>	<b>19.2</b>	1,133
-Indirect taxes (40)	10.2	
-Direct taxes (42)	9.0	
<b>B: Tax credits 2013 (10)</b>	<b>38.8</b>	2,281
<b>C: Allowances 2013 (4)</b>	<b>11.4</b>	668
<b>D: Other</b>	<b>25.4</b>	1,495
- Housing (mortgage interest)	9.1	
- Pensions (box 1 - box 3)	13.3	
-Lower rate PIT seniors	3.0	
Correction for doubles	-3.2	
<b>Total: 96 anomalies</b>	<b>91.5</b>	5,386

## Ad 3c Streaming targeting at low income families

Tax credits + allowances : **50** billion euro

Tax revenue + SSC: **92** billion euro



Instrumental tax policy → stop just pumping money around and simplify the tax code and allowances → less complex financial relationship households – treasury

PIT rates almost double as high as they reasonably could be → shortening tax balance

## Ad 3d Rethinking Allowances / Targeting at low incomes

	Budget (billion euro)	# Housholds (x 1,000)	Share of households
Housing rent	2.774	1,107	15%
Kids	1.047	824	11%
Healthcare	4.855	3,628	48%
Total	8.676	6,316	
(#households with allowances)		(4,589)	(61%)
Tax Committee ( <i>Huishoudenstoelag</i> )		3,651	49%
Idem, compulsory pay-out via health insurances		1,405	19%

# Ad 3d Clear distinction: (individual) taxation and (family) income support

Taxation to encourage labour force participation

**Individual**

**Rates structure**

- Two lower rates
- General tax credit

**For working population**

- Earned income tax credit
- Income-related combination tax credit
- Childcare benefit

**Income support**

**Household**

**Instruments**

- Healthcare benefit
- Rent benefit
- Child benefit
- Child-related budget



# Ad 4 Rising income inequality and top incomes: big issue in international perspective?

- **Thomas Piketty**: tendency of returns on capital to exceed rate of growth threatens to generate extreme inequalities that undermine social values (*Capital in the Twenty-First Century*, 2014) ([video](#) 3:11)
- **Anthony Atkinson**: inequality is one of the most urgent social problems. But: we can do something about it (*Inequality; What can be done?* 2015)
- **Joseph Stiglitz** (Nobel Prize winner 2001): *Rewriting the Rules of the American Economy. An Agenda for Growth and Shared Prosperity* (2015)
- **Angus Deaton** (Nobel Prize winner 2015): Inequality is often a consequence of progress. On the one hand: many people escaped from poverty in lower income countries. Many lower income countries have been catching up with richer countries, because of higher growth. On the other hand: many people are left behind, not everyone profits from progress. (*The Great Escape*, 2013)

## Ad 4 Why inequality matters?

- A perfectly equal society is not desirable (no incentives). However, high inequality may undermine social stability.
- It deprives people of educational opportunities, human and physical capital accumulation.
- It may harm labor supply and productivity. Research shows that high and rising inequality is detrimental to economic growth and development.

### **IMF (2015)**

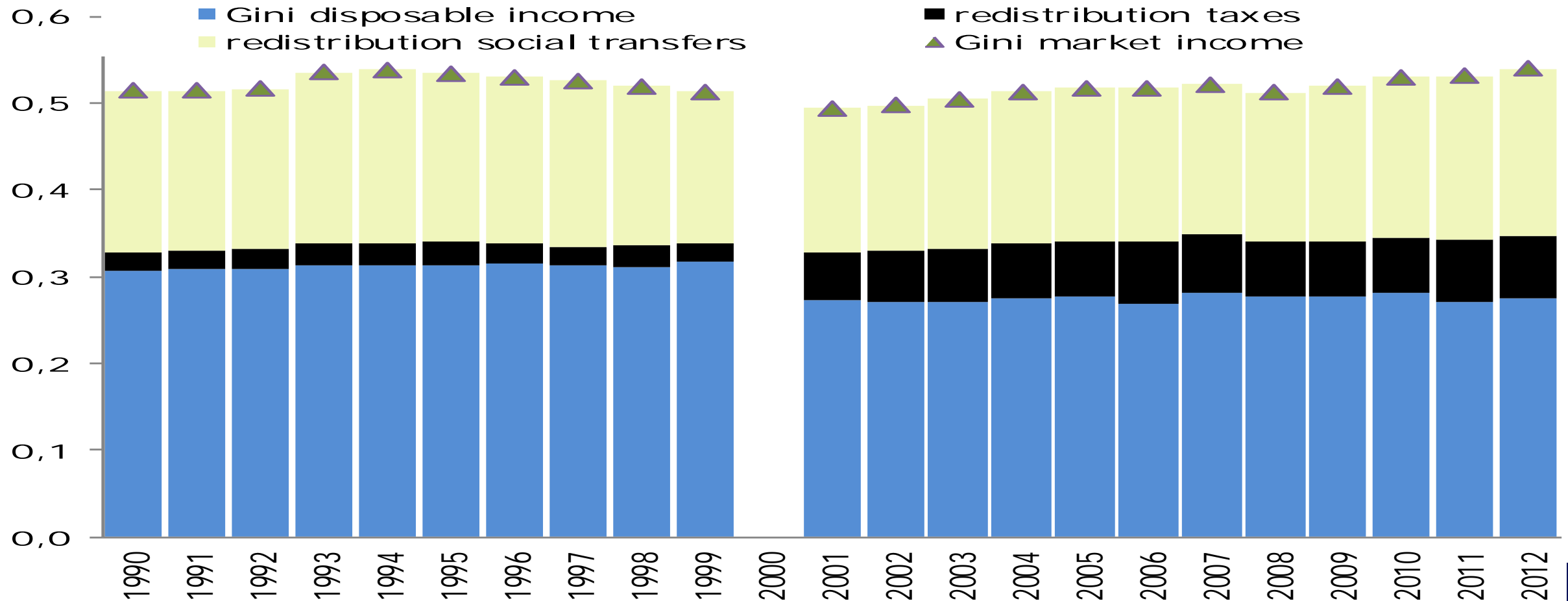
- If the income share of the top 20 percent increases by 1 percentage point, GDP growth is 0.08 percentage points lower.
- A 1 percentage point increase in the share of the bottom 20 percent is associated with 0.38 percentage point *higher* growth.

**OECD (2014):** Rising inequality is estimated to have knocked down growth since 1990 by 9 points in the UK and by 6-7 points in the US, Italy and Sweden.

# Ad 4 Disentanglement Dutch Income Inequality 1990-2012

Inequality equalized market and disposable income (Gini), and the redistribution by social transfers and taxes

Caminada et al (2014)

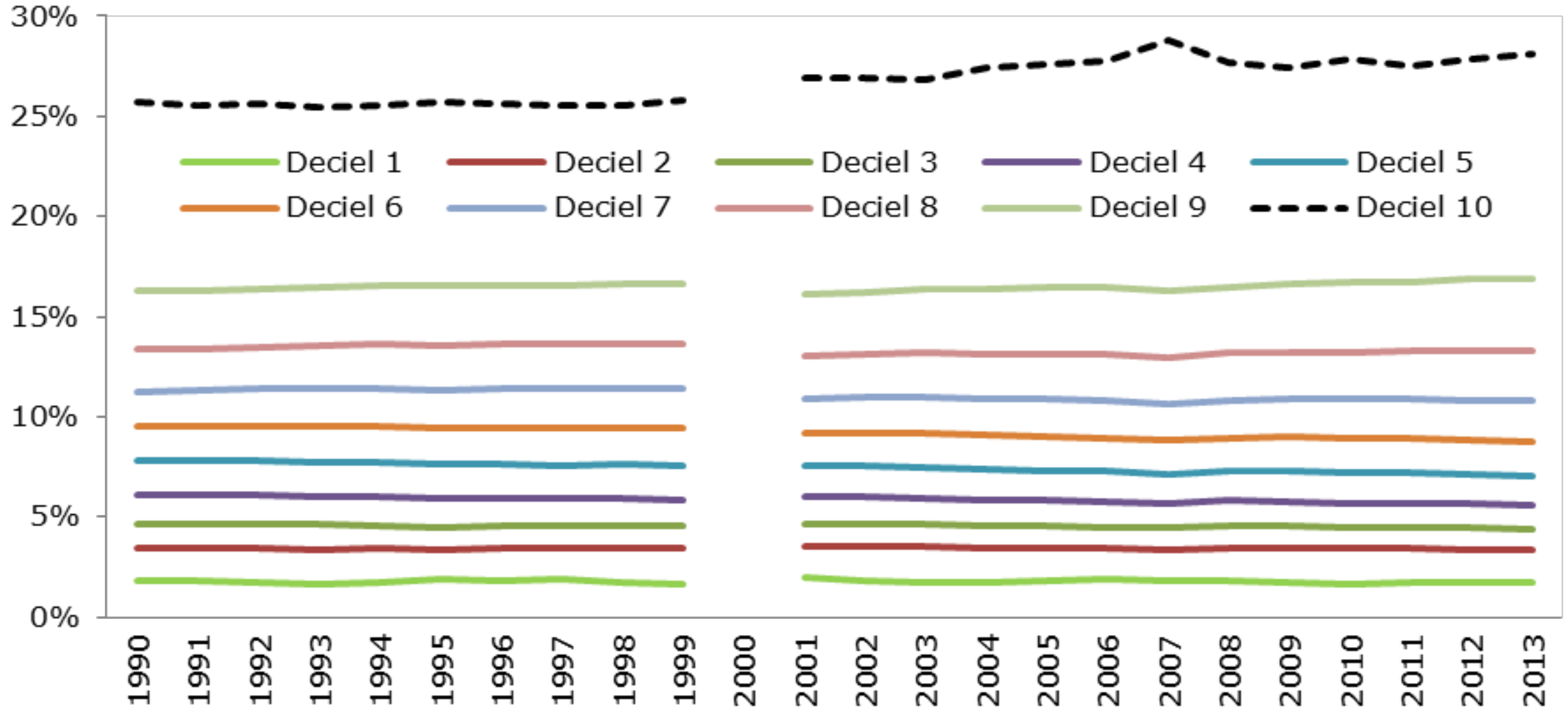


# Ad 4 Decomposition redistribution

	1990	2001	2012
Redistribution (Gini PI -/- Gini BI)	41%	45%	49%
<i>Shares (programs)</i>			
Pension benefits (second and third pillar)	20%	24%	26%
Public old-age pensions (first pillar)	32%	29%	31%
<b>Taxes and social contributions</b>	<b>8%</b>	<b>17%</b>	<b>19%</b>
Disability schemes	12%	9%	6%
Social assistance	13%	7%	5%

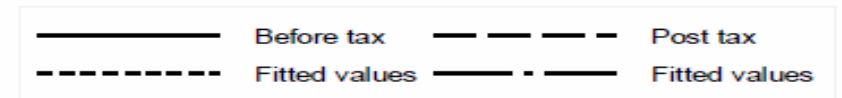
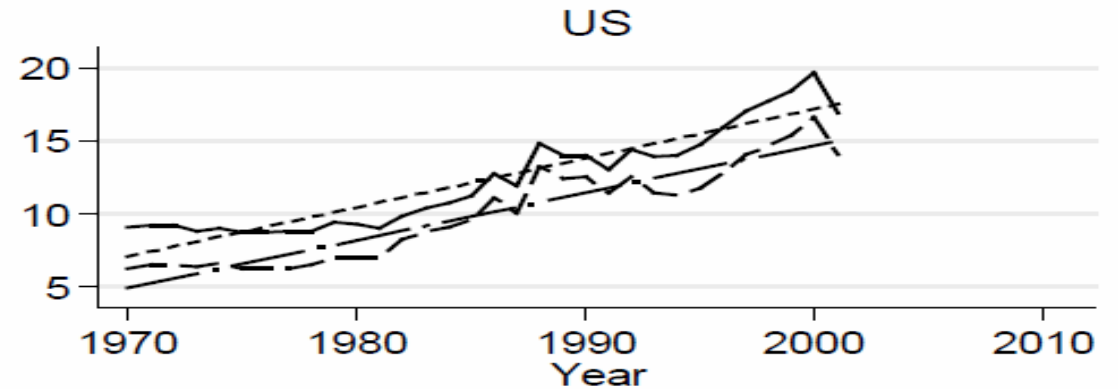
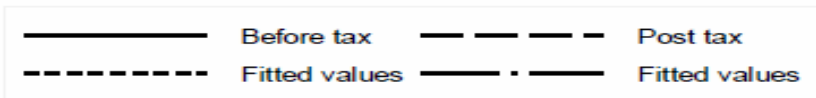
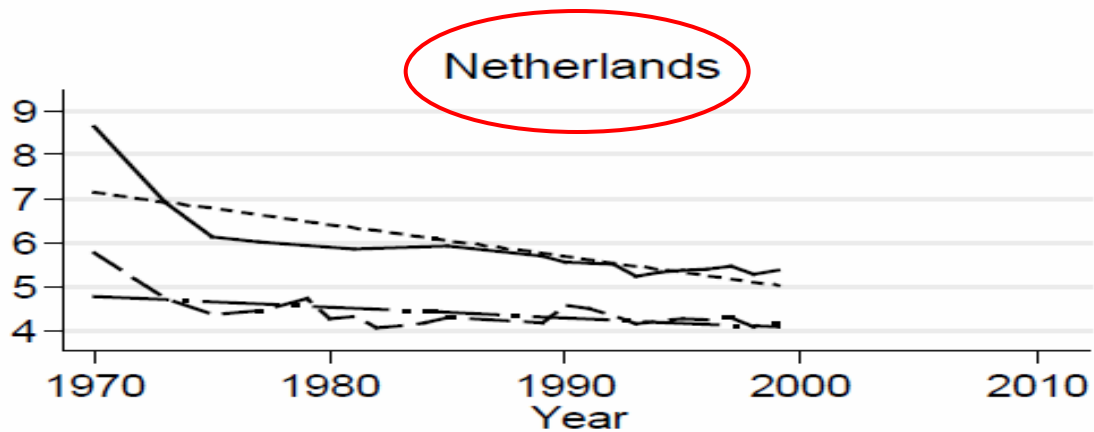
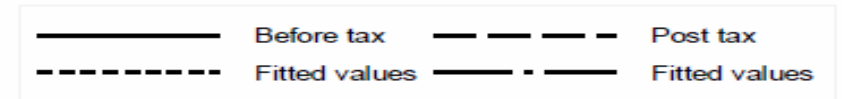
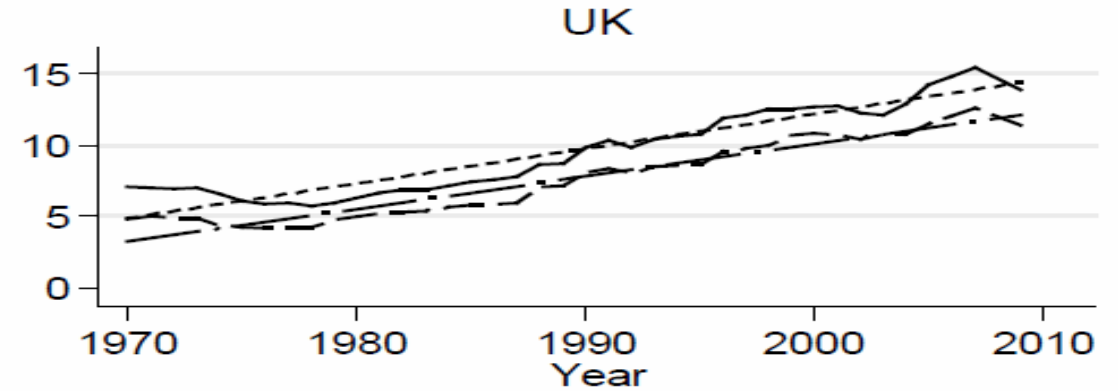
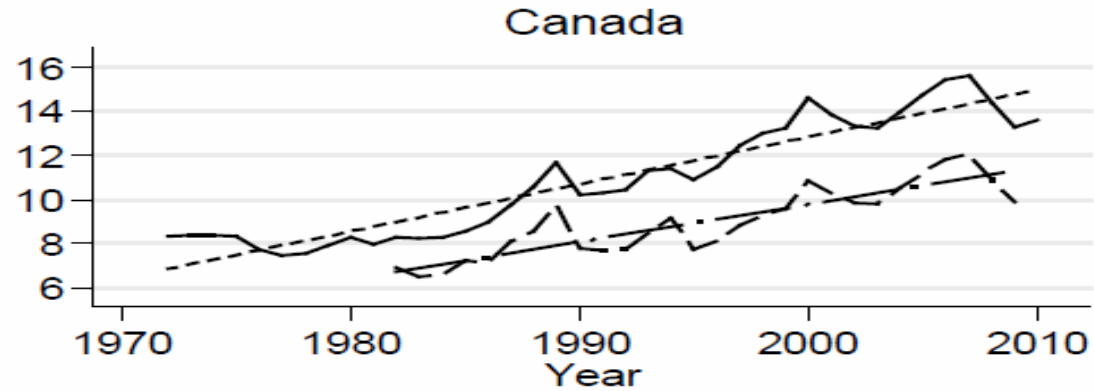
Sensitivity analysis → applying Theilindex, MLD, Atkinson index ( $\alpha=0.5$  en  $\alpha=1$ ) → trend income inequality + redistribution are rather insensitive for choice *global* inequality measure.

# Ad 4 Rather stable income shares, 1990-2012

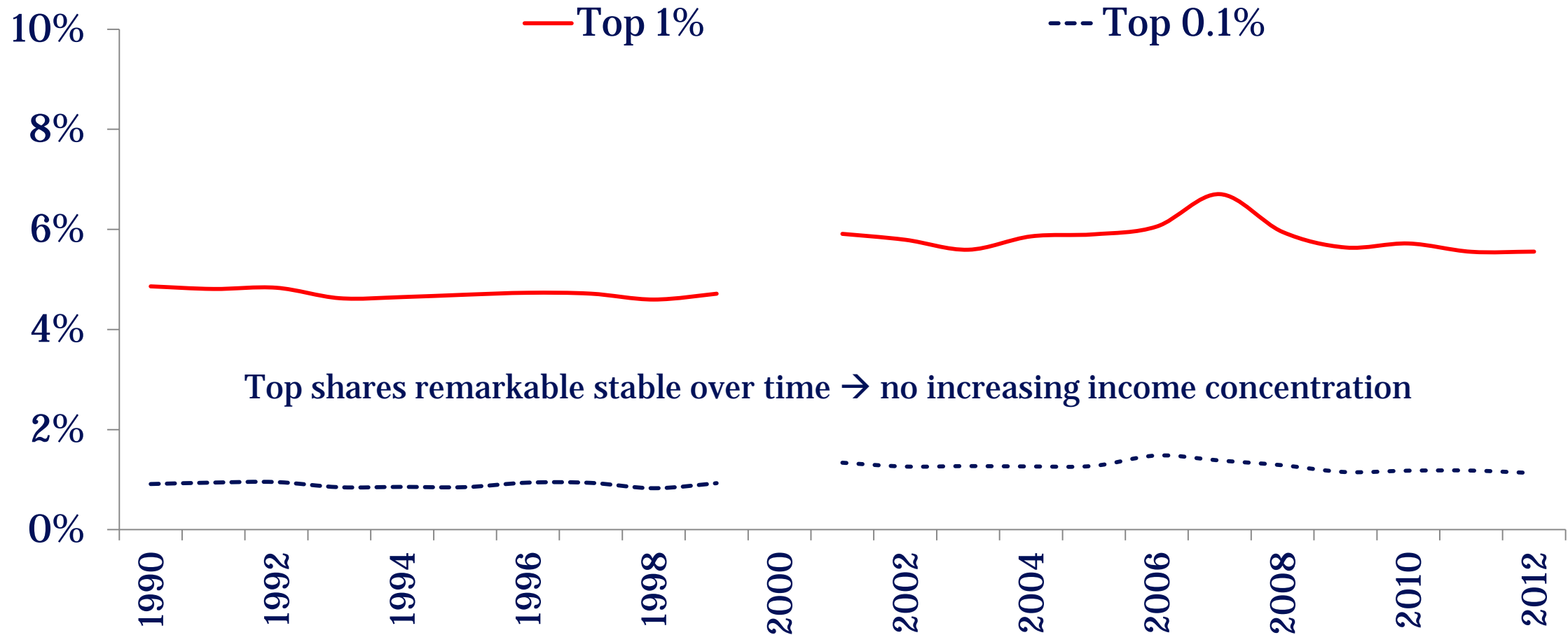


# Ad 4 Share of top incomes increased in many countries, but not in the Netherlands

Pre and Post-Tax Top 1 Percent Shares for Selected Countries

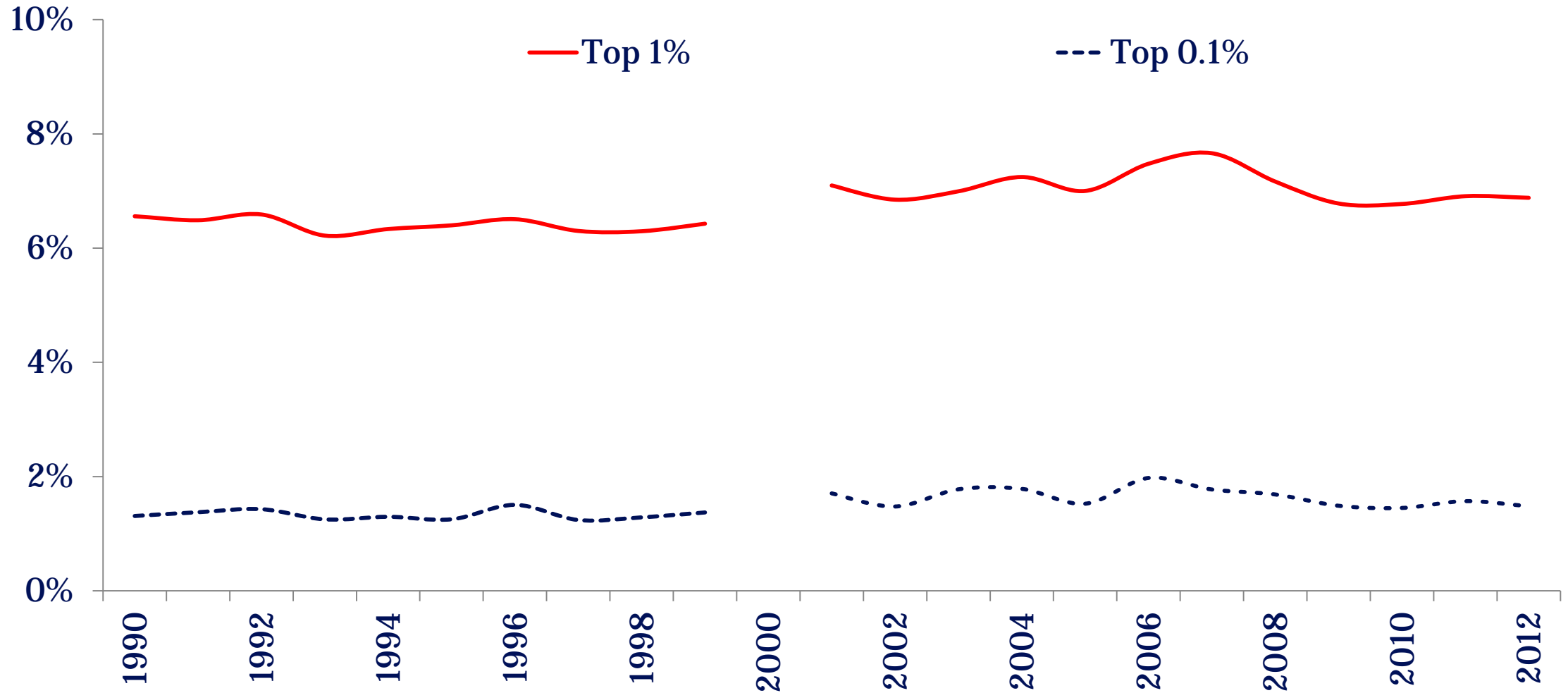


# Ad 4 Dutch share top incomes 1990-2012



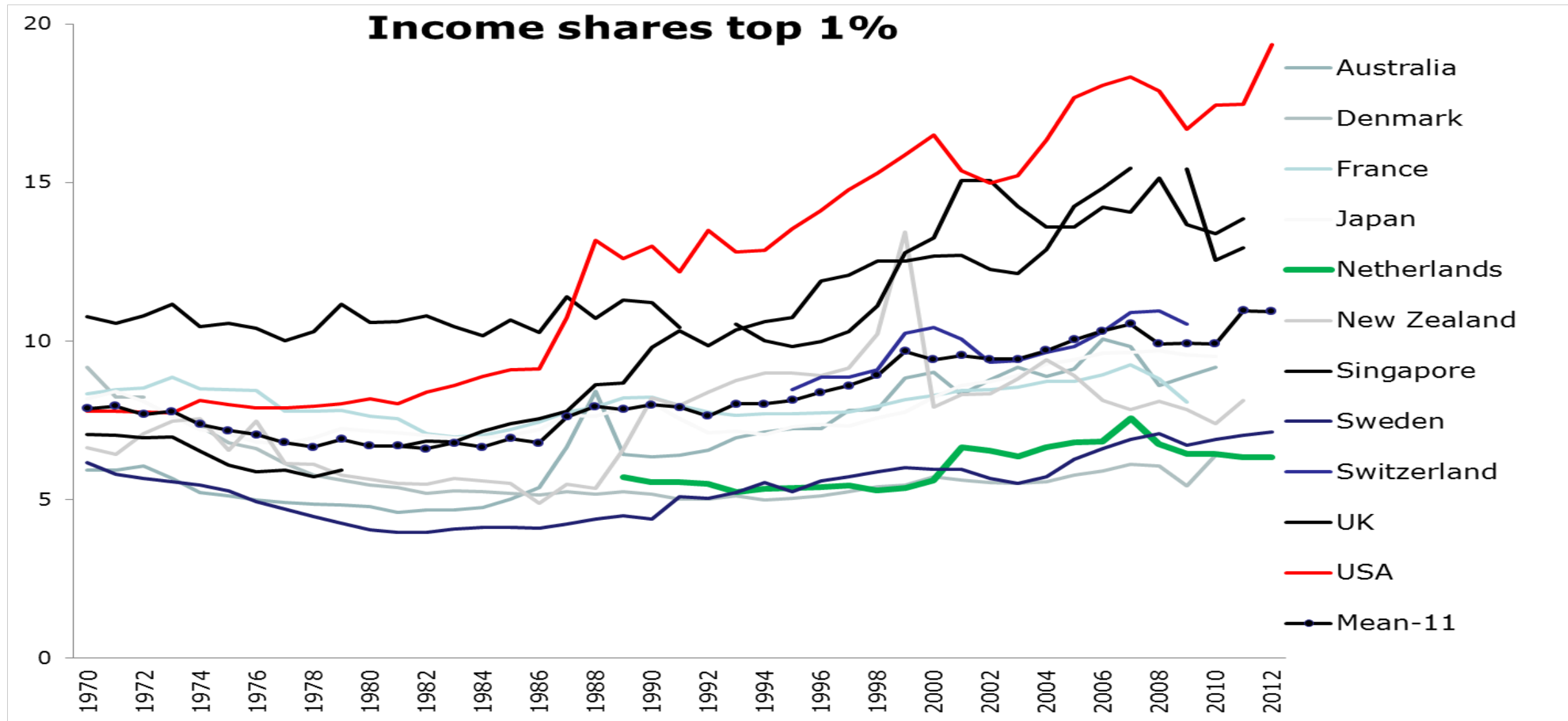
Source: Caminada, Goudswaard & Knoef (2015)

# Ad 4 Dutch share of taxes of top incomes 1990-2012





# Ad 4 How strong are Piketty's trends?



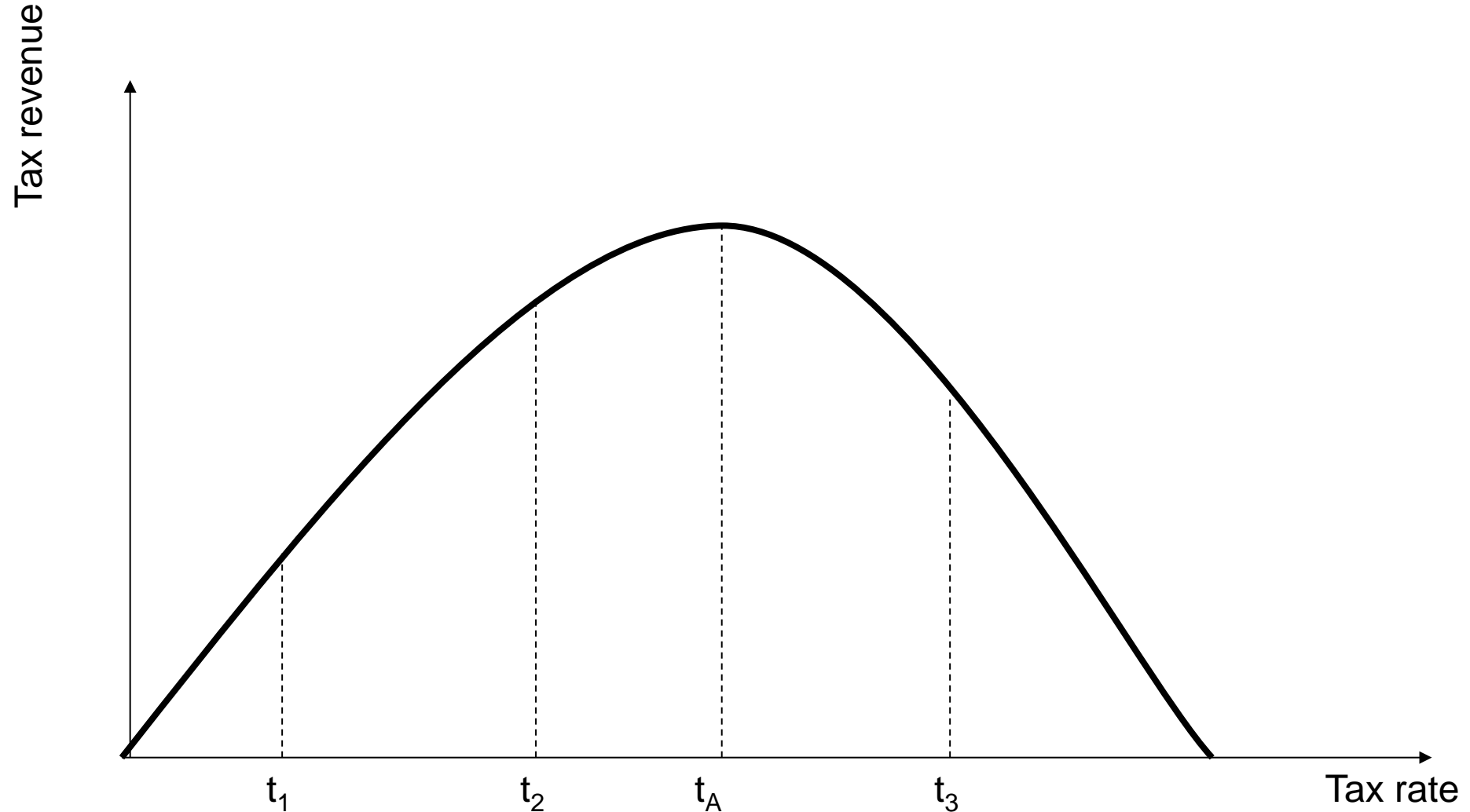
Source: Caminada (2014), [World Top Income Database](#) (Piketty and others)

# Ad 4 Income shares top 1%

Country	Data availability	Levels			Change		
		1970	1990	2010's	1970-1990	1990-2010's	1970-2010's
<b>Netherlands</b>	1970-2012	8.6	5.6	6.3	-3.1	0.8	-2,3
<b>Denmark</b>	1970-2010	9.2	5.2	6.4	-4.0	1.2	-2,8
<b>Sweden</b>	1970-2012	6.2	4.4	7.1	-1.8	2.8	1,0
<b>France</b>	1970-2009	8.3	8.2	8.1	-0.1	-0.2	-0,3
<b>New Zealand</b>	1970-2011	6.6	8.2	8.1	1.6	-0.1	1,5
<b>Singapore</b>	1970-2012	10.8	8.4	8.2	-2.4	-0.2	-2,6
<b>Australia</b>	1970-2010	5.9	6.3	9.2	0.4	2.8	3,3
<b>Japan</b>	1970-2010	8.2	8.1	9.5	-0.1	1.5	1,3
<b>Switzerland</b>	1971-2009	10.8	8.6	10.5	-2.2	1.9	-0,3
<b>UK</b>	1970-2011	7.1	9.8	12.9	2.8	3.1	5,9
<b>USA</b>	1970-2012	7.8	13.0	19.3	5.2	6.4	11,5
<b>Mean 11 countries</b>		8.1	7.8	9.6	-0.3	1.8	1.5

# Ad 4 Preference for a higher top rate PIT?

## Laffer Curve - Labor Supply and Tax Revenues



# Ad 4 Empirics on a Free Lunch

	<b>USA</b>	<b>Europe</b>	<b>Neth</b>
<b>Potential additional tax revenue (%)</b>			
• Labour Taxes	40%-52%	5%-12%	-
• Capital taxes	5%-6%	0%-1%	?
<b>Maximizing tax rate</b>			
• Labour Taxes	70%-84%	52%-61%	49%
• Capital taxes	59%	42%	?

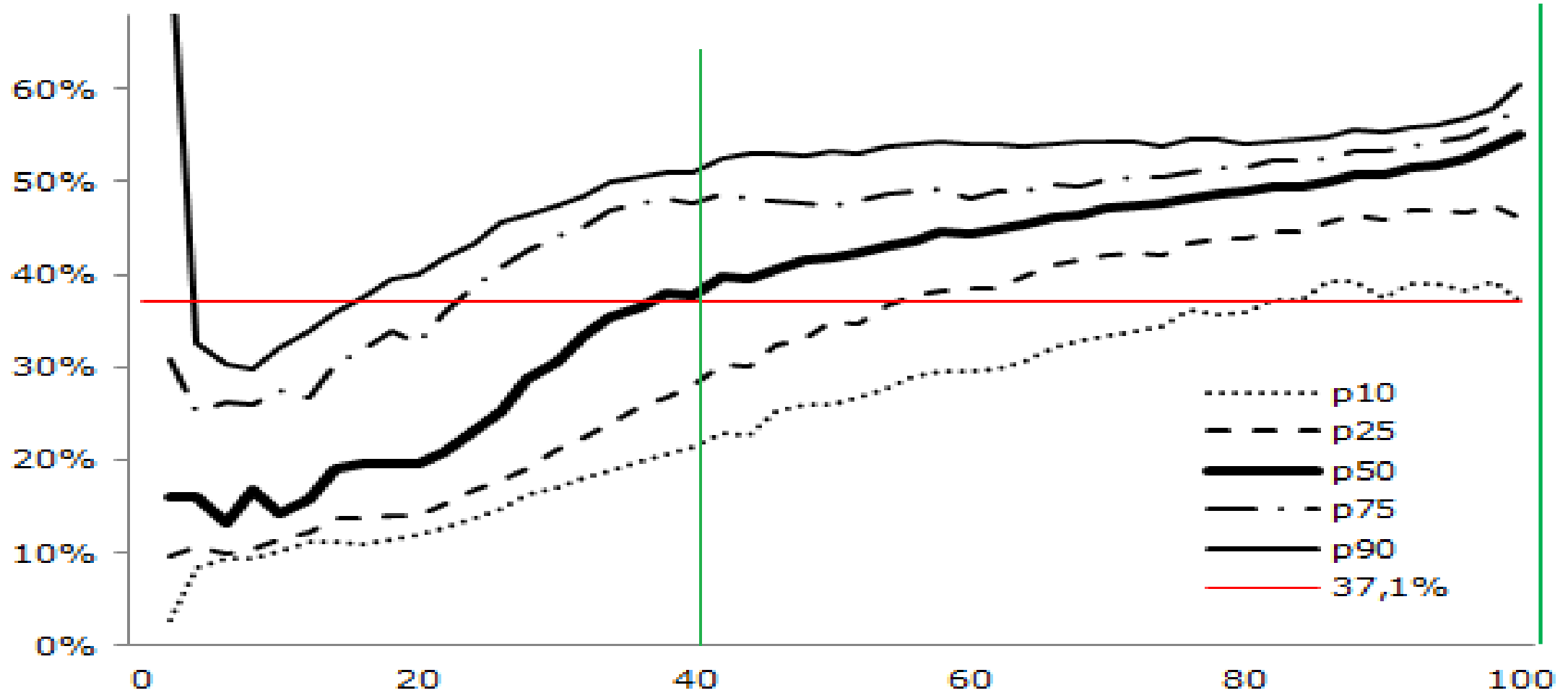
# Ad 4 Who pays top rate PIT = 52% (> €56.500)?

	Persons x 1000	Share top rate
All	13.107	7%
❖ Male	6.508	11%
❖ Female	6.599	2%
▪ Married	6.553	9%
▪ Sole earners, no partner	3.314	4%
▪ Sole earner with a partner	4.185	15%
▪ Partner sole earners	4.003	2%
○ 25 - 45 year	4.061	6%
○ 45 - 65 year	4.551	11%
○ 65 years and above	2.873	4%
☐ Employees	5.588	9%
☐ Civil servants	785	12%
☐ DGA	189	39%
☐ Self-employed	1.018	9%
☐ Pension < 65 years	267	11%
☐ Pension > 65 years	2.701	3%
➤ Home owners	8.550	9%
➤ Renters (no allowance)	2.926	3%



# Ad 4 Taxing the rich at higher rate?

## Big Data: Dutch median effective tax rate 2012



$$\text{Tax ratio} = \frac{\text{Gross income} - \text{Disposable income}}{\text{Gross income}}$$

€46.930 →  
P10=21%  
P50=38%  
P90= 51%

€274.026 →  
P10=37%  
P50=55%  
P90= 61%

# Ad 4 Preference top-rate – open to debate

## Distribution tax ratios

	median	p25	p75
All	37.1	21.2	47.9
Lowest 90%	34.4	19.7	46.1
Lowest 99%	36.8	21.0	47.8
Lowest 99.9%	37.1	21.2	47.9
Upper 10%	51.9	46.8	54.8
Upper 1%	55.9	45.5	58.6
Upper 0.1%	59.3	46.8	61.0

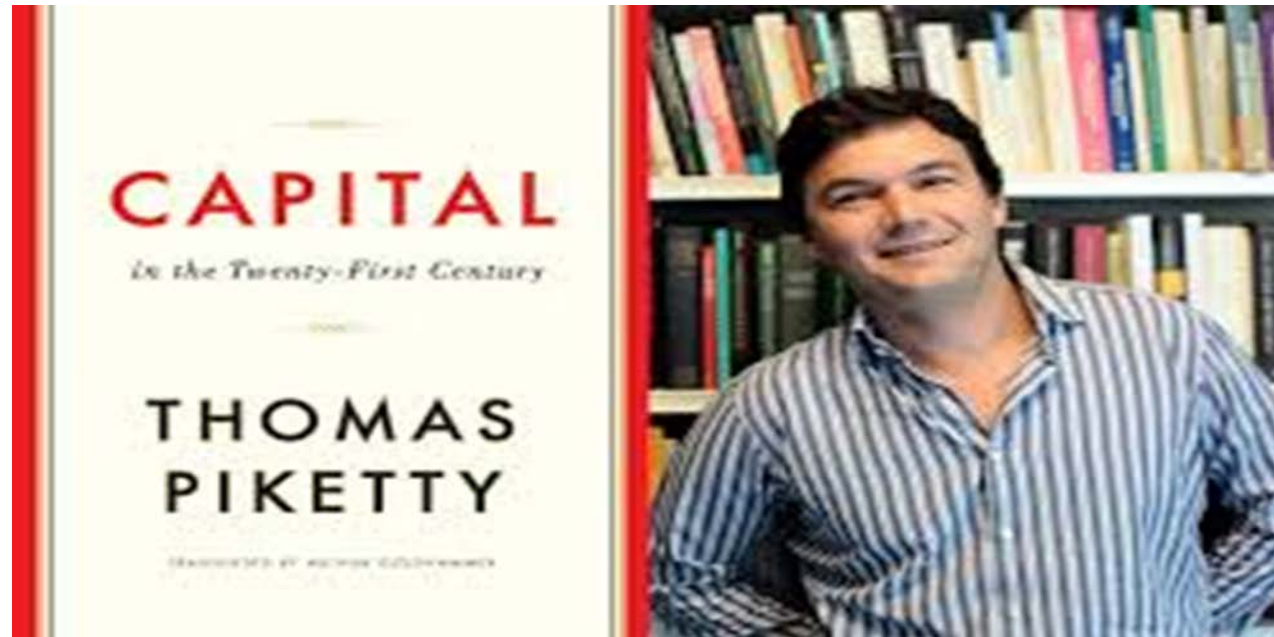
**RAISE MY TAXES -  
LOSE MY VOTE!**



# Ad 5 Wealth concentration: a big issue in international perspective?

Taxing the Wealthy

A Global Wealth Tax above one million euro?





# **Ad 5 Distribution of wealth in the Netherlands**

## **Private wealth (Dutch Statistics)**

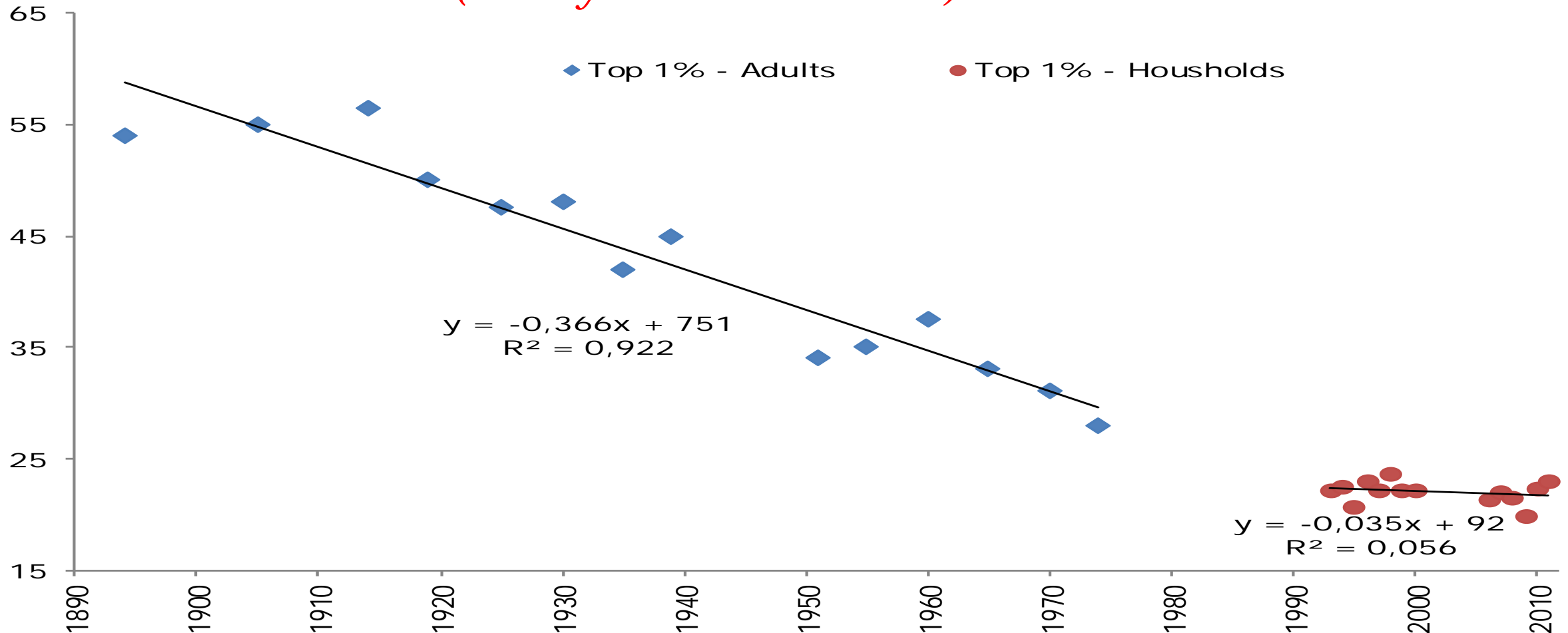
- **Private wealth = balance of assets and debts**
- **Assets: bank deposits, stocks, real estate and business assets**
- **Debts: mortgages and consumer credit**

**Not (yet) included: built-up pension rights**

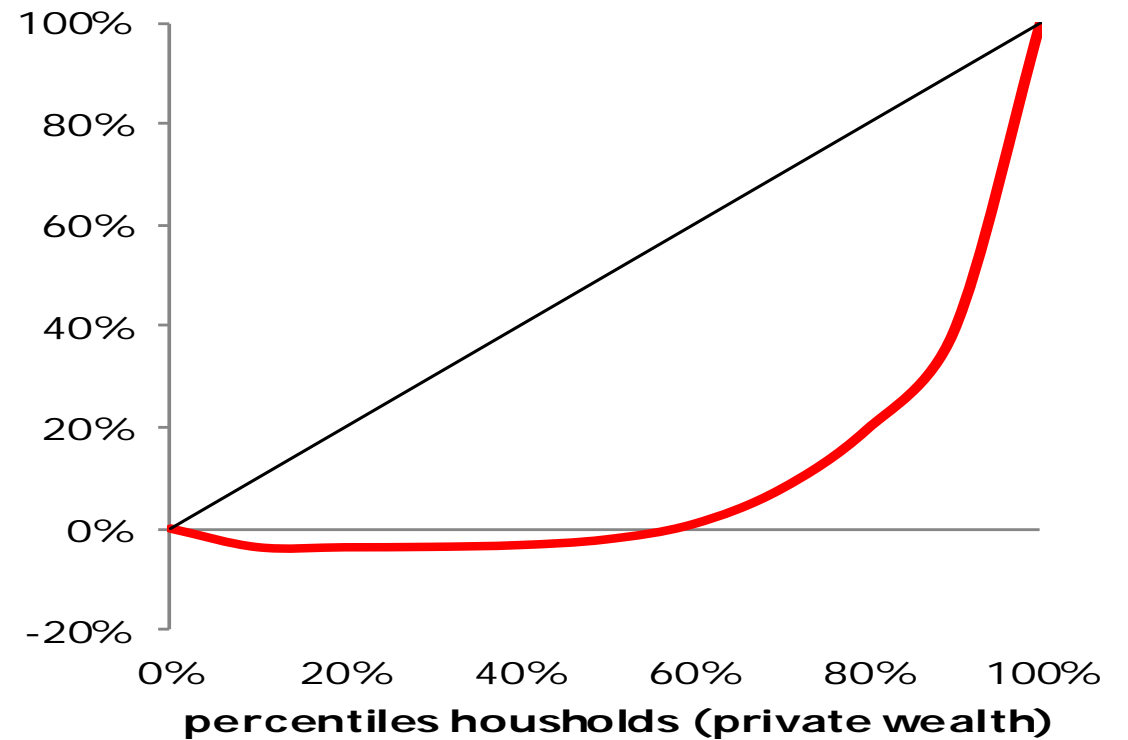
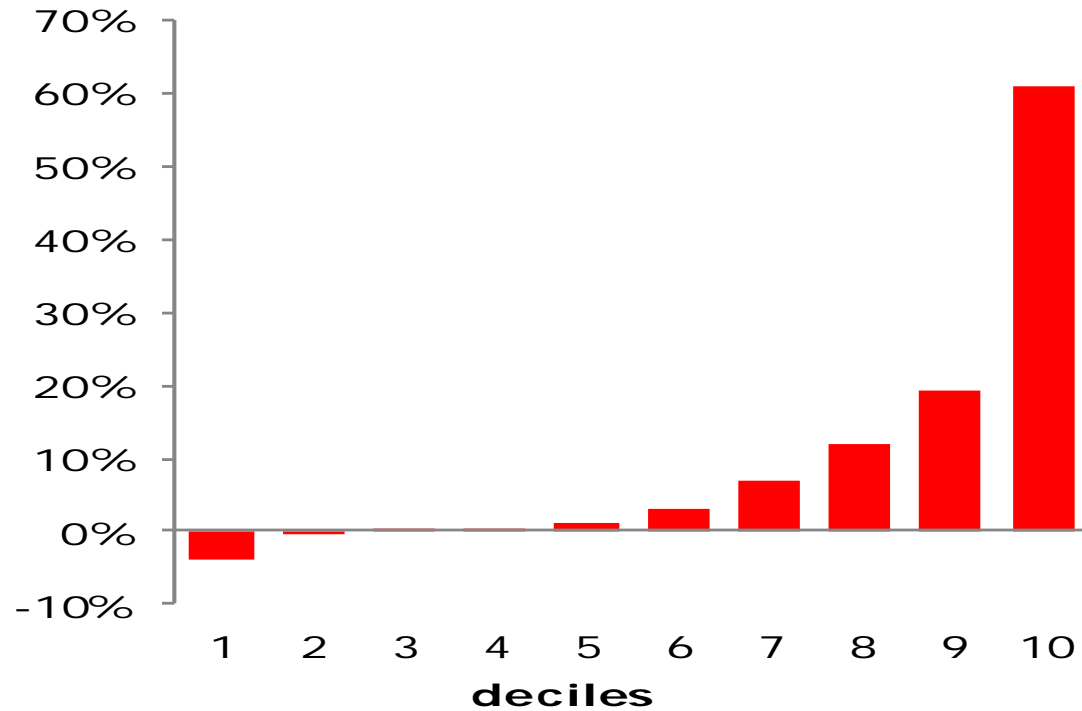
# Ad 5 Growing wealth concentration in the Netherlands?

Private wealth distribution; share top percentile, 1894-2011

*(Piketty's Dominant Class)*



# Ad 5 Shares of private wealth per decile and Lorenz curve of private wealth, 2012



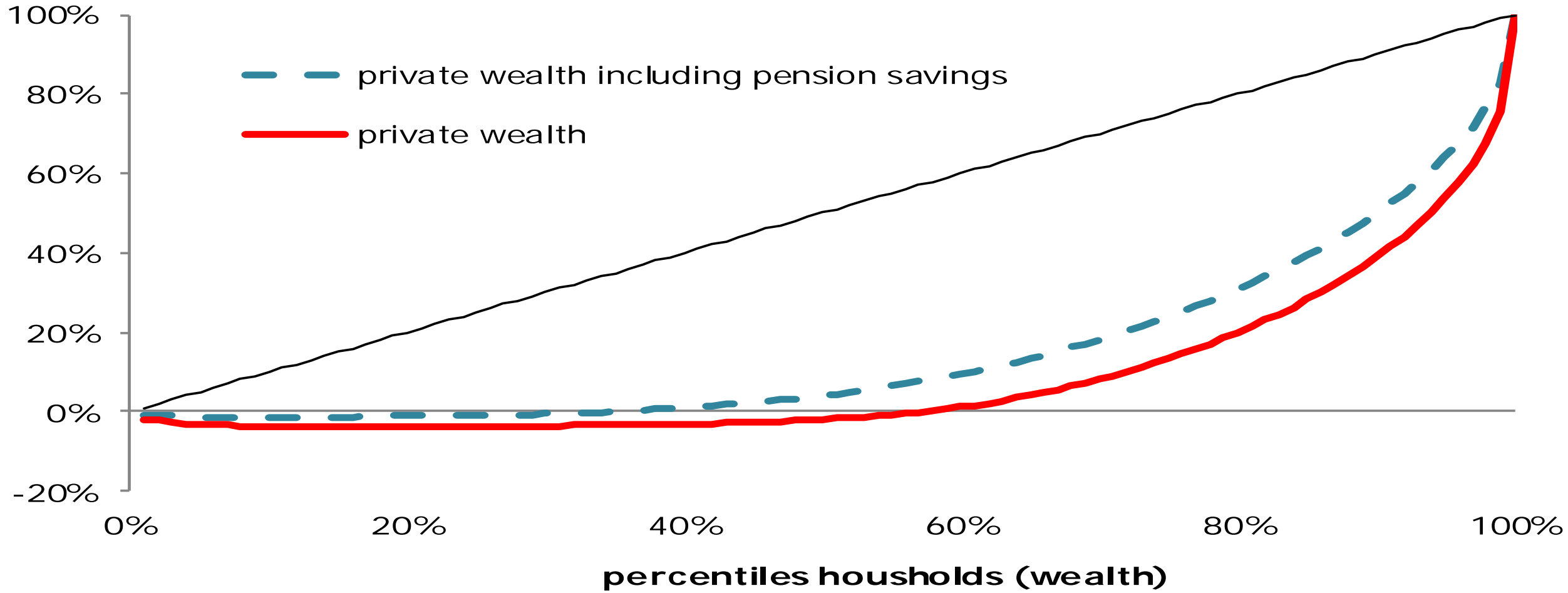
Source: Caminada, Goudswaard & Knoef (2015)

# Ad 5 How unequal is private wealth distributed?

- Top 1% households: 23% of total private wealth
- Top 10% → 61%; mainly pensioners (36%) and self-employed (29%)
- Bottom 60% of all households holds a cumulated private wealth of € 0.
- Lowest decile private wealth: especially employees and civil servants (76%). Negative net wealth of housing.

Private wealth unequally distributed → Gini of private wealth = 0.80.

# Ad 5 Dutch Lorenz curves of wealth distribution, *with* and *without* built-up pension rights



Source: Caminada, Goudswaard & Knoef (2015)

# Ad 5 Results

Private wealth including pension savings is less unequally distributed (Lorenz Dominance)

Wealth distribution in the Netherlands (with and without pension savings)

	Full distribution	Top		Bottom
	Gini coëfficiënt	Share top 1%	Share top 10%	Positive cumulative wealth from
Private wealth	0.80	25%	61%	60 percentile
Idem + pension savings	0.68	17%	50%	35 percentile

Built-up pension rights mitigate inequality. Dutch total wealth inequality is smaller compared to inequality of private wealth.

# Ad 5 Piketty and Netherlands

**TABLE 7.2 Inequality of capital ownership across time and space**

Share of different groups in total capital	Low inequality (never observed: ideal society?)	Medium inequality (= Scandinavia, 1970s-1980s)	Medium-high inequality (= Europe 2010)	High inequality (= US 2010)	Very high inequality (= Europe 1910)	Netherlands 2010 Caminada et al (2014)	Idem, including pension savings
Top 10% "upper class"	30%	50%	60%	70%	90%	61%	50%
Including top 1% ("dominant class")	10%	20%	25%	35%	50%	25%	17%
Including next 9% ("well-t-do-class")	20%	30%	35%	35%	40%	37%	33%
The middle 40% ("middle class")	45%	40%	35%	25%	5%	41%	46%
The bottom 50% ("lower class")	25%	10%	5%	5%	5%	-2%	4%
Corresponding Gini (synthetic inequality index)	0.33	0.58	0.67	0.73	0.85	0.742	0.626

Source: Piketty (2014, p. 248) and calculations based on CBS IPO and CBS microdata

# Ad 6 Presumptive taxation of wealth

(excluding own-occupied housing)

□Piketty: Wealth tax of 1% above one million

□Box 3: 1.2% above € 25.000

‘Reform’ box 3 in 2017. Progressive presumptive taxation at a rate of 30%:

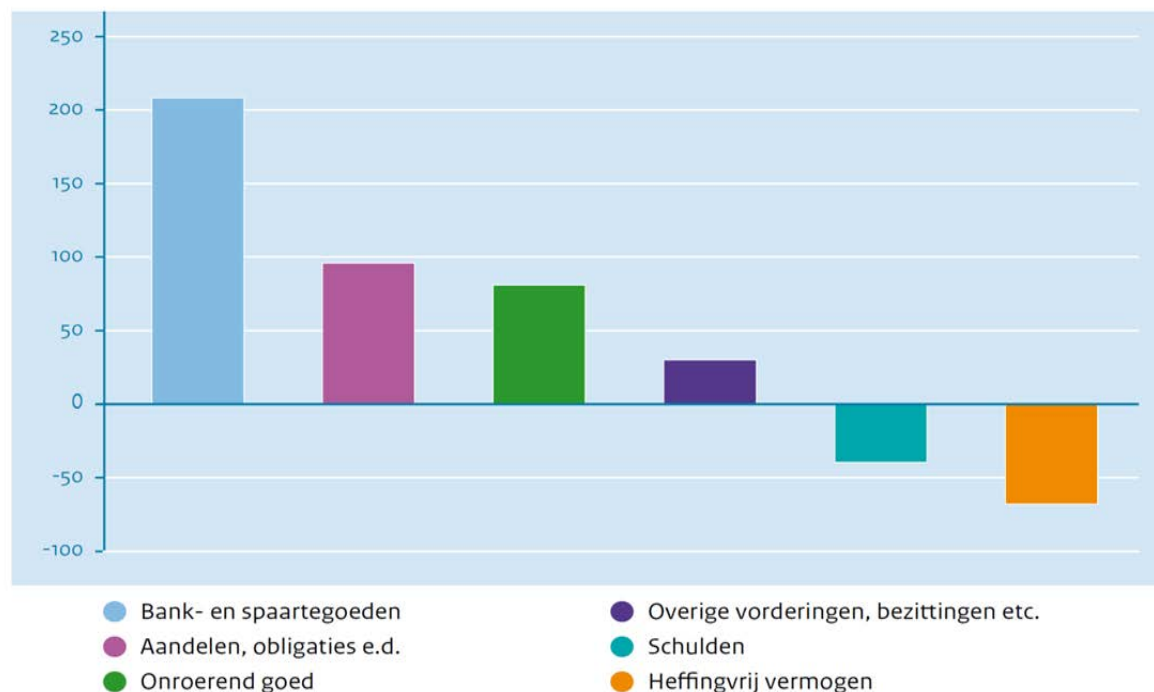
<b>Bracket</b>	<b>Wealth (Box 3)</b>	<b>RI (savings) + RII (other)</b>	<b>Wealth tax</b>
1	0-100.000	$0.67 * 1,63\% + 0.33 * 5.5\% = 2.9\%$	0.87%
2	100.000 – 1 mln	$0.21 * 1,63\% + 0.79 * 5.5\% = 4.7\%$	1.41%
3	> 1 mln	$0 * 1.63\% + 1.00 * 5.5\% = 5.5\%$	1.65%



# Ad 6 Presumptive taxation of wealth (excluding housing)

## Box 3: Decomposition of wealth Tax revenue box 3 (2011): 3.7 billion euro

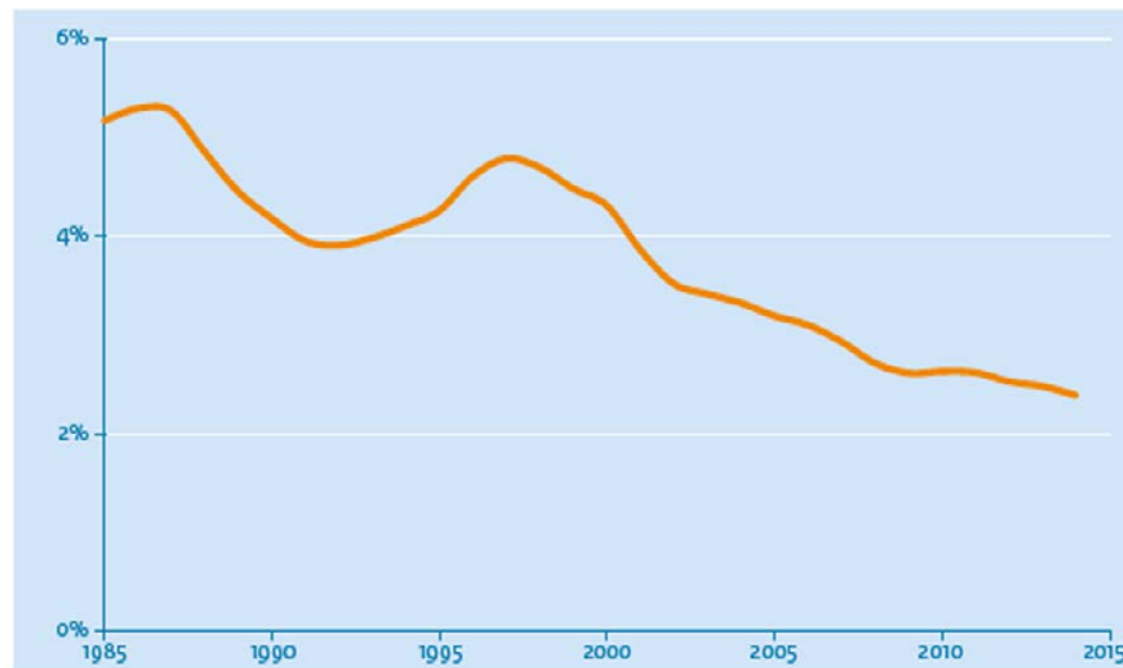
Figuur 4.1.1 Samenstelling grondslag forfaitair rendement box 3 in mrd euro  
(peildatum 1 januari 2011)



Bron: ministerie van Financiën op basis van 10,2 miljoen aangiften

## Proposal Tax Committee: presumptive 5 years average rate of return

Figuur 2.2 Vijfjaarsgemiddelde nominale spaarrente, twee jaar vertraagd, 1985 tot en met 2014



# Ad 6 Empirical facts: (over) 100% tax

Rate of return 10%-wealth groups, 2006-2011

	Savings	Obligaties	Shares	2 <sup>nd</sup> house	Total	After CPI	Long-term rate of return 1990-2012
Lowest 50%	1,8	3,8	2,5	-1,5	1,3	<b>0,0</b>	3,7
6 <sup>e</sup> 10%-group	2,0	4,3	1,5	-0,8	1,7	<b>0,4</b>	3,7
7 <sup>e</sup> 10%-group	2,0	5,1	1,6	-0,5	1,6	<b>0,3</b>	3,8
8 <sup>e</sup> 10%-group	2,1	4,2	1,3	-0,4	1,5	<b>0,2</b>	3,8
9 <sup>e</sup> 10%-group	2,1	4,2	1,5	-0,5	1,5	<b>0,2</b>	3,9
Top 10%	2,3	3,1	0,7	-0,3	1,2	<b>-0,1</b>	4,3
Top 1%	2,3	2,8	0,2	-0,7	0,8	<b>-0,5</b>	4,6

Source: CPB / CPI van CBS

- Toenmalig minister Zalm: ‘De vier procent beoogt te zijn het reële rendement dat je op langere termijn met beleggen risicovrij moet kunnen halen. Dan kom je inderdaad uit bij de staatsobligaties als benchmark.’

## Ad 6 Complexity proposal Box 3

One step behind. MvT p. 50: “De langetermijnrendementen op onroerende zaken, aandelen en obligaties worden bepaald ....

$$rlt_t = \left( \sqrt[15]{(1 + 0,01 * rlt_{t-1})^{14} * (1 + 0,01 * r_{t-2})} - 1 \right) * 100\%$$

waarbij wordt verstaan onder:

$rlt_t$ : het langetermijnrendement op de betreffende vermogenstitel voor het betreffende kalenderjaar (t);

$rlt_{t-1}$ : het langetermijnrendement op de betreffende vermogenstitel voor het kalenderjaar voorafgaand aan het betreffende kalenderjaar (t-1);

$r_{t-2}$ : het rendement op de betreffende vermogenstitel voor het kalenderjaar dat twee jaar voorafgaat aan het betreffende kalenderjaar (t-2).

## Ad 7 Piecemeal engineering or Tax Reform. What can be done?

Basic rate including premium ZVW	30.2%
Top rate including premium ZVW	40.2%
Bracket	€ 55,000
Uniform VAT rate	18%

### **Effect labor market, fte : via MICSIM (CPB)**

Streaming allowances	45,000
Lower rates PIT (including premium ZVW)	99,000
Abolish anomaly: income related tax credit	10,000
Higher EITC	32,500
Targeting tax subsidies	25,000
Tax cuts agreed-upon: 5 billion	14,000
<b>TOTAL</b>	<b>225,500</b>

Source: Koen Caminada, Tragiek van gefaalde ambities en gemiste kansen rond belastinghervorming, *Me Judice*, 23/9/2015

# Ad 7 Piecemeal engineering or Tax Reform. What can be done?

<b>Housing (owner-occupied and rent)</b>	<b>25.5</b>
Abolishing deduction mortgage interest + notional rental value	14.5
Additional revenue box 3 (exemption 200.000)	3.8
Lower subsidies renting: 50%	7.3
<b>Streaming</b>	<b>14.7</b>
Abolishing 'ineffective' deductions	9.5
Streaming allowances; targeting at 10% lowest incomes	2.5
Remaining deduction as tax credits (30.2%)	1.5
Tax exemptions taxed at rate 30.2%	1.2
<b>Less distortive taxation (VAT and local taxes)</b>	<b>10.8</b>
Uniform VAT rate (revenue 50/50 to lower rate VAT and lower PIT)	4.1
Reduction exemptions VAT	0.7
Local taxes (equal reduction 'Gemeentefonds')	5.0
DGA: reduction margin customary wage scheme from 25% to 10%	1.0
<b>Total yield x billion</b>	<b>50.9</b>
Tax cuts agreed-upon	<b>5.0</b>

## Ad 7 Piecemeal engineering or Tax Reform. What can be done?

<b>Lower rates PIT (including premium ZVW)</b>	<b>46.7</b>
Adjustment 1 <sup>st</sup> , 2 <sup>nd</sup> and 3 <sup>th</sup> bracket to X%	39.5
Adjustment 4 <sup>th</sup> bracket to X+10%	7.3
Shortening new 1 <sup>st</sup> bracket	-0.8
Abolish anomaly: income related tax credit	2.7
Higher tax elderly (“fiscalisering AOW-premie”)	-2.0
<b>Incentives labor market</b>	<b>8.3</b>
Higher EITC	6.8
Targeting tax subsidies	1.5
<b>Other</b>	<b>1.0</b>
Lower presumptive rate of return box 3	1.0
<b>Total spending x billion</b>	<b>55.9</b>

# Ad 7 The Political Economy of Tax Reform

In the real world (i.e. not the one inhabited by tax theorists), proposals for tax reform are constrained by politics – not least the unfortunate observation that those who lose from tax reforms tend to be vengeful while those who gain from them tend to be ungrateful. This can lead in tax policy, perhaps more than in other areas of public policy, to a ‘tyranny of the status quo’.

P. Johnson en G. Myles (2011), The Mirrlees Review, *Fiscal Studies*, vol. 32, no. 3, p. 323

# Some related work – downloads via

[www.economie.leidenuniv.nl](http://www.economie.leidenuniv.nl)

1. Leiden Law Blog
  - Do rising shares in top incomes affect income inequality as a whole?
  - How strong are Piketty's trends?
  - Facts & Figures: Income inequality and fiscal redistribution in 29 countries
2. Wang, Caminada, Goudswaard & Wang (2015), Decomposing income polarization and tax-benefit changes across 31 European countries and Europe wide, 2004-2012, *Department of Economics Research Memorandum 2015.03*, Leiden University.
3. Knoef, Been, Alessie, Caminada, Goudswaard & Kalwij (2014), Measuring retirement savings adequacy: developing a multi-pillar approach in the Netherlands, *Journal of Pension Economics and Finance*.
4. Wang, Caminada & Goudswaard (2013), Income redistribution in 20 countries over time, *International Journal of Social Welfare* 23 (3).
5. Wang, Caminada & Goudswaard (2012), The redistributive effect of social transfer programs and taxes: a decomposition across countries, *International Social Security Review* 65(3).
6. Wang & Caminada (2011), Leiden LIS Budget Incidence Fiscal Redistribution Dataset, posted at the website of LIS cross-national data center Luxembourg.
7. Caminada & Goudswaard (2001), Does a Flat Rate Personal Income Tax Reduce Tax Progressivity? A Simulation for the Netherlands, *Public Finance & Management* 1(4).
8. Caminada & Goudswaard (1996), Progression and Revenue Effects of Income Tax Reform, *International Tax and Public Finance* 3(1).